CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

FUND POLICY DOCUMENT

CONTENTS

		PAGE
1.	INTRODUCTION	2
2.	GOVERNANCE POLICY STATEMENT	5
3.	ADMINISTRATION & COMMUNICATIONS POLICY	20
4.	INVESTMENT STRATEGY STATEMENT	37
5.	CASH INVESTMENT POLICY	65
6.	FUNDING STRATEGY STATEMENT	68
7.	ADMISSION AND TERMINATION POLICY	96
8.	DISCRETIONS POLICY	112
9.	TRAINING POLICY	138
10.	POLICY & PROCEDURE ON REPORTING BREACHES OF THE LAW	149
11.	INTERNAL CONTROL & RISK MANAGEMENT POLICY	164

Amended June 2020

1 INTRODUCTION

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

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

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

Governance

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

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

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

The purpose of each is summarised as follows:

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

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

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

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

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

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

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

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

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

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

Cumbria Pensions Committee

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

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

Advice is given by Cumbria County Council's Director of Finance (S151 Officer), the Council's finance team and by two independent advisors. The advisors are appointed for their knowledge of investments and of pension funds; one advisor being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund. Should either of the advisors no longer be able to provide this service to the Committee; Officers of the Fund would seek to procure an alternative Independent Advisor with similar but complimentary levels of skill and knowledge as soon as is practicable; during which time the Fund could seek alternative professional advice when and if required.

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

Cumbria Pensions Investment Sub Group

The dedicated Investment Sub Group advises the Director of Finance (S151 Officer) in the exercise of their delegated powers to appoint / terminate investment managers with holdings of less than 5% of the Fund, thus speeding up decision making. This enables limited Committee agenda time to be focussed on the issues that add most value to the Fund. The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Director of Finance (S151 Officer) on the appointment and termination of investment managers (under 5%) and the establishment and review of performance benchmarks and targets for investment. The Group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Cumbria Pension Board

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

Cumbria Pensions Forum

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

2 GOVERNANCE POLICY STATEMENT

In accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013 the Council is required to prepare, maintain and publish a written governance statement addressing certain issues.

This current version of the Governance Policy Statement was presented to and approved by the Pensions Committee held on 13 March 2020.

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

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

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

2.1 Terms of Reference of the Pensions Committee

Functions

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

These responsibilities will include, but not be limited to:
- To submit the Pension Fund Accounts to the Council in line with current financial standing orders.
- To submit reports to the Council (as a minimum three times a year) updating it on the governance, risk monitoring and performance of the Fund following meetings of the Committee.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.
- To approve the formal Triennial Actuarial Valuation of the Fund, with due consideration being given to the desirability of maintaining as nearly constant a common contribution rate as possible and the requirement to secure the solvency of the Pension Fund.
- To approve the investment or disinvestment in any assets of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy.

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

Committee Membership

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

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

Committee Operating Structure

The Pension Committee is a committee constituted under section 101 of the Local Government Act 1972 therefore key functions and terms of the 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:-

<u>Knowledge and Understanding</u>

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

<u>Creation of Working Parties / Sub Groups</u>

- 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.

<u>Role of Advisors</u>

- The Committee is required to ensure all Members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Fund.
- To assist in the above the Committee will be required to appoint industry specific advisors to enable it to fulfil its obligations e.g. Fund Actuary; tax specialists; investment consultants etc. These contracts are to be awarded through the Council's normal procurement process and once appointed will be managed on behalf of the Committee by Director of Finance (S151 Officer).
- The Committee may also appoint Independent Advisors, their role being to assist and support Members in their understanding and challenge of either service providers or Officers.
- Independent Advisors will be appointed by the Members, and thereafter report directly to the Chair of the Committee.

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

Should either of the advisors no longer be able to provide this service to the Committee; Officers of the Fund would seek to procure an alternative Independent Advisor with similar but complimentary levels of skill and knowledge; as soon as is practicable; during which time the Fund could seek alternative professional advice when and if required.

2.2 Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

Functions

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

These responsibilities are:

- To provide an update report to Pensions Committee outlining activity in the preceding period, any decisions made by the Director of Finance (S151 Officer) and the proposed work schedule for the next period.

- To carry out monitoring at an individual manager level of the performance of the Fund's investment managers (including assets held by BCPP) and to escalate any matters of concern to the Pension Committee.

- To consider, and continually review an investment management structure for the Pension Fund and to be responsible for assisting the Director of Finance (S151 Officer) in:

    - the investment or disinvestment in any assets with a value of less than 5% of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy;
    - the appointment and termination of investment managers with holdings of less than 5% of the portfolio; and
    - the establishment and review of performance benchmarks and targets for investment.

Membership

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

Independent Advisors to the Fund (or Investment Consultants at the invitation of the Investment Sub Group if the independent advisors are unable to attend).

Two senior Officers of the Council with responsibilities for the management of the Fund including the Director of Finance (S151 Officer) and the Senior Manager with the responsibility for the Pension Fund.

At any meeting where consideration by the Investment Sub Group of a recommendation to invest or disinvest in assets of the Fund or change an investment manager is undertaken the following must be available:
- at least two of the three elected members
- at least one of either the Director of Finance (S151 Officer) or the Senior Manager with the responsibility for the Pensions Fund.
- at least one external advisor
- attendance by electronic media, provided that the prior approval of the Chair has been secured.

Group Operating Structure

- The Group will meet as a minimum four times a year. Meetings will be held during normal working hours and will predominantly be held within County boundaries.
- To help fulfil a function of this group, which is to assist the Director of Finance (S151 Officer) to enact investment decisions more nimbly, additional meetings can be convened by any two members of the group with five working days' notice.
- Creation of Working Parties / Sub Groups – as a non-decision-making body the Group have no authority to establish Working Parties / Sub Groups.

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

2.3 Terms of Reference of the Pension Board

Functions

To assist the Administering Authority of the Cumbria Local Government Pension Scheme to secure compliance with:
- The regulations covering administration of a local government pension scheme;

- Other legislation relating to the governance and administration of the LGPS; and
- The requirements imposed by the Pensions Regulator in relation to the LGPS.

And to

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

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

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

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

Board Membership

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

Appointment of Board members - To ensure an open and transparent selection process and to ensure the Administering Authority meets its obligation to ensure appointed members have the capacity, the selection process will be through application, matching to a role profile and interview. The Appointment Panel will consist of the Director of Finance (S151 Officer), Monitoring Officer and Portfolio Holder for Finance.

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

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

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

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

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

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

Board Operating Structure and Codes of Conduct

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

Commissioning of Service providers and Advisors

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

- Items of expenditure by the Board must have prior approval from the Director of Finance (S151 Officer).

Role of Officers

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

Publication and Data Protection

- As a general principle, meetings will be open to the public.
- Paper or electronic versions (as requested) of all agendas and papers will be provided to all members of the Board prior to a meeting. The Chair can accept that items be tabled on the day should such a need arise.
- As a matter of policy the Pension Fund has adopted the principles of paperless working, therefore as a matter of course public access to all agendas, public papers and minutes etc. will be available on the Council's website. On request alternative media versions are available.
- The County Council as the Administering Authority is the registered data controller of the Cumbria LGPS, and as such all policies and practices in this regard applicable within the County Council are directly applicable to the Board.

Substitution

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

2.4 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**)

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

2.5 Delegations to the Director of Finance (S151 Officer)

The Director of Finance is the County Council's Chief Financial Officer under section 151 of the Local Government Act 1972 (Section 151 Officer) and is the Officer responsible for the proper administration of the Council's financial affairs. The Constitution 'Part 3 – Delegation to Officers' refers.

