

# Cumbria Local Government Pension Scheme

Annual Report  
and Accounts  
2016/17





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# 1/ Chairman's Introduction

## As Chairman of the Cumbria Local Government Pension Scheme (LGPS) it is my pleasure to present, on behalf of my fellow Members of the Cumbria Pensions Committee, the Annual Report for 2016/17.

2016/17 continued in the same vein as recent years i.e. one of continued regulatory challenge and market volatility. Despite these external pressures, by having clear long term strategic plans that are underpinned with robust internal performance measurement frameworks I am pleased to report that performance has continued to remain strong across all areas throughout 2016/17.

However, the Committee are aware that to maintain such performance we must not become complacent and as such the Fund continues its active engagement at a national level across all core activities, (governance, administration, and investment). Underpinning this is a focused training regime which supports all those charged with the governance of the Fund being able to deliver to the highest standards.

### 2016/17 Summary Key Results:

**Investments Portfolio:** During the year to 31st March 2017 the Cumbria LGPS value increased by £376.517m from £2,046.809m (31/03/16) to £2,423.326m (31/03/17). The Fund returned 19.2% (net of fees) for the year which was an outperformance of 1.6% on the Fund's bespoke index performance benchmark for the year of 17.6% - equivalent to additional growth of approximately £33m.

I am pleased to report that these results have ensured the Fund has continued to outperform its bespoke benchmarks over the 3, 5 and 10 year time horizons. Three-year return of 11.9% outperforming the benchmark of 9.9% (per year), five-year return 11.3% outperforming benchmark of 9.7% (per year); and ten year return delivering 7.4%, again above the benchmark of 6.8% (per year).

**Triennial Valuation:** The Fund's actuary, Mercer Ltd, undertook the mandatory triennial valuation of the Fund as at 31st March 2016. On the basis of the assumptions adopted by the Pensions Committee, this strong performance over the preceding three years ensured the deficit gap was closed to 91% (i.e. value of Fund assets equalled 91% of the value of the Fund's past service liabilities).

The valuation determines the contribution rates for employers within the Fund with effect from 1 April 2017 to 31 March 2020. The positive performance helped maintain stable employer contribution rates for most employers within the Fund.

**Administration Activities:** 2016/17 has been another busy year in terms of benefits and administration for the LGPS. In addition to the 'day job', key challenges faced have included; the national requirement for all public sector pension schemes to reconcile data relating to the Guaranteed Minimum Pension; ensuring Fund member records continue to meet the standards expected by the Pensions Regulator (tPR); and working with an expanding employer base. Despite these additional challenges, as reported in section 3.5.1 all administration key performance indicators were exceeded during 2016/17 and an overall performance level of 98% was achieved against a target of 90%.

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

### Guaranteed Minimum Pension (GMP) Reconciliation:

The GMP reconciliation exercise has seen the pensions administration team at YPS working through significant amounts of personal data to ensure that locally held GMP liability records for employees who were 'contracted-out' of the Additional State Pension match those held by the Government. This is a national exercise and is being undertaken by all previously contracted-out pension Funds, including all LGPS and other public sector Funds. A small number of instances (97 out of 15,400 pensioners) have been found whereby incorrect payments (both over and under payments) were being paid and corrective action has been taken in line with Government guidance.

**Value for Money:** The Fund has collaborated with other administering authorities to achieve reduced fees from our passive manager. These rates have been backdated to May 2016 and have resulted in an estimated fee reduction of £0.270m per annum.



**Governance:** Under the Chairmanship of Cllr Ian Stewart the Board has had another successful year and included at pages 8 - 9 is their Annual Report. Throughout the year, members of the Board have attended joint training events alongside members of the Committee and I look forward to the continued development of this constructive working relationship between the Committee and the Board for the future benefit of the Fund.

**Investment Strategy Statement:** To meet one of the regulatory changes, in December 2016, the Pensions Committee approved a new Investment Strategy Statement (ISS) to replace the previous Statement of Investment Principles in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The 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 and the Funds chosen methodology for achieving the requirement to pool its investment assets.

### Looking Forward to 2017/18 and Beyond

In addition to meeting the challenges of delivering the "day business", the Fund has faced a series of additional external demands in 2016/17, delivery of which will continue into 2017 and beyond. The Pension Committees agenda in 2017/18 will, in addition to the usual activities, consider the continual development of the Border to Coast Pension Partnership (BCPP)

**Asset Pooling Across the LGPS:** During 2016/17 Cumbria continued to take a leading role in working towards the delivery of the national initiative to combine assets across the LGPS into a few large asset pools. A proposal was submitted to Government in July 2016 detailing a proposal from the twelve partner Funds in BCPP for the pooling of pension fund assets. At the time of submission the pool had a combined value of £36bn, of which the Cumbria Fund accounted for £2bn. In December 2016, Marcus Jones, Minister for Local Government, confirmed that he was content for the Administering Authorities within the proposed pool to proceed with the development of BCPP as set out in the proposal.

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

Members of the Cumbria Pension Committee and the Local Pension Board have been fully involved throughout the year receiving briefing sessions and updates to every Committee and I have updated Council on these developments throughout the year.

In February 2017, Cumbria County Council unanimously approved that Cumbria join the pool and adopt the governance structure of BCPP Ltd pooling arrangements as the Administering Authority's chosen approach to meet the requirement to pool assets in the LGPS.

The pooled investments of the Partner Funds will be managed by the BCPP Ltd on behalf of the individual LGPS Funds. Each Partner Fund and their Pensions Committee will remain with its sovereignty unchanged, and neither the 56,000 Scheme members nor the 132 employers in the Cumbrian Fund will be directly affected by the changes.

I have enjoyed the very positive relationship that has developed throughout the year with the Chairs from the Partner Funds as we worked together to share each Fund's respective views and find collaborative solutions to meet the many challenges that pooling presents. I look forward to this relationship developing as we progress through the formal creation stage of setting up the company during 2017 /18 to the transitioning of the management of the assets to BCPP Ltd planned from June 2018.

**Investment Strategy Review:** Following completion of the 2016 Triennial Actuarial Valuation the Fund appointed external consultants to undertake an investment strategy review. The Pensions Committee will consider the findings and recommendations of this review to ensure the strategy is appropriate and continues to remain fit for purpose for both for the immediate and longer term.

**Achievements:** In anticipation of the changes that will be brought about by regulatory changes to the investment framework in 2017/18 the Fund has sponsored several officers through the Investment Management Certificate (IMC) and I am pleased that the first two candidates Debbie Purvis and Fiona Miller successfully achieved final award of this qualification during the year.

I was delighted that Fiona Miller the senior manager of the Fund also received external recognition for the leading national role she has played on pooling on behalf of the Fund and the wider LGPS by being named in the Financial News "100 most Influential Women in European Finance" and being awarded the Investments & Pensions Europe, Gold Award for Personal Achievement.

## Summary

To sum up, I believe the outlook for the LGPS as a whole and the Cumbrian Fund in particular remains positive. All LGPS Funds will continue to face challenges in the coming years as they seek to balance both a drive to improve client satisfaction, governance and investment performance at reduced cost while meeting external demands and pressures coming from servicing additional national regulatory requirements and a worsening cashflow.

That said, I believe the embedded approach of both Members and Officers of the Fund towards strong governance arrangements (including ensuring all involved in governing the Fund are appropriately trained), customer focused servicing and communication, performance focused monitoring and active outward facing engagement across all activities have placed Cumbria LGPS in a strong position to meet these challenges head on.

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

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

Finally I would like to thank my fellow Committee Members for their contributions during 2016/17 and welcome the new Members that have joined the Committee in June.



**Cllr. Melvyn Worth**  
Chairman  
September 2017

## 1.1 Annual Report of the Cumbria LGPS Local Pension Board for 2016/17

As Chairman of the Cumbria Local Pension Board (LPB) it is my pleasure to present the Annual Report for 2016/17 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 LGPS.

In accordance with the Council's Constitution, the Board met bi-annually during the year in July 2016 and January 2017. These meetings align with Pension Committee meetings and work cycles to ensure that the work of the Board is timely and relevant in supporting the governance arrangements of the Fund. The role of the Board continues to develop and become embedded within the governance arrangements for the Cumbria LGPS.

### Work Programme during 2016/17

2016/17 was another busy year for the Cumbria LGPS as it continued to progress with asset pooling arrangements. Consent was received from Government in December 2016 to proceed with the development of the Border to Coast Pensions Partnership as set out in the proposal submitted by the partner funds in July 2016. The Fund also continued driving through further efficiencies, completed the 2016 actuarial valuation and made the required changes to move from a Statement of Investment Principles to an Investment Strategy Statement.

The Board were apprised of work undertaken by the Fund, reviewed Pension Committee decisions and the governance which supported them over the period, and noted the recommendations they approved at their quarterly meetings.

The Board considered progress with the development of asset pooling and would like to have on record their support for the ongoing development of BCPP governance arrangements which include appropriate review and oversight at a Fund level to ensure the final delivery of the project is driven by best value principles.

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

### Training during the year:

Training	Delivery	Date
Pension Committee training sessions: National pooling update; post-pooling and governance structures, custody arrangements, passive management, equity strategies and property	Internal/ External	15/06/16
The Investment Framework	External	19/07/16
Responsible Investing	External	16/09/16
LPB's Two Years On	External	18/01/17
Pooling Seminar	External	22/03/17

### Looking forward to 2017/18

The Work Plan of the Cumbria Local Pension Board is expected to include review of the following activity:

- development of the Border to Coast Pension Partnership (BCPP) and consider the preparation for the transition of management of the Fund's assets to the pool.
- recommendations from the Investment Strategy Review.
- Implementation of required changes following the introduction of Market in Financial Instruments Directive II (MiFID II)
- further administration work to accommodate changes to membership structures across employers due to continuing austerity measures.

Also Members of the Board will continue with their training to further develop knowledge and understanding of the LGPS and the Cumbria Fund.

I would like to convey the Board's thanks to all the Council's staff involved in administering the Cumbria LGPS and add my congratulations to those of the Chairman of the Committee to staff who have attained professional qualifications and awards during the year, staff at Your Pension Service, and our external advisors for their work during the year in supporting the management and beneficiaries of the Fund.



Finally I would like to thank my fellow Board Members for their contributions during 2016/17.



**Cllr. Ian Stewart**  
Chairman  
July 2017

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

[moderngov.ccc/mgCommitteeDetails.aspx?ID=1164&\\$LO\\$=1](http://moderngov.ccc/mgCommitteeDetails.aspx?ID=1164&$LO$=1)

## 2/ The Local Government Pension Scheme

### 2.1 Regulatory Background

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

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

Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. Throughout England and Wales there are 89 such authorities. Cumbria County Council is the Administering Authority for the Cumbria LGPS and as such is responsible for administering the Fund for the benefit of its own employees and the employees of scheduled bodies and admission bodies. Full details of the 132 employers participating within the Fund are set out in the Pension Fund Accounts on page 90. 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 (see section 2.4.2). Details of Cumbria LGPS membership numbers are set out in section 3.5.3 of this report.

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

More detailed information on the benefits of the Scheme and how to join it can be obtained by visiting the Your Pension Service website at:

[www.yourpensionservice.org.uk/local-government-scheme](http://www.yourpensionservice.org.uk/local-government-scheme)

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

### 2.3 Contribution Rates

#### 2.3.1 Employee Contribution Rates

Employee contribution rates are set by regulation. During 2016/17 rates payable were between 5.5% and 12.5% (unchanged from 2015/16):

Standard pay band table from 1st April 2016 to 31st March 2017	
If your whole time pay rate is:	You pay a contribution rate of:
up to £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%
Over £151,801	12.5%

#### 2.3.2 Employer Contribution Rates

Employer contribution rates are set by the Fund's Actuary every 3 years as part of the Actuarial Valuation. A valuation was undertaken as at 31st March 2016 which set new employer contribution rates for 3 years from 2017/18. For further detail see section 6.5 of this report.

### 2.4 Regulatory Changes

The following key changes to regulations (both to LGPS specific regulations and the wider pension's regulations impacting on the LGPS) were announced during or impacted on 2016/17:

#### 2.4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force on 1 November 2016, introduced the following key changes:

- wider, more flexible powers for Administering Authorities to invest.
- power for the Secretary of State to intervene where the Secretary of State considers that there is a failure to act in accordance with the Guidance.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 also required Administering Authorities to publish an Investment Strategy Statement (ISS) by 1 April 2017. The ISS (which replaced the Statement of Investment Principles (SIP)) was required to contain:

- a requirement to invest fund money in a wide variety of investments
- the Authority's assessment of the suitability of particular investments and types of investments
- the Authority's approach to risk, including the ways in which risks are to be assessed and managed
- the Authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- the Authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- the Authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Cumbria Pensions Committee agreed the first version of the ISS in December 2016, and subsequently agreed amendments to the ISS in March 2017 to reflect the pooling decisions taken by Cumbria County Council at its meeting in February 2017. The ISS as at 31st March 2017 is outlined in section 10 and presented in the Fund Policy document at Appendix A-4 of this Annual Report.

#### 2.4.2 Automatic Enrolment

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

This is primarily an issue for employers rather than pension scheme administration authorities however there are implications to the Fund. From the Cumbria LGPS perspective there are additional data collection and storage requirements and this will have an on-going cost to the Fund. The date by which employers must implement auto enrolment depends upon their size with the largest employers 'going live' first, however all employers are required to have implemented auto-enrolment by 1st April 2017.

## 2.5 Other Matters Arising in 2016/17

### 2.5.1 Pooling of Pension Fund Assets Across the LGPS

In the July 2015 Budget the Chancellor announced the Government's intention to work with the Local Government Pension Scheme Administering Authorities in England and Wales to ensure they pool investments to significantly reduce costs while maintaining overall investment performance. Following three years of consultation, in November 2015, the Government issued an Investment Reform Criteria and Guidance inviting proposals for pooling. In response to this, in July 2016, eight separate investment pools submitted proposals to Central Government with Cumbria LGPS being included within the submission for the Border to Coast Pensions Partnership (BCPP).

In December 2016, the Minister for Communities and Local Government gave his support for the BCPP proposal and encouraged the Partner Funds to progress to ensure the pool is operational by April 2018.

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

In February 2017, Council confirmed the adoption of the Border to Coast Pensions Partnership Ltd (BCPP Ltd) Pooling Arrangement proposal as the Authorities chosen approach to meet the requirement to pool assets in the LGPS.

The 12 partner LGPS Funds of BCPP are progressing with further development of the pool with appointments to Executive and Non-Executive roles of BCPP Ltd expected in the first half of 2017/18. It is expected that the company will be ready to accept assets in June 2018.

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. Neither the 56,000 Scheme members or the 132 employers in the Cumbrian Fund will be directly affected by the changes.

## 3/ Management and Financial Performance



### 3.1 Fund Management and Advisors

#### Officers responsible for the Fund

Julie Crellin

*Assistant Director – Finance (s.151 Officer)*

Cumbria County Council  
Resources & Transformation,  
Finance,  
Cumbria House,  
117 Botchergate,  
Carlisle CA1 1RD

Fiona Miller

*Senior Manager – Pensions & Financial Services  
(deputy s.151 Officer LGPS)*

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

#### Pensions Committee

Details of the membership of the Committee as at 31st March 2017 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
Mr J Airey	Mr DE Southward
Mr SB Collins (Vice Chair)	Mr P Thornton
Mr BJ Dougherty	Ms H Wall
District Council Elected Member - Ms G Troughton	
Trade Union Non-Voting Members	
- Mr Ken McDonald	- Mr Richard Bevans

It should be noted that, following Council elections, the membership of the Pension Committee changed in June 2017. The current membership is detailed at the following web address:

[councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150](http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150)

#### Investment Managers

Manager	Notes	Core Asset Class
Aberdeen Property Investment Management		Direct & Indirect property
Aviva		Long lease property
Barings (previously Babson)	(from January 2016)	Private Loan Fund
BlackRock Investment Management	(to June 2012 – remaining funds held until maturity)	Alternatives
HealthCare Royalty Partners		Healthcare royalties
JP Morgan		Infrastructure
Legal and General Investment Management		Passive equities and bonds, cash

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

**Custodian**

State Street Bank and Trust Company

**Additional Voluntary contribution providers:**

Prudential  
Standard Life  
Scottish Widows

**Actuary**

Mr J Livesey FIA, Mercer

**Legal Advisers**

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

**Bankers**

National Westminster Bank PLC

**Auditor**

Mr Gareth Kelly, Grant Thornton UK LLP

**Performance Monitoring**

State Street Investment Analytics (WM Company)

**Independent Advisors**

Mr TJA Gardener, Partner, TG Advisory Services Ltd  
Mr AJ Sutherland, Consulting Director, Deloitte

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

Your Pension Service

Cumbria LGPS Team

PO Box 100, County Hall, Preston PR1 0LD

e: [AskPensions@localpensionspartnership.org.uk](mailto:AskPensions@localpensionspartnership.org.uk)

t: 0300 323 0260

**3.2 Risk Management**

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

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

**3.2.1 Risks identified at March 2017:**

The risk register presented to Pensions Committee in March 2017 identified 22 risks to the Pension Fund. There were no risks in the red category, 6 identified in the amber category and 16 in the green category. Details of the amber risks are set out in an extract from the risk register presented to March 2017 Pensions Committee shown below at 3.2.2. The full risk register is available to view in the Agenda Report pack for this committee by accessing the following link: [councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=150&Year=0](http://councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=150&Year=0) In addition to this note 14 to the Financial Statements (page 76) details the nature and extent of risks arising from Financial Instruments.

**Good to know:**

For how to contact the Fund see **Appendix C** of this report



## 3.2.2 Amber risks identified at March 2017:

## 1. Operations

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating (impact x likelihood)	Control(s)	Comment
			1: lowest, 5: highest				
1.1b	Scheme Manager & YPS	Operational disaster – Cyber Crime / Digital Information Security	3	5	15 <b>Amber</b>	<b>Your Pension Service (YPS):</b> <ul style="list-style-type: none"> <li>Cyber security risks and controls in place</li> <li>Build and understanding of what generates cyber security risks</li> <li>Develop a Cyber Security Policy. Build into information security policy</li> <li>Embed into Information Security Training</li> <li>Test if an Cyber threats attempted</li> <li>Business Continuity Plan</li> </ul> <b>CCC:</b> <p>The Council have met the compliance requirements for ongoing access to the national Public Service Network (PSN) and a new PSN connection compliance certificate has been awarded by the Cabinet Office.</p>	<b>Your Pension Service (YPS):</b> Mitigating risks taken from the risk register of YPS. <b>CCC:</b> The Audit & Assurance Committee are reviewing the wider Council's mitigating actions relating to the risk of cyber-crime in June 2017. The risk register will be updated to ensure consistency with the overarching Council approach.
1.5	Scheme Manager	Exceptional workload pressures within the team due to the pooling agenda, coinciding with triennial valuation and year end accounting processes.	3	4	12 <b>Amber</b>	Recourse to independent expert advisors when required, e.g. the Fund's Actuary (valuation), YPS (GMP reconciliation) and other relevant external experts.	Recruitment to key posts, appropriate work planning and support from independent advisors has mitigated this risk.  Given the pressures on pooling and valuation it is appropriate to retain the risk scores at current levels and review these towards the end of the year.

## 3. Funding

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating (impact x likelihood)	Control(s)	Comment
			1: lowest, 5: highest				
3.1	Scheme Manager	Employer failure to pay contributions into scheme (e.g. due to employer error, business failure or general impact of increases in employer contribution rates)	4	2	8 <b>Amber</b>	Monthly monitoring of contribution payments by employer to ensure contributions received are timely and accurate. This reconciliation is considered as part of the annual audit process.  Late payments are reported to Pensions Committee through the quarterly Monitoring Report.	Monitoring and reconciliation of contributions undertaken monthly. Full reconciliation completed and checked as part of year end process.  The number of violations has been low for a number of quarters (5 employers totalling 1.22% of total contributions in Q3 of 2016/17).
3.2	Scheme Manager	Significant financial downturn occurs – '1 in 20' year event.	4	3	12 <b>Amber</b>	Diversification of managers, asset classes and geographies. Appropriately informed and trained officers and Members of the Pension Committee and Pension Board.  Support from independent advisors.	The investment strategy is to be reviewed in 2017 to ensure an appropriately diversified portfolio. Outcomes of this review will be presented to Pensions Committee in September 2017.

## 4. Regulatory and compliance

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating (impact x likelihood)	Control(s)	Comment
			1: lowest, 5: highest				
4.1c	Scheme Manager	Changes to LGPS structures – pooling of investments is mandated and timescales / parameters / requirements are unrealistic / short term resulting in a significant increase in liabilities and, consequently, unsustainable employer contribution rates.	4	2	8 <b>Amber</b>	Regular monitoring of key sources of information e.g. government publications, industry expert briefings and press.  Liaison with LGPS colleagues and other interested parties.  Attendance at key meetings (e.g. LGA).  Responses to consultations.	Updates on the pooling of assets are provided regularly to the Pensions Committee.
4.4	Scheme Manager	EU directive Markets in Financial Instruments Directive II (MiFID II) defaults Local Authorities to retail client status thus significantly reducing the pool of asset managers willing to provide services to Local Authority Funds.	4	2	8 <b>Amber</b>	At a national level: the LGA, FCA, DCLG and the Investment Association are involved in discussions to find ways to lessen the impact on LGPS authorities.  At a Fund level: Officers are discussing MiFID II with each of the Fund's managers to determine what additional information or evidence they would require in order to recognise the Fund as a professionally elected rather than a retail client.	An update on MiFID II is provided in the Monitoring Report to the March 2017 Pensions Committee.

### 3.2.3 Third party risk

Employers:

- The aim of the 2013 valuation was to ensure the long term solvency of the Fund, whilst giving equal consideration to the requirement of maintaining stable employer contribution rates. Following the requirements in the 2016 CIPFA Guidance 'Preparing and Maintaining a Funding Strategy Statement in the LGPS', the 2016 valuation requirements changed subtly, with the Actuary and the Fund being required to consider:
  - The requirement for contributions rates to be sufficient to secure the Fund's solvency within an appropriate deficit recovery period, and
  - The desirability of employer contribution rates remaining as stable as possible.
- Due to the continuing growth in the number of smaller employers in the Fund, to protect both the solvency of the Fund overall and the risk to other employers there has been an increased focus given to reviewing employer covenant. This is a core theme in the 2017/18 Business Plan and both external and internal resource has been allocated to this. Where covenant risk of an employer is assessed as high the Administering Authority works closely with the employer to seek to mitigate the risk to both the Fund and other employers e.g. through identification of a guarantor.
- Pension contribution payments from employers are monitored on a monthly basis. Where a payment is late this is reported to both the Pensions Committee and the Local Pension Board and any appropriate action is taken, including where payment is sufficiently late, interest may be charged on the late amount.

Third party service providers:

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

### 3.2.4 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 also by using a passive manager.

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

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

## 3.3 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 amounts receivable by the fund from employers are disclosed in note 3 to the Financial Statements (see page 56). During the year there were 2 isolated instances (relating to 2 employers) of late payment where payment was received more than 20 days after the due date mainly due to employer oversights. (2015/16: 3 instances relating to 3 employers). These late payments were too small to represent a percentage of total contributions due in 2016/17. In each circumstance of late payment, Officers from the Administering Authority liaised with the employer to determine why the payment was late and to work with the employer to ensure that the payment was made. As in 2015/16, no interest charges were levied on the overdue contributions in 2016/17. As these were all isolated instances of small value the Administering Authority determined that the circumstances relating to each of the cases did not merit such an approach due to it not being cost efficient to do so.

### 3.3.2 Employer specific issues in 2016/17

Cumbria County Council is the only employer within the Fund that, in agreement with the Actuary, opted to make an additional employer contribution towards non ill-health early retirement. The rate as determined by the Actuary as part of the triennial valuation (it is reset at each triennial valuation) includes an element to compensate

the Fund for delayed receipt of monies. The additional employer contribution from the County Council is to be used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in government funding support to Local Authority budgets. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term.

The additional contribution from Cumbria County Council incorporated into the 2013 triennial valuation fund was an allowance of up to £7.312m for non ill-health early retirements. At 31st March 2017, this allowance had been spent in full. Details of this

additional contribution can be found in the Funding report of the Actuarial Valuation as at 31st March 2013 at:

[www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41754144322.pdf](http://www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41754144322.pdf)

### 3.3.3 Performance against budget

The expenditure budget for administering the Cumbria LGPS for 2016/17 was £5.137m. The outturn for 2016/17 was £5.203m (excluding pooled fund costs and entry fees and transaction costs) resulting in an overspend of £0.066m as detailed below.

	2016/17 Revised Budget £'000	2016/17 Outturn Actual £'000	Budget v Actual Variance £'000
<b>Administrative costs:</b>			
Pensions Administration	934	1,016	82
Employee Costs	171	169	(2)
Legal Advice	30	11	(19)
<b>Administration Total</b>	<b>1,135</b>	<b>1,196</b>	<b>61</b>
<b>Investment Management</b>			
Fund Management Fees	3,226	3,226	40
Custody Fees	100	96	(4)
Pooled Fund costs and Entry Fees*	-	4,651	4,651
Transaction Costs*	-	345	345
<b>Investment Management Total</b>	<b>3,326</b>	<b>8,358</b>	<b>5,032</b>
<b>Oversight and Governance</b>			
Employee Costs	314	347	33
Pension Fund Committee	30	18	(12)
Pension Board	4	4	(0)
Investment consultancy fees	126	94	(32)
Performance monitoring service	24	22	(2)
Shareholder voting service	16	16	(0)
Actuarial fees	54	79	25
Audit fees	30	27	(3)
Legal and Tax	44	22	(22)
Other (including bank charges)	34	16	(18)
<b>Oversight and Governance Total</b>	<b>676</b>	<b>645</b>	<b>(31)</b>
<b>Total Pensions Expenditure</b>	<b>5,137</b>	<b>10,199</b>	<b>5,062</b>
*Excluding pooled fund costs and entry fees and transaction costs	-	(4,996)	(4,996)
<b>Total Net Pensions Expenditure against Budget</b>	<b>5,137</b>	<b>5,203</b>	<b>66</b>

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

## Good to know:

Total Management expenses paid in 2016/17 (£10.199m adopting CIPFA's 'Management Costs Guidance') equates to 0.42% of the Fund net assets at 31st March 2017.

Putting this into context: during 2016/17 the Fund delivered **outperformance** (i.e. excess return above that achieved by the equivalent passive portfolio) for the Fund **in the region of 1.6%** (net of fund management fees). This equates to **additional growth of approximately £33m** over and above that which would have been achieved had this element of the Fund been managed passively.

### Narrative on variances

- Pensions Administration - the budget for pensions administration increased in line with inflation and to reflect both the increasing membership and employer numbers within the Fund. In addition, following the cessation of National Insurance contracting out; the Fund along with all other public sector pension schemes are currently working through a full scheme reconciliation to HMRC data (Gross Minimum Pension Reconciliation) for which an additional budget allocation was also provided. Some of this work has been undertaken earlier than expected by Your Pension Service on behalf of the Fund which has resulted in costs in excess of those anticipated in 2016/17.
- Employee costs - in 2015/16 the Pensions Committee approved an increase in the cost for internal staffing in response to increasing Scheme complexity, regulatory oversight and initiatives to deliver efficiencies through internalisation of asset manager selection. The full year effect of these additional resources materialised in 2016/17. In addition, there have been costs incurred due to increased travel costs related to responding to the national LGPS Pooling agenda.
- Investment manager fees - these account for approximately two thirds of the total budget and are linked directly to asset performance, and are also affected by the timing of any asset allocation or manager changes. As the Fund's investments have returned 19.2% growth (net of fees) in 2016/17, the total fees paid in 2016/17 have increased from the fees paid in 2015/16. This is despite negotiation of some substantial fee reductions for the passive manager and is due to the resultant increase in total portfolio size.
- Investment consultancy fees - the 2016/17 budget was increased in anticipation of there being a need to engage consultants to provide advice in advance of Cumbria's response to the Government's announcement regarding LGPS asset pooling. However, when added to lower than anticipated activity sourcing and evaluating new products, investment advisor support and therefore total cost was lower than budgeted.
- Pooled fund costs - the objective of the strategy to select a portfolio of alternative pooled funds of growth assets is to aid cash flow and increase diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. Included in the pooled fund costs heading are the management fees deducted at source and any potential performance fees accrued. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.966m in 2016/17 (£2.840m in 2015/16). The corresponding positive investment returns required the accrual of performance fees of £1.051m in 2016/17 (£0.769m in 2015/16). By their nature, these pooled funds often carry an entry cost, £0.634m of entry costs were incurred in 2016/17 (£0.144m in 2015/16). These costs are understood and are therefore accounted for in any evaluation decision to invest in these products.
- Transaction costs – these are inherent in all investment activity. The costs arise from active management investment trading (i.e. purchases and sales), activity within pooled funds, and from transitions between asset types due to restructuring, and as such are not included in the budget for administering the Cumbria LGPS. However, as previously stated, they are accounted for as management expenses in 2016/17 in accordance with CIPFA guidance.
- Actuarial costs - throughout 2016/17, the Fund's contracted actuary has been undertaking the triennial valuation of the Pension Fund which has therefore incurred planned but higher than usual actuarial fees. Employers are fully recharged actuarial costs for provision of their year-end accounting disclosures or for any specific work undertaken on their behalf.
- Legal costs - the need for professional legal advice on ad-hoc employer and pensioner/employee issues together with those related to investments is variable year on year. There was less throughput of this type of work during 2016/17 which resulted in an underspend against the budget.