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

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

- Pay pensions, gratuities, grants etc. to members, other beneficiaries and creditors of the Pension Fund, in accordance with the Superannuation and Pensions Acts and Regulations and agreed policy of the Council thereunder.
- In consultation with Members of the Investment Sub-Group (if any) of the Pensions Committee:
    - Appoint or terminate the contracts of investment managers with holdings of less than 5% of the portfolio of the Cumbria Local Government Pensions Fund;
    - Approve the investment or disinvestment in any assets with a value of less than 5% of the portfolio, where the assets meet the criteria set out in the Fund's asset allocation strategy;
    - Establish and review performance benchmarks and targets for investment.
- Subject to the above, to commence the procurement and award of contracts incidental to the discharge by the Pensions Committee of functions on behalf of the Local Government Pensions Scheme, including decisions relating to the management, modification, variation and termination of such contracts. **NB** Decisions taken in accordance with this paragraph are incidental to the non-executive functions of the Pensions Committee and are not Key Decisions of the Council.

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

2.6 Knowledge and Skills

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

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

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

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the

CIPFA Pensions Finance Knowledge and Skills Frameworks and the Pensions Regulator Tool Kit.

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

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

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

2.8 Governance Compliance Statement

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

Principle	**Compliance**	
Principle A – Structure	**Not Compliant**	**Fully Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.		✓
b) That representatives of participating LGPS employers, admitted bodies and Fund members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		✓
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		✓
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		✓

Principle B: Representation	**Not Compliant**	**Fully Compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- 1. employing authorities (including non-Fund employers, e.g. admitted bodies); 2. Fund members (including deferred and pensioner Fund members), 3. independent professional observers, and 4. expert advisors (on an ad-hoc basis). b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		✓ ✓
Principle C : Selection and role of lay members	**Not Compliant**	**Fully Compliant**
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda		✓ ✓
Principle D : Voting	**Not Compliant**	**Fully Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓
Principle E: Training facility time expenses	**Not Compliant**	**Fully Compliant**

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for the committee members and maintains a log of all such training undertaken.		✓ ✓ ✓
Principle F : Meeting frequency forum	**Not Compliant**	**Fully Compliant**
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		✓ ✓ ✓
Principle G : Access	**Not Compliant**	**Fully Compliant**
a) That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		✓
Principle H : Scope	**Not Compliant**	**Fully Compliant**
		✓

a) That administering authorities have taken steps to bring wider fund issues within the scope of their governance arrangements.		
Principle I : Publicity	**Not Compliant**	**Fully Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Fund is governed, can express an interest in wanting to be part of those arrangements.		✓

3 ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

Part A: Background, Purpose and Review

1. Background

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

b. The Council delegates its functions in respect of the Scheme to its Pension Fund Committee and discharges specific elements of the administration functions of the Scheme to:
   i. The Director of Finance (S151 Officer); and
   ii. Lancashire County Council (LCC) who provide this service through Local Pensions Partnership under the operating name of Your Pension Service (YPS).

c. The Administration Strategy (Parts B & C) is set out so as to illustrate the Fund's core responsibilities and whom they sit with.

d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund.

2. Purpose

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

- Procedures for liaison and communication with Fund employers;
- The establishment of performance levels which the administering authority and fund employers are expected to achieve;
- Procedures to ensure compliance with statutory requirements in connection with the administration of the LGPS;
- Procedures for improving the methods of passing information between the administering authority and fund employers;
- The circumstances when the administering authority may consider recovering additional costs that have been incurred due to the unsatisfactory performance of a Fund employer; and
- Any other matters that the administering authority consider suitable for inclusion in the 'Pension Administration Strategy.'

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

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

- In particular the statement must set out its policy on—
- the provision of information and publicity about the Scheme to members, representatives of members and Fund employers;
- the format, frequency and method of distributing such information or publicity; and
- the promotion of the Scheme to prospective members and their employers.

3. Compliance & review

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

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

1. Liaison and Communication

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

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

Activity	Main contact
1.2. Ensure that Employer Forums and Conferences are held on a regular basis and actively seek to promote the LGPS via attendance at the following events, in conjunction with the employer: • Pre-retirement courses • New starters induction courses • Annual pension surgeries	YPS & core team
1.3. Provide a Helpdesk and email facility for enquiries for both members and employers.	YPS
1.4. Develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, Fund members and the Service.	YPS
1.5. Develop and actively promote the use of member and employer online self-service systems and provide day to day access and query support.	YPS
1.6. Provide Scheme information, including: • New starter information and documentation; • Scheme guides and fact sheets for both members and employers; • Annual newsletters; and • Employer bulletins (as and when appropriate).	YPS
1.7. Provide employer training (as appropriate), for example: • Pension basics and general employer administration functions; • Changes to the regulations; • New technological developments; and • Navigation of systems.	YPS & core team
1.8. Carry out annual employer visits for employers with more than 100 members.	YPS

Activity		Main contact
1.9.	At the request of Fund employers provide appropriate attendance at seminars (e.g. pre-retirement or induction courses),	YPS
1.10.	In conjunction with the pensions' team at Cumbria, arrange and facilitate one-off 'Road Shows' where there are material and/or extensive regulatory changes in respect of the Scheme.	YPS & core team
1.11.	Publish, on the Cumbria County Council website, (www.cumbria.gov.uk/Finance): ○ the Fund's Annual Report and Accounts; and ○ the Fund's triennial valuation report; and ○ the Fund's Policies, including the Funding Strategy Statement and Investment Strategy Statement.	Core team
1.12.	Undertake appropriate consultation with Fund members and employers as required.	Core team

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

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

Activity		Main contact
2.8.	Process pensioner payroll year end routines and comply with HMRC PAYE legislation.	YPS
2.9.	Update systems and member records each year.	YPS
2.10.	At each Actuarial Valuation period, provide the required data in respect of each member and provide statistical information on member movements over the valuation period in order that the Fund Actuaries can determine the assets and liabilities of the Fund.	YPS and Core team
2.11.	Reconcile contributions and update fund member personal and financial data received from employers in the LGPS2014 Data Collection File every pay period.	YPS and core team
2.12.	Create member records for all new starters admitted to the LGPS. Send a welcome letter to all members, by email if possible.	YPS
2.13.	Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.	YPS
2.14.	Update and maintain a member's record for any changes received in their circumstances.	YPS
2.15.	Update member records in line with absence notifications, and set up APC arrangements to cover lost benefits as appropriate.	YPS
2.16.	Provide every active, deferred and pension credit member a benefit statement each year.	YPS
2.17.	Provide all members earning £85,000 or more per annum, or on member requests, with annual pension saving statements and information regarding Annual Allowance tax implications.	YPS
2.18.	Implement Mandatory and Voluntary Scheme Pays at a member's request in accordance with the approved policy.	YPS
2.19.	Process early leavers (deferred benefits / refunds) within 15 working days of the receipt of form YPS Employer – Leaver form. Pensions Increase Order will be applied to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.	YPS
2.20.	Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable	YPS
2.21.	Calculate and pay benefits within 10 working days of receipt of	YPS

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

3. Performance

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

Regulator[1] 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[2] and key statistics are included in the Cumbria LGPS Annual Report.

3.3. Performance Targets

Performance Standard	Minimum Target
Estimate benefits within 10 working days	95%
Payment of retirement benefits within 10 working days	95%
Payment of death benefits within 10 working days	95%
Implement change in pensioner circumstance by payment due date	95%
Respond to general correspondence within 10 working days of receipt	95%
Action transfers out within 15 working days	95%
Action transfers in within 15 working days	95%
Pay Refunds within 10 working days	95%
Provide leaver statement within 15 days	95%
Amend personal records within 10 working days	95%

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

[2] 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 annual returns as required to the core team;
- Submission of YPS LGPS 2014 Payroll Data Collection File every pay period; and
- Notification of leavers.