### 3.3.4 Analysis of pension overpayments, recoveries and amounts written off

The Cumbria Pension Fund pays approximately 15,400 pensioners every month and annual net pensions paid totalled £65.032m in 2016/17 (£62.748m in 2015/16). 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. The results of the most recent NFI exercise were received in January 2017 and highlighted 27 cases where Cumbria LGPS had not been notified of the death of the pensioner. These resulted in overpayments totalling approximately £52,000. As at 31st March 2017, 11 of these cases totalling £25,257 remain outstanding. Due to the increase in overpayments the Committee has requested an increase in the frequency in which the Fund undertakes the NFI exercise to highlight cases sooner and therefore limit the overpayment.

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.

	2016/17		2015/16		2014/15	
	£	Number of cases	£	Number of cases	£	Number of cases
Overpayments	156,755	163	48,643	92	37,936	69
Overpayments as % of annual pensions paid	0.24%		0.08%		0.06%	
Overpayments recovered	97,804	140	42,115	83	30,333	64
Overpayments in process of recovery	71,599	32	6,528	9	7,603	4
Overpayments in process of recovery as a % annual pensions paid	0.11%		0.01%		0.01%	
Overpayments written off	1,200	3	3,524	5	82	1

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

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

## 3.4 Performance against Business Plan 2016/17

As part of its governance arrangements the Pensions Committee approves a detailed Business Plan and associated budget prior to the start of the year and then reviews the half year performance against both to ensure that items are on track for delivery. The Committee received a report in December 2016 detailing the half year position for 2016/17 and an end of year update report in March 2017 outlining the expected final year outturn.

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

The substantive work plan objectives in the 2016/17 Business Plan have either been achieved or are in progress of completion and it is anticipated that they will be delivered within budget. The main actions completed during 2016/17 are set out in Note 1(d) to the accounts from page 50 of this report.

### 3.4.1 Looking Forwards - Business Plan 2017/18

Looking forward to 2017/18, the proposed key deliverables in 2017/18 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

### Administration

- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues. In accordance with the Public Service Pensions Act 2013, the LGPS is subject to the oversight of the Pensions Regulator for administration matters. The Pensions Regulator Code of Practice sets out the importance of complete and accurate records and states that Administering Authorities must ensure that member data across all membership categories is complete and accurate.
- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator to ensure that the Fund receives the information required in a timely manner.
- Completion of the 2016/17 Cumbria LGPS Annual Report and Accounts incorporating any new regulatory/technical changes to meet guidance issued by CIPFA, the Pensions Regulator, HMRC, or the Local Government Association (LGA).
- Continuation of the Scheme reconciliation, GMP (Guaranteed Minimum Pension), to comply with guidance issued by the Pensions Regulator, HMRC, or the Local Government Association (LGA), and avoid erroneous liabilities being assigned to the Cumbria Fund.

### Investment Management

- Continue to progress infrastructure and opportunistic investment options. Additional infrastructure and opportunistic investment commitments are required to align the proportions of investments held within these asset allocations to the target set in the Investment Strategy Statement (ISS).
- Preparation for transition of assets from the management by external Investment Managers to BCPP Ltd. It is expected that BCPP Ltd will be ready to commence the transitioning of assets from June 2018. Due to the scale and complexity of the assets currently managed by external Investment Managers on behalf of the Partner Funds within BCPP, the transitioning of investments into the new arrangements with BCPP Ltd will be undertaken over a period of time, with the majority of assets expected to be transitioned within three years.
- Actively review the cash flow position (at a contribution level) of the Fund. Currently the Fund is cash positive overall (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management

costs and investment income, the Fund experienced a cash deficit of £16.356m in 2016/17 (£16.731m in 2015/16). This amount was anticipated due to the on-going workforce restructuring across the Fund's major employers. On advice from the Fund's Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review.

### Oversight and Governance

- Review and update of Fund risks, policies and strategies to ensure that Scheme policy documents including the Risk Register are up to date, appropriate and accessible to all stakeholders.
- Support and influence the development of BCPP Ltd including the availability of appropriate sub funds to ensure that Cumbria's assets can be appropriately accommodated and managed following transition into the pool.
- Assess the impact of and respond to government consultations that may have an impact on the structure and performance of the Fund. The outcome of these consultations could have significant implications for employers and / or members of the Cumbria LGPS therefore it is important that timely, clear and well thought out responses are made by the Fund.
- Annual review of governance arrangements in response to financial, regulatory and structural changes to ensure they are up to date and appropriate.
- Following completion of the triennial valuation, undertake an Investment Strategy review and consider the resultant recommendations to ensure the strategy remains appropriate and fit for purpose going forward.

## 3.5 Administration Management Performance

In February 2016 the arrangement with Lancashire County Council for the provision of pension administration was extended. Lancashire CC has contracted for this service (for both Lancashire and Cumbria LGPS Funds) to be undertaken by the Local Pension Partnership from April 2016. This is a not for profit arrangement providing pension administration services to the public sector. This service to Cumbria continues to be branded as Your Pension Service (YPS) which we have been assured to avoid confusion to members there are no plans to change.

The overall performance for 2016/17 against key pensions administration indicators was 98% against a target of 90% with all LGPS-specific indicators being exceeded. As the indicators (detailed below) suggest, the service provided by YPS continues to be very positive. This strong performance was achieved against a challenging backdrop of ongoing change and increasing membership.

### 3.5.1. Key Performance Indicators

Indicator	Target %	Actual 2016/17 %	Actual 2015/16 %
Estimate benefits within 10 working days	90	98	95
Payment of retirement benefits within 10 working days	90	98	97
Payment of death benefits within 10 working days	90	99	98
Implement change in pensioner circumstance by payment due date	90	98	99
Respond to general correspondence within 10 working days of receipt	90	97	99
Action transfers out within 15 working days	90	95	97
Action transfers in within 15 working days	90	98	97
Pay refunds within 10 working days	90	94	91
Provide leaver statement within 15 days	90	98	95
Amend personal records within 10 working days	90	100	100
	90	98	97

### 3.5.2 Performance against Key Administration Deliverables in 2016/17 Business Plan

The 2016/17 Business Plan shows the key deliverables and progress thereon for the Pensions Administration function of the Cumbria LGPS were:

Area	Why	Progress during 2016/17
<b>Employer communications</b>	Good governance	Communication with employers is a key function of administration of an LGPS Fund. In addition to undertaking 'standard' employer communications (e.g. email circulars, website, surgeries) Fund officers and YPS continue to work closely with employers to support them in the development of processes to deliver the required data.

Effective and timely communications with and feedback from Fund employers and members has been the pivotal element of fund administration in 2016/17, contributing significantly to the delivery of all the above. As part of this commitment to raise awareness of pensions issues and the services available officers and YPS have again undertaken numerous communications and events during the year (see 11.2 for further details).

### 3.5.3 Number of Members in the Fund

The additional budgetary provision has helped to ensure delivery of consistently good service levels / outcomes for Fund members, despite over a 14% increase in their numbers over the last four years. Analysed by active, deferred and pensioner members:

Category	31 March 2017	31 March 2016	31 March 2015	31 March 2014	31 March 2013
<b>Actives</b>	16,832	16,270	16,506	16,776	15,969
<b>Deferred</b>	23,793	23,339	21,768	20,045	19,525
<b>Pensioners</b>	15,373	14,910	14,403	14,117	13,594
<b>Total</b>	<b>55,998</b>	<b>54,519</b>	<b>52,677</b>	<b>50,938</b>	<b>49,088</b>

## 4/ Investment Policy and Performance

### 4.1 Introduction

The purpose of this section of the report is to demonstrate how the investment strategy has been implemented during the year. In 2016/17 this also incorporated how the Fund responded to changes in the Investment Regulations covering the LGPS which resulted in the replacement of the Statement of Investment Principles (SIP) with the Investment Strategy Statement (ISS), this is detailed further in **Section 10**.

### 4.2 Asset Allocation

The Council as the Administering Authority has delegated the responsibility for the governance and stewardship of the Fund to the Pensions Committee.

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.

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

The Cumbria Fund completed a detailed Investment Strategy Review in May 2012 which has been reviewed annually in the intervening period. Following completion of the 2016 Triennial Actuarial Valuation the Fund has appointed external consultants to undertake a further strategy review. In consultation with the Fund's Independent Advisors and Officers, the Committee will consider the resultant recommendations and make any necessary changes to ensure the strategy remains appropriate and fit for purpose going forward.

The core aims of the current strategy are to reduce risk and provide marginally enhanced returns, through better diversification (especially across the alternatives asset classes within the growth section of the portfolio), enhance inflation protection where appropriate, while having a focus on income (to recognise the Fund's maturing liability profile in the medium-term). This has led to the strategic selection of an in-house portfolio of alternative pooled funds to increase diversification and stability and reduce fees. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term.

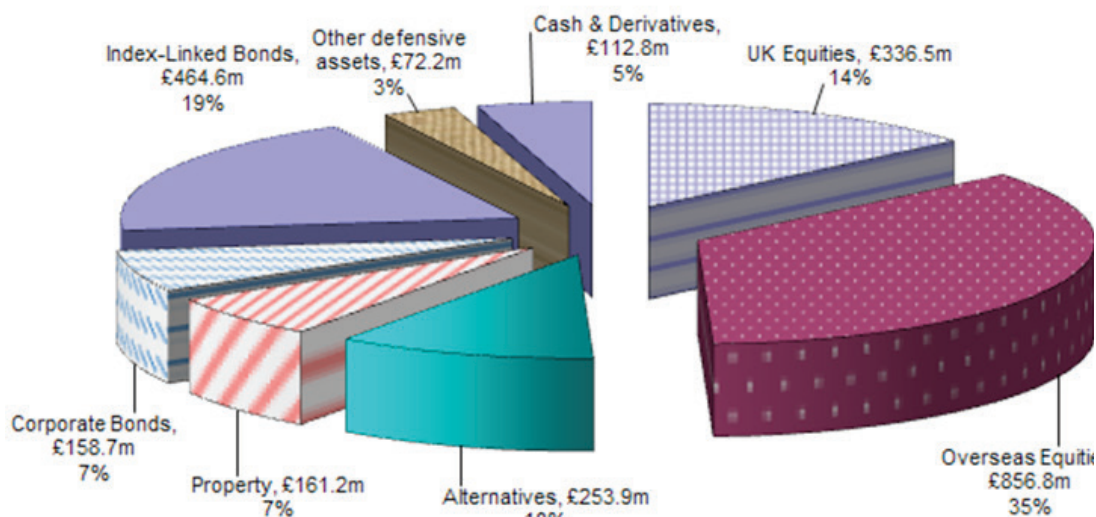
The process of implementing changes in asset allocation to meet this strategy has progressed steadily since 2012 with the following changes being made this year:-

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 8.1% in infrastructure and 7.2% in opportunistic. This was done by the selection of suitable opportunistic investments with commitments made to SL Capital Infrastructure Fund I and Unigestion Secondary Opportunities Fund IV;
- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;
- The continuation of selecting suitable investments to the defensive asset allocation (income seeking with capital preservation to aid diversification and returns in a low yield market), progressed with commitments being made to Babson Global Private Loan Fund II of £25.0m, and to Partners Group Multi-Asset Credit 2016 of £25.0m;
- The liquidation of the BlackRock alternatives portfolio has continued, however combined with valuation increases the value of the holding has increased during 2016/17 (£29.8m at 31/03/16 to £36.7m at 31/03/17); as funds are returned they are utilised to fund further investment into infrastructure and opportunistic products.

Following completion of the 2016 Actuarial Valuation, the Fund has commissioned investment consultants to undertake a review of the Investment Strategy during 2017/18. This will consider key risks specific to Cumbria due to both asset and liability profile, potential mitigations, the continuing maturity of the Fund and cash flows, and giving challenge to the Fund on its macro-economic and investment / liability risk assumptions.

**Investment assets as at 31st March 2017:**

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:

**Investment Assets at 31st March 2017, £2,416.735 million**

The percentage (%) asset allocation has moved as follows since 1st April 2016:

	Assets as at 1st April 2016	Assets as at 31st March 2017	Movement
UK Equities	15%	14%	(1%)
Overseas Equities	36%	35%	(1%)
Fixed Interest Bonds	7%	7%	0%
Index-Linked Bonds	19%	19%	0%
Alternatives	12%	13%	1%
Property	8%	7%	(1%)
Cash & Derivatives	3%	5%	2%
	<b>100%</b>	<b>100%</b>	<b>0%</b>

The key changes in asset holdings since the start of the year are reductions in UK equities, global equities of 1% each and increases in alternatives of 1% and cash by 2%. These moves have arisen as a result of ongoing transition work to achieve the target investment allocation as per the revised Investment Strategy Statement (ISS) (the current Cumbria LGPS ISS can be found in Appendix A-4).

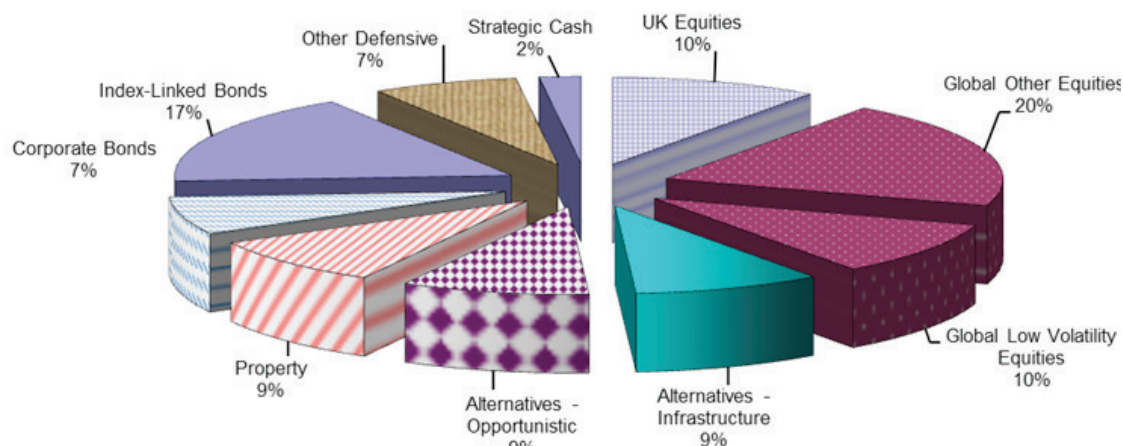
The Fund is temporarily overweight in equities whilst it transitions towards the targeted strategic asset allocation as per the revised ISS (this position is discussed quarterly at the Investment Sub Group and reported to each Committee meeting). This overweight position will reduce as the Fund meets current commitments to and completes further allocations to alternatives. At 31st March 2017 commitments to alternatives totalled £370m (approximately 15% of Fund assets compared to the target ISS allocation to alternatives of 18%) of which £232m (approximately 10% of Fund assets) had been drawn down. The drawdown of these current committed and as yet unallocated amounts will be funded from the overweight element of the equity holdings.



### Investment asset allocation once Investment Strategy has been fully implemented:

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

**Benchmark Investment Asset Allocation**



### 4.3 Investment Management, Administration and Custody

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

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

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

Cumbria LGPS's assets are held in custody either by the Fund's independent custodian - State Street (equities, bonds, some cash and some alternatives) or by investment managers (UK property, some cash &

most alternatives). The custodial services include trade settlement and processing, portfolio reporting, income collection and cash management.

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

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

### 4.4 Investment Governance

#### 4.4.1 Responsible Investment Policies and the Stewardship Code

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

Cumbria LGPS policies on investing / divesting on social / ethical / environmental grounds align directly with the advice received from Mr Nigel Giffin QC (on behalf of the Scheme Advisory Board and applicable to all Funds in the LGPS). The Fund aims to fulfil its fiduciary duty to its employers and members by considering investments for maximisation of return, or minimisation of risk primarily - but if the same risk or return can be achieved from two investments then and only then could other

considerations be taken into account. In doing so the Administering Authority may not prefer its own particular interests to those of other Fund employers and members.

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

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

In 2016 Cumbria LGPS became a Tier 1 signatory to the UK Stewardship Code, and thus for 2016 /17 has included its Statement of Compliance with the UK Stewardship Code in its Annual Report and Accounts.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code.

For further details see the Cumbria LGPS Investment Strategy Statement (ISS) at section 10 and Appendix A-4 of this report.

The Investment Strategy Statement is a new requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and replaces the previous Statement of Investment Principles.

### Good to know:

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

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

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

### 4.4.2 Voting and Engagement Arrangements

The informed use of votes, while not a legal duty, is a responsibility of the owners of companies (shareholders or ourselves as a Public Pension Fund) and as such is an implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function. Pension Committee 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.

The Fund has commissioned Pension & Investment Research Consultants (PIRC) to exercise the voting rights in relation to the UK active portfolio. PIRC vote on behalf of the Fund in accordance with an agreed ‘standard voting template’ based upon relevant law, best practice, accounting standards and regulatory considerations. When considering voting recommendations PIRC also consider explanations from the respective companies Board, potential impact of oppose votes on corporate structure, materiality, opportunities for further votes in the future on the issue and market implications from any precedent created. As a general rule, the Fund’s voting rights will be exercised in favour of resolutions which are in line with the UK Corporate Governance Code or comply with best practice.

Whilst it is the Fund’s intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view and the Fund has the opportunity to override any proposed voting stance by PIRC should it so choose.

Responsibility for the exercise of voting rights in relation to the global active portfolio is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed it to be in the best interests of the Fund. Where a resolution is put forward which is particularly controversial the manager should liaise with the authority as appropriate.

The investment managers and PIRC are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. The Fund requires a full voting audit trail be available. The outcome of voting actions should also be shown if possible. All of the Fund’s investment managers are required to consider how ESG factors might impact a company’s sustainability, and therefore long-term share performance.

In endeavouring to invest in the best financial interests of the beneficiaries, the Committee Members have also elected to invest in passive pooled indexed funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the index-tracking funds invest. The Members are satisfied that the fund manager's Corporate Governance policy reflects the key principles of Responsible Investment and ESG issues; the Fund's passive manager is a Tier 1 signatory to the UK Stewardship Code.

The Fund reports to the Pension Committee on a quarterly basis on the voting and engagement activity carried out by PIRC, its investment managers, and any corporate governance issues arising. This report has a full disclosure of the PIRC voting activity as an appendix. From March 2017 the quarterly reports for the Pensions Committee are available for viewing on the Council's website under meeting minutes.

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 72 local authority pension funds from across the UK with combined assets of over £200 billion. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues. LAPFF meets on a quarterly basis and issues voting alerts including advice on how Funds might wish to vote where voting issues arise in relation to particular companies.

Cumbria LGPS have continued to progress with asset pooling arrangements, with the formal support from Government of the Border to Coast Pensions Partnership proposal being received in December 2016.

In regards to RI, BCPP Partner Funds agreed that the most effective way to use their collective influence is to engage on such matters collaboratively and as such all shareholders voting will be exercised by BCPP Ltd. There is dedicated staff identified in the structure to ensure this can be managed in the most effective and efficient manner. However, to ensure BCPP Ltd undertakes collective engagement activity that is aligned to the individual Funds' beliefs, the BCPP Ltd Corporate Engagement and Shareholder Voting Policy will be approved annually by the Partner Funds at the BCPP Joint Committee. To ensure local discretion is retained if, in exceptional circumstances, there was a reason that

an individual Fund wished to have their proportionate holding voted differently, a mechanism to enable this to be accommodated will be available. All partner funds of BCPP are currently members of LAPFF and wish to see BCPP Ltd support further collaborative activity across the LGPS through this forum.

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

#### **Key voting and engagement issues affecting Cumbria LGPS investments during 2016/17:**

Since the appointment of the proxy voting service provider in January 2015, votes for the UK equity portfolio have been cast in line with their 'UK Shareholder Voting Guidelines' rather than delegated to investment managers. These incorporate law, best practice, accounting standards and regulatory considerations. There is a clear rationale provided to the Fund by PIRC for each voting intention in advance of the relevant meeting which allows for input into the process if required.

A key focus continues to be placed on executive remuneration, as this was an area the Pensions Committee are keen to keep under review. There continued to be considerable shareholder opposition to proposed remuneration packages throughout the year with notable oppose votes of 57% at the BP AGM and 72% at the Weir AGM - both positions to oppose were supported by the Cumbria LGPS.

Oppose votes were also cast across a range of companies in such areas as the re-election of Directors (for lack of independence), approval of Annual Reports (for not seeking shareholder approval for payment of dividends) and re-election of auditors (for lack of independence).

There were also shareholder resolutions relating to the issue of climate change. For example at the Rio Tinto AGM in April 2016, approval was sought for a shareholder resolution on 'Strategic Resilience for 2035 and Beyond.' The resolution required annual reporting from 2016 to include further information on a range of performance indicators related to emissions, low-carbon energy and sustainability, and was supported by the Board and 99% of shareholders, including the Cumbria LGPS.

Officers continue to keep Committee Members informed of LAPFF activity through attendance at the quarterly meetings, LAPFF have continued with their active engagement, pushing companies on their executive pay arrangements, and climate change policies, in addition to other key corporate governance issues, such as

board diversity and independence, carbon management, employment standards, reliable accounting, and human rights.

#### 4.4.3 Compliance with the updated Myners Principles

##### Good to know:

During 2016/17 the Fund was fully compliant with the updated Myners Principles.

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

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

#### 4.5 Investment Performance

Detailed performance figures for the Fund are shown at 4.5.1 to 4.5.4 below.

##### Good to know:

In 2016/17 the Fund outperformed its Fund specific benchmarks for the 1, 3, 5 and 10 years periods.

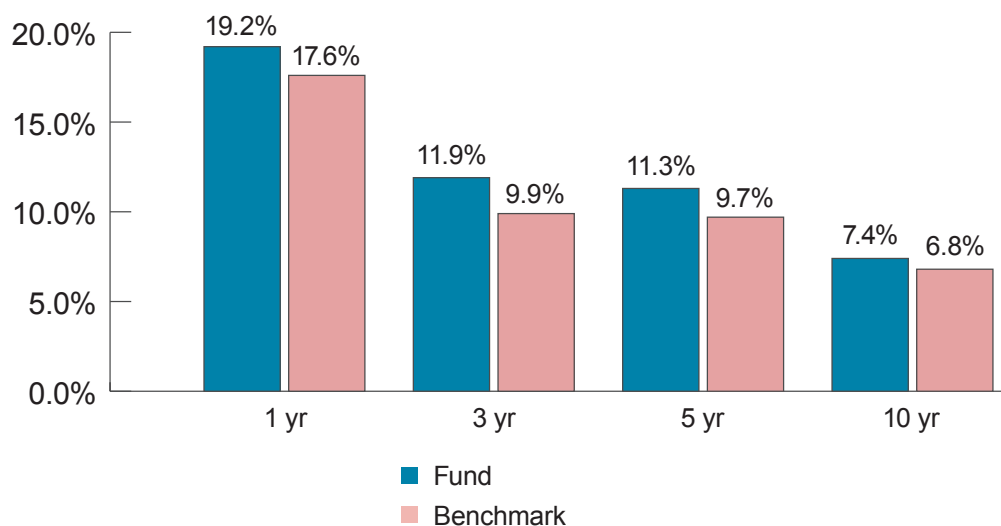
Empirical evidence shows that asset allocation decisions account for approximately 85% of returns (see section 4.2 for detailed consideration of Cumbria LGPS asset allocation during 2016/17 and going forwards).

Markets in 2016/17 experienced volatility across many asset classes, as a result of the turbulence following the EU referendum. However, for the twelve month period to 31st March 2017, all markets in which the Fund holds investments showed positive returns. For some asset classes particularly overseas equities, these positive returns included the impact of the ongoing weakness in sterling.

UK index-linked gilts had a return of 22.0% which was a significantly higher return than 2015/16 when the return was 1.9%. The Global Equities Markets have also performed well in 2016/17, averaging at 32.2% in sterling although there were variations by sector and geography. Asia Pacific markets showed the strongest performance of 36.5%. Performance within the remaining areas with North America, Japan and the UK also providing strong returns of 35.0%, 32.8% and 22.0% respectively. Property also provided positive returns over the year of 3.8%.

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

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





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

Fund Manager	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Aberdeen	8.9	13.2	11.2	4.9
Legal & General	26.7	14.3	12.6	9.7
Loomis Sayles (from Dec 2013)	28.4	17.4	n/a	n/a
Nordea (from Nov 2013)	25.6	18.9	n/a	n/a
Schroders	20.9	7.8	10.6	6.6
Standard Life (from Oct 2012)	10.6	8.1	n/a	n/a

Source: State Street Investment Analytics

The Fund Manager mandates above cover 85% (£2,051m) of the Fund in segregated and index-tracking mandates, the balance is invested in Alternative pooled funds.

#### 4.5.3 Investment Performance of the Fund Relative to LGPS Universe

The previous standard for comparing performance against the Funds LGPS peers which was provided by State Street Investment Analytics (WM LA Universe) ceased from 31 March 2016.

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

To 31 March 2017	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
UK Equities	21.1	8.0	10.3	6.4
N. America Equities	33.5	20.8	18.5	12.8
Europe ex UK Equities	22.7	12.0	15.1	7.5
Japan Equities	25.3	19.9	15.2	5.9
Pacific Equities	30.3	16.6	12.0	11.0
Other International Equities	(7.5)	(5.0)	n/a	n/a
UK Corporate Bonds	10.3	8.2	7.4	7.0
Overseas Bonds	16.2	6.6	n/a	n/a
UK Index Linked Bonds	22.0	14.7	10.0	9.8
Cash	0.4	0.6	0.6	1.2
Alternatives	20.8	16.8	13.6	n/a
Property	8.4	11.7	10.6	4.9
<b>Total Assets</b>	<b>19.5</b>	<b>12.0</b>	<b>11.5</b>	<b>7.5</b>

Source: State Street Investment Analytics



## 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 Assistant Director - 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 Pension Fund Committee, in addition to this it has delegated specific elements of the administration functions of the Scheme to:

- Lancashire County Council; (who's performance is reported to and monitored by the Pensions Committee) and
- Officers within the core Cumbria Pensions team.

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

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

A key part of the monitoring process is the review of performance against agreed key performance indicators. As detailed at section 3.5 of this report all LGPS specific KPI targets were exceeded during 2016/17.

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

### 5.2 Communications

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

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

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

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

In addition to this to take advantage of sharing best practice, enhanced training opportunities and so as to benchmark itself against other Funds, the Administering Authority was a subscriber to the following bodies during 2016/17:

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

### 5.4 Internal Dispute Resolution Procedure

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can therefore be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure (IDRP). This formal process consists of two stages, although most of the complaints received are resolved during the first stage. More detailed information can be found by going to the Active Members section of the Your Pension Service website at the following web address: [www.yourpensionservice.org.uk/local-government-scheme](http://www.yourpensionservice.org.uk/local-government-scheme) and downloading the guide entitled 'IDRP Employee's Guide' from the "Appeals" section of the "Members" tab. Alternatively Your Pension Service can be contacted by telephone on **0300 123 6717**.

The Fund has undertaken approximately 14,300 contact points with scheme members during 2016/17. During the year the Administering Authority had 4 new IDRP appeals, 3 of which were concluded, and 1 is currently awaiting the Pension Ombudsman's final determination.

The Administration Strategy and Communications Policy is shown in the Fund Policy Document at Appendix A-3.

## 6/ Actuarial Report on Funds

### 6.1 Introduction

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

Valuations prior to the 2016 valuation were carried out in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. Employer contribution rates in 2016/17 were based on the actuarial valuation undertaken as at 31st March 2013.

The Rates and Adjustments Certificate from the 2013 valuation, issued by the actuary to Cumbria LGPS at 31st March 2014 and which was applicable for employer contributions for the year ended 31st March 2017, has been included at 6.6. The full 2013 Actuarial Valuation report is available on the Cumbria County Council website at: [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)

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

The 2016 Actuarial Valuation Report (including the Rates and Adjustments Certificate as at 31st March 2017) is also available at the website detailed above.

### 6.2 2016 Valuation

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

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

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

As detailed above, the methodology for completing the 2016 valuation was based on forecast returns above the projected Consumer Price Index (a CPI+ model). Prior to this, the 2010 and 2013 valuation of liabilities were based on projected bond yield. This change was made to reflect the current market pricing / demand anomalies prevalent in the fixed income market, which are resulting in negative bond yields. On the previous valuation methodology as yields fall, the valuation of liabilities rises and as such so does a fund's deficit and this follows through in a requirement to raise employer contribution rates.

### 6.3 Funding Level

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

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

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

In the period immediately following the date of the 2013 valuation (i.e. between 31st March 2013 and 31st August 2013, there were significant changes in the financial market position including an increase in gilt yields. The Actuary estimated that, considering changes in the major financial factor only, as at 31 August 2013 the impact of the market changes meant the funding level increased from 78% to approximately 83%. This was taken into consideration when setting employer contribution rates for the period April 2014 to March 2017.

2013/14 saw a continuation of this rally in yields resulting in the Fund valuation rising to 85% as at 31st March 2014 however during 2014/15 the rally stalled and yields again fell resulting in a funding level of 79% at 31st March 2015.