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

3. Administration of the LGPS and Compliance

3.1. Contributions

3.1.1. The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as YPS may request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member, and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates, and notify YPS of any changes (see 3.5.3).

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

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

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

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

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

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

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

3.5. **Processing**

3.5.1. Data Collection file - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly at the end of every pay period. Data on this file must reconcile to contributions paid over each month, and must contain accurate figures of pensionable pay, including assumed pensionable pay where appropriate, for YPS to post to individual member records. Files should be at the latest submitted by 10th of the month following pay period end.

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

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

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

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

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for scheme membership for any new starters.

3.5.3. Adjustments of Career average pay - Employers must submit form YPS Employer – Pension Pot Adjustments in the following circumstances:

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

3.5.4. Changes in circumstance - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for the update of scheme member records in the following circumstances -

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

3.5.5. Absence - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, which will provide YPS with information regarding employees who are absent, including assumed pensionable pay where relevant. On return from the following absences, the member will have suffered a loss of pension benefits, and the employer must write to the member with information on how to buy back these benefits through payment of an Additional Pension Contribution (APC).

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

- 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.

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

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

The employer will send a YPS Employer – Intention to Retire form to Your Pension Service as soon as it is known that an employee is leaving with an entitlement to immediate payment of pension benefits or is aged 60 or over.

Completed YPS Employer – Leaver forms and YPS Member – Personal Details forms will also be forwarded to Your Pension Service together with all supporting documentation, as soon as reasonably practicable and no more than 5 working days after the final payment of salary following the date of leaving.

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

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

3.5.10. Death-in-service The employer will send a completed YPS Employer – Leaver form to Your Pension Service following the death of a member within 5 working days of being informed of the employees' death. The YPS Employer – Leaver form must provide details of informant and next of kin, if known.

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

4. Online Communication and Information Sharing

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

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

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

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

5. Circumstances for recovery of Additional Costs

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

5.2. **Late Payment -** In addition the Authority will seek to recover interest on late payment of contributions under the terms of regulation 71 of the Local Government Pension Scheme Regulations 2013 calculated at 1% above base rate on a day to day basis from the due date to the date of payment and compounded with 3 monthly rests.

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

6. Other Matters

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

6.2. **Policies (Employer Discretions)** - The employer will ensure that policies are formulated, kept under review and publicised in accordance with the scheme regulations.

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

Part D: COMMUNICATION POLICY

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

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

3. Communication Programme

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

Information	Stakeholder*	Format	Frequency	Method of distribution
Actuarial Valuation	All Stakeholders	Formal report	Triennial	Website & Forum
Fund Policy & Statements	All Stakeholders	Website	As amended	Website
Annual Benefit Statements	Members	Online self-service** paper	Annual	Online/email alert/mail
Customer Satisfaction Survey	All Stakeholders	Website	Ongoing	Click Question
Member Guides	Members	Website	On or before employment On request	Via employer HR/payroll departments Email / internet / mail

Information	Stakeholder*	Format	Frequency	Method of distribution
Employer Updates	Employer	Website, online	As required	Email, website
Pensioner payslips/P60's	Member	Online self-service, paper	Annually	Online / email / mail
Employer Guide	Employer	Website	As amended	Online / email
Employer training	Employer	Presentation / Webcast	In line with agreement / on request	Face to face / website
Factsheets	All members	Website / paper	As required / on request	Website / email
Individual member information	All Stakeholders	Self- service / paper	As required	Website / email
Employer information pack	Employers	Website / paper	On admission	Website / email
Newsletters	Members	Website / email / paper	Annual	Website / email
Scheme change & legislative change	All Stakeholders	Presentation / webcast / website	As required / on request	Face to face / website
Fund report & accounts	All Stakeholders	Website**	Annually	Website
Performance standards	All Stakeholders	Website	As amended	Website
Query* **	All Stakeholders	Telephone / email / online / letter	Mon – Fri	Telephone / email / online / letter

*Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).
** unless otherwise requested.
*** Investment Decision queries – will be responded to in line with the Fund's stated positions as detailed in the Investment Strategy Statement (ISS) (in particular sections 4.7 Responsible Investing, Stewardship and Corporate Governance and Annex A Investment Beliefs). Such queries will be responded to in accordance with the Administering Authority's Freedom of Information procedures.

Scheme Regulations and Overriding Legislation

Cumbria Pension Fund undertakes to comply with Local Government Pension Scheme Regulations and the relevant Overriding Legislation. In particular, the Fund undertakes to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]. A full list of Scheme and related legislation is set out below: -

Local Government Pension Scheme Regulations 2013 [2013/2356]
Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/525]
Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 [2000/1410]
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

And the following including any relevant regulations made under the legislation set out below:

Finance Act 2004 [c.12]
Pension Schemes Act 1993 [c.48]
Pensions Act 1995 [c.26]
Pensions Act 2004 [c.35]
Pensions Act 2008 [c.30]
Public Service Pensions Act 2013 [c.25]
Welfare Reform and Pensions Act 1999 [c.30]
Pensions (Increase) Act 1971 [c.56]
Data Protection Act 2018
General Data Protection Regulations 2018
Income Tax (Earning and Pensions) Act 2003 [c.1]

4 INVESTMENT STRATEGY STATEMENT

4.1 Introduction

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

The Regulations require that the ISS must be reviewed and, if necessary, be revised at least every 3 years and a statement of any revisions published. Following an in depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) a revised strategy, including a new target asset allocation, was approved by the Pension Committee on 13th December 2019. The Investment Strategy Statement was updated to reflect the changes to strategy, for consideration and approval by Pension Committee on 13 March 2020.

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

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

The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pension Committee, the Pension Board and the Director of Finance (S151 Officer) so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background (4.2)
- Approach to investment (4.3)
- Types of investments and limits (4.4)
- Approach to risk (4.5)
- Approach to pooling (4.6)
- Policy on responsible investing, stewardship and corporate governance (4.7)
- Policy on exercise of rights (4.8)
- Compliance of Cumbria Fund with the Updated Myners Principles (4.9)
- Cumbria LGPS Investment Beliefs (Annex A)

- Statement of Compliance with the UK Stewardship Code 2012 (Annex B).

4.2 Background

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

4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Investment Sub Group; the responsibilities of the ISG include assisting the Director of Finance (S151 Officer) in undertaking tactical asset allocation decisions within the agreed asset strategy, in this way it directly supports the wider remit of the full Committee. Operating protocols between the two groups will include procedures on how detailed monitoring will be undertaken and reporting structures between the two groups.

The ISG will consider, and continually review the investment management structure for the Pension Fund and is responsible for assisting the Director of Finance (S151 Officer) in:

(i) The investment or disinvestment in any assets with a value of less than 5% of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy.
(ii) The appointment and termination of investment managers with holdings of less than 5% of the portfolio; and
(iii) The establishment and review of performance benchmarks and targets for investment.

The Group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on its findings and recommendations.

4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve and maintain a funding level of 100% over a maximum fund recovery period of thirteen years (with an average recovery period of 12 years) from April 2020. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

- The investment objective is to achieve an investment return to match the actuary's long term assumptions for future service of CPI+2.00% per annum and past service of CPI+1.25% per annum over a twelve year period from April 2020. This gives a combined minimum required return of CPI +1.75% per annum.

- The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period. On advice from the ISG the outperformance target will be reviewed periodically by the Committee.