As noted above, the valuation methodology was amended for the 2016 valuation with a funding position of 91% being calculated as at 31st March 2016. This increase from 2015 was due to both asset growth and the revised methodology noted above.

Growth with the Fund's investment portfolio during 2016/17 has resulted in a funding position of 94% as at 31st March 2017.

## 6.4 Gad Review

It should be recognised that valuations across the LGPS are carried out using a variety of assumptions and methodologies. The Public Service Pensions Act 2013 (PSPA 2013) introduced the requirement of a standardised evaluation of all Funds within each Public Service Pension Scheme. For the LGPS the Government Actuary's Department (GAD) were appointed by the Secretary of State for DCLG (as the Responsible Body for the LGPS) to undertake this work.

During 2016, GAD undertook a "dry run" using information from the 2013 valuations to prepare for this. The methodology used a number of indicators to score each Fund against a set of four criteria:

- Compliance
- Consistency
- Solvency
- Long Term Cost Efficiency

The results of this review demonstrated that there were no issues raised nationally regarding compliance, some minor matters were raised regarding solvency and long term cost efficiency, and there were some concerns about consistency, specifically in regards to the use of standard terminology rather than a requirement for a single valuation methodology.

### Good to know:

The Cumbria Fund scored positively across all indicators in the GAD Review, with no specific issues arising and the Fund being in the top quartile of funding levels based on this standardised valuation methodology.

## 6.5 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 2016/17 were set by the 2013 Actuarial Valuation. In setting employer contribution rates during the 2013 Valuation the Actuary and the Fund were required to have regard to two fundamental principles;

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

The 2016 valuation changed the emphasis of this focus with the Actuary and the Fund being required to consider:

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

There are two elements of employer contributions as detailed in 6.5.1 and 6.5.2 below.

### 6.5.1 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 2016/17 can be found at 6.6 and in the 2013 Actuarial Valuation Report at the web address detailed at 6.1.

Details of the employer contribution rates payable from April 2017 to April 2020 can be found in the 2016 Actuarial Valuation Report also available at the same web address.

**Figure 6.5.1 Primary Contribution rate**

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

### 6.5.2 Contributions to reduce the historic deficit

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

The deficit recovery period for the Fund was set at 19 years in the 2013 valuation. Following the three years of contributions this was reduced to 16 years at the 2016 valuation resulting in the deficit being expected to be recovered by 2033.

## 6.6 Actuarial Certificate

Overleaf is the actuarial certificate from the 2013 valuation and the employer contribution rates for the period April 2014 to March 2017.

The certificate from the 2016 valuation and employer contribution rates for April 2017 to March 2020 are included in the Actuarial Valuation Report available at the following website [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)







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

**Name of Fund**

**Cumbria Local Government Pension Scheme**

### **Primary Contribution Requirements**

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

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

### **Further Adjustments**

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

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



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

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

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

### Regulation 36(8)

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

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



**Signature**

**Name**  
**Date of signing**  
**Qualification**

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



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Tower Place, London EC3R 5BU



## Schedule to the rates and adjustments certificate dated 31 March 2014

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

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

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

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



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

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

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

## Notes:

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

## 7/ Governance & the Governance Compliance Statement

### 7.1 Introduction

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

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

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

The purpose of each is summarised as follows:

- **Governance Policy Statement (including the Governance Compliance Statement)** (see Appendix A-2) – sets out the roles and responsibilities, describes risk management (which is also considered in section 3.2 of this report), and reports compliance against a set of best practice principles.
- **Administration Strategy & Communications Policy** (see Appendix A-3) – details the formal arrangements for pensions and benefits administration for the Fund, and the communications with members, employers and pensioners.
- **Investment Strategy Statement** (see section 10 and 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 section 9 and 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) – 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.

### 7.2 Governance Arrangements within the Cumbria LGPS

During 2016/17 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).

#### Local Pension Board

(Advisory)

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

#### Pensions Forum

(Consultative)

Employers  
Members

OFFICERS

#### Pensions Committee

(Strategic Decision Making)

8 CCC Councillors  
1 District Councillor  
2 Trade Union  
2 Independent Advisors

#### Investment Sub Group

(Tactical Decision Making)

S151  
3 Councillors  
1 Chief Investment Officers  
2 External Advisors

### 7.2.1 Cumbria Pensions Committee

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

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

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

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

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

The delegated duties and responsibilities of the Cumbria Pensions Committee are set out in section 2H of Cumbria County Council's Constitution available online at: [www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp](http://www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp)

### 7.2.2 Cumbria Pensions Investment Sub Group

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

The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination

of tactical investment managers (less than 5% of the Fund) and the establishment and review of performance benchmarks and targets for investment. The group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Details of the composition of the Group and its Terms of Reference are set out in the Governance Policy Statement detailed at Appendix A-2.

### 7.2.3 Cumbria Pensions Forum

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

The Forum meets annually and during 2016/17 met on 21st November 2016. The meeting reviewed the interim results of the actuarial valuation and provided attendees with an update on the progress with the national agenda for the pooling of LGPS assets.

The delegated duties and responsibilities of the Pension Forum are set out in section 2R of Cumbria County Council's Constitution available online at: [www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2r.asp](http://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2r.asp)

### 7.2.4 Cumbria LGPS Local Pension Board

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

The delegated duties and responsibilities of the Pension Board are set out in section 2P of Cumbria County Council's Constitution available online at: [www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2p.asp](http://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2p.asp)

### 7.2.5 Advisors & Officers

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

advisers are appointed for their complementary knowledge and experience of investments, actuarial matters and wider pensions issues.

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

#### 7.2.6 Conflicts of Interest

Each Member of the Pension Committee and Cumbria Local Pension Board formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. As detailed in note 16 to the accounts during 2016/17 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

### 7.3 Training 2016/17

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, Pensions Board, Officers and Advisors) have capability and capacity to undertake their duties.

A training policy (see Appendix A-9) and an outline training plan designed to cover the Knowledge and Skills Framework is produced annually by Cumbria LGPS and is updated throughout the year as any knowledge and skills gaps are identified either through emerging events or changes to Committee or Board Membership. The Training Plan incorporated in the Training Policy relates to 2017/18 (the 2016/17 Training Plan is set out in the 2015/16 Annual Report which can be found at: [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp))

Training undertaken by members of the Cumbria Local Pension Board during 2016/17 is referenced in the Annual Report of the Local Pension Board (see section 1.1).

The formal training undertaken by Members and Officers during the 2016/17 financial year has consisted of:

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



Date	Training Course/Information Report
Jun-16	Update from Government on National Pooling and other emerging issues, presentation delivered by J Houston, Local Government Association
Jun-16	Review of Governance Structures post pooling. Presentation, by Fiona Miller, Senior Manager - Pensions & Financial Services
Jun-16	Custody Arrangements & Structured vehicles post pooling. Presentation by Mark Philip and Andrew Todd of State Street.
Jun-16	Considerations of passive management post pooling. Presented by Chris Lyons and Adam Willis of Legal & General Investment Management.
Jun-16	Consideration of different equity strategies and why low volatility adds value. Presentation by Stephen Hearle and Stefan Vakker of Nordea Asset Management.
Jun-16	Property & pooling considerations. Presentation by Mike Dinsdale, Lynn MacFarlane and Louise Greenan of Aberdeen Asset Management.
Sept-16	Responsible Investing approaches and proposed BCPP approach. Presentation by Jane Firth, South Yorkshire Pension Authority
Sept-16	Section 13 and Guidance for Funding Strategy Statement. Presentation by Neil Sellstrom, Chartered Institute of Public Finance and Accountancy.
Sept-16	The Investment Framework. Presentation by Steve Lee, Investec Asset Management.
Dec-16	Governance Post Pooling. Presentation by Gary Delderfield, Eversheds Sutherland LLP

- 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-16	Kaplan - Investment Management Certificate - Unit 2		3
May-16	PLSA Local Authority Conference		2
Jun-16	LGA 13th Annual LGPS Trustee	1	
Jul-16	CIPFA Pensions Network - Workshop		3
Jul-16	Introduction to Public Sector Procurement		1
Jul-16	LGC Pension Symposium		2
Jul-16	CIPFA & Hymans – Funding Strategy Statement		3
Jul-16	PIRC – Corporate Governance		1
Aug-16	BPP – Investment Management Certificate – Unit 1		1
Aug-16	GAD Regional Workshops on Section 13 Reports		4
Sep-16	LGC Investment Summit		2
Sep-16	Understanding Death & Survivor Benefits		1
Sep-16	Schroders Autumn Conference	2	
Sep-16	CIPFA introduction to Local Government Pension Scheme	2	1
Oct-16	Standard Life – Bond Trading Training		7
Oct-16	JP Morgan Infrastructure Investor Conference		1
Oct-16	CIPFA Investment & Accounting Workshop		2
Oct-16	Local Government Fire Pension Conference		1
Oct-16	Real Asset & Infrastructure		1
Oct-16	Managing TUPE & Pension Pitfalls in Tenders, Outsourcing and setting up Trading companies		1

Date	Training Course	Attendees	
		Members	Officers
Oct-16	YPS Annual Practitioners Conference		2
Oct-16	LGC Investment Seminar - Scotland		1
Nov-16	PLSA Local Authority Forum		1
Nov-16	CIPFA Pensions Network Annual Conference		2
Nov-16	Pension Managers Conference		2
Nov-16	LGPS Pension Boards Information Seminar	1	
Nov-16	BPP Investment Management Certificate – Unit 2		1
Dec-16	LAPFF – Annual Conference		2
Jan-17	CIPFA – Preparing Pension Fund Accounts		2
Jan-17	BPP Investment Management Certificate – Unit 1		1
Jan-17	CIPFA – Actuarial Summit 2017		2
Feb-17	CIPFA – Pensions, Audit & Accounting Workshop		3
Mar-17	AON Defined Contribution Pensions		1
Mar-17	LGC Investment Seminar 2017	2	1
Mar-17	PLSA Investment Conference – Edinburgh		2
Mar-17	Mercers & Eversheds Actuarial Valuation review		2
Mar-17	Partners Group Investor Conference		1

### 7.3.1 Summary of Committee & Sub Group Attendance and formal training in 2016/17

Committee Member (member of Pensions Committee only unless otherwise indicated)		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Cllr. MH Worth	Chair - Committee & Investment Sub Group	Yes	10 / 10	4.5
Cllr. SB Collins	Vice Chair - Committee & Investment Sub Group	Yes	9 / 10	2.5
Cllr. NH Marriner	Committee & Investment Sub Group	Yes	10 / 10	4.5
Cllr. J Airey		Yes	2 / 4	3.5
Cllr. B Doughty		Yes	2 / 4	1.5
Cllr. DE Southward		Yes	4 / 4	2.5
Cllr. P Thornton		Yes	1 / 3	2.5
Cllr. H Wall		Yes	3 / 4	2.0
Cllr. G Troughton	Co-opted District Councillor	Yes	2 / 4	1.5
R Bevan	Employee representative	No	4 / 4	2.5
K McDonald	Employee representative	No	2 / 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 the Cumbria's and Lancashire County Council's (as part of the delegated function) internal audit services to increase effectiveness and efficiency. Reports issued by our auditors are subject to consideration by the Council's elected Members through scrutiny at the Council's Audit and Assurance Committee.

The audit of the 2016/17 Pension Fund accounts resulted in an unqualified and unmodified positive opinion with the Fund's external auditor (Grant Thornton) noting that the quality of the accounts and the associated working papers accompanying the financial statements were of a high standard and provided in accordance with the agreed timetable. There were no adjustments identified that affected the primary statements, and any adjustments identified were to memorandum disclosure notes only, all of which management have amended.

There are no recommendations from the auditors in the 2016/17 Audit Findings Report.

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



## 8/ The Pension Fund Accounts

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## 8 Financial Statements and Notes to the Accounts

### 8.1 The Financial Statements

Pension Fund Account for the year ended 31st March 2017

	Notes	2015/16		2016/17	
		£000's	£000's	£000's	£000's
<b>Dealings with members, employers and others directly involved in the fund</b>					
Contributions	3		60,048		65,764
Transfers in from other pension funds	4		4,883		3,385
			<b>64,931</b>		<b>69,149</b>
Benefits	5		(77,477)		(81,548)
Payments to and on account of leavers / employers exit	6		(4,185)		(3,957)
<b>Net additions / (deductions) from members</b>			<b>(16,731)</b>		<b>(16,356)</b>
Management expenses	7 & 8		(8,679)		(10,199)
<b>Net additions / (deductions) including fund management expenses</b>			<b>(25,410)</b>		<b>(26,555)</b>
<b>Returns on investments</b>					
Investment Income		41,863		50,196	
Taxes on Income		(177)		(192)	
Net investment income	9	41,686		50,004	
Profit/(losses) on disposal of investments and changes in the market value of investments	10(d)	3,217		353,068	
Net return on investments			44,903		403,072
<b>Net increase in the net assets available for benefits during the year</b>			<b>19,493</b>		<b>376,517</b>
<b>Net assets at the start of the year</b>			<b>2,027,316</b>		<b>2,046,809</b>
<b>Net assets at the end of the year</b>			<b>2,046,809</b>		<b>2,423,326</b>

#### Net Assets Statement as at 31st March 2017

	Notes	31 March 2016	31 March 2017
		£000	£000
Investment assets	10	2,040,205	2,422,518
Investment liabilities	10	(6,143)	(5,783)
<b>Total net investment assets</b>		<b>2,034,062</b>	<b>2,416,735</b>
Long term assets	12a	1,314	986
Current assets	12b	14,397	8,231
Long term liabilities	13a	(237)	(167)
Current liabilities	13b	(2,727)	(2,459)
<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>2,046,809</b>	<b>2,423,326</b>



## 8.2 Notes to the Financial Statements

### Note 1 (a): Description of the Fund and Basis of Preparation

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

The Purpose of the Fund is to:

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

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

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes;
- 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);
- 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 31st March 2017 the total membership of the Fund was approximately 56,000 (2015/16: 54,500) and consisted of approximately: 16,100 contributors/actives

(2015/16: 16,300); 24,500 deferred members (2015/16: 23,300) and 15,400 pensioners (2015/16: 14,900).

At 31st March 2017 there were 132 (2015/16: 126) employer bodies in the Cumbria LGPS (for the full list see Note 25). This increase reflects the continued growth in academies and outsourcing of local government services to other providers. This growth in employer body numbers is expected to continue over the coming years.

#### Basis of Preparation:

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

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2016/17 and the position at the year-end date, 31st March 2017. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

In accordance with the CIPFA Code guidance the main presentational change for the 2016/17 Accounts is the extension of the fair value disclosures. This is the first year that these disclosure notes have been presented in the Funds accounts as an extra disclosure. The additional disclosures have been included in Note 10 (tables 10 (h) and 10 (i)) which in the 2016/17 accounts is solely concerned with items at fair value, and therefore includes directly held property investments. Note 11 is solely concerned with financial instruments, which excludes directly held property investments as these are accounted for under 'Investment Property'.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2015/16 comparatives.

**Note 1 (b): Investment Market Activity during 2016/17**

In 2016/17, the Fund experienced volatility across many asset classes as a result of turbulence in the markets resulting from the EU referendum. However, following an initial flight to assets perceived as “safe haven assets” by investors, volatility eased and investor confidence returned. For the twelve month period to March 2017, all markets in which the Fund holds investments showed positive returns, and ongoing weakness in sterling added an additional boost to returns for UK based investors, particularly in overseas equities.

The **Global Equities** markets have risen in 2016/17, although there were variations by sector and geography. Asia Pacific markets showed the strongest performance with North America, Japan and the UK also providing strong returns.

**UK index-linked gilts** had a significantly higher return than 2015/16. The strong performance of Government bonds in the first six months of the year to September 2016 was due to the flight to safe haven assets in the first quarter, followed by the announcement of an extension to the programme of quantitative easing in an effort to restore confidence post EU referendum. Continuing the trend from earlier in the year, index-linked gilt values grew further as sterling weakness and high commodity prices bolstered inflation forecasts.

**Property** provided positive returns over the year as a whole after one quarter of negative performance following the EU referendum which was recouped later in the year.

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

**Note 1 (c): Fund Performance 2016/17**

During the year to 31st March 2017 the Cumbria LGPS value increased by £376.517m from £2,046.809m (31/03/16) to £2,423.326m (31/03/17). The Fund returned 19.2% (net of fees) for the year which was an outperformance of 1.6% on the Fund's bespoke index performance benchmark for the year of 17.6%. This outperformance equates to additional growth of approximately £33m and was primarily attributable to the performance of property and alternative assets such as infrastructure and private equity.

The Fund performed well over the medium to longer term with the three-year return of 11.9% (net of fees) outperforming the bespoke hedged benchmark of 9.9% (per year) by 2.0%. The five year Fund return was 11.3% (net of fees), 1.6% above the benchmark of 9.7% (per year). The ten year Fund return was 7.4% (net of fees), 0.6% above the benchmark of 6.8% (per year).

Whilst the Investment Strategy continues to perform well, it undergoes review annually as is good practice. The targeted investment asset allocation is specified in the Fund's Investment Strategy Statement, which has been agreed by the Pensions Committee, includes a section detailing the Fund's Investment Beliefs.

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

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 8.1% in infrastructure and 7.2% in opportunistic. This was done by the selection of suitable investments with commitments made to SL Capital Infrastructure Fund I, and Unigestion Secondary Opportunities Fund IV;
- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;
- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with commitments made to Babson Global Private Loan Fund II of £25.0m, and to Partners Group Multi-Asset Credit 2016 Fund of £25.0m;
- The liquidation of the BlackRock alternatives portfolio has continued, along with valuation rises (£29.8m at 31/03/16 to £31.8m at 31/03/17) as funds are released for investment into infrastructure and opportunistic products.

Following completion of the three-yearly Actuarial Valuation, the Fund has engaged investment consultants to undertake a review of the Investment Strategy during 2017/18. This will consider key risks specific to Cumbria due to both asset and liability profile, potential mitigations, the continuing maturity of the Fund and cash flows, and giving challenge to the Fund on its macro-economic and investment / liability risk assumptions.

**NOTE 1 (d): Business Plan Achievements and Looking Forward**

The majority of work plan objectives in the 2016/17 Business Plan have either been achieved or are in progress of completion and these have been delivered within the approved budget. Further to the continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned for 2016/17 were:-

- **Completion of the 2016 triennial valuation of the Fund and associated activity.**

The valuation calculated that, at 31 March 2016, there was a shortfall of £210m against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 91% of its liabilities. At the previous valuation at 31 March 2013 the shortfall was £457m, equivalent to a solvency funding level of 78%.

On the advice of the Actuary the Pensions Committee agreed the parameters for the actuarial valuation including the aim to eliminate the deficit within the Fund over 16 years (a reduction from 19 years at the 2013 valuation). This would result in the deficit being eliminated by 2033.

The Actuarial Valuation Report including the rates and adjustments certificate were approved by the actuary on 31st March 2017. Employer contribution rates from this valuation are effective from 1st April 2017 to 31st March 2020.

- **Progressing to formal acceptance of a suitable pooling option.**

Border to Coast Pensions Partnership (BCPP) proposal for pooling pension fund assets was submitted to Government in July 2016. The Minister for Local Government – Marcus Jones gave his support for these proposals in December 2016.

Council approved BCPP Ltd as Cumbria's approved vehicle for pooling of pension fund assets in February 2017.

The 12 partner LGPS Funds of BCPP are progressing with further development of the pool with the company expected to be ready to accept assets in June 2018.

- **Embedding the Pension Board into "business as usual".**

The Cumbria LGPS Local Pension Board is responsible for assisting the Administering Authority of the Cumbria Local Government Pension Scheme to secure compliance with relevant regulations and legislation and the requirements of the Pensions Regulator in relation to the Local Government Pension Scheme (LGPS) and to ensure the effective and efficient governance and administration of the LGPS.

The Board's membership equally represents the employers and employees of the Fund and has met twice yearly since its inception in July 2015.

The Board is now well established, operating effectively and reports to the Cumbria Pensions Committee on a regular basis.

- **Gross Minimum Pension Reconciliation.**

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

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

Looking forward to 2017/18, the proposed key deliverables in 2017/18 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

#### Administration

- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues. The Pensions Regulator Code of Practice sets out the importance of complete and accurate records and states that Administering Authorities must ensure that member data across all membership categories is complete and accurate.
- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator to ensure that the Fund receives the information required in a timely manner.
- Completion of the 2016/17 Cumbria LGPS Annual Report and Accounts incorporating any new regulatory/technical changes to meet guidance issued by CIPFA, the Pensions Regulator, HMRC, or the Local Government Association (LGA).
- Continuation of the Scheme reconciliation, GMP (Guaranteed Minimum Pension), to comply with guidance issued by the Pensions Regulator, HMRC, or the Local Government Association (LGA), and avoid erroneous liabilities being assigned to the Cumbria Fund.

#### Investment Management:

- Continue to progress infrastructure and opportunistic investment options. Additional infrastructure and opportunistic investment options are required within the fund to increase its proportions of the Fund to that stated within the Investment Strategy Statement.

- Preparation for transition of assets from the management by external Investment Managers to BCPP Ltd. It is expected that BCPP Ltd will be ready to commence the transitioning of assets from June 2018. Due to the scale and complexity of the assets currently managed by external Investment Managers on behalf of the Partner Funds within BCPP the transitioning of investments into the new arrangements with BCPP Ltd will be undertaken over a period of time, with the majority of assets expected to be transitioned within three years.
- Actively review the cash flow position (at a contribution level) of the Fund. Currently the Fund is cash positive overall (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.356m in 2016/17 (£16.731m in 2015/16). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. On advice from the Fund's Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review.

#### **Oversight & Governance:**

- Review and update of Fund risks, policies and strategies to ensure that Scheme policy documents including the Risk Register are up to date, appropriate and accessible to all stakeholders.
- Support and influence the development of BCPP Ltd including the availability of appropriate sub funds to ensure that its assets are appropriately governed and managed following transition into the pool.
- Assess the impact of and respond to government consultations that will have an impact on the structure and performance of the Fund. The outcome of these consultations could have significant implications for employers of the Cumbria LGPS therefore it is important that timely, clear and well thought out responses are made by the Fund.
- Annual review of governance arrangements in response to financial, regulatory and structural changes to ensure they are up to date and appropriate.
- Following completion of the triennial valuation, undertake an Investment Strategy review and consider the resultant recommendations to ensure the strategy is appropriate and fit for purpose.

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 2016/17 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2017) at: [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp) where the previous year's report is also available.

#### **Note 2: Summary of Significant Account Policies**

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2016/17. However, additional clarity has been provided as to the Fund's treatment of gains/losses on transfers of investments within the portfolio of an individual manager. This is set out in section 2.3(e).

#### **Fund account – revenue recognition**

##### **2.1. Contribution Income**

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

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

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

##### **2.2 Transfers to and from other schemes**

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

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

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



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

### 2.3. Investment income (Note 9)

- a) **Interest income:** is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- b) **Dividend income:** is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement.
- c) **Distributions from pooled funds:** are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement.
- d) **Property-related income:** consists primarily of rental income. This is recognised on an accruals basis.
- e) **Movements in the net market value of investments:** changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised gains/losses during the year. Realised gains/losses have been classified where a purchase or sale of investments has occurred. Gains/losses on transfers of investments within the portfolio of an individual manager have been classified as unrealised gains/losses (i.e. where no cash transactions have taken place). (See Note 10(d)).

### Fund account – expense items

#### 2.4. Benefits payable (Note 5)

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

#### 2.5. Taxation

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

### 2.6. Administrative expenses (Note 7)

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

### 2.7. Investment management expenses (Note 7)

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

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

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

### 2.8. Oversight and Governance costs (Note 7)

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

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

### Net assets statement

#### 2.9. Financial Assets

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

#### Investment Assets

State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary



source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

- a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.
- c) Unquoted pooled investments: The fair value of investments for which market quotations are not readily available is determined as follows:
  - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There was no such investment at 31st March 2017.
  - Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See Note 14).
  - Investments in private equity funds and unquoted limited partnerships (Note 14) are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.
- e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2017.

Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).

- f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2017 by an independent valuer, CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards UK January 2014 (revised April 2015).
  - The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.
  - Each valuation has been prepared on the basis of "Fair Value", which is defined as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in International Financial Reporting Standard (IFRS) 13.
  - "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP (FRS 102), is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."
  - The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.
    - i. No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal.
    - ii. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in "lots" or as a whole.
    - iii. Acquisition costs have not been included in the valuation.
    - iv. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges.
    - v. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

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

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

### Long-Term Assets

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

### 2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4.00pm exchange rates at 31st March 2017.

### 2.11. Derivatives

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

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4.00pm closing spot/forward foreign exchange rates.

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

### 2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

### 2.13. Financial liabilities

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

### 2.14. Actuarial present value of promised retirement benefits

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

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

### 2.15. Additional voluntary contributions

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

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

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

### 2.16. Contingent assets and contingent liabilities

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

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

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

### 2.17. Stock Lending

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

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

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

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

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

Material errors discovered in prior period figures 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 2016/17 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 2016/17 are as follows:

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

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

By category	2015/16 £'000	2016/17 £'000
Employee contributions to the fund	16,509	16,389
Employer contributions to the fund:	38,321	41,744
Normal contributions	5,218	7,631
Deficit recovery contributions	43,539	49,375
	<b>60,048</b>	<b>65,764</b>
By Employer Type	2015/16 £'000	2016/17 £'000
Administering Authority	32,119	33,901
Other Scheduled bodies	24,901	28,812
Admitted bodies	3,028	3,051
	<b>60,048</b>	<b>65,764</b>

As shown in the previous table the administering authority contributions (Cumbria County Council) were £33.901m (£32.119m 2015/16).

In February 2017, the Cumbria Constabulary and the Cumbria Office of the Police & Crime Commissioner paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20. These additional payments explain the increase in the deficit recovery contributions for 2016/17 in the table above.

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

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

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted to make an additional employer contribution. The rate as determined by the Actuary includes an element to compensate the Fund for delayed receipt of monies. The additional employer contribution from the County Council was used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in Local Authority budgets. The additional contribution from Cumbria County Council funded an allowance of up to £7.312m for non ill-health early retirements which had been fully utilised by 31st March 2017.

**Ill-health early retirements:** Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this and all other Cumbria LGPS employer policies that are relevant to the 2016/17 financial year are contained in the full Actuarial Valuation Report as at 31st March 2013, available on the County Council's website, at [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)

#### Note 4: Transfers in from Other Pensions

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

	2015/16 £'000	2016/17 £'000
Individual transfers	4,883	3,385
	<b>4,883</b>	<b>3,385</b>

2015/16 saw an unusually high value of transfers into the Fund due to a number of staff for an Admitted Body where combined transfers in were £1.095m. There were no such exceptional transfers into the Fund in 2016/17, and therefore the individual transfers in 2016/17 are less than that for 2015/16 and are at a more normal level.

#### Note 5: Benefits

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

	Service Pre 1 April 2008	Service 1 April 2008 to 31 March 2014	Service post 1 April 2014
<b>Basis</b>	Final salary	Final salary	Career Average Revalued Earnings (CARE)
<b>Pension</b>	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
<b>Lump sum</b>	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:

By category	2015/16 £'000	2016/17 £'000
Net pensions paid	62,748	65,032
Net lump sum on retirement	13,114	14,449
Net lump sum on death	1,615	2,067
	<b>77,477</b>	<b>81,548</b>
By employer type	2015/16 £'000	2016/17 £'000
Administering Authority	44,254	45,637
Scheduled bodies	27,163	29,192
Admitted bodies	6,060	6,719
	<b>77,477</b>	<b>81,548</b>

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2016/17 were £45.637m (£44.254m 2015/16).

The increase in benefits paid of £4.071m reflects the amount of restructuring that has taken place in recent years, as most Fund employers within the LGPS seek to address reductions in funding. Many employers within the Fund have chosen to offer voluntary redundancy programmes which, by their nature, tend to appeal to individuals who are aged over 55 and are therefore entitled (at a cost to their employer) to access their unreduced pension immediately.



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

	2015/16 £'000	2016/17 £'000
Refund of contributions	178	158
Individual transfers to other Schemes	3,335	3,799
Group transfer out to other Schemes	652	-
	<b>4,185</b>	<b>3,957</b>

**Note 7: Management Expenses**

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

Further details of management expenses are as follows:

	2015/16 £'000	2016/17 £'000
Administrative costs	1,074	1,196
Investment management costs	7,121	8,358
Oversight and governance costs	484	645
	<b>8,679</b>	<b>10,199</b>

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted in 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2016/17 is provided for information in the next note.

Administration costs were £0.122m higher in 2016/17 than the previous year. This was largely due to planned benefits administration costs related to the Guaranteed Minimum Pension reconciliation.

Investment management costs were £1.237m higher in 2016/17 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.161m higher in 2016/17 than the previous year, for further details refer to Note 8.

**Note 8: Management Expenses Additional Information**

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2016/17 is provided below.