- The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

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

4.3 Approach to investment

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

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

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

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

4.3.1 Strategy Review

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

4.3.2 The Strategic Benchmark

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

4.4 Types of investments and limits

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

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

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

Following an in depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) a revised strategy, including a new target asset allocation, was approved by the Pension Committee on 13 December 2019. The target asset allocation ranges (from March 2020) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
Public Equity	28%	23 – 38%	50%
Private Equity	7%	4 – 10%	17%
Infrastructure equity	9%	6 – 12%	19%
Commercial property	9%	6 – 12%	19%
Residential property	2%	0 – 4%	10%
Multi Asset Credit*	5%	3 – 13%	15%
Corporate debt	5%	3 – 7%	15%
Infrastructure debt	10%	0 – 12%	20%
Real estate debt	5%	0 – 7%	10%
Government IL Bonds	18%	15 – 25%	30%
Strategic Cash	2%	2 – 10%	20%
	100%		

* also known as 'Diversified Credit'.

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

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

4.5 Approach to Risk

4.5.1 Risk Management and reporting

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

Officers of the Fund maintain a Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Internal Control & Risk Management Policy). This is a dynamic document and which is reviewed at every Pension Committee and Pension Board meeting. It incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. Between meetings should any major risk emerge this will be escalated by Fund Officers immediately to the Chair, Vice Chair and Director of Finance (S151 Officer).

4.5.2 Appetite for Risk

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

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

- **Valuation (volatility) risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, e.g. due to unexpected increases in CPI, changes to interest rates, market cycle or Environmental, Social and Governance (ESG) factors, such as climate change. Key mitigations in relation to this risk include:

- The CPI linked discount funding basis.
- The Fund's Investment Strategy is expected to incorporate approximately 31% of assets linked to inflation.
- Investing in a diverse portfolio of investments;
- Responsible Investment; the Fund is committed to being a responsible owner and believes that responsible investment, incorporating ESG considerations, such as climate change into investment decisions, can help to improve the long term value for investors e.g. by minimising the risk of stranded assets and the financial impact of regulatory change;
- Setting manager performance targets to avoid undue exposure to risk; and
- The potential use of equity protection to mitigate the risk of significant equity market falls.

- **Changing demographics**: The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. The key mitigation in relation to this risk is detailed consideration of long-term demographic trends (at both local and national level) as part of the Actuarial Valuation process which is currently conducted at least triennially.

- **Concentration risk**: The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. The Fund seeks to mitigate this through investing in a diversified portfolio of assets. This risk is managed through the review of the Fund's Investment Strategy which is undertaken in full every three to five years with interim reviews undertaken as required.

- **Liquidity risk** (not having monies available to make pension payments to members as they fall due): The Committee recognises that the Fund is long term in nature and can therefore afford to lock up capital for longer in return for the premium it offers. However it is also recognised that, as the, Fund membership matures, there is a risk that the Fund will turn cashflow negative after investment income. To mitigate this risk the Fund undertakes cashflow planning, monitoring and management throughout the year and works closely with the Fund's investment advisors and actuary to consider the options to address any potential cashflow implications.

- **Foreign exchange risk**: (the risk of loss arising from exchange rate movements of foreign currencies) - the passive currency overlay program hedges 50% of the investments denominated in overseas currencies into sterling to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets;

- **Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formally agreed training plan. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible. The Local Pension Board and external and internal audit assist the Pensions Committee in the governance process.

- **Counterparty risk**: Counterparty risk exists in all external transactions undertaken by the Fund. The Fund seeks to mitigate this risk through the use of reputable service providers who operate effective controls. Key tools in this process are the involvement of Independent Advisors, robust procurement and ongoing contract monitoring and management.

4.6 <u>Approach to Pooling</u>

4.6.1 The Fund's chosen investment pool

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

BCPP is a partnership of the following funds:

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

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

4.6.2 The Fund's approach to pooling

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

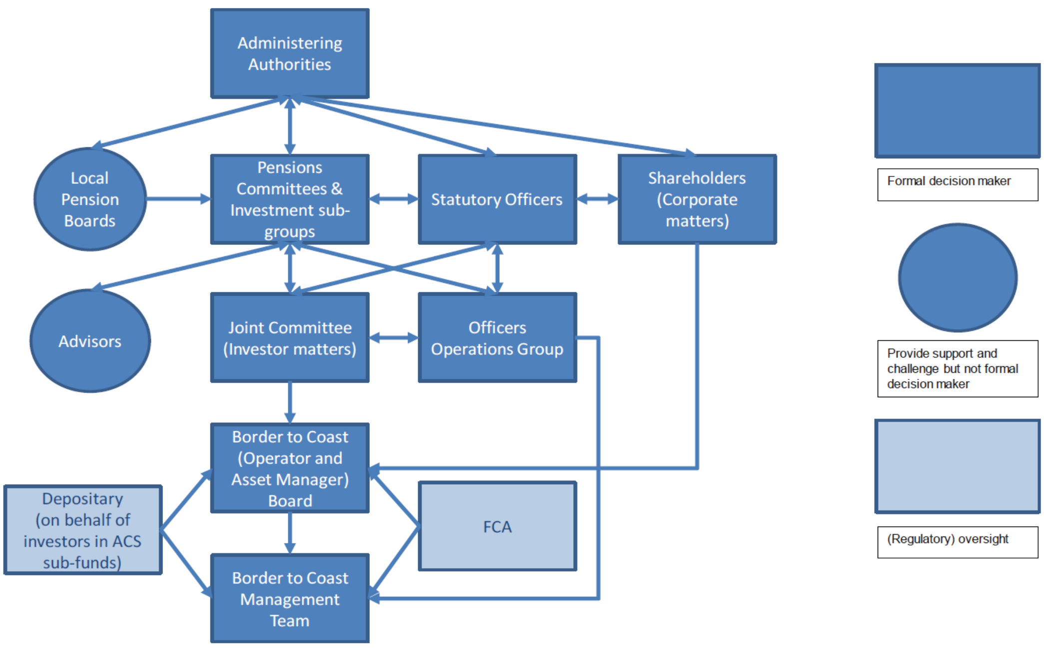
- One fund one vote, regardless of size, all Funds will be treated equally;
- Equitable sharing of costs (where possible);
- Funds retaining governance role and ownership of asset allocation;
- Providing internal management capability; and
- Generating improved net of fees risk-adjusted performance.

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

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

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

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



Cumbria LGPS holds BCPP to account through the following mechanisms:

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

Further details of the Governance of BCPP can be found in the BCPP Governance Charter: https://www.bordertocoast.org.uk/app/uploads/2019/03/Border-to-Coast-Governance-Charter-v1.0-13-3-19.pdf

4.6.3 Assets to be invested with the Pool

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

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

At the time of writing investments (representing approximately 33% of the Fund in total) have been made in BCPP's UK Equity, Global equity, Private Equity and Infrastructure funds. In addition to this consideration is also being given to investing in the Multi Asset Credit and Private Credit funds. The detailed parameters and objectives of other investment opportunities are continuing to be developed.

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

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

- Passive investments with Legal and General. These are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements by BCPP funds for these services. Monitoring of the manager continues to be carried out by the Fund.

- The Fund has investments in a number of closed end funds which invest in private markets. These include private equity, infrastructure and private debt investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is a risk that sales of these investments would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. It is anticipated that once these investments mature the proceeds will be reinvested into BCPP-held investments.

- The Fund also has a small number of investments in open-ended funds which invest in infrastructure and long-lease property. The Fund will explore the business case for transferring these assets to BCPP to determine if it is practical and cost effective to do so.

- The Fund is currently working with BCPP and Partner Funds to explore options for existing investments in direct UK property.

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

4.7 Policy on Responsible Investing, Stewardship and Corporate Governance

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

The overriding objective of the Fund is to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. To do this it must deliver its stated risk adjusted performance targets. The Fund recognises that good stewardship, corporate governance and responsible investing are fundamental drivers in achieving these objectives.

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

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

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

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

Cumbria is a member of the Local Authority Pensions Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together 80 local authority pension funds from across the UK with combined assets of approximately £250 billion, in addition majority of LGPS Pools have joined the forum. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues.

The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by its compliance with the Financial Reporting Council's (FRC) UK Stewardship code (2012). A statement of compliance is included as Annex B to this policy and this has been accepted as Tier 1 for Asset Owners by the FRC and is published online. The Fund is in the process of reviewing its compliance with the requirements of the new UK Stewardship Code (2020) with a view to becoming a signatory of the new Code.

BCPP (the pooling company jointly owned by the Fund and 11 Partner Funds which manages all of the Fund's actively managed listed equities) is also fully compliant with the FRC's Stewardship Code 2012: https://www.bordertocoast.org.uk/app/uploads/2019/03/UK-Stewardship-Code-Compliance-Statement.pdf. All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

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

All Funds, including Cumbria, have agreed that their individual Responsible Investment policies will be broadly aligned to that of BCPP, this is should not create material changes to any Fund's policy as the Funds are likeminded and the policy was created with reference to the 12 existing policies. The annual review of the BCPP policy is timed to allow the partner funds to both input into the review process and then allow for continued alignment to the individual Fund's policy. Further details of the BCPP Responsible Investment Policy can be found at:
https://www.bordertocoast.org.uk/?dlm_download_category=download-responsible-investment-policy

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

4.8 Policy on exercise of rights

The responsibility for the exercise of voting rights is currently delegated to the investment managers, however Cumbria LGPS has the opportunity to override votes if considered appropriate. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed to be in the best interests of the Fund.

Where a resolution is put forward which is deemed to be controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

- Actively managed listed equities: The Fund's investments in actively managed liquid equities are all held with BCPP (the pensions pooling company jointly owned by the Fund and 11 other Partner Funds). Details

of the BCPP Corporate Governance and Voting Guidelines can be found at:
https://www.bordertocoast.org.uk/app/uploads/2019/02/Corporate-Governance-Voting-Guidelines-1.pdf

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

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

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

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

4.8.1 Other rights

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

4.9 Compliance of Cumbria Fund with the Updated Myners Principles

Principle 1 : Effective Decision Making	**Not Compliant**	**Fully Compliant**
Administering authorities should ensure that • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and		✓
• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.		✓

The Fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment decision-making is undertaken either by the Pension Committee or delegated to the Director of Finance (S151 Officer) in consultation with the Investment Sub Group, governance oversight of these processes is provided by the Local Pension Board.

The Members of the Pension Committee perform duties similar to private trustees and are elected councillors of the County Council and District Councils. The Members' Allowance Scheme operates for the remuneration of the Pension Committee. Two independent Investment Advisors normally attend Pension Committee meetings.

The dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This releases limited Committee agenda time and allows Members to focus on the issues that add most value to the Fund. The Investment Sub Group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations. The Group comprises three Members of the Pensions Committee (including the Chair of the Committee), Senior Officers of the Council with responsibilities for the management of the Fund including the Director of Finance (S151 Officer) and the Senior Manager with the responsibility for the Pensions Fund, Independent Advisors, and Investment Consultants to the Fund at the invitation of the Sub Group.

The smaller, dedicated nature of the Investment Sub Group not only enables more nimble decision making but also means that the members of the group can receive more intensive training in the relevant areas.

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

The Fund has a team of professional investment and support staff, made up of Officers of the Council, who provide advice on a day-to-day basis. The Pension

Committee Chair and Members can contact officers and independent advisors on an ad hoc basis as and when required.

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

The Training Policy covers the training and development of Members of the Committee and ISG, the Board and the officers responsible for the management of the Fund. It ensures that:

- the Committee collectively has the required knowledge and skills to make appropriate decisions and offer challenge;
- members of the Board individually have the relevant knowledge and capacity to assist the Administering Authority of the Fund secure compliance with relevant regulations and legislation and the requirements of the Pensions Regulator; and
- Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

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

Principle 2 : Clear Objectives	**Not Compliant**	**Fully Compliant**
• An overall investment objective(s) should be set out for the Fund that takes account of the Fund's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers, and these should be clearly communicated to advisors and investment managers.		✓

The investment objectives and Fund attitude to risk are detailed in the Investment Strategy Statement and the Internal Control & Risk Management Policy; and the Funding Strategy Statement details the funding objectives. Both are formally reviewed and approved annually as well as being updated in the interim as required.

In determining the Investment and Funding Strategies, the Fund, in conjunction with its Independent Advisors and Actuary, considers the Fund's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers.
The Fund has its own investment benchmark although regard is paid to peer performance to comply with Best Value methodology. The Fund's liability profile will normally be considered in relation to its benchmark every three years, with annual interim reviews.

All fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pension Committee.

Principle 3 : Risk and Liabilities	**Not Compliant**	**Fully Compliant**
• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.		✓
• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.		✓

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

A full strategy review is undertaken every three years in conjunction with the Actuarial Valuation and the most recent was agreed by the Committee in December 2019.

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

Principle 4 : Performance Assessment	**Not Compliant**	**Fully Compliant**
• Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisors.		✓
• Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.		✓

To ensure independence and oversight the Fund uses an external performance measurement service. Investment performance is reported to the Pension Committee each quarter, and as a minimum there is an Annual Performance Review with the Fund's external performance monitoring service provider.

Ongoing performance contribution will be reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates a tiered performance monitoring framework, the three tiers being officers and advisors, the Investment Sub Group (ISG), and the Pensions Committee, with governance oversight from the Local Pension Board.

Investment Managers are constantly under review, with Officers and Advisors informing the ISG and escalating any issues immediately. Officers and Advisors will meet with managers (holding greater than 3% of the total Fund investments including future commitments i.e. £84m at December 2019) formally at least annually and report their findings from these meetings to the ISG.

The Investment Sub Group is responsible for continual review of the investment management structure for the Pension Fund and for overseeing the appointment and termination of investment managers (holding up to 5% of the portfolio).

The ISG is responsible for the establishment and review of performance benchmarks and targets for investment. The ISG receives a quarterly report covering every manager, which sets out performance results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

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

The Pensions Committee members are surveyed regularly for their views on quality of advice given by the Investment Advisors.

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

Principle 5 : Responsible Ownership	**Not Compliant**	**Fully Compliant**
Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.		✓
• include a statement of their policy on responsible ownership in the Investment Strategy Statement; and		✓
• report periodically to Fund members on the discharge of such responsibilities.		✓

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

The Fund completed a statement of compliance with the Financial Reporting Council's (FRC) previous Stewardship Code (2012) which was assessed as compliant as a Tier 1 Asset Owner, this statement is published online as Annex B to this Policy. The Fund is in the process of reviewing its compliance with the requirements of the new UK Stewardship Code (2020) with a view to becoming a signatory of the new Code.

BCPP (the pooling company jointly owned by the Fund and 11 Partner Funds which manages all of the Fund's actively managed listed equities) is fully compliant with the FRC's Stewardship Code 2012: https://www.bordertocoast.org.uk/app/uploads/2019/03/UK-Stewardship-Code-Compliance-Statement.pdf

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

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

Principle 6 : Transparency and Reporting	**Not Compliant**	**Fully Compliant**
Administering authorities should • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • provide regular communication to members in the form they consider most appropriate.		✓ ✓

The Investment Strategy Statement (ISS) includes:

- The Fund's Statement of Investment Beliefs (Annex A)
- The Fund's investment objective,
- The Fund's approach to investment and risks,
- The types of investments and limits.