	2015/16 £'000	2016/17 £'000
<b>Administrative costs:</b>		
Pensions Administration	897	1,016
Employee Costs	152	169
Legal Advice	25	11
	1,074	1,196
<b>Investment management costs:</b>		
Fund management fees	3,138	3,266
Custody fees	140	96
Pooled fund costs and entry fees*	3,609	4,651
Transaction costs	234	345
	7,121	8,358
<b>Oversight and governance costs:</b>		
Employee costs	213	347
Pension fund committee	26	18
Pension Board	15	4
Investment consultancy fees	73	94
Performance monitoring service	23	22
Shareholder voting service	16	16
Actuarial fees	37	79
Audit fees	27	27
Legal and tax advice	36	22
Other (including bank charges)	18	16
	484	645
	<b>8,679</b>	<b>10,199</b>

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

Variations on spend between years include:-

- Pensions Administration – the budget for pensions administration has increased in line with inflation and to reflect the increasing membership numbers of the Fund. In addition, following the cessation of National Insurance contracting out; the Fund along with all other public sector pension schemes are currently working through a full scheme reconciliation to HMRC data (Gross Minimum Pension Reconciliation). Some of this work has been undertaken by Your Pension Service on behalf of the Fund which has resulted in additional costs.
- Employee costs (including staff training and travel) – in 2015/16 the Pensions Committee approved an increase in the cost for internal staffing in response to increasing Scheme complexity, regulatory oversight and initiatives to deliver efficiencies through internalisation of asset manager selection. The full year effect of these additional resources materialised in 2016/17. In addition, there have been costs incurred due to increased travel costs related to responding to the national LGPS Pooling agenda.
- Fund Management fees – fees are paid based on the size of the Fund's portfolio. As the Fund's investments have returned 19.2% growth (net of fees) in 2016/17, the fees paid in 2016/17 have increased from the fees paid in 2015/16. However, this cost has been partially offset by a negotiated reduction during the year to the fee rate paid.
- Pooled fund costs and entry fees – the objective of the strategy to select a portfolio of alternative pooled funds of growth assets is to aid cash flow and increase diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of

alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.966m in 2016/17 (£2.696m 2015/16) and the result of the positive investment returns has required the accrual of performance fees of £1.051m in 2016/17 (£0.769m 2015/16). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2016/17 entry costs of £0.634m were incurred (£0.144m 2015/16), but as the valuation of the investment at March 2017 exceeds the price paid, the costs of entry have been recouped within a matter of months. These funds are viewed as long-term illiquid investments.

- Transaction costs – these costs are variable depending on investment manager purchases and sales and were higher in 2016/17 in line with increased volume of investment transactions.
- Legal costs – the need for professional legal advice on ad-hoc employer and pensioner/employee issues is variable year on year dependent upon the throughput of work which was lower in 2016/17 than in 2015/16.
- Investment consultancy fees – there has been a need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda i.e. backfill and advice.
- Actuarial fees – in line with regulation an Actuarial Valuation is undertaken on the Fund once every three years. During 2016/17 the Fund incurred the costs of the 2016 valuation resulting in the increase in cost from 2015/16.

#### Note 9: Net Investment Income

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £50.004m (2015/16 £41.686m), net of £0.192m (2015/16: £0.177m) irrecoverable tax on dividends, and including stock lending income of £0.057m (2015/16: 0.056m), can be analysed as follows:

	2015/16 £'000	2016/17 £'000
Interest from fixed interest securities (corporate bonds)	7,182	7,161
UK equities dividends	10,768	12,308
Overseas equities dividends	6,747	8,833
Distributions from pooled investment vehicles	8,639	13,506
Net rental income from investment properties (see note 10(b))	8,154	7,937
Interest on cash deposits	196	259
	<b>41,686</b>	<b>50,004</b>

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of factors (including size and stability of dividend payment); the Fund benefitted in 2016/17 from companies paying some unusually high UK dividends.

The Fund is increasing its investment into infrastructure and other alternatives with the objective of both long term stable and inflation protected income streams. As shown above 'Distributions from pooled investment vehicles' in 2016/17, income of £13.506m was earned from the alternative investments; infrastructure (£5.006m), pooled property funds (£3.069m), private loan fund (£0.628m), opportunistic investments (£4.623m) and other pooled investments (£0.180m).

## Note 10: Investment Assets

	Notes	31 March 2016			31 March 2017		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Investment Assets</u></b>							
<b>Equities</b>							
Equities quoted		250,079	397,206	<b>647,285</b>	304,023	493,020	<b>797,043</b>
		250,079	397,206	<b>647,285</b>	304,023	493,020	<b>797,043</b>
<b>Fixed interest securities</b>							
Corporate bonds - quoted		140,751	7,960	<b>148,711</b>	151,892	6,850	<b>158,742</b>
		140,751	7,960	<b>148,711</b>	151,892	6,850	<b>158,742</b>
<b>Pooled investment vehicles</b>							
Public investments - quoted		4,734	4,069	<b>8,803</b>	5,733	4,680	<b>10,413</b>
Pooled investments - unquoted		521,993	497,138	<b>1,019,131</b>	634,226	572,292	<b>1,206,518</b>
	10(a)	526,727	501,207	<b>1,027,934</b>	639,959	576,972	<b>1,216,931</b>
<b>Investment properties</b>							
Freehold		126,525	-	<b>126,525</b>	135,940	-	<b>135,940</b>
Long leasehold		30,315	-	<b>30,315</b>	25,250	-	<b>25,250</b>
	10(b)	156,840	-	<b>156,840</b>	161,190	-	<b>161,190</b>
<b>Derivative contracts</b>	10(c)	365	-	<b>365</b>	8,284		<b>8,284</b>
<b>Cash Deposits</b>		20,198	30,628	<b>50,826</b>	38,456	33,827	<b>72,283</b>
<b>Amounts receivable for sales *</b>		1,881	-	<b>1,881</b>	2,382		<b>2,382</b>
<b>Investment income accrued *</b>		5,290	-	<b>5,290</b>	5,044		<b>5,044</b>
<b>Property rental debtors *</b>		1,073	-	<b>1,073</b>	619		<b>619</b>
		28,807	30,628	<b>59,435</b>	54,785	33,827	<b>88,612</b>
Subtotal investment assets		1,103,204	937,001	<b>2,040,205</b>	1,311,849	1,110,669	<b>2,422,518</b>
<b><u>Investment liabilities</u></b>							
<b>Derivative contracts</b>	10(c)	(1,788)	-	<b>(1,788)</b>	(261)		<b>(261)</b>
<b>Amounts payable for purchases*</b>		(1,333)	-	<b>(1,333)</b>	(2,754)		<b>(2,754)</b>
<b>Property creditors*</b>		(3,022)	-	<b>(3,022)</b>	(2,768)		<b>(2,768)</b>
Subtotal investment liabilities		(6,143)	-	<b>(6,143)</b>	(5,783)	-	<b>(5,783)</b>
<b>Total Net Investments</b>		1,097,061	937,001	<b>2,034,062</b>	1,306,066	1,110,669	<b>2,416,735</b>

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

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

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

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2017.

**Note 10(a): Pooled Investment Vehicles**

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £880.426m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

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

	2015/16 £'000	2016/17 £'000
<b>Unitised insurance policies - unquoted</b>		
UK equities	46,871	26,727
Overseas equities	337,477	359,131
UK index-linked securities	380,759	464,562
UK sterling liquidity fund	-	30,006
	<b>765,107</b>	<b>880,426</b>
<b>Unit trusts</b>		
UK quoted	4,734	5,733
Overseas - quoted	2,790	3,226
	<b>7,524</b>	<b>8,959</b>
<b>Other Managed Funds</b>		
Pooled property REIT's - quoted	1,279	1,454
Pooled property funds - unquoted	72,304	73,380
Other managed funds - unquoted	181,720	252,712
	<b>255,303</b>	<b>327,546</b>
<b>Total</b>	<b>1,027,934</b>	<b>1,216,931</b>

The Fund is increasing its investment into infrastructure and other alternatives (unquoted pooled investments) with the objective of generating diversification and more stable and / or inflation protected income streams. These investments are included in the Other Managed Funds category in the table above.

**Note 10(b): Investment Properties**

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2017 the portfolio valued at £161.190m included 26 properties ranging from £2.200m to £15.650m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland; the intention of this spread is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in note 11(a) 'Valuation of Financial Instruments carried at fair value'. However as these assets are illiquid and prices are not readily quantifiable; in this regard they are level 3 assets in the Fair Value analysis in Notes 10(g) to (i).

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

	2015/16 £'000	2016/17 £'000
Rental income from investment property	8,508	8,427
Direct operating expenses arising from investment property	(354)	(491)
	<b>8,154</b>	<b>7,936</b>



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:

	2015/16 £'000	2016/17 £'000
<b>Balance at the start of the year</b>	<b>145,475</b>	<b>156,840</b>
Additions:		
<b>Purchases</b>	7,000	4,965
Subsequent expenditure	1,353	93
<b>Disposals</b>	(6,962)	(7,532)
Net gains/(losses) from fair value adjustments	9,974	6,824
<b>Balance at the end of the year</b>	<b>156,840</b>	<b>161,190</b>

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:

	2015/16 £'000	2016/17 £'000
Not later than one year	7,942	8,181
Later than one year and not later than five years	28,947	29,416
Later than five years	35,217	31,389
<b>Total future lease payments due under existing contracts</b>	<b>72,106</b>	<b>68,986</b>

#### Note 10(c): Derivatives

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

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

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

The derivatives can be summarised as follows:

Reconciliation to Note 10	31 March 2017		
	Investment Asset / Unrealised Gain £'000	Investment Liability / Unrealised Loss £'000	Net Market Value £'000
<b>Total Derivatives</b>			
Forward currency contracts	8,095	(253)	7,842
Futures	189	(8)	181
<b>Derivative Contracts Gain / (Loss)</b>	<b>8,284</b>	<b>(261)</b>	<b>8,023</b>

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

Currency Bought		Currency Sold		2016/17	
Currency	Local Value £'000	Currency	Local Value £'000	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
<b>Settlement within one month</b>					
EUR	1,619	GBP	1,385	-	-
GBP	3,860	EUR	4,451	51	-
GBP	4,581	USD	5,646	69	-
USD	144	GBP	118	-	(3)
<b>Settlement one to six months</b>					
GBP	68,918	EUR	78,887	1,318	-
GBP	40,719	JPY	5,701,627	-	(250)
GBP	309,264	USD	379,112	6,657	-
				<b>8,095</b>	<b>(253)</b>
<b>Net forward currency contracts at 31 March 2017</b>				<b>7,842</b>	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value as at 31 March 2016 £'000	Economic exposure	Market Value as at 31 March 2017 £'000
<b>Assets</b>					
UK Fixed Interest	Less than one year	3,606	23	11,865	189
Overseas Fixed Interest	Less than one year	8,849	27	-	-
			<b>50</b>		<b>189</b>
<b>Liabilities</b>					
Overseas Fixed Interest	Less than one year	-	-	(3,783)	(8)
			<b>0</b>		<b>(8)</b>
<b>Net futures</b>			<b>50</b>		<b>181</b>

**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.

2016/17:

Asset Class	Value at 1 April 2016 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains / (losses) £'000	Unrealised gains / (losses) £'000	Value at 31 March 2017 £'000
<b>Fixed interest securities (Corporate Bonds)</b>	148,711	14,699	(14,117)	(611)	10,060	158,742
<b>Equities</b>						
UK equities	250,079	47,583	(34,636)	8,450	32,547	304,023
Overseas equities	397,206	206,783	(214,017)	36,137	66,911	493,020
	647,285	254,366	(248,653)	44,587	99,458	797,043
<b>Pooled investment vehicles</b>	765,107	30,000	(114,935)	14,375	185,879	880,426
<b>Unit Trusts</b>	7,524	18	-	-	1,417	8,959
<b>Managed Funds</b>	255,303	52,272	(15,001)	4,872	30,100	327,546
<b>Property (See Note 10b)</b>	156,840	5,058	(7,532)	(1,021)	7,845	161,190
<b>Derivatives (forward foreign exchange contracts, futures)</b>	(1,423)	86,685	(29,358)	(57,327)	9,446	8,023
	<b>1,979,347</b>	<b>443,098</b>	<b>(429,596)</b>	<b>4,875</b>	<b>344,205</b>	<b>2,341,929</b>
<b>Cash</b>	50,826			2,398	1,590	72,283
<b>Amounts receivable for sales</b>	1,881					2,382
<b>Investment income accrued</b>	5,290					5,044
<b>Property rental debtors</b>	1,073					619
<b>Amounts payable for purchases</b>	(1,333)					(2,754)
<b>Property creditors</b>	(3,022)					(2,768)
<b>Total Net Investments</b>	<b>2,034,062</b>			<b>7,273</b>	<b>345,795</b>	<b>2,416,735</b>

Analysis of gains / (losses) for the year	2016/17 £'000
Realised - Profit and losses on disposal of investments	7,273
Unrealised - Changes in the market value of investments	345,795
	<b>353,068</b>

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

2015/16:

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

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

**Note 10(e): Investments analysed by External Manager**

Manager	Asset Class	31 March 2016		31 March 2017	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities, bonds, cash	316,329	15.5%	379,669	15.7%
Legal & General Policy No. 2	Index-linked bonds	309,492	15.2%	377,610	15.6%
Legal & General Policy No. 3	Global equities	139,286	6.8%	123,147	5.1%
Legal & General Passive Currency	Currency overlay	(1,359)	-0.1%	7,725	0.3%
Schroders Investment Management	UK equities	248,796	12.2%	291,671	12.1%
Nordea	Global equities	217,010	10.7%	272,733	11.3%
Loomis Sayles	Global equities	200,772	9.9%	258,744	10.7%
Standard Life	UK corporate bonds	153,156	7.5%	169,769	7.0%
Aberdeen Asset Management	Direct property	161,298	7.9%	169,677	7.0%
JP Morgan	Infrastructure	84,449	4.2%	94,285	3.9%
Partners Group	Infrastructure	31,593	1.6%	46,727	1.9%
M&G	Property Fund	36,449	1.8%	36,840	1.5%
Aviva	Property Fund	34,539	1.7%	35,400	1.5%
Strategic cash allocation	Cash	31,648	1.6%	34,768	1.5%
BlackRock	Alternatives	29,841	1.5%	31,792	1.3%
Unigestion	Secondary Funds	10,370	0.5%	24,670	1.0%
M&G	Real Estate Debt	17,125	0.8%	20,287	0.8%
Barings	Private Loan Fund	6,250	0.3%	16,067	0.7%
SL Capital	Infrastructure	-	0.0%	13,417	0.6%
SL Capital	Secondary Funds	5,551	0.3%	10,154	0.4%
Aberdeen Asset Management	Indirect property	1,316	0.1%	1,140	0.1%
Healthcare Royalty Partners	Royalties Fund	119	0.0%	433	0.0%
Transition residual	Overseas equities	32	0.0%	10	0.0%
<b>Total Net Investments</b>		<b>2,034,062</b>	<b>100.0%</b>	<b>2,416,735</b>	<b>100.0%</b>

Recent actions to implement agreed changes to the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams. To fund these investments during 2016/17, the portfolio was rebalanced in line with its strategic allocation by withdrawing funds from the Legal & General passive holdings.

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

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

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient 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.



Holding	31 March 2016 £'000	% of Total Net Investments	31 March 2017 £'000	% of Total Net Investments
Policy 1 Legal and General North America Index	138,361	6.8%	157,197	6.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	71,267	3.5%	86,952	3.6%
Policy 1 Legal and General UK Equity Index	46,871	2.3%	26,727	1.1%
Policy 1 Legal and General Europe(Ex UK)Equity Index	28,994	1.4%	37,130	1.5%
Policy 1 Legal and General Japan Index	16,998	0.8%	22,594	0.9%
Policy 1 Legal and General Other Pacific Basin Index	13,838	0.7%	19,063	0.8%
Policy 1 Legal and General Sterling Liquidity Fund	-	0.0%	30,006	1.2%
Policy 1 Total	316,329	15.5%	379,669	15.7%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	309,492	15.2%	377,610	15.6%
Policy 3 Legal and General FTSE World Equity Index	139,286	6.8%	123,147	5.1%
	<b>765,107</b>	<b>37.5%</b>	<b>880,426</b>	<b>36.4%</b>

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

#### Note 10(g): Fair Value – Basis of Valuation

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



Description of Asset/Liability	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds*	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Foreign forward exchange derivatives*	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by Niall Thorburn, MRICS of independent valuers CBRE Ltd in accordance with the RICS Valuation Standards (revised April 2015)	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices
Private/Unquoted equity (Pooled funds in Alternative Assets)	Level 3	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association	Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue Multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension's fund own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

\* Both Futures and Derivatives 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 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 2017.

### Sensitivity of Assets valued at level 3

	Assessed valuation range (+/-)	Value at 31 March 2017 £'000	Value on increase £'000	Value on decrease £'000
Pooled funds in Alternative Assets	10%	326,092	358,701	293,483
Freehold and leasehold property	9%	161,190	175,697	146,683
<b>Total</b>		<b>487,282</b>	<b>534,398</b>	<b>440,166</b>

### Note 10(h): Fair Value Hierarchy

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

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

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

#### Level 1: 43% of Total Investments (2015/16: 42%)

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities, 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: 37% of Total Investments (2015/16: 38%)

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: 20% of Total Investments (2015/16: 20%)

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

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

Such investments include unquoted equity investments, limited partnerships and property, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9 (c), (d) and (f). The investment may be tied in for some time (in particular with private equity) and

withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund.

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. Those current & long term assets/liabilities detailed in Note 10 - Investment Assets which are not measured at 'fair value through profit and loss' have not been included in this or the following table.

	31 March 2016				31 March 2017			
	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
<b>Financial assets at fair value through profit and loss</b>								
Equities - quoted	647,285			647,285	797,043			797,043
Fixed interest securities- Corporate bonds - quoted	148,711			148,711	158,742			158,742
Pooled investments - quoted	8,803			8,803	10,413			10,413
Pooled investments - unquoted		765,107	254,024	1,019,131		880,426	326,092	1,206,518
Derivative contracts		365		365		8,284		8,284
Cash Deposits	59,152			59,152	73,933			73,933
<b>Total Financial assets at fair value through profit and loss</b>	<b>863,951</b>	<b>765,472</b>	<b>254,024</b>	<b>1,883,447</b>	<b>1,040,131</b>	<b>888,710</b>	<b>326,092</b>	<b>2,254,933</b>
Investment properties (Non-financial assets) at fair value through profit and loss			156,840	156,840			161,190	161,190
Financial liabilities (Derivative contracts) at fair value through profit and loss		(1,788)		(1,788)		(261)		(261)
<b>Total Investments at Fair Value</b>	<b>863,951</b>	<b>763,684</b>	<b>410,864</b>	<b>2,038,499</b>	<b>1,040,131</b>	<b>888,449</b>	<b>487,282</b>	<b>2,415,862</b>
<b>Percentage of Total Investments</b>	<b>42%</b>	<b>38%</b>	<b>20%</b>	<b>100%</b>	<b>43%</b>	<b>37%</b>	<b>20%</b>	<b>100%</b>

\*In accordance with CIPFA Code guidance, 2016/17 is the first year that these tables have been presented in the Fund's accounts as an extra disclosure, with 2015/16 shown as prior year comparator.

#### Note 10(i): Reconciliation of Fair Value Measurement within Level 3

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

Period 2016/17	Market value 1 April 2016 £'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 2017 £'000
Private/Unquoted equity (Pooled funds in Alternative Assets)	254,024	-	-	51,136	(13,897)	4,806	30,023	326,092
Investment Properties	156,840	-	-	5,058	(7,532)	(1,021)	7,845	161,190
	410,864	-	-	56,194	(21,429)	3,785	37,868	487,282

### 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 2016 £'000	31 March 2017 £'000
Financial Instruments	1,884,401	2,256,152
Statutory debts / liabilities & provisions	5,568	5,984
Investment Property	156,840	161,190
<b>Net Assets of the Fund</b>	<b>2,046,809</b>	<b>2,423,326</b>





**Note 11(a): Classification of Financial Instruments**

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2017.

	31 March 2016				31 March 2017			
	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Classification</b>								
<b>Financial Assets</b>								
<b>Investments</b>								
Equities	647,285	-	-	647,285	797,043	-	-	797,043
Fixed interest securities (corporate bonds)	148,711	-	-	148,711	158,742	-	-	158,742
Pooled investment vehicles	1,027,934	-	-	1,027,934	1,216,931	-	-	1,216,931
Derivative contracts	365	-	-	365	8,284	-	-	8,284
<b>Cash deposits</b>	-	59,152	-	59,152	-	73,933	-	73,933
<b>Investments receivable/debtors</b>	-	8,244	-	8,244	-	8,045	-	8,045
<b>Current &amp; long term assets</b>	-	883	-	883	-	717	-	717
	<b>1,824,295</b>	<b>68,279</b>	<b>-</b>	<b>1,892,574</b>	<b>2,181,000</b>	<b>82,695</b>	<b>-</b>	<b>2,263,695</b>
<b>Financial Liabilities</b>								
<b>Derivative Contracts</b>	(1,788)	-	-	(1,788)	(261)	-	-	(261)
<b>Investments payable/creditors</b>	-	-	(4,355)	(4,355)	-	-	(5,522)	(5,522)
<b>Current/long-term liabilities</b>	-	-	(2,030)	(2,030)	-	-	(1,760)	(1,760)
<b>Total Financial Instruments</b>	<b>1,822,507</b>	<b>68,279</b>	<b>(6,385)</b>	<b>1,884,401</b>	<b>2,180,739</b>	<b>82,695</b>	<b>(7,282)</b>	<b>2,256,152</b>
<b>Analysis of Net Gains and Losses for Year ended 31 March</b>								
<b>Financial Assets</b>	(4,969)	-	-	(4,969)	346,505	-	-	346,505
<b>Financial Liabilities</b>	(1,788)	-	-	(1,788)	(261)	-	-	(261)
<b>Total Net Gains/(Losses)</b>				(6,757)				346,244

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

**Note 12(a): Long Term Assets**

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

	31 March 2016 £'000	31 March 2017 £'000
<b>Long Term Debtors</b>		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,314	986
<b>Total Long Term Assets</b>	<b>1,314</b>	<b>986</b>
<b>Long Term Debtors relating to (per IFRS headings):</b>		
Central Government bodies	1,314	986
Other entities and individuals	-	-
<b>Total Long Term Assets</b>	<b>1,314</b>	<b>986</b>

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £0.986m shown above as 'Long Term Debtors – Employer exit'.

#### Note 12(b): Current Assets

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

	31 March 2016 £'000	31 March 2017 £'000
<b>Cash Balances</b>	<b>8,326</b>	<b>1,650</b>
<b>Current Debtors</b>		
Contributions due	4,453	5,098
Employer exit from scheme due <1 year	329	329
Miscellaneous	1,289	1,154
<b>Total Current Debtors</b>	<b>6,071</b>	<b>6,581</b>
<b>Total Current Assets</b>	<b>14,397</b>	<b>8,231</b>
<b>Current Debtors relating to (per IFRS headings):</b>		
Central government bodies	776	799
Other local authorities	4,362	4,617
Other entities and individuals	933	1,165
<b>Total Current Debtors</b>	<b>6,071</b>	<b>6,581</b>

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments. Cash balances held at 31st March 2016 reflected payments due out in April 2016, no significant cash payments were planned for April 2017 which allowed a lower level of cash to be held.

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

**Note 13(a): Long Term Liabilities**

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

	31 March 2016 £'000	31 March 2017 £'000
<b>Long Term Creditors</b>		
Interest provision on long-term debt	237	167
<b>Total Long Term Liabilities</b>	<b>237</b>	<b>167</b>
<b>Long Term Creditors relating to (per IFRS headings):</b>		
Other entities and individuals	237	167
<b>Total Long Term Liabilities</b>	<b>237</b>	<b>167</b>

**Note 13(b): Current Liabilities**

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

	31 March 2016 £'000	31 March 2017 £'000
<b>Current Creditors</b>		
Investment managers fees	1,032	951
Tax payable	636	629
Interest provision on long-term debt	61	70
Miscellaneous	998	809
<b>Total Current Liabilities</b>	<b>2,727</b>	<b>2,459</b>
<b>Current Creditors relating to (per IFRS headings):</b>		
Central government bodies	636	699
Other local authorities	851	686
Other entities and individuals	1,240	1,074
<b>Total Current Liabilities</b>	<b>2,727</b>	<b>2,459</b>

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

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

**Overall Procedures for Managing Risk**

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016<sup>2</sup> and require an Administering Authority to invest any

pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line at [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)

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

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

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 replaced the Statement of Investments Principles during 2016/17.

The Investment Strategy Statement (ISS) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line at: [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy should be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years. Completion and implementation of the outcomes of the 2012 review are expected to be finalised during 2017/18.

Following completion of the 2016 Triennial Actuarial Valuation the Fund has appointed external consultants to undertake an asset strategy review. In September 2017 Members, Officers and Independent Advisors are due to consider the resultant observations and recommendations from the review and make any changes considered advantageous to ensure the strategy is appropriate and fit for purpose going forward

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 4 years it has been in place. The process continues to evolve and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

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

### Credit Risk

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

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

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

The Fund's cash and cash-like holdings as at 31st March 2017 were £1.650m (2015/16: £8.326m) within current assets (see Note 12(b)), £72.283m (2015/16: £50.826m) shown as cash within investments (see Note 10), and a further £3.226m shown as unit trusts in Note 10a (2015/16: £2.790m) where BlackRock invest in their in-house Money Market Fund as part of their portfolio. In addition to this, in 2016/17 £30.006m of the Funds holding in unitised insurance policies shown in Note 10 under pooled investments, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments for the in-house alternative asset portfolio which were planned for and executed in early April. The credit ratings of the accounts and funds were as follows:

Cash and cash equivalents	Rating at 31 March 2017	Balances as at 31 March 2016 £'000	Balances as at 31 March 2017 £'000
<b>Money Market Funds</b>			
SSGA GBP Liquidity Fund	AAA	12,023	19,627
SSGA EUR Liquidity Fund	AAA	3,044	1,621
SSGA USD Liquidity Fund	AAA	26,204	29,431
Legal & General Sterling Liquidity Fund	AAA	-	30,006
BlackRock Institutional Cash USD	AAA	2,790	3,226
Ignis Sterling Liquidity Fund	AAA	5,403	-
Goldman Sachs Sterling Reserves Fund	AAA	1,801	-
Standard Life Euro Liquidity Fund	AAA	-	11
<b>Bank deposit accounts</b>			
National Westminster Bank	BBB+	1,122	1,650
<b>Bank current accounts</b>			
State Street Bank & Trust	AA-	1,572	3,946
Barclays Bank	A-	6,407	10,636
<b>Short Term Deposit</b>			
Deutsche Bank Cash Collateral	A-	150	(11)
Bank of New York call account	AA	1,426	7,022
<b>Total</b>		<b>61,942</b>	<b>107,165</b>

### Market Risk

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

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

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

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers

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

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the 2012 Investment Strategy Review introduced some new asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. Following completion of the 2016 Triennial Actuarial Valuation the Fund is undertaking a review of the Investment Strategy Statement.

### Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and the Consumer Price Index (CPI) (which affect the value placed on the Fund's liabilities). It should be noted that, the valuation of liabilities was based on a CPI+ model in the 2016 actuarial valuation. Prior to this, projected bond yield was used to assess the value of the Fund's liabilities.

Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such



as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2016/17 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	336,483	7.9%	363,166	309,800
Overseas Equities	853,605	8.8%	928,466	778,744
Fixed interest securities (corporate bonds)	158,742	6.5%	169,044	148,440
Index Linked Gilts	464,562	12.7%	523,329	405,795
Alternatives	326,092	7.5%	350,451	301,733
Property	161,190	1.9%	164,285	158,095
Cash	107,165	0.0%	107,176	107,154
	<b>2,407,839</b>		<b>2,605,917</b>	<b>2,209,761</b>

### Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2017, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,076.842m and £33.827m cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £55.533m, or 2.3% of the Fund's total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), it is considered that a 5% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange - Sensitivity Analysis	2016/17 £'000	% Change	Value on Increase	Value on Decrease
US Dollar denominated assets	766,467	5.0%	804,790	728,144
European currency denominated assets	210,178	5.0%	220,687	199,669
Other currency denominated assets	134,024	5.0%	140,725	127,323
	<b>1,110,669</b>		<b>1,166,202</b>	<b>1,055,136</b>

### Foreign Exchange – Derivative Contracts

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

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

As at 31st March 2017, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates have been stable for many months and are currently at record low levels, the real interest rate risk is that rates will rise, causing the value of bonds and

bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2017 and 31st March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	2015/16 £'000	2016/17 £'000
Fixed interest securities (including pooled investments)	529,470	623,304
Cash and cash equivalents	10,677	23,243
Money market funds and pooled cash vehicles	51,265	83,922
	<b>591,412</b>	<b>730,469</b>

### Liquidity Risk

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

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

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.356m in 2016/17 (£16.731m in 2015/16). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. There was no requirement to liquidate assets ahead of previous plans as the value was anticipated and therefore easily accommodated within the Fund's cash reserves.

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

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2017 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,928.580m, i.e. 80% of net assets (31st March 2016 £1,627.635m, 80%). The value of the illiquid assets including investment properties was £487.282m which represented 20% of net assets (31st March 2016 £410.864m, 20%).

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

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

Maturity Risk - Long term liabilities	31 March 2016 £'000	31 March 2017 £'000
Due 1 to 2 years	70	79
Due 2 to 5 years	167	88
Due 5 to 10 years	-	-
<b>Total Long term liabilities</b>	<b>237</b>	<b>167</b>

### Counterparty risk

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

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

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

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

### Settlement risk

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

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £8.023m gain at 31st March 2017.

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

### Unquoted Investments

The Fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient liquid method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. As indicated in Note 9 the Fund is increasing its allocation to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan funds, opportunistic investments and other pooled investments. These provide an efficient method of accessing exposure to these assets for a fund of Cumbria's size.

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

The unquoted investments held at 31st March 2017 are as follows:

Asset Class	2015/16 £'000	2016/17 £'000	Manager	Holding Details
<b>Pooled investment vehicles</b>				
Utilised insurance policies	765,107	880,426	Legal and General	Index tracking funds.
Other managed funds	84,450	94,285	JP Morgan	Infrastructure fund.
	31,593	46,727	Partners Grp	Infrastructure fund.
	36,449	36,840	M&G	Long-lease property fund.
	34,539	35,400	Aviva	Long-lease property fund.
	26,263	26,672	Black Rock	Alternative funds - hedge funds, private equity. BlackRock in-house funds.
	10,370	24,670	Unigestion	Secondary private equity funds
	17,125	20,287	M&G	Real estate debt funds.
	6,250	16,067	Barings	Global private loan fund.
	-	13,417	SL Capital	Infrastructure fund.
	5,551	10,154	SL Capital	Secondary private equity funds
	1,316	1,140	Aberdeen	Overseas property funds (ex-BlackRock).
	118	433	HRP	Healthcare Royalties Partners Fund.
	<b>1,019,131</b>	<b>1,206,518</b>		

#### Note 15: Additional Voluntary Contributions

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the transactions are treated separately to the Fund's accounts and therefore do not form part of these accounts.

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

	2015/16 £'000	2016/17 £'000
Standard Life	958	1,037
Scottish Widows	1,085	1,085
Equitable Life	817	793
Prudential	176	523
<b>Total AVCs</b>	<b>3,036</b>	<b>3,438</b>

AVC contributions of £0.473m were paid directly from employees pay to the providers during the year (2015/16: £0.293m).

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

**Note 16: Related Party Transactions**

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

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

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2016/17 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been exceeded in 2016/17.

**Key Management Personnel**

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore

included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2016/17 (see Note 13 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected Members who have responsibility of the management of the Fund to the extent that 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 2016/17 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 2016/17.
- Employer's Future Service Rate – LGPS 13.0% (current service cost).
- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2016/17 on Cumbria LGPS specific work.
- During 2016/17, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, two officers (1FTE) (2015/16:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of the Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.
- Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.



**2016/17 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:**

Post Title	Salary recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,590	11,590	1,506	13,096
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	47,443	47,443	6,167	53,610
	<b>59,033</b>	<b>59,033</b>	<b>7,673</b>	<b>66,706</b>

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

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

**Note 17: Contingent Liabilities and Contractual Commitments**

There are no outstanding contractual commitments at 31st March 2017.

**Note 18: Contingent Assets****Tax Reclaims**

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2016/17. The estimated value of claims still outstanding is £3.999m (value in GBP at 31st March 2017, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as *Manninen and Fokus*, *EU Commission v Germany*, *Santander*, and *EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2016/17 and progress has slowed for both Fokus Bank (withholding tax) claims in France and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

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

The fees incurred to date for all the above tax claims regardless of the outcome total £0.445m, 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 2016/17 are considered to be recoverable with no further impairment beyond the existing provision for bad and doubtful debts.

There were no impairments of investments during 2016/17.

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

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.064m of debtors aged between two and six months (£0.009m 2015/16). Debtors aged greater than six months totalled £0.035m as at 31st March 2017 (£0.040m 2015/16).

**Note 20: Stock Lending**

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

Securities on loan at the 31st March 2017 of £47.006m (2015/16: £46.428m) are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £40.717m UK equities and £6.289m overseas equities (2015/16: £45.791m UK equities and £0.637m overseas equities). The related collateral totalled £49.688m (2015/16: £49.060m), consisting of £22.856m overseas bonds and £26.832m UK equities (2015/16: £23.181m overseas bonds and £25.879m UK equities).

For the year to 31st March 2017, the Fund earned income of £0.057m (2015/16 £0.056m) through stock lending of the various assets (as detailed in Note 9).

**Note 21: Post Balance Sheet Events**

Following the General Election on 8th June 2017, there is no material impact on the Accounts as drafted and presented for issue.

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

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

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

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

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

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies, and Fair Value narrative in notes 10(g) and 10 (h).

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

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	<p>Investments at Level 1 &amp; 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.</p> <p>Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage.</p> <p>Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.</p>	<p>For every 1% increase in market value, the value of the Fund will increase by approx. £24.2m, with a decrease having the opposite effect.</p> <p>Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes.</p> <p>Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons; for each case the underlying factors would be considered before acceptance or otherwise of the sale.</p>
Pensions Liability	<p>Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.</p>	<p>The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £53m increase in deficit shortfall (i.e. £210m to £263m). The Actuarial Valuation at March 2016 contains further information.</p>

Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Bad Debt Provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

### Note 23: Actuarial Position of the Fund

The Fund actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. A similar valuation was carried out as at 31 March 2017 and the value is presented in the table below.

#### Assets and Liabilities of the Fund based on assumptions adopted for the valuation

	31 March 2016 £'000	31 March 2017 £'000
Present value of past service liabilities	(2,257)	(2,554)
Net assets of the Fund	2,047	2,423
	(210)	(131)

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

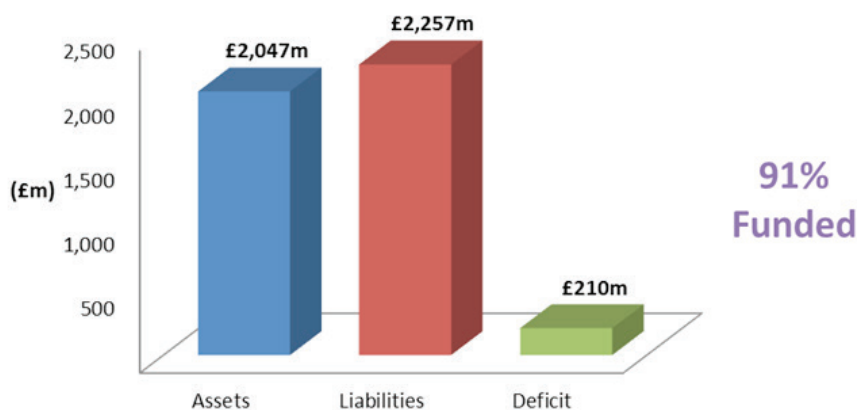
### Cumbria Local Government Pension Scheme

#### Accounts for the year ended 31st March 2017 - Statement by the Consulting Actuary

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

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

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



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 15 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £16.1 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):



	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases*	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £2,584 million. Interest over the year increased the liabilities by c£93 million, and allowing for net benefits accrued/paid over the period also increased them by c£1 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £584 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £3,262 million.

**John Livesey**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**June 2017**

#### **Note 24: Accounting Standards issued not yet adopted**

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There have been no such changes in accounting standards issued that would materially impact on the 2016/17 financial statements.

#### **Note 25: Participating Employers of the Scheme**

As at 31st March 2017 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

## Employers of the Scheme as at 31 March 2017 (total 132)

Scheme Employers	Scheduled Bodies - Academies (cont)	Admitted Bodies (36)
Cumbria County Council	Inspired Learning MAT (one employer)	1st Eclipse (New)
<b>District Councils (6)</b>	Parkside GGI Academy	Carlisle Leisure Allerdale
Allerdale Borough Council	Victoria Primary Academy	Carlisle Leisure Ltd
Barrow Borough Council	Yarlsdale Primary Academy	Carlisle Mencap - Huntley Ave (New)
Carlisle City Council	The Good Shepherd MAT (one employer)	Carlisle Mencap - Hart St (New)
Copeland Borough Council	Ambleside Primary Academy	Caterlink - W/Lakes (New)
Eden District Council	Braithwaite Primary Academy	Caterlink - WHT (New)
South Lakeland District Council	Heversham St Peter's Academy	Commission for Social Care Inspection
<b>Scheduled Bodies - Academies (52)</b>	Lazonby Academy	Creative Management Support
<b>(number of employers 42)</b>	Lorton Academy (New)	Cumbria Cerebral Palsy
Appleby Grammar Academy	Cumbria Education Trust (one employer)	Cumbria Deaf Vision
Arnsdale National CofE Academy	Longtown Academy (New)	Cumbria Tourism
Broughton Primary Academy	The Workington Academy	Eden Housing Association
Burton Morewood Primary Academy	William Howard Academy	FCC Environment
Caldew Academy	Yewdale Academy	Glenmore Trust
Cartmel Priory Academy	<b>Scheduled Bodies - Other (21)</b>	Harraby Community Centre
Castle Carrock Academy	Aspatria Town Council (New)	Higham Hall
Chetwynd School Academy	Carlisle College	Home Group (Copeland)
Cockermouth Academy	Cleator Moor Town Council	Kendal Brewery Arts Centre Trust Ltd
Crosby on Eden Academy	Cockermouth Town Council	Longtown Memorial Hall Community Centre
Dallam Academy	Cumbria Chief Constable	Mellors Catering - Appleby
Dearham Primary Academy	Cumbria Police & Crime Commissioner	Mellors Catering - Kirkby Stephen
Eaglesfield Paddle Academy	Cumbria Waste Management	Mellors Catering Services - Rockcliffe
Energy Coast UTC	Egremont Town Council (New)	Morton Community Centre
Fairfield Primary Academy	Furness College	North Country Leisure (Copeland)
Furness Academy	Grange Town Council (New)	North Country Leisure (South Lakes)
George Hastwell School Academy	Kendal College Further Educ	Oaklea Trust
Ghyllside Academy	Kendal Town Council	People First
Gilsland Academy	Keswick Town Council	Riverside Housing
Great Corby Academy	Lake District National Park Authority	SLS (Cumbria) Ltd - QK
Kendal MAT - Castle Park Academy (New)	Lakes College (West Cumbria)	SLS (Cumbria) Ltd - StH
Keswick Academy	Maryport Town Council	Soundwave
Kirkbie Kendal Academy	Orian Solutions	South Lakes Housing
Kirkby Stephen Academy	Penrith Town Council	Tullie House Trust
Northside Academy (New)	Ulverston Town Council	West House
Penny Bridge Academy	Wigton Town Council	Wigton Joint Burial Committee
Queen Elizabeth Academy	Workington Town Council	<b>Admitted Bodies - No Actives (14)</b>
Queen Elizabeth Grammar Academy	<b>Scheduled Bodies No Actives (12)</b>	Cumbria Training Partnership
Richard Rose Academies	Brampton Parish Council	Direct Training Services
Seaton Academy	Charlotte Mason College	Egremont & District Pool Trust
Settlebeck High Academy	Cumbria Institute of the Arts	Henry Lonsdale Trust
Stanwix School Academy	Cumbria Primary Teacher Training	Kendal Citizens Advice
Stramongate Academy	Cumbria Sea Fisheries	Lake District Cheshire Homes
The Queen Katherine School Academy	Dept Constit Affairs (Cumbria Magistrates)	Lakeland Arts Trust
Trinity Academy	Health Authority	Mellors Catering - Southfield (Leaving)
Walney Academy	Millom Town Council	Mellors Catering - Whitehaven (Leaving)
West Lakes Academy	Port of Workington	NCRS Ltd (Neighbourhood Revitalisation)
Whitehaven Academy	Practical Alternatives to Custody (Ltd)	People First 2 (Leaving)
Building Futures MAT (one employer)	Seaton Parish Council	Project Homeless
Tebay Primary Academy	Water Authority	South Lakes Services (Leaving)
Yanwath Primary Academy		Troutbeck Bridge Swim Pool Ltd

## 9/ Funding Strategy Statement Introduction

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

Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) requires the Administering Authority to regularly review the FSS and, when revising the FSS, to consult such persons the Authority thinks appropriate.

A full review of the Strategy was undertaken as part of the 2016 Triennial Actuarial Valuation process. In addition to incorporating changes relating to the new 'CPI plus' valuation methodology, and core assumptions, the new FSS also reflects revised guidance published by CIPFA in September 2016 on the preparation and maintenance of FSS's. Pension Committee approved the revised strategy at the meeting in December.

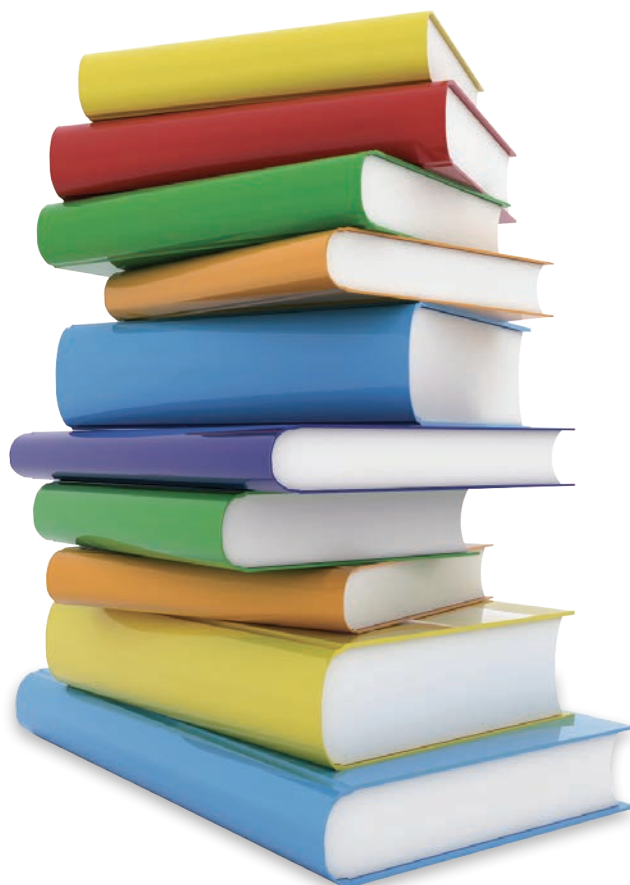
The purpose of the FSS is:

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

There has been an important change in emphasis from previous actuarial valuations. In particular, the Public Service Pensions Act 2013 introduced a requirement for employer contributions to be set so as to ensure the Fund's solvency and long-term cost-efficiency, with the LGPS Regulations containing the reference to considering the desirability of stable rates. The increased prominence of the solvency requirement has been reinforced by recent statements by the Minister for Local Government.

In accordance with the requirement to consult on the FSS, the meeting of the Pensions Forum on 21st November 2016 included presentation of the revised FSS and the draft document was made available online on the Council's website for comment.

**Please note:** the Funding Strategy Statement is shown in the Fund Policy Document at Appendix A-6



## 10/ Investment Strategy Statement Introduction

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 its Fund money, which must be in accordance with guidance issued by the Secretary of State.

The ISS 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) which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

Please note: the Investment Strategy Statement is shown in the Fund Policy Document at Appendix A-4.

The Fund has set and published its 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. The current strategy is shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	As at March 2017 %	Limit (maximum %)
Equity				
- UK	10%	9 – 13%	13.2%	20%
- Global Other	20%	20 – 25%	25.9%	30%
- Global Low Volatility	10%	10 – 12%	11.3%	20%
Alternatives				
- Infrastructure	9%	5 – 10%	6.2%	19%
- Opportunistic	9%	5 – 10%	3.4%	19%
Property	9%	8 – 10%	8.6%	19%
<b>Growth total</b>	<b>67.0%</b>		<b>68.6%</b>	
UK Gilts	0%	0%	0%	10%
Corp Bonds	7%	6 – 8%	7%	17%
IL Bonds	17%	17 – 21%	19.2%	27%
Other Defensive	7%	3 – 7%	2.1%	17%
Strategic Cash	2%	2 – 5%	3.0%	20%
<b>Defensive total</b>	<b>33.0%</b>		<b>31.4%</b>	
	100%		100.0%	

Details of the investment policy and performance of the Fund are set out in section 4 of this report.

Details of the risks relating to the Fund's Financial Instruments are set out in Note 14 of the Pension Fund Accounts (included at section 8 of this report).

# 11/ Communications

## 11.1 Introduction

During 2016/17 engagement with employers and stakeholders, keeping members informed about their pensions and engaging with the industry and government on wider pension and investment issues continued to be core objectives of the Fund.

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

The Policy forms part of the Administration Policy set out in 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 (11.2).

## 11.2 Methods of Communication

### 11.2.1 Electronic media:

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

- A summary of the benefits of the Scheme and how to join the Fund;
- The Fund's Policy document;
- The Actuary's triennial valuation at March 2007, March 2010, March 2013 and March 2016;
- Annual Reports for 2013/14, 2014/15 and 2015/16 (the 2016/17 Annual Report will also be available once published);
- A range of guides, factsheets and forms;
- Online copies of the various forms members may wish to use in connection with their Scheme membership;
- Updates on latest developments affecting the Scheme & Fund newsletters;
- Information for Employers including:
  - employer guides;
  - details of communications and conferences;
  - a range of other guides and factsheets; and
  - a useful links page.

- Employer Self Service – this enables employers to view pension database records for their employees and to calculate estimated benefits for their employees.
- Member Self Service – this allows members to go online at the YPS website ([www.yourpensionservice.org.uk](http://www.yourpensionservice.org.uk)) and, once logged in, to view documents and to access and amend information, including:
  - Doing their own pension forecasts;
  - Check and amend their contact details and address details;
  - Check their pension fund membership and their records;
  - View their nomination(s) and download forms to amend their nominations;
  - View their annual pension benefit statement; and
  - View and download Fund documents, guides, factsheets and leaflets.

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

### 11.2.2 Non-electronic media:

The Fund recognises that not everyone has access to the internet and this information can also be obtained by calling YPS on 0300 123 6717 or by writing to Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD.

### 11.2.3 Other methods of communication:

During the year the dedicated Partnerships Team within Your Pensions Service undertook a variety of events, courses and presentations. In addition the team visited 21 Fund employers to support, maintain and improve working relationships. They also delivered one to one training to a number of employers to encourage the use of the Employer Self-Service facility. Employer training events were hosted with over 20 payroll and HR practitioners present from 12 employers across Cumbria.

In addition to the 12 annual pension surgeries for members the team held 4 My Pension Online drop in sessions that proved successful following which there was yet again an increase in sign up to the service.

The services annual practitioners' conference was held on 17th October. The event included a workshop on challenges faced when providing information, a presentation on key processes and an annual pensions update. There was also an opportunity for employers to meet the team and discuss all aspects of the service.



## 12/ Other Statements and Information

### 12.1 Discretions Introduction

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

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

Following the introduction of the 2014 Scheme, Cumbria LGPS updated the Administration Authority discretions policy. Additionally each employer within the LGPS is required to review and update their individual employer discretions policy and submit these to the Administration Authority. As at March 2017 the Fund was awaiting policies from 44 employers, (including 24 academies) which it is actively chasing.

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

### 12.2 Information for Scheme Advisory Board

To assist with the production of the Scheme Annual Report (compiled by the LGPS Scheme Advisory Board) individual Funds within the LGPS are required to provide the following information:

**12.2.1** Number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities):

31st March 2017	Active	Ceased (closed)	Total
Scheduled body	70	12	82
Admitted body	36	14	50
<b>Total</b>	<b>106</b>	<b>26</b>	<b>132</b>

Comparatives:

31st March 2016	Active	Ceased (closed)	Total
Scheduled body	67	12	79
Admitted body	33	14	47
<b>Total</b>	<b>100</b>	<b>26</b>	<b>126</b>

**12.2.2** Fund assets as at the reporting date:

31st March 2017	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	336.5	-	855.4	<b>1,191.9</b>
Bonds	616.5	6.9	-	<b>623.3</b>
Property (direct holdings)	161.2	-	-	<b>161.2</b>
Alternatives*	122.2	215.9	-	<b>338.1</b>
Cash and cash equivalents	68.5	33.8	-	<b>102.3</b>
Other***	-	-	-	-
<b>Total</b>	<b>1,304.7</b>	<b>256.6</b>	<b>855.4</b>	<b>2,416.7</b>

Comparatives:

31st March 2016	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	301.7	-	737.5	<b>1,039.2</b>
Bonds	521.5	8.0	-	<b>529.5</b>
Property (direct holdings)	156.8	-	-	<b>156.8</b>
Alternatives*	96.8	160.9	-	<b>257.8</b>
Cash and cash equivalents	20.2	30.6	-	<b>50.8</b>
Other***	-	-	-	-
<b>Total</b>	<b>1,097.1</b>	<b>199.5</b>	<b>737.5</b>	<b>2,034.1</b>

#### 12.2.3 Investment income accrued during the reporting date:

31st March 2017	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	12.3	8.8	-	<b>21.1</b>
Bonds	6.7	0.4	-	<b>7.2</b>
Property (direct holdings)	7.9	-	-	<b>7.9</b>
Alternatives*	4.9	3.1	5.5	<b>13.5</b>
Cash	0.3	0.0	-	<b>0.3</b>
Other***	-	-	-	-
<b>Total</b>	<b>32.1</b>	<b>12.3</b>	<b>5.5</b>	<b>50.0</b>

Comparatives:

31st March 2016	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	10.8	6.7	-	<b>17.5</b>
Bonds	6.8	0.3	-	<b>7.2</b>
Property (direct holdings)	8.2	-	-	<b>8.2</b>
Alternatives*	3.8	4.8	-	<b>8.6</b>
Cash	0.2	0.0	-	<b>0.2</b>
Other***	-	-	-	-
<b>Total</b>	<b>29.8</b>	<b>11.9</b>	<b>-</b>	<b>41.7</b>

#### Notes on above tables:

\* “Alternatives” are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, royalty funds and derivatives.

\*\* “Global” holdings are those that include an element of both overseas and UK listed assets.

\*\*\* “Other” denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

Investments in pooled funds are allocated to categories based on the nature and the domicile of the underlying assets.

## 12.3 Auditor's Opinion



### **Independent auditor's report to the members of Cumbria County Council on the consistency of the pension scheme financial statements included in the pension scheme annual report**

#### **Opinion**

The pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 which comprise the pension fund account, the net assets statement and the related notes of Cumbria Local Government Pension Scheme are derived from the audited pension scheme financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying scheme financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

#### **Pension scheme annual report - Pension scheme financial statements**

The pension scheme annual report and the pension scheme financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension scheme financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

#### **Who we are reporting to**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated 26 September 2017.

#### **Assistant Director Finance (s151 Officer) responsibilities for the pension scheme financial statements in the pension scheme annual report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension scheme financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension scheme financial statements in both the Statement of Accounts and the pension scheme annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

**Auditor's responsibility**

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

*Gareth Kelly*

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

110 Queen Street  
Glasgow  
G1 3BX

26 September 2017

## Appendix A: Fund Policy Document

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### **Cumbria Local Government Pension Scheme Fund Policy Document**

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Amended March 2017



## 1 Introduction

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

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

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

### Governance

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

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

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

The purpose of each is summarised as follows:

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

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

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

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

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

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

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

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

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

### Cumbria Pensions Committee

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

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

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

Services are also provided by the scheme actuary Mercers, and by other consultants and lawyers for investment management services.

#### **Cumbria Pensions Investment Sub Group**

The dedicated Investment Sub Group advises the Section 151 Officer in the exercise of their delegated powers to appoint / terminate non-SIP investment managers, thus speeding up decision making. This enables limited Committee agenda time to be focussed on the issues that add most value to the Fund. The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of non-SIP investment managers and the establishment and review of performance benchmarks and targets for investment. The group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

#### **Cumbria Pensions Board**

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

#### **Cumbria Pensions Forum**

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



## 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 7 March 2017.

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

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

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

### 2.1 Terms of Reference of the Pensions Committee

#### Functions

To carry out the Council's functions as the delegated decision making body of the Administering Authority for the management of the Cumbria Local Government Pension Scheme ("the Pension Fund") which includes its involvement in the Border to Coast Pensions Partnership (BCPP) as the Council's approved Pension Pool.

These responsibilities will include, but not be limited to:

- To submit the Pension Fund Accounts to the Council in line with current financial regulations.
- To submit reports to the Council (as a minimum three times a year) updating it on the governance, risk monitoring and performance of the Fund following meetings of the Committee.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.
- To approve the formal Triennial Actuarial Valuation of the Fund, with due consideration being given to balancing the Fund's objectives of ensuring the long term solvency of the Fund while aiming to maintain stable employer contribution rates.
- To (as a minimum) annually review and approve any amendments to the statutory policy statements as required by LGPS Regulations (currently the Funding Strategy Statement, the Governance Policy

Statement, Admissions and Terminations Policy, Administration and Communications Policy, Discretions Policy, Cash Investment Policy, and the Statement of Investment Principles).

- To annually review the Investment Strategy Statement and oversee the performance of all investment managers in the delivery of the Investment Strategy.
- To oversee compliance by the Council in its capacity as shareholder of BCPP Limited and to determine the Council's position as shareholder on decisions of the company that are reserved to the shareholders.
- To produce and maintain an Administration and Communications Policy for the Pension Fund for the admission of employing bodies as contributors to the Fund; that fulfils all communication and consultation requirements with employers of the Fund.
- Prior to the commencement of the financial year to approve an Annual Business Plan and associated Budget for that year to cover all matters of expenditure to be charged to the Fund. To review performance against this throughout the year.
- To approve and annually review the Fund's Training Policy to ensure those charged with the management of the Fund (Members and Officers) are appropriately experienced and qualified.
- To receive minutes and consider recommendations from and ensure the effective performance of the Pension Forum, BCPP Joint Committee, Pensions Investment Sub-Group and the Cumbria Local Pensions Board.
- To formulate and review tolerance ranges to delegate to the Investment Sub Group to allow them to implement tactical changes to the Investment Strategy or Asset Allocation. Maintain and review an appropriate management and governance structure of the Investment Sub Group to achieve the effective delivery of the Pension Fund objectives.
- To contribute nationally to the development of policy and regulation in regards to the Local Government Pension Scheme and wider Public Sector Pensions policy.

#### Committee Membership

Eight county councillors, plus one co-opted district councillor, representing the six district councils in Cumbria and two non voting employee representatives. Equal weight will be given each Members vote with the Chair having the casting vote should the need arise.

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

### Committee Operating Structure

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

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

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

#### Knowledge and Understanding

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

#### Creation of Working Parties / Sub Groups

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

#### Role of Advisors

- The Committee is required to ensure all Members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Fund.
- To assist in the above the Committee will be required to appoint industry specific advisors to enable it to fulfil its obligations e.g. Fund Actuary; tax specialists; etc. these contracts are to be awarded through the Councils normal procurement process and once appointed will be managed on behalf of the Committee by the Assistant Director – Finance (Section 151 Officer).
- The Committee may also appoint Independent Advisors, their role being to assist and support Members in their understanding and challenge of either service providers or Officers.

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

### 2.2 Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

#### **Functions**

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

These responsibilities are:

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

#### **Membership**

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



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

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

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

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

#### **Group Operating Structure**

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

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

### **2.3 Terms of Reference of the Pensions Board**

#### **Functions**

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

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

And to

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

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

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

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

#### **Board Membership**

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

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

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

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



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

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

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

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

#### **Board Operating Structure and Codes of Conduct**

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

#### **Commissioning of Service providers and Advisors**

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

#### **Role of Officers**

- 1 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**

- 2 As a general principle meetings will be open to the public.
- 3 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.
- 4 As a matter of policy the Pension Fund has adopted the principals of paperless working, therefore as a matter of course public access to all agendas, public papers and minutes etc. will be available on the Council's website. On request alternative media versions are available.
- 5 The County Council as the Administration Authority is the registered data controller of the Cumbria LGPS, and as such all policies and practices in this regard applicable within the County Council are directly applicable to the Board.

#### **2.4 Terms of Reference of the Pensions Forum**

The Constitution of the Cumbria Pensions Forum is:

##### **Employers:**

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

##### **Employees:**

- |                    |   |
|--------------------|---|
| (a) County Council | Eight employee representatives appointed by UNISON, of whom two shall be current pensioners |
|--------------------|---|

- (b) District Councils: One employee representative for each District appointed by UNISON, together with one current pensioner
- (c) Statutory Bodies: Eight employee representatives appointed by UNISON, together with one current pensioner
- (d) Admitted Bodies: Three employee representatives appointed by UNISON

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

The terms of reference of the Cumbria Pensions Forum are:

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

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

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

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

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

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

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

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

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

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

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

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

## **2.6 Knowledge and Skills**

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

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

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

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

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

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

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

## 2.7 Risk Management

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

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

### Risk matrix

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

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

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

## 2.8 Governance Compliance Statement

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

Principle	Compliance	
Principle A – Structure	Not Compliant	Fully Compliant
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.		✓
b) That representatives of participating LGPS employers, admitted bodies and Fund members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		✓
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		✓
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		✓
Principle B - Representation	Not Compliant	Fully Compliant
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- 1. employing authorities (including non-Fund employers, e.g. admitted bodies); 2. Fund members (including deferred and pensioner Fund members), 3. independent professional observers, and 4. expert advisors (on an ad-hoc basis).		✓
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		✓
Principle C - Selection and role of lay members	Not Compliant	Fully Compliant
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.		✓
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.		✓
Principle D - Voting	Not Compliant	Fully Compliant
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓

<b>Principle E - Training facility time expenses</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
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.		✓
<b>Principle F - Meeting frequency forum</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
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		✓
<b>Principle G - Access</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
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.		✓
<b>Principle H - Scope</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
a) That administering authorities have taken steps to bring wider fund issues within the scope of their governance arrangements.		✓
<b>Principle I - Publicity</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
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 Scheme to its Pension Fund Committee and discharges specific elements of the administration functions of the Scheme to:
  - i. Lancashire County Council (LCC) under the banner of Your Pension Service (YPS); and
  - ii. Officers within the core Cumbria Pensions team.
- c. The Administration Strategy (Parts B & C) is set out so as to illustrate the Fund's core responsibilities and whom they sit with.
- d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund.