The ISS (previously the Statement of Investment Principles) will be included in the Fund's Annual Report; these are publicly available on the County Council's website.

Investment performance is included in the Annual Report.

The Cumbria LGPS Pension Board is given full access to all Pension Committee papers, and are provided with briefing sessions and training presentations appropriate to their ongoing business. In additional they are also offered the opportunity to join all training sessions provided for the Full Committee.

The Cumbria Pensions Forum meets to inform and consult on wider pensions issues; the members have access to the Annual Report and Accounts, the current Fund Policy Document and public Pension Committee papers.

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

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

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

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

ANNEX A – CUMBRIA LGPS INVESTMENT BELIEFS

STATEMENT OF INVESTMENT BELIEFS

OVERARCHING OBJECTIVE

To manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the fund.

BEHAVIOUR FRAMEWORK

- Communicate in a clear and constructive way
- Act with honesty and respect for others
- Demonstrate a positive flexible attitude
- Take responsibility for our actions
- Be committed to "One Fund" by treating all employers and members of the fund equitably

INVESTMENT BELIEFS

1. **Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances**
   - Our long term primary goal is to generate returns required to fund our members' current and future pensions.

2. **Asset allocation has the greatest impact on the overall risk and return of the Fund**
   - Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
   - Investment managers should be responsible for stock selection.
   - Over the long term equities are expected to deliver a higher return than bonds.

3. **It is important to take a long term perspective when considering the investment strategy, but recognise the implications of shorter term market volatility**
   - The greatest risk to the fund is not short term market volatility but the permanent loss of value.
   - Benchmarks should be used to measure performance, and not drive or dictate behaviour.
   - Volatility represents an opportunity to the long term investor in that it allows the investor to purchase assets at a price below their long term value.
   - By the same token volatility allows profits to be taken and unexpected gains realised.

- However it is recognised that volatility can impact on employers in the Fund (through its impact on employer contributions) and, therefore, ultimately on the Fund (as unsustainable employer contributions can have implications for the solvency of the Fund).

4. Good governance improves the quality of decision making

- Officers, Pension Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well-resourced and well governed Funds.

5. All investments have a degree of financial risk but we should only accept financial risk where we have a strong belief that we will be rewarded for it.

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled however cost alone should not drive decision-making – the key consideration is return net of fees and costs.

6. There are multiple risks to which the fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.

- Investors should be rewarded for giving up liquidity.
- Investment risks are multi-faceted and will change over time.
- Investors should be wary of investments where the promised return is out of proportion to the apparent risk.
- Investors should be aware of potential misalignment of interests especially when coupled with superior access to information on the part of the investment managers and advisors.

7. We should continually consider all risks in our investment process by investing responsibly, including environmental, social and corporate governance factors.

- ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long term value for investors.

- We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.
- We expect management teams and board of directors to be responsive to their shareholders.
- We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

ANNEX B – STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE (2012)

Cumbria Local Government Pension Scheme - Statement of Compliance with the UK Stewardship Code (2012).

Cumbria Local Government Pension Scheme (Cumbria LGPS) is fully committed to responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decisions to improve the long term value for shareholders. Cumbria LGPS are cognisant of the increasing body of evidence suggesting that well governed companies are likely to deliver stronger long term investment performance. Cumbria LGPS also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), can influence the Board/Directors of companies to enhance the management and financial performance of those companies.

As global investors Cumbria LGPS expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship Code (2012) and principles relating to good stewardship below.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code, (or equivalent code in their regional jurisdiction).

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Cumbria LGPS takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy.

The Fund aims to promote high standards of governance through being an engaged and active asset owner. We seek to ensure that there is effective engagement with companies to improve their long term investment performance and hold management to account for their decisions. The Fund considers the informed use of votes, while not being a legal duty, is a responsibility of the owners of companies and as such is an implied fiduciary duty of the Pensions Fund Committee and investment managers to whom they delegate this function.

In practice Cumbria LGPS applies the Code in a number of ways:

- Responsibility for the exercise of voting rights is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. The investment managers may liaise with the Fund where appropriate and any issues or queries can be raised by the Fund as part of the quarterly reporting process or more frequently where necessary. Cumbria LGPS have the opportunity to override votes if considered appropriate.

- Where Cumbria LGPS has elected to invest in passive pooled indexed funds (UK and overseas) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds passive manager is a Tier 1 signatory to the UK Stewardship Code (2012) and is active in it engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at **www.lgim.com/cgupdate.** We also consider our membership of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; allows the Fund to indirectly influence these companies.

- Where Cumbria LGPS has elected to invest in active pooled funds (e.g. with BCPP) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds active pooled manager is a Tier 1 signatory to the UK Stewardship Code (2012) and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at **www.bordertocoast.org.uk/sustainability.** The Fund's active pooled manager is also a member of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; this together with the Fund's own membership of LAPFF allows the manager and the Fund to indirectly influence these companies.

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

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by investment managers and LAPFF, and these reports are available on the Council's website. In addition, a representative of the Fund regularly attends the LAPFF meetings and also attends the LAPFF Annual Conference to ensure the Fund has a full understanding and to facilitate input into the work programme of LAPFF.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Cumbria LGPS expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, the Pensions Committee and the Local Pension Board (LPB) review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all Members, officers and independent advisors are required to adhere to this policy. The Fund policy document can be found on the shared Cumbria LGPS website at **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**. In addition, Committee and Board Members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.cumbria.gov.uk.

Cumbria County Council, the Administering Authority of Cumbria LGPS requires all Members of the Pension Committee, Local Pension Board and officers to declare any pecuniary or other registerable interests. Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council’s website under each Member’s name and updated on a regular basis.

Principle 3 - Institutional investors should monitor their investee companies.

Cumbria LGPS considers that as investors we own a portion of the companies we invest in. With our voting policies and working through our investment managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for interactions with our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to Cumbria LGPS, so that activity and impact can be monitored. The Fund has regular meetings with its investment managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

Reports on the Fund's voting and engagement activity through its investments managers and LAPFF are received by the Pensions Committee on a quarterly basis, these reports are available on the Council's website.

In addition, the Fund receives an 'Bulletins' from LAPFF, highlighting corporate governance issues of concern at investee companies, and these are used to monitor and report on voting activity to the Pensions Committee; and liaise with managers to promote consistency of voting where appropriate

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

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, Cumbria LGPS delegates its responsibility for day-to-day interaction with companies to the Fund's Investment Managers and LAPFF, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, these organisations will consult with the Senior Manager Pensions and Financial Services.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation through its contracts with Institutional Protection Services (IPS) and US law firm Labaton Sucharow.

Any such actions and subsequent outcomes are reported to the Pensions Committee on a quarterly basis in order to monitor activity and assess effectiveness.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

Cumbria LGPS considers collaborative engagement is a key part of a responsible investment strategy and the Fund seeks to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members; and also its relationship with the investment managers.

The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings which a representative of the Cumbria LGPS fund regularly attends. Feedback is provided to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Senior Manager, Pensions & Financial Services (Deputy S151 Officer – LGPS), who is contactable by emailing: **pensions@cumbria.gov.uk**

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Cumbria LGPS views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attached to its investments.