##### 2. Purpose

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

- b. **Communications Policy:** Regulation 67 of the 2013 regulations states that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:
  - members;
  - representatives of members;
  - prospective members; and
  - Fund employers.
 In particular the statement must set out its policy on:
  - the provision of information and publicity about the Scheme to members, representatives of members and Fund employers;
  - the format, frequency and method of distributing such information or publicity; and
  - the promotion of the Scheme to prospective members and their employers.

##### 3. Compliance & review

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

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

##### 1. Liaison and Communication

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

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

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

## 2. Administration of the LGPS and Compliance

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

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

### 3. Performance

- 3.1. In accordance with good practice and as recommended by the Pensions Regulator<sup>3</sup> the Fund has a suite of performance targets to ensure it is delivering an efficient, effective and customer-focussed service. These targets will be kept under continual review to ensure that they are appropriate and reflect current circumstances and regulatory requirements.
- 3.2. The minimum performance targets set are shown below. Performance against these targets is reported to the Pension Fund Committee. The Annual Administration Report is reported to the Pension Fund Committee in June each year and is available in the Pension Committee minutes on the Council's website<sup>4</sup> and key statistics are included in the Cumbria LGPS Annual Report.

#### 3.3. Performance Targets

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

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

4. [councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150](http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150)

## **Part C: Employer Undertakings**

### **1. Liaison and Communication**

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

### **2. Performance Levels**

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

### **3. Administration of the LGPS and Compliance**

#### **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 YPS may

request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member, and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates, and notify YPS of any changes (see 3.5.3).

- 3.1.2. All contributions, but not Prudential, Standard Life, Scottish Widows or Equitable Life AVC's, must be paid to the Cumbria Pension Fund on a monthly basis and in any case before the 19th of the month following that in which they were deducted. Non-compliance may result in a fine on the employer.
- 3.1.3. A remittance advice must be completed and returned to the Core team by 19th of the calendar month following the month in which the contributions were deducted.
- 3.1.4. The employer will ensure that employee's Equitable Life, Scottish Widows, Standard Live and Prudential AVC's are paid direct to the provider as soon as possible after deduction but in any case before the 19th of the month following that in which they were deducted as stated above.

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

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

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

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



### 3.5. Processing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.5.6. Benefit Estimates & Annual Benefit Statements

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

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

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

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

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

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

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

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

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

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

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

Completed YPS Employer – Leaver forms and YPS Member – Personal Details forms will also

be forwarded to Your Pension Service together with all supporting documentation, as soon as reasonably practicable and no more than 5 working days after the final payment of salary following the date of leaving.

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

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

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

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

#### **4. Online Communication and Information Sharing**

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

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

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

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

## 5. Circumstances for recovery of Additional Costs

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

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

5.3. **New Employers** – In addition to any actuarial 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)** - The employer will ensure that policies are formulated, kept under review and publicised in accordance with the scheme regulations.

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

## Part D: Communication Policy

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

## 3. Communication Programme

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

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

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

\*\* unless otherwise requested.

### **Scheme Regulations and Overriding Legislation**

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

- Local Government Pension Scheme Regulations 2013 [2013/2356]
- Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/525]
- Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 [2000/1410]
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

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

Finance Act 2004 [c.12]

Pension Schemes Act 1993 [c.48]

Pensions Act 1995 [c.26]

Pensions Act 2004 [c.35]

Pensions Act 2008 [c.30]

Public Service Pensions Act 2013 [c.25]

Welfare Reform and Pensions Act 1999 [c.30]

Pensions (Increase) Act 1971 [c.56]

Data Protection Act 1998 [c.29]

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





## 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 first version was agreed by Pension Committee on 8th December 2016, then updated on 7th March 2017. Prior to this, the Fund published a Statement of Investment Principles (SIP), which the ISS replaces.

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

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

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

The ISS covers the following:

- Background
- Approach to investment
- Types of investments and limits
- Approach to risk
- Approach to pooling
- Policy on responsible investing and corporate governance
- Policy on exercise of rights

- Compliance of Cumbria Fund with the Updated Myners Principles
- Cumbria LGPS Investment Beliefs
- Compliance with the UK Stewardship Code.

### 4.2 Background

The Cumbria Pensions Committee is delegated to exercise Cumbria County Council's responsibility as Administering Authority for the management of Cumbria Local Government Pension Scheme. The Terms of Reference are set out in the Fund's Governance Policy, and include approving the investment policy for the Pension Fund.

#### 4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Investment Sub Group; is delegated to undertake tactical asset allocation decisions within the agreed asset strategy, in this way it directly supports the wider remit of the full Committee. Operating protocols between the two groups will include procedures on how detailed monitoring will be undertaken and reporting structures between the two groups. The Investment Sub Group will consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of investment managers, and the establishment and review of performance benchmarks and targets for investment. The group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

#### 4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of sixteen years from April 2016. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.
- The investment objective is to achieve an investment return to match the actuary's long term assumptions for future service of CPI+2.75% and past service of CPI+2.0% over a sixteen year period from April 2016. This gives a combined minimum required return of CPI +2.5%.

- The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period. On advice from the ISG the outperformance target will be reviewed periodically by the Committee.
- The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.
- The combined manager target investment return for the Fund as a whole is 0.6% per annum ahead of the Fund's customised benchmark return over rolling five-year periods.

### 4.3 **Approach to investment**

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

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

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

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

#### 4.3.1 **Strategy Review**

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

#### 4.3.2 **The Strategic Benchmark**

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

### 4.4 **Types of investments and limits**

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

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

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

The current ranges (December 2016) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
<b>Equity</b>			
- UK	10%	9 – 13%	20%
- Global Other	20%	20 – 25%	30%
- Global Low Volatility	10%	10 – 12%	20%
<b>Alternatives</b>			
- Infrastructure	9%	5 – 10%	19%
- Opportunistic	9%	5 – 10%	19%
Property	9%	8 – 10%	19%
<b>Growth total</b>	<b>67.0%</b>		
UK Gilts	0%	0%	10%
Corp Bonds	7%	6 – 8%	17%
IL Bonds	17%	17 – 21%	27%
Other Defensive	7%	3 – 7%	17%
Strategic Cash	2%	2 – 5%	20%
<b>Defensive total</b>	<b>33.0%</b>		
	100%		

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

## 4.5 **Risk**

### 4.5.1 **Risk Management and reporting**

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

### 4.5.2 **Appetite for Risk**

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

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

- Volatility of financial markets;
- Prevailing market conditions;
- Political risks, particularly in terms of interest rates and inflation;
- Diversification across the asset classes spreads the risk associated with any particular form of investment;
- Employing different active fund managers and also by using passive and other pooled funds spreads the investment risks further;
- Manager's performance targets are set to avoid undue exposure to risk;
- For each manager, reviewing the achieved variation in investment return from the benchmark, and also the forecast range of return for the future;
- Liquidity risk (not having monies available to make pension payments to members as they fall due) - the overall cash flow position of the Fund is constantly reviewed, and also considered in reviews of the investment strategy;
- Foreign exchange risk (the risk of loss arising from exchange rate movements of foreign currencies) - the passive currency overlay program hedges 50% of the investments denominated in overseas currencies into sterling to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets;
- Consideration will be given to appropriate government guidance on international policy matters.

#### 4.6 **Pooling**

In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, Cumbria County Council has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM"), with a target of being operational from April 2018.

BCPP is a partnership of the following funds:

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

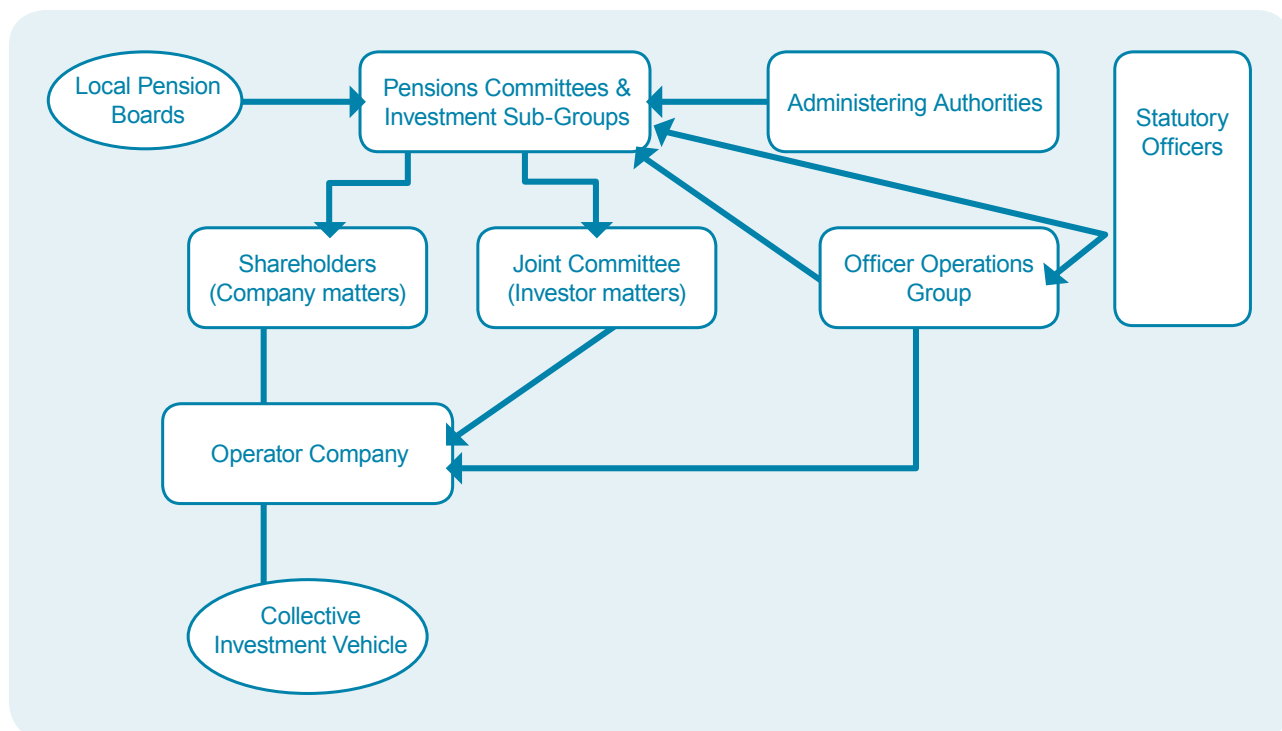
The BCPP collaboration has combined asset base of over £35.9 billion as at 31 March 2015. The partner funds submitted their proposal to Government on 15th July 2016, and have received written confirmation from the Minister to confirm that he is supportive of BCPP chosen operational model.

The core beliefs of the Border to Coast Pension Partnership (BCPP) are as follows:

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

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

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



Cumbria LGPS will hold BCPP to account through the following mechanisms:

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

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

It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool they will continue to be managed at the Fund level. This

is expected to predominantly include unquoted investments such as limited partnerships and property. Whilst these assets are unlikely to be transferred in the short-term, it is expected that once these investments mature the proceeds will be reinvested into BCPP-held investments.

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

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

#### 4.7 **Responsible Investing, Stewardship and Corporate Governance**

Responsible investment aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and



generate sustainable, long-term returns and is part of the investor's fiduciary duty.

The overriding objective of the Fund is to obtain its stated risk adjusted performance targets. It also aims to combine the primary aim of out-performance with the need to take a responsible attitude as longer-term shareholders in companies, and to maximise long term shareholder value.

The investment guidelines issued to managers of the Cumbria Fund's investments stress the overriding importance of financial considerations in selecting investments. ESG considerations are important where, in the view of the manager, such considerations may add to the risk of comparative under-performance perhaps because of change to the regulatory regime of an industry in which a particular company operates. Equally, where a manager has a view, that a positive social, environmental and ethical stance by a company will add to its relative performance, that would be an appropriate factor for the manager to take into account in stock selection. Where, however, two investments are evenly balanced ESG considerations could be a deciding factor.

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

The Fund complies with the Financial Reporting Council's (FRC) UK Stewardship code, a statement of compliance is included as Annex B to this policy and will be published online once approved.

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.

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 71 local authority pension funds from across the UK with combined assets of approximately £175 billion. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues.

For the future within asset pooling arrangements (operational from April 2018) all prospective Partner Funds in the Border to Coast Pensions Partnership (BCPP) have recognised that for the Pool to exercise shareholder voting rights effectively through leveraging the benefits of scale, all Funds will be required to align their individual RI policies. Work is ongoing in this area and will be completed for inclusion in the policy update due in March 2018.

#### **4.8 Policy on exercise of rights**

Whilst the Committee works towards agreement of a Cumbria-specific voting template the responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to PIRC. PIRC vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations. When considering voting recommendations PIRC also consider Board explanations, potential impact of oppose votes on corporate structure, materiality, opportunities for further votes in the future on the issue and market implications from any precedent created. We have the opportunity to override votes if required.

For the global active portfolio responsibility is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed to be in the best interests of the Fund.

Where a resolution is put forward which is deemed to be controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

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

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



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

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

#### 4.8.1 **Other rights**

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

#### 4.9 **Compliance of Cumbria Fund with the Updated Myners Principles**

Principle	Compliance	
Principle 1 : Effective Decision Making	Not Compliant	Fully Compliant
Administering authorities should ensure that <ul style="list-style-type: none"> <li>• decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>		  
<p>The fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment funds are managed by a number of national or international organisations with offices in London.</p> <p>The members of the Pensions Committee perform duties similar to private trustees and are elected councillors of the County Council and District Councils. The Members' Allowance Scheme operates for the remuneration of the Pension Committee. Two independent Investment Advisers normally attend Pension Committee meetings.</p> <p>The formation of a dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This released limited Committee agenda time and allows Members to focus on the issues that add most value to the Fund. The Investment Sub Group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations. The Group comprises three Members of the Pensions Committee (including the Chair of the Committee), Senior Officers of the Council with responsibilities for the management of the Fund including the Section 151 Officer and the senior investment officer to the Fund, Independent Advisors, and Investment Consultants to the Fund at the invitation of the Sub Group.</p>		

A smaller dedicated Investment Sub Group not only enables more nimble decision making but also that the members of the group can receive more intensive training in the relevant areas.

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

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

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

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

<b>Principle 2 : Clear Objectives</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<ul style="list-style-type: none"> <li>An overall investment objective(s) should be set out for the Fund that takes account of the Fund's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>		✓
<p>The investment objectives are detailed in the Investment Strategy Statement, and the Funding Strategy Statement details the funding objectives. Both are updated as required.</p> <p>The Fund has its own investment benchmark although regard is paid to the Local Authority Universe allocation to comply with Best Value methodology. The Fund's liability profile will normally be considered in relation to its benchmark every three years, with annual interim reviews.</p> <p>All fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pension Committee.</p> <p>All significant investment opportunities are considered and taken where appropriate. Stock Lending was approved during 2004.</p>		
<b>Principle 3 : Risk and Liabilities</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<ul style="list-style-type: none"> <li>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>		✓ ✓
<p>Strategic asset allocation receives a high level of attention and a full strategy review is undertaken every three years following the Actuarial Valuation.</p> <p>The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the County Council, District Councils and other employers of the Fund, taking a prudent longer-term view of funding the liabilities.</p>		
<b>Principle 4 : Performance Assessment</b>	<b>Not Compliant</b>	<b>Fully Compliant</b>
<ul style="list-style-type: none"> <li>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</li> <li>Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to Fund members.</li> </ul>		✓ ✓

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

Ongoing performance contribution will be reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates on a tiered performance monitoring framework, the three tiers being officers and advisers, the Investment Sub Group, and the Pensions Committee.

Investment Managers are constantly under review, with Officers and Advisers informing the ISG and escalating any issues immediately. Officers and Advisers will meet with managers (holding greater than £50m) formally at least annually and report their findings from these meetings to the ISG.

The Investment Sub Group is responsible for continual review of the investment management structure for the Pension Fund and for overseeing the appointment and termination of investment managers (holding, 5% of the portfolio).

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

The Pension Committee is responsible for strategic decision making and oversight, and will make 'hire/fire' decisions or see managers due to escalation from the Sub Group.

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

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

Principle 5 : Responsible Ownership	Not Compliant	Fully Compliant
<p>Administering authorities should:</p> <ul style="list-style-type: none"> <li>• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.</li> <li>• include a statement of their policy on responsible ownership in the Investment Strategy Statement; and</li> <li>• report periodically to Fund members on the discharge of such responsibilities.</li> </ul>		<p>✓</p> <p>✓</p> <p>✓</p>
<p>Voting at Company meetings will be delegated to a voting proxy agent (current provider PIRC) for the active UK equity portfolio, and to investment managers for the global equity portfolio. Reporting will be required on a quarterly basis, and will be incorporated into the quarterly monitoring of the Fund by the Pension Committee.</p> <p>The Corporate Governance policy of the Fund is an area currently under review.</p> <p>All investment managers are required to adhere to the Stewardship Code.</p>		
Principle 6 : Transparency and Reporting	Not Compliant	Fully Compliant
<p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• provide regular communication to members in the form they consider most appropriate.</li> </ul>		<p>✓</p> <p>✓</p>

The Investment Strategy Statement (ISS) includes:

- 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 publically available on the County Council's website.

Investment performance is included in the Annual Report.

The Cumbria LGPS Pensions Board will be given full access to all Pension Committee papers, and are provided with briefing sessions and training presentations appropriate to their ongoing business. In addition they will also be 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 will receive the Annual Report, and have access to the public Pension Committee papers.

The Pension Committee Minutes and Agenda will be available on the County Council website.

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

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





## Annex A – Investment Beliefs

### Statement of Investment Beliefs

#### Overarching Objective

To manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the fund.

#### Behaviour Framework

- Communicate in a clear and constructive way
- Act with honesty and respect for others
- Demonstrate a positive flexible attitude
- Take responsibility for our actions
- Be committed to “One Fund” by treating all employers and members of the fund equitably

#### Investment Beliefs

**1. Our investment strategy should be determined by reference to the Fund’s assets, liabilities and our risk tolerances**

- Our long term primary goal is to generate returns required to fund our members’ current and future pensions.

**2. Asset allocation has the greatest impact on the overall risk and return of the Fund**

- Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
- Investment managers should be responsible for stock selection.
- Over the long term equities are expected to deliver a higher return than bonds.

**3. It is important to take a long term perspective when considering the investment strategy, but recognise the implications of shorter term market volatility**

- The greatest risk to the fund is not short term market volatility but the permanent loss of value.
- Benchmarks should be used to measure performance, and not drive or dictate behaviour.
- Volatility represents an opportunity to the long term investor in that it allows the investor to purchase assets at a price below their long term value.
- By the same token volatility allows profits to be taken and unexpected gains realised.

**4. Good governance improves the quality of decision making**

- Officers, Pension Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.

- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well resourced and well governed Funds.

**5. All investments have a degree of financial risk but we should only accept financial risk where we have a strong belief that we will be rewarded for it.**

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled.

**6. There are multiple risks to which the fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.**

- Investors should be rewarded for giving up liquidity.
- Investment risks are multi-faceted and will change over time.
- Investors should be wary of investments where the promised return is out of proportion to the apparent risk.
- Investors should be aware of potential misalignment of interests especially when coupled with superior access to information on the part of the investment managers and advisors.

**7. We should continually consider all risks in our investment process by investing responsibly, including environmental, social and corporate governance factors.**

- We expect management teams and board of directors to be responsive to their shareholders.
- We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

## Annex B – Statement of Compliance with the UK Stewardship Code

### Cumbria Local Government Pension Scheme - Statement of Compliance with the UK Stewardship Code.

Cumbria Local Government Pension Scheme (Cumbria LGPS) is fully committed to responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decisions to improve the long term value for shareholders. Cumbria LGPS are cognisant of the increasing body of evidence suggesting that well governed companies are likely to deliver stronger long term investment performance. Cumbria LGPS also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), can influence the Board/Directors of companies to enhance the management and financial performance of those companies.

As global investors Cumbria LGPS expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship Code and principles relating to good stewardship below.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code

#### Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Cumbria LGPS takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy.

The Fund aims to promote high standards of governance through being an engaged and active asset owner. We seek to ensure that there is effective engagement with companies to improve their long term investment performance and hold management to account for their decisions. The Fund considers the informed use of votes, while not being a legal duty, is a responsibility of the owners of companies and as such is an implied fiduciary duty of the Pensions Fund Committee and investment managers to whom they delegate this function.

In practice Cumbria LGPS applies the Code in a number of ways:

- Responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to an external proxy voting provider; Pensions and Investment Research Consultants (PIRC). PIRC vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations, however Cumbria LGPS have the opportunity to override votes if considered appropriate. Any issues or queries can be raised by the Fund as part of the quarterly reporting process or more frequently where necessary.
- Responsibility for the exercise of voting rights in relation to the Global active portfolio is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. The investment managers may liaise with the Fund where appropriate and any issues or queries can be raised by the Fund during their quarterly review meetings.
- Where Cumbria LGPS has elected to invest in pooled indexed funds (passive UK and overseas) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds passive manager is a Tier 1 signatory to the UK Stewardship Code and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at [www.lgim.com/cgupdate](http://www.lgim.com/cgupdate) We also consider our membership of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; allows the Fund to indirectly influence these companies.

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

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by PIRC, investment managers and LAPFF, these reports are available on the Council's website. In addition a representative of the Fund regularly attends the LAPFF meetings and also attends

the LAPFF Annual Conference to ensure the Fund has a full understanding and to facilitate input into the work programme of LAPFF.

**Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

Cumbria LGPS expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, the Pensions Committee and the Local Pension Board (LPB) review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all Members, officers and independent advisors are required to adhere to this policy. The Fund policy document can be found on the shared Cumbria LGPS website at [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp). In addition, Committee and Board Members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at [www.cumbria.gov.uk](http://www.cumbria.gov.uk)

Cumbria County Council, the Administering Authority of Cumbria LGPS requires all Members of the Pension Committee, Local Pension Board and officers to declare any pecuniary or other registerable interests. Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council's website under each Member's name and updated on a regular basis.

**Principle 3 - Institutional investors should monitor their investee companies.**

Cumbria LGPS considers that as investors we own a portion of the companies we invest in. With our voting policies and working through PIRC, our investment managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for interactions with our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly

reports to Cumbria LGPS, so that activity and impact can be monitored. The Fund has regular meetings with its investment managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through PIRC, its investments managers and LAPFF are received by the Pensions Committee on a quarterly basis, these reports are available on the Council's website.

In addition, the Fund receives an 'Alerts' service from PIRC and LAPFF, highlighting corporate governance issues of concern at investee companies, and these are used to monitor and report on voting activity to the Pensions Committee; and liaise with managers to promote consistency of voting where appropriate

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

**Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.**

As highlighted above, Cumbria LGPS delegates its responsibility for day-to-day interaction with companies to PIRC, the Fund's Investment Managers and LAPFF, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, these organisations will consult with the Senior Manager Pensions and Financial Services.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation through its contracts with Institutional Protection Services (IPS) and US law firm Spector Roseman Kodroff & Willis (SRKW).

Any such actions and subsequent outcomes are reported to the Pensions Committee on a quarterly basis in order to monitor activity and assess effectiveness.

**Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.**

Cumbria LGPS considers collaborative engagement is a key part of a responsible investment strategy and the Fund seeks to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members; and also its relationship with the investment managers.

The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings which a representative of the Cumbria LGPS fund regularly attends. Feedback is provided to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Senior Manager, Pensions & Financial Services (Deputy s151 Officer – LGPS), who is contactable by emailing: [pensions@cumbria.gov.uk](mailto:pensions@cumbria.gov.uk)

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

Cumbria LGPS views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attached to its investments.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

As indicated earlier responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to an external proxy voting provider PIRC. They vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations, however we have the opportunity to override votes if required.

As a general rule, PIRC will vote in favour of resolutions which are in line with the UK Corporate Governance

Code or comply with best practice.

The external investment managers are responsible for exercising voting rights in relation to the Global active portfolio on investments that are managed by them on behalf of the Fund and voting activity of the managers is made available to Members of the Pensions Committee on a quarterly basis. They will vote in accordance with their own "Investment and Corporate Governance" policy which is available on their websites. The investment managers will liaise with the Fund where appropriate.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, the full PIRC Proxy Voting Report is provided as an Appendix to the Quarterly Monitoring report and is available on the Council's website. The Fund also publishes a summary of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending and may seek to recall stock on loan prior to a shareholder vote if the issue upon which the vote rests is contentious enough to warrant it and it is deemed to be cost effective, suitable and practical.

**Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.**

Cumbria LGPS reports quarterly to the Pensions Committee on stewardship activity through a specific section on the voting undertaken each quarter, in the Fund Quarterly Monitoring report, the full PIRC Proxy Voting Report is provided as an Appendix to this report and is available on the Council's website. The report also includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website, Cumbria LGPS section at [www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp](http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp)

Data to produce these reports is taken from a number of sources including quarterly reports from:

- PIRC
- LAPFF
- Investment managers

Members are kept informed of any current news items relevant to the holdings of Cumbria LGPS, where those topics are in the public arena and would be of interest to LGPS stakeholders.

Approved 7th March 2017 by the Pensions Committee



## 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 8th December 2016. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

### 5.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and accordingly will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority will comply with the requirements of the Regulations (SI 2016 No 946).

### 5.3 Cash Investment Priorities

The Cumbria Pension Fund's cash investment priorities are: -

- a) the security of capital,
- b) the availability of cash to meet payroll, investment commitments, and other payments, and
- c) the liquidity of its investments.

The Investment Strategy Statement sets the maximum level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments (current maximum 20%). Where strategic cash is included in the Fund's benchmark as an asset (currently 2%), the Administering Authority will use investment managers' pooled funds where most efficient to do so. The Administering Authority should aim to keep the working cash balance held (for day to day cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and opportunistic investments.

The Fund will also aim to achieve a modest return on its cash investments commensurate with proper levels of security and liquidity. The risk appetite of this Fund is low in order to give priority to security of its cash investments.

### 5.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisers of Cumbria County Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

All credit ratings will be monitored through the Council's use of the Treasury Advisers' creditworthiness service. The Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

- If a downgrade results in the counterparty/ investment scheme no longer meeting the Council's minimum criteria, its use for pension fund cash will be withdrawn immediately.

### 5.5 Investment Strategy for Pension Fund Cash

Subject to the priorities as stated in 5.3 above, the investment of any fund money that is not needed immediately must be invested using the following strategy:

- Set a day-to-day working cash holding limit at 2.5% of the Fund's total investments for the NatWest Liquidity account and Money Market Funds in total, and allow officers discretion to invest appropriately between them. At 30th September 2016 2.5% was £57.3 million.

It is recognised that on occasion, due to specific circumstances, an extension could be necessary to this cash balance limit, for example due to asset or manager restructuring. However, any such instances would require prior approval, in consultation with the Chair and Vice Chair, from the Section 151 Officer. Additionally, every reasonable action should be taken to ensure the period of the extension is kept to a minimum and at most would be no greater than ten days (this being the timing of weekly unit fund dealing dates). Members are to be formally notified of any such limit extensions at the next Committee date after such an extension has occurred.

### 5.6 Role of the Section 151 Officer

The treasury management role of the Section 151 officer with respect to pension fund cash will be -

- recommending the Cash Investment Policy for approval, reviewing the policy regularly, and monitoring compliance;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function, and reporting activities to the Pension Committee as appropriate;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.



### 5.7 Review of Policy

The Cash Investment Policy will be kept under regular review to accommodate any necessary changes due to regulations, changes in the UK banking support package, to bank creditworthiness, and any other necessary amendments, to maintain the security of capital and the liquidity of the pension fund cash invested.



## 6 Funding Strategy Statement (FSS)

### 6.1 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).

### 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.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

### 6.3 Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

### 6.4 Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- manage the valuation process in consultation with the Fund’s actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund’s performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers’ contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

### 6.5 Solvency Funding Target

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

#### Solvency and Long Term Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the LGPS so far as relating to the Fund.

#### Determination of the Solvency Funding Target and Deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

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

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 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 2016 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers



this to be warranted (see Deficit Recovery Plan in Appendix B). These principles have resulted in an average recovery period of 16 years being adopted across all Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the Secondary rate: a schedule of lump sum monetary amounts over 2017/20 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 2020 based on the results of the 2019 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 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 Section 151 Officer and notified to the Committee. The employer will also be notified.

#### **Funding for Non-III Health Early Retirement Costs**

Employers are required to meet all costs of early retirement strain by:

- immediate capital payments into the Fund, or
- with the agreement of the Administering Authority, by making provision for them at the time of the actuarial valuation and including the costs within its funding plan.

#### **6.6 Link to investment policy set out in the Investment Strategy Statement (ISS)**

The results of the 2016 valuation show the liabilities to be 90.7% covered by the current assets, with the funding deficit of 9.3% being covered by future deficit contributions.

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.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

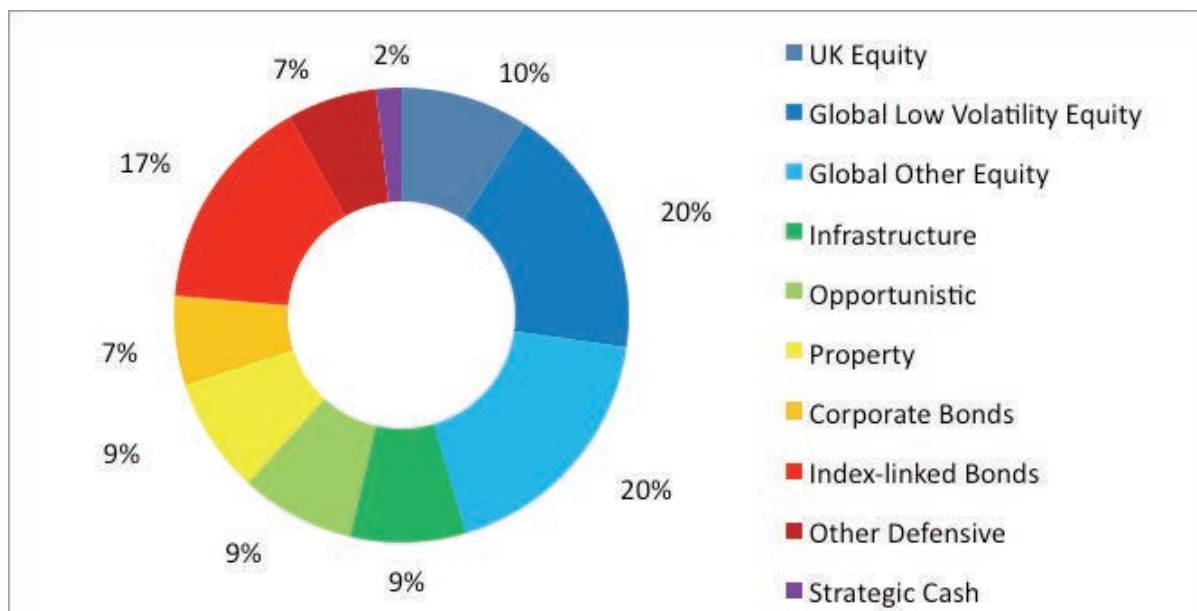
Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 61.0%.

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 reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.



The proposed long-term investment strategy is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

### 6.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

#### Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term

- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

#### Demographic

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cash flows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cash flow requirements and considers the impact on the investment strategy.

### Insurance of Certain Benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements 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. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- Changes in the Committee 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: 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 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum equating to a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

#### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

### Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for 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. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint within the Fund's employer base. This results in a total salary increase assumption of 2% per annum for the period up to 2019/20.

### Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

### Demographic Assumptions

#### Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. 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 1.5% per annum.

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

### Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

### Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

### Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% 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) 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 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

### Employer Asset Shares

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



**Summary of Key Whole Fund Assumptions used for Calculating Funding Target and Cost of Future Accrual (The “Primary Rate”) for the 2016 Actuarial Valuation**

<b>Long-term yields</b>	
Market implied RPI inflation	3.2% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.2% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

**Life expectancy assumptions**

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	<b>Base table</b>	<b>Improvements</b>	<b>Adjustment (M / F)</b>
Current pensioners:			
Normal health	S2PA	CMI_2015 [1.5%]	94% / 88%
Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	119% / 102%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	111% / 108%
Current active / deferred:			
Active normal health	S2PA	CMI_2015 [1.5%]	93% / 84%
Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
Deferred	S2PA	CMI_2015 [1.5%]	115% / 96%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	101% / 96%

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

## Appendix B – Employer Deficit Recovery Plans

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

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.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period	Derivation
Scheme Employers	16 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Open Admitted Bodies	The lesser of 16 years or the remaining contract period	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Closed Employers	The lesser of 16 years, the remaining contract period, or the future working lifetime of the membership	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

### Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three

years 2017/2020. Any application of this option is at the ultimate discretion of the Section 151 Officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.



## Appendix 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.

### Assessing Employer Covenant

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the

context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

### Frequency of Monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

### 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.



## Appendix D - Glossary

### Actuarial Valuation

an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

### Administering Authority

the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

### Admission bodies

a specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

### Benchmark

a measure against which fund performance is to be judged.

### Best Estimate Assumption

an assumption where the outcome has a 50/50 chance of being achieved.

### Bonds

loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

### Career Average Revalued Earnings Scheme (CARE)

with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

### Covenant

the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

### CPI

acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

### Deficit

the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and 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.

**Liabilities**

the actuarially calculated present value of all benefit entitlements i.e. Fund cash flows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**Maturity**

a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**Members**

the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Minimum risk Basis**

an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

**Orphan liabilities**

liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**Percentiles**

relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

**Phasing/stepping of contributions**

when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**Pooling**

employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**Prepayment**

the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**Present Value**

the value of projected benefit payments, discounted back to the valuation date.

**Primary rate**

the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

### Profile

the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

### Prudent Assumption

an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

### Rates and Adjustments Certificate

a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

### Real Return or Real Discount Rate

a rate of return or discount rate net of (CPI) inflation.

### Recovery Plan

a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

### Scheduled bodies

types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

### Scheme Employers

employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

### Secondary rate

the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

### 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 Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

### Solvency Funding Target

an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

### Valuation funding basis

the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

### 50/50 Scheme

in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.



## 7 Cumbria Local Government Pension Scheme (“Scheme”)

### 7.1 Admission & Termination Policy

This document details the Scheme’s policy on:

- Admissions into the Fund;
- The methodology for assessment of a termination payment on the cessation of an Admission Body’s participation in the Fund; and
- Considerations for current admission bodies.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 27 November 2012 and has been updated to reflect the Local Government Pension Scheme Regulations 2013.

Where this document refers to Cumbria County Council (“Cumbria”), then this shall mean Cumbria in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Fund employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (“Regulations”), a transferee admission body, or a community admission body.

## A – Admissions Policy

### Background

#### Admission bodies

Admission bodies are a specific type of employer under the Regulations that govern the Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Scheme.

Cumbria may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body’s employees to be members of the Fund and participate in the Scheme.

Any application for admitted body status must be submitted to Cumbria in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

Admission Bodies are divided into two basic types under the Regulations:-

- (a) community admission bodies; and
- (b) transferee admission bodies.

### Community Admission Bodies

These are the traditional type of admission bodies. They are bodies that usually operate in and/or are connected to local government.

The following are community admission bodies:

- (a) a body which provides a public service in the United Kingdom otherwise than for the purposes of gain and which:
  - has sufficient links with a Fund employer for the body and the Fund employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Fund employer or otherwise), or
- (b) a body, other than the governors or managers of a voluntary school, to the funds of which a Fund employer contributes;
- (c) a body representative of:
  - (i) Any Fund employers; or
  - (ii) local authorities or officers of local authorities;
- (d) a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and
- (e) a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 of the Regulations (other than a local authority). For the purpose of determining whether a company is subject to the influence of a body as mentioned in this paragraph, section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

### Transferee Admission Bodies

The Regulations also allow private contractors to be admitted into the Scheme subject to them meeting certain criteria. This type of Admission Body is known as a transferee admission body.

The following are transferee admission bodies:

- (a) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Fund employer as a result of:
  - (i) the transfer of the service or assets by means of a contract or other arrangement;
  - (ii) a direction made under section 15 of the Local Government Act 1999 (20) (Secretary of State’s powers); or
  - (iii) directions made under section 497A of the Education Act 1996 (21) (directions imposed on a failing LEA); and

- (b) a body which provides a public service in the UK and which is approved in writing by the Secretary of State for the purpose of admission to the Scheme. Approval may be subject to such conditions as the Secretary of State thinks fit and they may withdraw approval at any time if such conditions are not met.

## 7.2 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;
- an academy;
- a further education corporation, a sixth form college corporation or higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992.

Employees of the above Fund employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 4.

Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a company “under the control” of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

Employees of the above Fund employers will only be admitted to the Scheme if 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

### 7.3.2 Community Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to community admission bodies:

Due to the risks to other employers within the Fund only in exceptional circumstances will bodies be admitted to the Fund. As a minimum requirement all of the below criteria will have to be satisfied, however the Fund retains the right to reject community admission bodies.

- (a) applications will be considered if all the conditions of participation set out in the appendix are met and:
- (i) the body exists as a result of being specifically set up by a local authority(s); and
  - (ii) the body falls into the category of “community” admission highlighted within section 1 and does not have any of the disqualifying criteria set out below.
- (b) applications will not be approved if:
- (i) the application falls into the “community” admission category and the body has one or more of the following disqualifying criteria attached to it:
    - the body does not meet the conditions of participation detailed at the appendix; or
    - the provisions in respect of risk assessments as set out at paragraph 2.1.3 are not complied with; or
    - there is a known limited lifespan or fixed contract term of admission to the Fund; or
    - there is uncertainty over the security of the organisations funding sources e.g. the body is reliant on voluntary or charitable sources of income or has no external funding guarantee/reserves.



### 7.3.3 Transferee Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to transferee admission bodies:

- (a) applications will be approved if:
  - (i) all the conditions of participation set out in the appendix are met; and
  - (ii) the body falls into the category of “transferee admission body” highlighted in section 1 and does not have any of the disqualifying criteria set out below;
- (b) applications will not be approved if:
  - (i) the application falls into the “transferee” admission category; and
  - (ii) the body has one or more of the following disqualifying criteria attached to it:
    - the body does not meet the conditions of participation detailed at the appendix; or
    - the provisions in respect of risk assessments as set out in paragraph 2.1.3 have not been complied with; or
    - the transferring Fund employer is a participating employer within another LGPS Fund;
- (c) the deficit recovery periods for all Admission Bodies will normally be determined against the policy set out in the Funding Strategy Statement. However, Cumbria reserves the right to determine that an employer specific deficit recovery period will apply and that arrangements for admission agreement funds may be introduced, if deemed appropriate; and
- (d) the transferee admission body will need to enter into a separate Admission Agreement in respect of each contract.

### 7.3.4 Risk Assessments

Cumbria will expect each community admission body and transferee admission body (together “Admission Body”) to carry out an assessment of risk arising on premature termination of the provision of assets and services by the Admission Body to the satisfaction of Cumbria. In determining whether the assessment is satisfactory, Cumbria will take advice from its own actuary.

Where the level of risk is, in the opinion of Cumbria, such as to require it, then Cumbria will require the Admission Body to enter into an indemnity or bond. In certain circumstances Cumbria may determine that the level of risk is such that it is not desirable for the Admission Body to enter into an indemnity or bond, and instead a guarantee would be acceptable. In these circumstances, the Admission Body must secure a guarantee which is acceptable to Cumbria from either:

- (a) a person who funds the Admission Body in whole or part;
- (b) a person who owns or controls the exercise of the functions of the Admission Body; or
- (c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors Cumbria will use to establish whether a guarantee would be an acceptable alternative are:

- (a) the likelihood of premature termination occurring in respect of that Admission Body;
- (b) the accountability of any Fund employer in respect of that Admission Body;
- (c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other employers in the Fund, or would be contained by other employers in that Admission Body’s group;
- (d) any assessment commissioned by the Admission Body on which Cumbria can rely to determine whether the guarantor is suitable; and
- (e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

In determining the acceptability as to the level of risk, Cumbria will be mindful of its core principle which is that each Admission Body is accountable for its own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Fund.

### 7.3.5 Decisions Regarding Admissions

Decisions regarding transferee and community admissions will be delegated to the Section 151 Officer.



## 7.4 Scheme Employers

The principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

In this regard, Cumbria may:

- make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund;
- taking into account any such assessment, Cumbria may seek any one or more of the following:
  - terms of agreement with the new Fund, including:
    - a guarantee/indemnity from another Fund employer;
    - agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer;
    - either in whole or in part;
    - further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer;
    - a revised rates and adjustment certificate for the new Fund employer to take into account the financial risk of failure.

There should be flexibility to consider all relevant circumstances but Cumbria's objective is to seeking appropriate funding from all Fund employers, so that on exit all orphaned liabilities will be funded, or subsumed by another Fund employer.

## B – Termination Policy

### 7.5 Background

When an Admission Agreement comes to its end (including where the body ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the Admission Body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a bond/indemnity, guarantor or successor body within the Fund.

### 7.5 Policy Statement

#### 7.5.1 Admission Bodies

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

Treatment of assets and liabilities at termination will be as follows:

#### (a) Community Admission Bodies

If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.

Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Fund employer within the Fund.

If there are surpluses at termination which cannot be refunded to the outgoing body then these will be subsumed by the Fund.

#### (b) Transferee Admission Bodies

If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.

Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Fund employer within the Fund.

On termination of a transferee admission body, any orphan liabilities and the related assets in the Fund will be subsumed by the relevant Fund employer.

#### (c) Older Admissions prior to 31 August 2010

In the case of older admissions not covered under transferee or community arrangements above, where there is no guarantor or bond in

place, following the termination assessment any outstanding liabilities will be recovered from the outgoing body. Where this is not possible then this liability will be subsumed by the Fund as a whole, unless the Regulations permit Cumbria to pursue recovery from the previous Fund employer, in which Cumbria will have discretion to follow these options.

Any surplus identified will likewise be subsumed by the Fund.

#### **(d) Funding basis for termination calculations**

The Fund policy is that a termination assessment will be made based on a least risk funding basis, unless a successor body exists which takes over the Admission Body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities may become "orphan liabilities" within the Fund, and there will be no recourse to the Admission Body if a shortfall emerges in the future (after the admission has terminated).

If, instead, the Admission Body has a guarantor within the Fund or a successor body exists to take over the Admission Body's liabilities the Fund policy is that the valuation funding basis will be used for the termination assessment. In the case of admissions prior to 31 August 2010 where the employer is in danger of insolvency the Section 151 Officer may use their discretion to use the valuation basis and/or allow the deficit to be paid by instalments.

The guarantor or successor body (or the fund in respect of older admissions) will then, following any termination payment made, subsume the assets and liabilities of the Admission Body within the Fund. This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the Admission Body itself.

#### **(e) Notification of Termination**

In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued. In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Fund will liaise with the actuary to introduce procedures to reduce the volatility risks to the debt amount in the run up to actual termination of the admission.

Further, the Fund will hold more frequent reviews of employer contribution rates in order to manage the gradual reduction of any pension deficit or surplus. This will enable the Fund to gradually manage the termination process, rather than call for one cessation payment.

#### **7.5.2 Fund Employers**

As has been mentioned, the principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

A termination assessment will always be carried out for "outgoing" Fund employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Fund employer, together with any other related costs of the termination.

Cumbria recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry in to the Fund, Cumbria can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employers, arrangements can be agreed in relation to the rates and adjustment certificate applicable to the Fund employer and/or any deficit on termination; or
- if a previous Fund employer has agreed to pay any deficit payment on exit, the terms upon which the deficit has to be paid.

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

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the rates and adjustment certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Fund, and if unsuccessful apply pressure to former Fund employers.

## Admission & Termination Policy

### Appendix

#### Conditions of Participation

##### 1. Payments

- 1.1. The Admission Body shall pay to Cumbria for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.
- 1.2. The Admission Body shall pay to Cumbria for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to Cumbria within 19 calendar days of the end of each month in which the pension contributions have been deducted.
- 1.3. The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by Cumbria.
- 1.4. The Admission Body shall pay to Cumbria for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from Cumbria.
- 1.5. Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by Cumbria. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.
- 1.6. Where the Admission Body certifies that:
  - 1.6.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
  - 1.6.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or
  - 1.6.3. the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became

a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to Cumbria for credit to the Scheme the sum notified to them in writing by Cumbria as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

- 1.7. The Admission Body shall indemnify Cumbria against any financial penalty and associated costs and expenses incurred by Cumbria or by the Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from Cumbria.

- 1.8. If any sum payable under this Agreement or the Regulations by the Admission Body to Cumbria or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) Cumbria may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

##### 2. Admission Body's Undertakings

The Admission Body undertakes:

- 2.1 to provide or procure to be provided such information as is reasonably required by Cumbria relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;
- 2.2 to comply with the reasonable requests of Cumbria to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);
- 2.3 to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations and in any employer's guide published by Cumbria and provided by Cumbria to the Admission Body;
- 2.4 to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

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

### **3. Actuarial Valuations**

- 3.1 Cumbria may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.
- 3.2 Upon termination of this Agreement Cumbria must obtain:
  - 3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and
  - 3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by Cumbria in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from Cumbria.

### **4. Risk Assessment**

- 4.1 The Admission Body shall carry out to the satisfaction of Cumbria, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.
- 4.2 Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond in an approved form.
- 4.3 Where it is not desirable for the Admission Body to enter into an indemnity or bond, the Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to Cumbria from:
  - 4.3.1 a person who funds the Admission Body in whole or part;
  - 4.3.2 a person who owns or controls the exercise of the functions of the Admission Body; and
  - 4.3.3 the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

### **5. Termination**

- 5.1 The Agreement shall terminate at the end of the notice period upon Cumbria or the Admission Body giving a minimum of three calendar months notice in writing to terminate this Agreement to the other party or parties to this Agreement.
- 5.2 The Agreement shall terminate automatically on the earlier of:
  - 5.2.1 the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or
  - 5.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or



- 5.3 The Agreement may be terminated by Cumbria by notice in writing to the Admission Body taking immediate effect in the event of:
- 5.3.1 the insolvency winding up or liquidation of the Admission Body;
  - 5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that Cumbria shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as Cumbria may specify;
  - 5.3.3 the failure by the Admission Body to pay any sums due to Cumbria or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from Cumbria requiring the Admission Body to do so; or
  - 5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.





## 8 Discretions Policy

Cumbria County Council as administering authority of Cumbria Local Government Pension Scheme has the power to make certain discretions to assist in the management of the fund. These will be applied across the whole Cumbria Fund for all employers and members. The Discretions Policy was approved by the Cumbria Pensions Committee held on 13/14 March 2014 and amendments approved by the Cumbria Pension Committee held on 6 June 2014.

### 8.1 Administering Authority Discretions for use in the Cumbria Local Government Pension Scheme

Discretions from 1.4.14 in relation to post 31.3.14 active members (excluding councillor members) and post 31.03.14 leavers (excluding councillor members), being discretions under:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to issue actuarial guidance to administering authorities	R2(3)	Exercised by the Secretary of State
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	R4(2)(b)	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to agree to an admission agreement with a body applying to be an admission body	R5(5) & RSch 2, Part 3, para 1	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to approve / withdraw approval of an admission body providing a public service in the UK and the conditions for such approval / withdrawal	RSch 2, Part 3, paras 1(e) and 2	Exercised by the Secretary of State
Whether to terminate a transferee admission agreement in the event of <ul style="list-style-type: none"> <li>- insolvency, winding up or liquidation of the body</li> <li>- breach by that body of its obligations under the admission agreement</li> <li>- failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so</li> </ul>	RSch 2, Part 3, para 9(d)	Yes as stated in termination policy. However in exceptional circumstances this may be varied.
Define what is meant by “employed in connection with”	RSch 2, Part 3, para 12(a)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	R16(1)	To turn down request where the monthly payment is below £20, or in the absence of a satisfactory medical report
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC and whether to turn down an application to pay an APC/ SCAPC if not satisfied that the member is in reasonably good health	R16(10)	Application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to charge member for provision of estimate of additional pension that would be provided by the Fund in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 01/04/14)	TP15(1)(d) & A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	R17(12)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Pension account may be kept in such form as is considered appropriate	R22(3)(c)	To maintain pension accounts in accordance with the approved administration policy
Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	TP10(9)	In the absence of an election from the member the Administering Authority will make the final decision
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	R30(8)*	Not to waive actuarial reductions on flexible retirement
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age	R30(8)*	Not to waive actuarial reductions on benefits drawn voluntarily
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under R30(6) (flexible retirement), R30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under R30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	R68(2)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Whether, in respect of benefits from pre 01/04/14 membership, to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (subject to a minimum actuarial reduction to the date the member meets the 85 year rule or to age 60, whichever is the later)	TPSch 2, para 2(2)*	Not to waive actuarial reductions or "switch on" the 85 year rule on benefits drawn voluntarily
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits from pre 01/04/14 membership where the employer has "switched-on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60	TPSch 2, para 2(3)*	Not to waive actuarial reduction on compassionate grounds
Whether to require any strain on Fund costs to be paid "up front" by employing authority following waiver of actuarial reduction under TPSch 2, para 2(3)	TPSch 2, para 2(5)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	R32(7)	Not to extend the time limit unless there are exceptional circumstances
Decide whether to commute small pension	R34(1)	Do this at the members request

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Approve medical advisors used by employers (for ill health benefits)	R36(3)	Delegated to Employer
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme	TP12(6)	To adopt this discretion
Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner	R38(3)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	R38(6)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	TP17(5) to (8) & R40(2), R43(2) & R46(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	R49(1)(c)	Always pay the highest benefit to a member of the fund
Whether to set up a separate admission agreement fund	R54(1)	Not to set up a separate admission agreement fund
Determine assets to be transferred from main fund to admission agreement fund	R54(4)(b)	Not applicable
<p>Governance policy must state whether the admin authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state:</p> <ul style="list-style-type: none"> <li>- the frequency of any committee or sub-committee meetings</li> <li>- the terms, structure and operational procedures appertaining to the delegation</li> <li>- whether representatives of employing authorities or members are included and, if so, whether they have voting rights</li> </ul> <p>The policy must also state:</p> <ul style="list-style-type: none"> <li>- the extent to which a delegation, or the absence of a delegation, complies with Secretary of State guidance and, to the extent it does not so comply, state the reasons for not complying, and</li> <li>- the terms, structure and operational procedures appertaining to the local Pensions Board</li> </ul>	R55*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 7 March 2017
Decide on Funding Strategy for inclusion in Funding Strategy Statement	R58*	This was approved by the Pensions Committee at the meeting held on the 8 December 2016
Whether to have a written pensions administration strategy and, if so, the matters it should include	R59(1) & (2)	An administration strategy has been set out in the Governance Policy Statement

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Fund employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers	R61*	An communications policy has been set out in the Governance Policy Statement
Whether to extend valuation report and certificate deadline	R62(2)	Exercised by the Secretary of State
Decide assumptions to be used in making a “cost sharing” valuation under R63	R63(5)	Exercised by the Secretary of State
Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Fund employer will become an exiting employer	R64(4)	Only do this if advised to do so by the fund actuary
Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the “cost sharing” under R63	R65	Only do this if advised to do so by the fund actuary
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge	R69(1)	The due date for employer contributions is the 19th of the month following the month to which they refer. Where invoices are issued for any payments the due date is one month from date of invoice. Administration charges are covered by the employer contribution rates.
Decide form and frequency of information to accompany payments to the Fund	R69(4)	Remittance advices required for all payments to the Fund
Whether to issue employer with notice to recover additional costs incurred as a result of the employer’s level of performance	R70 & TP22(2)	Issue such a notice following advice by the fund actuary
Whether to charge interest on payments by employers which are overdue	R71(1)	The interest charge will be calculated in accordance with statutory requirements i.e. Base rate plus 1 %.
Whether to extend six month period to lodge a stage one IDRP appeal	R74(4)	Adjudicator making stage one IDRP decision
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those functions are to be exercised	R74(6)	Procedure laid down
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	R76(4)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	R79(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	R79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	R80(1)(b) & TP22(1)	Employers to supply information in accordance with the approved administration policy

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	R82(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit	R83	Would normally require power of attorney, but each case will be individually determined
Date to which benefits shown on annual benefit statement are calculated	R89(5)	Benefits to be based as at 31 March
Whether to issue a forfeiture certificate	R91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	R98(1)(b)	Take the advice of the Fund actuary
Agree set aside of bulk transfer assets / cash and acquisition of rights in new scheme	R98(4)(a)	Fund actuary / new Fund actuary
Determine amount of, and adjustments to, bulk transfer payment	R99(1) & (2)	On the advice of the Fund actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	R99(5)	On the advice of the Fund actuary
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	R100(68)	Not to extend the normal time limit unless there are exceptional circumstances
Allow transfer of pension rights into the Fund	R100(7)	Allow following advice from the Fund actuary
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	R103(3)	As determined by the Actuaries for both Funds
Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & B10(2)	Always pay the highest benefit to a member of the fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008)	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the fund
Decide to treat child as being in continuous education or vocational training despite a break	RSch 1 & TP17(9)	Adopt this discretion
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	RSch 1 & TP17(9)(b)	Rely on the nomination form, or require evidence of co-habitation and financial interdependence
Decide appropriate Fund if employer applies to be moved to a different Fund	RSch 3, Part 2, para 3	Exercised by the Secretary of State
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	TP3(13) & A70(1)* & A71(4)(c)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012
Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	Not to extend time period

\* These are matters about which the regulations require there must be a written policy.



**Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1.4.08 and before 1.4.14, being discretions under:**

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to charge member for provision of estimate of additional pension that would be provided by the Fund in return for transfer of in house AVC/SCAVC funds	A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Extend time period for capitalisation of added years contract	TSch1 & L83(5)	Not to extend time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	A45(3)	To adopt this
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	A52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	A56(2)	Delegated to employer
Whether to extend six month period to lodge a stage one IDRP appeal	A58(7)(b)	Person making stage one IDRP decision
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	A60(8)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	A63(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	A63(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	A64(1)(b)	Information to be supplied in accordance with the approved administration policy
Decide policy on abatement of pensions following re-employment	TP3(13) & A70(1)* & A71(4)(c) & T12	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012
Whether to issue a forfeiture certificate	A72(1)	Exercised by the Secretary of State
Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	B10(2)	Always pay the highest benefit to a member of the fund

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	B27(5)	Yes, depending on individual circumstances
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit	A52A	Would normally require power of attorney, but each case will be individually determined
Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60	B30(2)*	Only to grant application where there is no cost to the Fund
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under B30	B30(5)*	Not to waive actuarial reduction on compassionate grounds
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60	B30A(3)*	To take the advice of the Fund IRMP, before any decision is made
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under B30A	B30A(5)*	Not to waive actuarial reduction on compassionate grounds
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	B31(4)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment	B31(7)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	B23(2) & B32(2) & B35(2) & TSch1 & L155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Decide evidence required to determine financial dependence of co-habitee on fund member or financial interdependence of co-habitee and fund member	B25	Rely on the nomination form, or require evidence of co-habitation and financial interdependence
Decide to treat child as being in continuous education or vocational training despite a break	RSch1 & TP 17(9)	Adopt this discretion
Decide whether to commute small pension	B39 & T14(3)	To do so at the member's request
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	B42(1)(c)	Always pay the highest benefit to a member of the fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08)	TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the fund

\* These are matters about which the regulations require there must be a written policy.

#### **Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:**

- active councillor members, and
- councillor members who ceased active membership on or after 01.04.98, and
- any other fund members who ceased active membership on or after 01.04.98 and before 01.04.08

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Frequency of payment of councillors' contributions	12(5)	Determined that councillors are not eligible for membership of the CLGPS
Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08)	23(9)	Always pay the highest benefit to or on behalf of a member of the fund
Decide to whom death grant is paid in respect of post 31.03.98. / pre 01.04.08 leavers	38(1) & 155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Decide to treat child as being in continuous education or vocational training despite a break (children of post 31.03.98 / pre 01.04.08 leavers)	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion
Apportionment of children's pension amongst eligible children (children of post 31.03.98 / pre 01.04.08 leavers)	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child (children of post 31.03.98 / pre 01.04.08 leavers)	47(2)	Yes, depending on individual circumstances
Agree to commutation of small pension (pre 01.04.08 leavers or pre 01.04.08 Pension Credit members)	49 & 156	To do this at member's request
Commute benefits due to exceptional ill-health (pre 01.04.08 leavers and pre 01.04.08 Pension Credit members)	50 and 157	Adopt this discretion
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01.04.08 leavers) – (see Note below)	80(5)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 01.04.08 leavers)	89(3)	Adopt this discretion
Timing of pension increase payments by employers to fund (pre 01.04.08 leavers)	91(6)	Pension increase payments will be invoiced quarterly or annually dependant on circumstances
Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of pre 01.04.08 leaver)	95	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Approve medical advisors used by employers (re ill health benefits for pre 01.04.08 preserved benefits payable on health grounds)	97(10)	Delegated to the employer

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide procedure to be followed by admin authority when exercising its IDRPs functions and decide the manner in which those functions are to be exercised (pre 01.04.08 leavers)	99	Procedure laid down
Appeal against employer decision, or lack of a decision (pre 01.04.08 leavers)	105(1)	Will decide this depending on the particular circumstances
Extend appeal period under reg 105	105(2)	Exercised by the Secretary of State
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Benefits to be based as at 31 March.
Abatement of pensions following re-employment (pre 01.04.08 leavers)	109* & 110(4)(b)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012.
Discharge Pension Credit liability (in respect of Pension Sharing Orders for pre 01.04.08 Pension Sharing Orders for non-councillor members)	147	Depending on individual circumstances

\* These are matters about which the regulations require there must be a written policy

**Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to scheme members who ceased active membership before 1.4.98**

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide to whom death grant is paid in respect of pre 01.04.98 retirees / pre 01.04.98 deferreds	E8	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Whether to pay spouse's pensions for life for pre 01.04.98 retirees / pre 01.04.98 deferreds who die on or after 01.04.98 (rather than ceasing during any period of remarriage or co-habitation)	F7	To adopt this discretion
Decide to treat child as being in continuous education or vocational training despite a break (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion
Apportionment of children's pension amongst eligible children (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	G11(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	G11(2)	Yes, depending on individual circumstances

## **9.0 Training Policy**

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## 9.1 Introduction

A major factor in the governance arrangements of the Fund is ensuring committee members and officers have the relevant skills and knowledge. The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training.