Whilst it is the Fund’s intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

The external investment managers are responsible for exercising voting rights in relation to the Global active portfolio on investments that are managed by them on behalf of the Fund and voting activity of the managers is made available to Members of the Pensions Committee on a quarterly basis. They will vote in accordance with their own “Investment and Corporate Governance” policy which is available on their websites. The investment managers will liaise with the Fund where appropriate.

Reports summarising the Fund’s voting activity are presented to the Pensions Committee on a quarterly basis, the proxy voting reports of the Fund’s investment managers are available on each manager’s website. The Fund also publishes a summary of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending via the Pool and they may seek to recall stock on loan prior to a shareholder vote if the issue upon which the vote rests is contentious enough to warrant it and it is deemed to be cost effective, suitable and practical.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

Cumbria LGPS reports quarterly to the Pensions Committee on stewardship activity through a specific section on the voting undertaken each quarter, in the Fund Quarterly Monitoring report, the proxy voting reports of the Fund's investment managers are available on each manager's website. The report also includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website, Cumbria LGPS section at **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**.

Data to produce these reports is taken from a number of sources including quarterly reports from:

- LAPFF
- Investment managers

Members are kept informed of any current news items relevant to the holdings of Cumbria LGPS, where those topics are in the public arena and would be of interest to LGPS stakeholders.

Approved 13 March 2020 by the Pensions Committee

5 CASH INVESTMENT POLICY

5.1 Introduction & Regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee in 2010, with the latest revisions approved on 13 March 2020. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

5.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and accordingly will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority will comply with the requirements of the Regulations (SI 2016 No 946).

5.3 Cash Investment Priorities

The Cumbria Pension Fund's cash investment priorities are: -

a) the security of capital,
b) the availability of cash to meet payroll, investment commitments, and other payments, and
c) the liquidity of its investments.

The Investment Strategy Statement sets the **maximum** level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments (current maximum 20%). Where strategic cash is included in the Fund's benchmark as an asset (currently 2–10%), the Administering Authority will use investment managers' pooled funds where it is most efficient to do so. The Administering Authority should aim to keep the working cash balance held (for day to day cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and alternative investments.

The Fund will also aim to achieve a modest return on its cash investments commensurate with proper levels of security and liquidity. The risk appetite of this Fund is low in respect of the cash elements in order to give priority to security of its cash investments.

5.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisors of Cumbria County Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

All credit ratings will be monitored through the Council's use of the Treasury Advisors' creditworthiness service. The Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its use for pension fund cash will be withdrawn immediately.

5.5 Investment Strategy for Pension Fund Cash

Subject to the priorities as stated in 5.3 above, the investment of any fund money that is not needed immediately must be invested using the following strategy:

- Set a day-to-day working cash holding limit at 2.5% of the Fund's total investments for the NatWest Liquidity account and Money Market Funds in total, and allow officers discretion to invest appropriately between them. At 31 December 2019 2.5% was £70 million.

It is recognised that on occasion, due to specific circumstances, an extension could be necessary to this cash balance limit, for example due to asset or manager restructuring. However, any such instances would require prior approval, in consultation with the Chair and Vice Chair, from the Director of Finance (S151 Officer). Additionally, every reasonable action should be taken to ensure the period of the extension is kept to a minimum and at most would be no greater than ten days (this being the timing of weekly unit fund dealing dates). Members are to be formally notified of any such limit extensions at the next Committee date after such an extension has occurred.

5.6 Role of the Section 151 Officer

The treasury management role of the Director of Finance (S151 Officer) with respect to pension fund cash will be -

- recommending the Cash Investment Policy for approval, reviewing the policy regularly, and monitoring compliance;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function, and reporting activities to the Pension Committee as appropriate;

- 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. This is the context of the Fund's aim to

maintain as stable a rate of overall employer contributions (i.e. both primary and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

6.3 Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

6.4 Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pension Board created under the Public Service Pensions Act 2013.

The **Administering Authority** should:

- operate the pension fund
- 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 2020 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 12 years being adopted across all Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

  For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is summarised in the Fund's Admission and Termination Policy document (Section 7 of this Fund Policy Document).

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Such cases will be determined by the Director of Finance (S151 Officer) and notified to the Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by:
- immediate capital payments into the Fund, or
- with the agreement of the Administering Authority, by making provision for them at the time of the actuarial valuation and including the costs within its funding plan.

6.6 Link to investment policy set out in the Investment Strategy Statement (ISS)

The results of the 2016 valuation show the liabilities to be 90.7% covered by the current assets with the funding deficit of 9.3% being covered by future deficit contributions. The results of the 2019 valuation will be presented to Pensions Committee when available.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

“Minimum Risk” portfolio versus a “Diverse” portfolio including growth assets:

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. It is, however, possible to construct a portfolio based on a “minimum risk” investment position designed to deliver real returns in line with or just above CPI inflation.

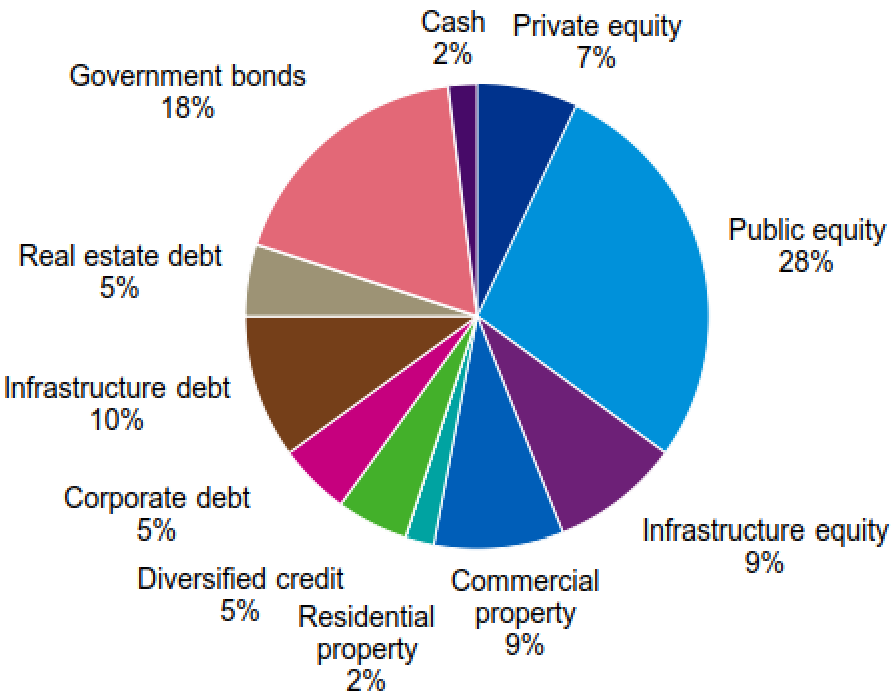
Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possibly swaps. However, due to supply/demand distortions in the bond markets, it would not be appropriate to make any allowance in the valuation process for such a portfolio in respect of growth assets out-performance or any adjustment to market implied inflation assumption.

This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a much lower funding level, which in turn would have caused a significant increase in employer contribution rates payable for the period 2020/23.

Taking a “minimum risk” approach to portfolio construction is considered more appropriate for “closed” funds (i.e. where a fund is no longer accepting new members and therefore has a limited investment horizon). The Cumbria Fund is an “open” fund and therefore, has a longer investment horizon (i.e. it is able to invest over a longer timeframe). As such the Fund has an investment strategy based on a diverse portfolio including growth assets as well as more “defensive” assets such as index-linked gilts.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and thus reduce ~~the~~ employer contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The long-term investment strategy (as approved by Pensions Committee in December 2019) is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 2.6% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

6.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:

- 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 or guarantee. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- Changes in the Committee and Local Pension Board membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk. Nevertheless, where an employer defaults on its liabilities the risk in some cases may be borne by the whole Fund, so to that extent all Fund employers have joint and several liability to the Fund.