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

- the members of the Pension Committee and any future Investment Sub-Committees and
- officers of Cumbria CC responsible for the management of the Local Government Pension Scheme (LGPS).

The Training Policy is established to aid Members of the Pension Committee in performing and developing personally in their individual role in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that Members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

The code of practice no. 14 – Governance and administration of public service pension schemes issued by the Pension Regulator in April 2015 contains practical guidance for fund managers and pension board members. The code sets out standards of conduct and practice expected of those who carry out functions for public service pension schemes in relation to legal requirements. The legislative requirements about knowledge and understanding outlined in the code only apply to pension board members. It is their individual responsibility to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board. However, fund managers are expected to take account of the guidance as it offers them support in understanding the legal framework and enables them to help pension board members meet their legal obligations.

## 9.2 Policy objectives

The Fund's objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice and the public service code of practice issued by the Pensions Regulator (as detailed above).

## 9.3 Application of the Training Policy

The Training Policy will apply to all elected Members and representatives with a role on the Pension Committee and the Investment Sub-Committee, and Officers equal to and above the level of Technical Finance Officer of the Fund regardless of experience. (Officers below this level will have their own sectional and personal training plans and career development objectives).

The Pension Board will be responsible for establishing their own training plan and identifying their individual training needs. Board members of a funded scheme e.g. the LGPS are required to have a working knowledge of documented policies about investment governance, therefore board members will be invited to attend the Member and Officer training and development sessions outlined in the 2017/18 training plan.

## 9.4 Purpose of training

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria LGPS is to:

- equip those charged with the oversight and management of the Fund with the necessary skills, knowledge and training, and
- meet the required needs in relation to the Fund's objectives.

## 9.5 Review and maintenance

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

The Fund's Training Plans will be updated annually, taking account of the results from the Training Needs Evaluations, and on emerging issues. It will be updated with events and training opportunities as and when they become available or relevant to ongoing business or emerging issues.

Key themes for training in 2017/18 will be:-

- Continued development of the Border to Coast Pensions Partnership (BCPP) with the other LGPS partner funds to allow Cumbria LGPS to comply with the requirement to pool LGPS assets.
- Review of governance arrangements in response to financial, regulatory and structural changes associated with the journey towards investment asset pools.
- Update Pension Committee Members in respect of the workings of the Joint Committee of the partner funds of BCPP and the requirements of the role as shareholder of the BCPP company.
- Further development of the Fund's corporate governance and engagement framework in light of the government's continued focus in this area.
- Ongoing training of new Officers to ensure they meet the high level of knowledge required to ensure the Fund continues to be well governed and managed.
- Keep Members and Officers abreast of developments in the wider pensions and investments markets in respect of the government's approach to the implementation of recent EU Directives including:
  - MiFID II. which is required to be implemented by 1st January 2018 and
  - IORP II. which is required to be implemented by 12th January 2019.

## 9.6 CIPFA Requirements

### 9.6.1 CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public

sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements-

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

### 9.6.2 CIPFA Principles of Investment Decision Making and Disclosure

In response to the government's report updating the Myners Principles: A Response to Consultation, Local Government Pension Scheme (LGPS) Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the 10 Myners principles and the Fund reports its approach to them on a 'comply or explain' basis in the Investment Strategy Statement.

The six high level principles are:

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

### 9.6.3 CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

CIPFA's Code of Practice recommends (amongst other things) that LGPS administering authorities -

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme)
- publicly report how these arrangements have been put into practice each year.

The Cumbria Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

In the context of LGPS reform, the Code and Framework are seen as meeting the requirements of the Public Sector Pensions Act 2013 and the reform agenda.

## **9.7 Measurement, Assessment and Training Provision**

In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will –

### **9.7.1 Members:-**

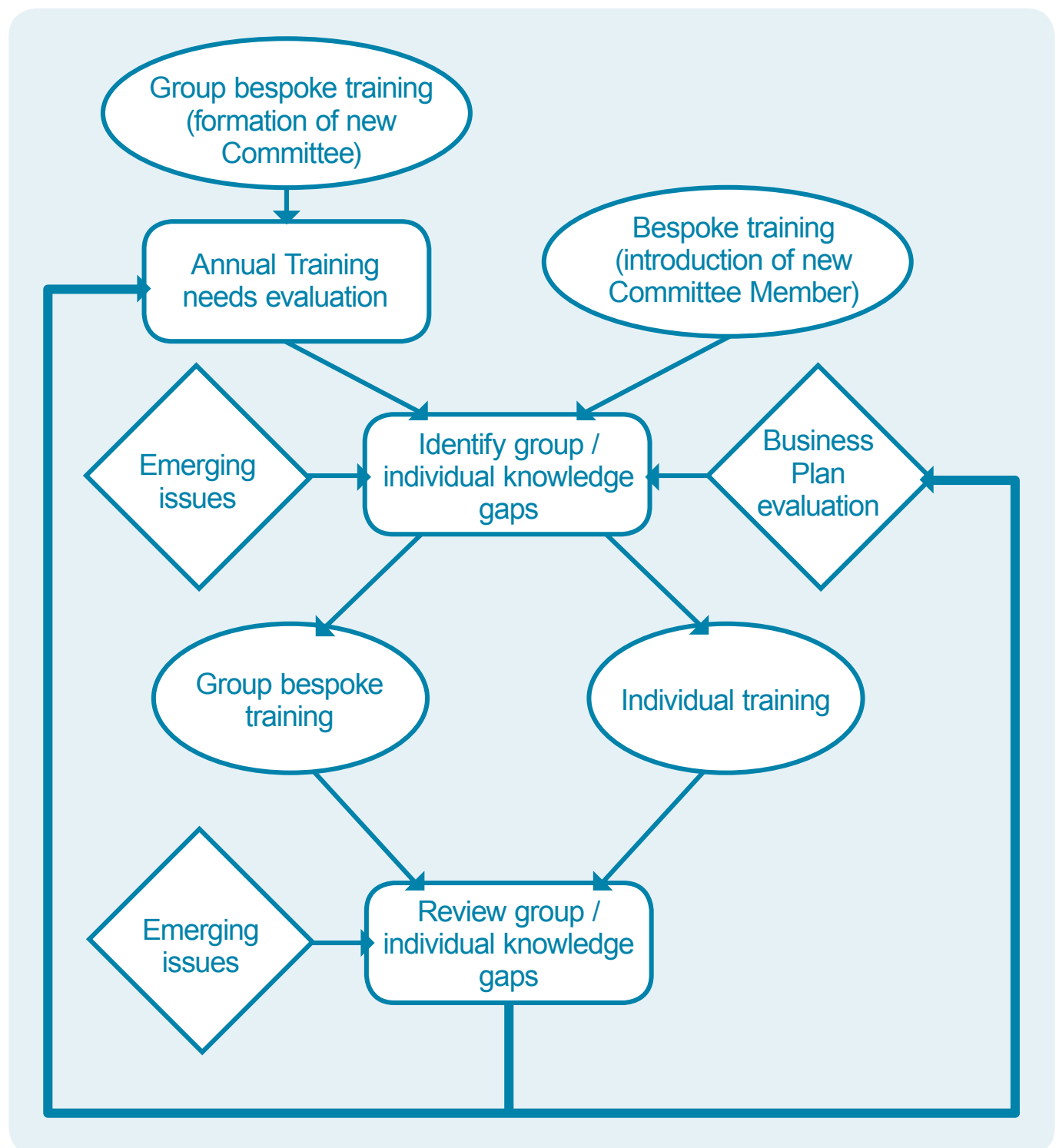
- Undertake as a Committee an annual Training Needs Evaluation exercise. This evaluation will be used to identify both individual and group training gaps.
- Substitute Members will be invited to attend this annual evaluation and training session so that they have a base grounding in the LGPS and the requirements placed on themselves as Committee members.
- Where the evaluation highlights that there is a knowledge gap the Committee will undertake either additional internal group be-spoke training or individual external training as appropriate.
- The Committee will as part of the annual Business Plan commit to an outline of internal be-spoke training. This will be focused around either up and coming national changes or internal workloads (e.g. introduction of a new asset class).
- Investment Sub-Committee Members – will be expected to obtain an individual level of knowledge and skills in relation to the investment modules of the CIPFA Framework. Support from Officers and the Fund's Independent Advisors will be available as and when required, but always in advance of any decision being taken.
- Report as appropriate in external documentation compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the CIPFA Principles of Investment Decision Making and Disclosure.

### **9.7.2 Officers:-**

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Technical Finance Officer level or above will be expected to aim to achieve a minimum score in the CIPFA Training Needs Assessment for LGPS Practitioners taking account of the requirements of their roles. These targets will be determined and updated as necessary from time to time in joint agreement by the Senior Manager – Pensions and Financial Services (Deputy Section 151 of the LGPS) and the Section 151 Officer, in liaison with the Chair of the Pensions Committee.

### **9.7.3 Training Provision and Evaluation Cycle**

To illustrate this above process see below diagram of the annual training evaluation and programme scheduling:-



#### 9.7.4 Delivery of Training

Consideration will be given to various training resources available in delivering training to Members of the Pension Committee, Investment Sub-Committee or Officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs (based on annual evaluation per paragraph 3.1 to 3.3) and ongoing requirements (per the Annual Business Plan) and emerging events. It is to be delivered in a manner that balances both demands on Members time and costs. These may include but are not restricted to –

For Pension Committee and Investment Sub-Committee Members	For Officers
<ul style="list-style-type: none"> <li>• In-house</li> <li>• Using an Online Knowledge Library or other e-training facilities</li> <li>• Attending courses, seminars and external events</li> <li>• Internally developed training days and pre/post Committee sessions</li> <li>• Shared training with other Schemes or Frameworks</li> <li>• Regular updates from officers and/or advisers</li> </ul>	<ul style="list-style-type: none"> <li>• Desktop / work based training</li> <li>• Using an Online Knowledge Library or other e-training facilities</li> <li>• Attending courses, seminars and external events</li> <li>• Training for qualifications from recognised professional bodies (e.g. IMC/CFA, CIPP, CIPFA,)</li> <li>• Internally developed sessions</li> <li>• Shared training with other Schemes or Frameworks</li> </ul>

#### 9.7.5 External Events

**Members:** All relevant external events will be e-mailed to Members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

After attendance at an external event, Committee Members will be asked to provide verbal feedback at the next Committee covering the following points –

- Their view on the value of the event and the merit, if any, of attendance
- A summary of the key learning points gained from attending the event, and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members or Investment Sub-Committee Members.

**Officers:** attending external events will be expected to report to their direct line manager with feedback covering the following points –

- Their view on value of the event and the merit, if any, of attendance at this event or similar events in the future.
- A summary of the key learning points gained from attending the event, and

- Recommendations of any key issues identified of relevance to Cumbria LGPS to which training would be beneficial to other officers.
- Any other issues arising?

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

#### 9.7.6 Training Plan (per the Business Plan agreed at Committee March 2017)

The table of training topics below provides a summary of the proposed training programme as highlighted by the Annual Training Needs Assessment. It has been prepared by taking account of up and coming national legislative / policy changes such as the movement toward LGPS Asset Pooling, implementation of the EU Directives on MiFID II. and IORP II, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in January and February 2017.

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



Training Topic
LGPS discretions policy.
Roles and powers of the Pension Regulator, the Pensions Advisory Service and the Pensions Ombudsman.
Principles for Investment Decision Making and Disclosure.
Statement of Compliance with the Stewardship Code.
Knowledge of the stakeholders of the pension fund and the nature of their interests.
Role of both Internal and External Audit in the Governance and Assurance process.
General understanding of UK and EU procurement legislation and how this process and supplier risk management will function under LGPS Pooling.
How Pooling will impact in the monitoring of asset returns & performance.
The Impact of MiFID II. on LGPS Activities.
How the Pension Fund interacts with the taxation system in the UK and Overseas in relation to benefits administration.
What AVC arrangements exist and the principles related to those arrangements.

The training programme is a dynamic document and will be reviewed following the Council elections in May 2017.

As indicated in section 9.7.4 Delivery of Training, where possible the Fund will endeavour to timetable internal training by officers or external presenters to coincide with scheduled meetings of the Committee or Board which are detailed on the schedule below for 2017/18.

Date	Meeting Title and Venue
13th & 14th June 2017	Quarterly Pension Committee in Edinburgh
20th July 2017	Cumbria Local Pensions Board in Carlisle
19th September 2017	Quarterly Pension Committee in Carlisle
17th October 2017	Annual Pension Forum in Penrith
15th December 2017	Quarterly Pension Committee in Carlisle
December 2017 to January 2018	Annual Training Needs Evaluation
30th January 2018	Cumbria Local Pensions Board in Carlisle
8th March 2018	Quarterly Pension Committee in Carlisle

## **10 Cumbria LGPS Policy and Procedure on Reporting Breaches of the Law**

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10.3.3 Clarification when a breach is suspected

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10.3.11 Reporting to the Pensions Committee and Pensions Board

#### **10.4 Review and maintenance of the policy**

Annex A – Determining whether a breach is likely to be of material significance

Annex B – Traffic light framework for deciding whether or not to report

Annex C – Example of information to be included in the quarterly report to Pensions Committee

## 10.1 Introduction

10.1.1 This document sets out the procedures to be followed by persons involved with the Cumbria LGPS ('the Fund'), the Local Government Pension Scheme managed and administered by Cumbria County Council (also known as the 'Scheme Manager' or 'Administering Authority'), in relation to reporting breaches of the law.

10.1.2 Under the Pensions Act 2004 certain persons have a duty to report breaches of the law when there is reasonable cause to believe that:

- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with; and
- The failure to comply is likely to be of material significance to the regulator.

10.1.3 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

10.1.4 The duty to report overrides any other duties however it does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

10.1.5 This document applies, in the main, to:

- all Members of the Cumbria Local Pension Board;
- all Members of the Cumbria Pension Committee;
- all officers involved in the management of the Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund;
- any professional advisers including independent advisers, auditors, actuaries, legal advisers and fund investment managers of the Fund;
- officers of employers participating in the Fund who are responsible for pension matters; and
- any other person involved in the administration of the Fund and/or in advising the Administering authority in relation to the Fund

## 10.2 Requirements

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

### 10.2.1 Pensions Act 2004

Section 70 of the Pensions Act 2004 requires that certain people must report breaches of the law in writing to The Pensions' Regulator as soon as reasonably practicable and where they have reasonable cause to believe that:

- a) a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with: this could relate for instance to keeping records, internal controls, calculating benefits and investment governance and administration matters; and
- b) the failure to comply is likely to be of material significance to The Pensions' Regulator (TPR).

The Act states that a person can be subject to a civil penalty, imposed by the Pensions Regulator, if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The requirement applies to the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

### 10.2.3 The Pensions Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice<sup>5</sup> 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.

### 10.2.2 Application to Cumbria LGPS ('the Fund')

This policy and procedure has been developed to reflect the guidance contained in The Pensions Regulator's Code of Practice in relation to the Fund and this document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure.

## 10.3 The Fund Reporting Breaches Procedure

### 10.3.1 Introduction

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

### 10.3.2 Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:  
[www.legislation.gov.uk/ukpga/2004/35/contents](http://www.legislation.gov.uk/ukpga/2004/35/contents)
- Employment Rights Act 1996:  
[www.legislation.gov.uk/ukpga/1996/18/contents](http://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](http://www.legislation.gov.uk/uksi/2013/2734/contents/made)

- Public Service Pension Schemes Act 2013:  
[www.legislation.gov.uk/ukpga/2013/25/contents](http://www.legislation.gov.uk/ukpga/2013/25/contents)
- Local Government Pension Scheme Regulations (various):  
[www.lgpsregs.org/timelineregs/Default.html](http://www.lgpsregs.org/timelineregs/Default.html) (pre 2014 schemes)  
[www.lgpsregs.org/index.php/regs-legislation](http://www.lgpsregs.org/index.php/regs-legislation) (2014 scheme)
- The Pensions Regulator's Code of Practice:  
[www.thepensionsregulator.gov.uk/doc-library/codes.aspx](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 Assistant Director – Finance (s151 Officer); Senior Manager: Pensions & Financial Services and the Assistant Director – Corporate Governance (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 Pension Regulator may require before taking legal action.

It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

Subject to paragraph 10.3.5 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

<sup>5</sup> [www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855](http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855)

checks to determine whether a breach has occurred:

- Assistant Director - Finance (s.151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy s.151 LGPS);
- Assistant Director – Corporate Governance (Monitoring Officer);
- Senior Manager – Legal & Democratic Services;
- a member of the Pensions Committee or Pension Board (details of the members of the Committee and Board can be found at [councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150](https://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150) & [councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164](https://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164) respectively); or
- a member of the Pensions Team ([pensions@cumbria.gov.uk](mailto:pensions@cumbria.gov.uk)).

There are some instances where it would not be appropriate to report reasonable suspicions to the above individuals or to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

#### 10.3.4 Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Annex A to this procedure.

The individual should use the traffic light framework described in Annex B to help assess the material significance of each breach and to formally support and document their decision.

#### 10.3.5 Referral to a level of seniority for a decision to be made on whether to report

Subject to paragraph 10.3.3 before you submit a report to The Pensions Regulator you should refer the suspected breach to the appropriate level of authority to assist in determining whether a report needs to be made. Cumbria County Council has determined that the appropriate persons are the Assistant Director - Finance (s.151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS)) and/or the Assistant Director – Corporate Governance (Monitoring Officer) (or in their absence the Senior Manager – Legal & Democratic Services) and/or External Audit. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to TPR, where appropriate.

Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - [www.lgpsregs.org](http://www.lgpsregs.org)). If timescales allow, legal advice or other professional advice can be sought.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches. Before referring to the Pensions Regulator the individual may prefer to approach External Audit for their opinion.

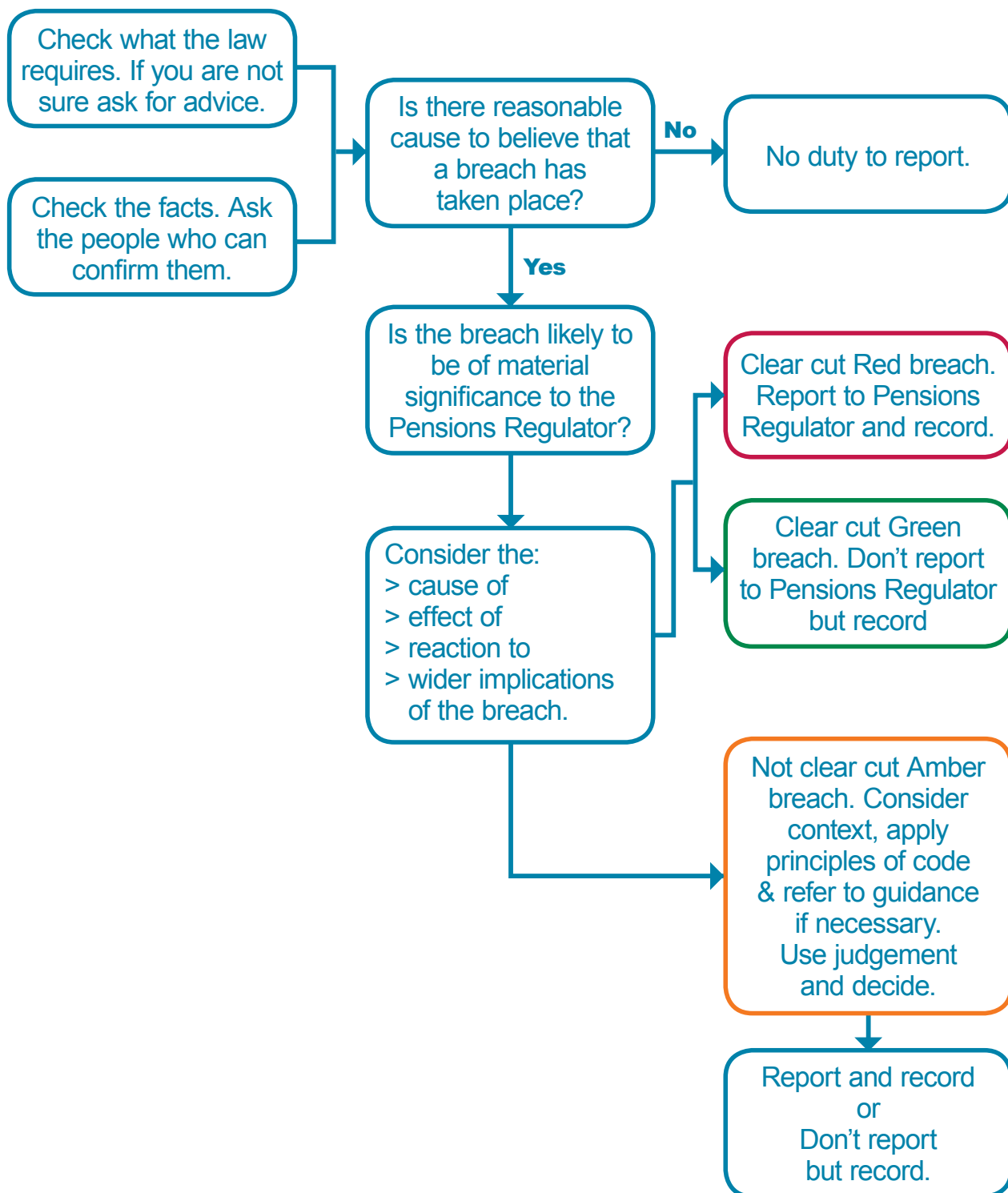
Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to TPR.



### 10.3.6 Decision Tree: deciding whether or not to report:

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

#### Decision Tree: deciding whether or not 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). Cumbria County Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Senior Manager: Pensions & Financial Services (Deputy s.151 LGPS) or the Monitoring Officer. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Local Pension Board.

### 10.3.9 Reporting a breach

Reports must be submitted in writing via TPR's online system at [www.tpr.gov.uk/exchange](http://www.tpr.gov.uk/exchange),

or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to TPR. TPR will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by TPR due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full fund name (Cumbria Local Government Pension Scheme);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the fund; and
- employer name or name of administering authority (the latter is Cumbria County Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to TPR;
- fund address (provided at the end of this procedures document);
- administering authority contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10079082); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

### 10.3.10 Confidentiality

If requested, TPR will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

### 10.3.11 Reporting to Pensions Committee and Pension Board

The monitoring report presented to the Pensions Committee and available to the Local Pension Board on a quarterly basis will include details of:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly report is provided in Annex C to this procedure.

### 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.

## Annex A

### Determining whether a breach is likely to be of material significance

1. To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:
  - cause of the breach (what made it happen);
  - effect of the breach (the consequence(s) of the breach);
  - reaction to the breach; and
  - wider implications of the breach.
2. Where appropriate expert or professional advice should be taken into account when deciding whether the breach is likely to be of material significance to the regulator.

### 3. The cause of the breach

- 3.1. Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- dishonesty;
- poor governance or poor administration, i.e. failure to implement adequate administration procedures;
- slow or inappropriate decision-making practices;
- incomplete or inaccurate advice; or
- acting, or failing to act, in deliberate contravention of the law.

- 3.2. When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant n.b. historical information should be considered with care, particularly if changes have been made to address previously identified problems.

### 4. The effect of the breach

- 4.1. Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having the appropriate degree of knowledge and understanding, which may result in them not fulfilling their roles, the Fund not being properly governed and administered and/or the administering authority breaching other legal requirements;
- Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the administering authority breaching legal requirements;
- Inadequate internal controls, which may lead to the Fund not being run in accordance with scheme regulations and other legal requirements, risks not being properly identified and managed and/or

the right money not being paid to or by the Fund at the right time;

- Inaccurate or incomplete information about benefits and scheme information provided to members, which may result in members not being able to effectively plan or make decisions about their retirement;
- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
- Misappropriation of assets, resulting in scheme assets not being safeguarded; and
- Any other breaches which may result in the scheme being poorly governed, managed or administered.

## 5. The reaction to the breach

5.1. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members the regulator will not normally consider this to be materially significant.

5.2. A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

## 6. The wider implications of the breach

6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

## Annex B

### Traffic light framework for deciding whether or not to report

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



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

#### These must be reported to The Pensions Regulator.

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



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

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

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



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

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

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





## Appendix B: Glossary

### Active Management

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

### Actuary

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

### Actuarial Valuation

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

### Admitted Body

Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

### Alternatives

Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

### Asset Allocation

Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

### Auto Enrolment

UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

### Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. (Also see Target).

### Bid price

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

### Bonds

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

### Buy and Hold Credit

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

### Career Average Revalued Earnings (CARE) Scheme

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

### CIPFA

Chartered Institute of Public Finance & Accountancy.

### Class Action

An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

### Conflicts of Interest

Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

### Consumer Price Index (CPI)

The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

### Corporate Governance

The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since

corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

### **Counterparty**

The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

### **Custodian**

Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

### **DCLG**

Department for Communities and Local Government.

### **Defined Benefit**

An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

### **Defined Contribution**

A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

### **Derivative**

Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

### **Diversification**

Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

### **Divestment or divestiture**

The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an

investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

### **EBITDA**

Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

### **Emerging Markets**

Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

### **Engagement**

A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

### **Equities**

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

### **ESG (Environmental, Social and Corporate Governance)**

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

### **Exchange Traded Fund (ETF)**

Fund that tracks an index, but can be traded like a stock.

### **Fiduciary Duty**

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

**Final Salary**

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

**Fixed Interest Securities**

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

**Funding Level**

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

**Futures Contract**

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

**Gilts**

These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

**Governance**

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

**IFRS**

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

**Index-linked Gilts**

UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

**Index-Tracking Fund (Managed Fund)**

Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

**Infrastructure**

The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

**Investment Strategy**

Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

**Liabilities**

Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

**Market Value**

The price at which an investment can be bought or sold at a given date.

**Myners Review**

Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

**OTC**

A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

**Passive Management**

Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. (Also see Active Management).

**PIRC**

Pensions & Investment Research Consultants

**Pooled Investment Fund**

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

**Pooling**

In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

**Portfolio**

Block of assets generally managed under the same mandate.

**Private Equity**

Shares in unquoted companies. Usually high risk, high return in nature.

**Private Equity Secondaries**

Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

**Retail Price Index**

Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

**Real Estate Debt**

Commercial property loans; the debt is secured against commercial property or portfolios of property, e.g. 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.

**Return**

Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

**Risk**

Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

**Scheduled Body**

Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

**Settlement**

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

**Shareholder Voting**

Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

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

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

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

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

**Resolutions which are voted upon include:-**

Approval of Annual Report and Accounts  
Approval of Remuneration Policy, and Remuneration Report  
Election/Re-election of Directors  
Appointment/Re-appointment of auditors  
Approve dividend  
Approve political donations

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

**Socially Responsible Investing**

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

**Stewardship**

The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

**Stock Lending**

Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

**Target**

Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

**Triennial Actuarial Valuation**

Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

**Unit Trust**

A specific type of pooled investment fund.

**Unquoted (Unlisted) Stock**

A company share that is not available for purchase or sale through the stock market.

**Venture Capital**

Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.



## Appendix C: Contact Us

**General Contact Details:** for any queries relating to the Annual Report and Accounts please contact:

Cumbria County Council  
Pensions and Financial Services  
Resources & Transformation,  
The Parkhouse Building,  
Baron Way,  
Kingmoor Business Park,  
Carlisle,  
Cumbria,  
CA6 4SJ

e: [pensions@cumbria.gov.uk](mailto:pensions@cumbria.gov.uk)  
t: 01228 226565 or 01228 226279

**Access to Pension Committee Papers:** for access to publicly available papers please see the website, or contact:

Cumbria County Council  
Resources & Transformation  
Democratic Services,  
Cumbria House,  
117 Botchergate,  
Carlisle,  
CA1 1RD

w: [www.cumbria.gov.uk/landing\\_page/yourcouncil.asp](http://www.cumbria.gov.uk/landing_page/yourcouncil.asp)

**Pensions Contact Details:** for personal pensions and benefits queries please contact:

Your Pension Service  
Cumbria LGPS Team  
PO Box 100,  
County Hall,  
Preston,  
PR1 0LD

e: [AskPensions@localpensionspartnership.org.uk](mailto:AskPensions@localpensionspartnership.org.uk)  
t: 0300 323 0260

Alternatively for general LGPS scheme information, consult the website

[www.yourpensionservice.org.uk/local-government-scheme](http://www.yourpensionservice.org.uk/local-government-scheme)





**If you require this document in another format (e.g. CD, audio cassette, Braille or large type) or in another language, please telephone **01228 226565**.**

আপনি যদি এই তথ্য আপনার নিজের ভাষায় পেতে চান তাহলে অনুগ্রহ করে 01228 226565 নম্বরে টেলিফোন করুন।

如果您希望通过母语了解此信息，  
请致电 01228 226565

Jeigu norétumėte gauti šią informaciją savo kalba,  
skambinkite telefonu 01228 226565

W celu uzyskania informacji w Państwa języku proszę  
zatelefonować pod numer 01228 226565

Se quiser aceder a esta informação na sua língua,  
telefone para o 01228 226565

Bu bilgiyi kendi dilinizde görmek istiyorsanız lütfen  
01228 226565 numaralı telefonu arayınız