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 1.25% per annum above CPI inflation i.e. a real return of 1.25% per annum equating to a total discount rate of 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for long term real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

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

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses
Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.0% per annum above the long term average assumption for consumer price inflation of 2.4% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table (M / F)	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	99% / 88%
Ill-health	S3IA	CMI_2018 [1.75%]	118% / 127%
Dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	135% / 90%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	129% / 105%

	Base Table (M / F)	Improvements	Adjustment (M / F)
Current active / deferred:			
Active normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	105% / 90%
Active ill-health	S3IA	CMI_2018 [1.75%]	121% / 139%
Deferred	S3PMA / S3PFA_M	CMI_2018 [1.75%]	127% / 105%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	134% / 113%

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

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

The Recovery Period for each employer is set by the Fund, in consultation with the Fund Actuary. The Fund will consider any representations received from the employer and any guarantor, with a view to balancing the various funding requirements against the risks arising from the financial strength of the employer and the nature of its participation in the Fund. Whilst willing to consider representations, the Fund retains its discretion in setting the recovery periods for employers.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Following the 2016 the Fund's average deficit recovery period was 15 years, with a maximum recovery period of 16 years at an individual employer level and a target date for full funding of 2032. In line with good practice the Fund is seeking to maintain its target date of 2032 for full funding (i.e. by reducing its average deficit recovery period by a further 3 years at the 2019 valuation to an average deficit recovery period of 12 years at an overall Fund level).

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Target Average Deficit Recovery Period	Derivation
Scheme Employers	12 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Open Admitted Bodies	The lesser of 12 years or the remaining contract period	Determined by reducing the period from the preceding

		valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Closed Employers	The lesser of 12 years, the remaining contract period, or the future working lifetime of the membership	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

The Fund acknowledges that maintaining the date at which it would expect to be fully funded may materially impact certain employers. In recognition of this the Fund may, in exceptional circumstances, agree to employers extending their specific recovery period by up to 3 years with no employer being permitted to extend the deficit recovery period beyond 2036. This introduces an element of risk to both the Fund and the employer as, by extending the period over which its deficit is recovered, an employer may end up in a worse position at the next valuation than if it had sought to restore full funding more quickly. This would be contrary to the objective of setting employer contributions so as to secure the solvency and long-term cost efficiency of the Scheme.

As such the Fund, in determining deficit recovery periods at an individual employer level, will consider the risks arising from the financial strength ("covenant") of the employer and the nature of its participation in the Fund. Factors that will influence this decision may include (but are not limited to):

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence- based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Director of Finance (S151 Officer) in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

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 publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Where risks or concerns are identified in relation to an employer or a group of employers Officers will apply an increased level of covenant risk management (as described below) in relation to that employer / group of employers.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions

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

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 Ministry of Housing, Communities and Local Government (MHCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

7 CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ("Scheme")

7.1 ADMISSION & TERMINATION POLICY

This document details the Scheme's policy on:

- Admissions into the Fund;
- The methodology for assessment of a termination payment on the cessation of a Participating Employer's participation in the Fund; and
- Considerations for current employers'.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 11 June 2019 and has been updated to reflect the Local Government Pension Scheme Regulations 2013. This policy forms part of the Funding Strategy Statement of the Scheme.

Where this document refers to Cumbria County Council (**"Cumbria"**), then this shall mean Cumbria in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Fund Employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (**"Regulations"**), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

A – ADMISSIONS POLICY

7.2 BACKGROUND

7.2.1 Admission Bodies

Admission Bodies are a specific type of Participating Employer under the Regulations that govern the Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Scheme.

Cumbria may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body's employees to be members of the Fund and participate in the Scheme.

Any application for Admission Body status must be submitted to Cumbria in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

There are two broad types of Admission Body – those providing a commercial service to a Fund Employer (formerly transferee admission bodies) and those providing other services with sufficient links to a Fund Employer (formerly community admission bodies).

7.2.2 Fund Employers

Fund Employers can be divided into two types under the Regulations:

(a) those employers listed in Part 1 of Schedule 2 of the Regulations; and
(b) those employers listed in Part 2 of Schedule 2 of the Regulations.

Fund Employers listed under Part 1 of Schedule 2 of the Regulations include (but are not limited to)

- county councils;
- district councils;
- London borough councils;
- a fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004;
- a police and Crime Commissioner;
- a Chief Constable within the meaning of Section 2 of the Police Reform and Social responsibility Act 2011;
- the Environment Agency;
- a National Park Authority established under Part 3 of the Environment Act 1995;
- a proprietor of an academy within the meaning of section 579 (general interpretation) of the Education Act 1996 who has entered into academy arrangements within the meaning of section 1 (academy arrangements) of the Academies Act 2010;
- a further education corporation, a sixth form college corporation or higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992;
- a body set up by a local housing authority as a housing management company to exercise management functions of the authority under an agreement approved by the appropriate Minister under section 27 of the Housing Act 1985.

Employees of the above Fund employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 4.

Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a precepting authority within the meaning of section 69 of the Local Government Finance Act 1992 (which would include a Parish or Community Council);
- a company “connected with” / "under the control" of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

Employees of the above Fund Employers will only be admitted to the Scheme if they, or a class of employee to which they belong, is designated by the body as being eligible for membership of the Scheme.

7.3 POLICY STATEMENT

7.3.1 Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to Admission Bodies:

(a) applications will be approved if:
  - (i) all the conditions of participation set out in the appendix are met; and
  - (ii) the body falls into the category of “Admission Body” highlighted in section 7.2 and does not have any of the disqualifying criteria set out below; and
  - (iii) the body has a guarantee/indemnity from another Fund Employer (note that for commercial agreements (i.e. former transferee admission bodies) the transferring Fund Employer will automatically be deemed to act as guarantor); and
  - (iv) for non-commercial agreements (i.e. former community admission bodies) the body exists as a result of being specifically set up by a local authority(s).

(b) applications will not be approved if:
  - (i) the application falls into the “Admission Body” category; and
  - (ii) the body has one or more of the following disqualifying criteria attached to it:
    - ➢ the body does not meet the conditions of participation detailed at the appendix; or
    - ➢ the provisions in respect of risk assessments as set out later in this document have not been complied with; or
    - ➢ the transferring Fund Employer is a Participating Employer within another LGPS Fund; or

- the body does not have a guarantee/indemnity from another Fund Employer.

(iii) for non-commercial agreements (i.e. former community admission bodies) there is a known limited lifespan or fixed contract term of admission to the Fund.

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

Notwithstanding the above, Cumbria reserves the right to approve or reject any application, should it deem this appropriate in the particular circumstances, provided such a decision is in accordance with the Regulations.

7.3.2 Risk Assessments

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

Where the level of risk is, in the opinion of Cumbria, such as to require it, then Cumbria will require the Admission Body to enter into an indemnity or bond. In certain circumstances Cumbria may determine that the level of risk is such that it is not desirable for the Admission Body to enter into an indemnity or bond, and instead a guarantee would be acceptable (where one does not already exist). In these circumstances, the Admission Body must secure a guarantee which is acceptable to Cumbria from either:

(a) a person who funds the Admission Body in whole or part;
(b) a person who owns or controls the exercise of the functions of the Admission Body; or
(c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors Cumbria may use to establish whether a guarantee would be an acceptable alternative are:

(a) the likelihood of premature termination occurring in respect of that Admission Body;
(b) the accountability of any Fund employer in respect of that Admission Body;
(c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other participating employers in the Fund, or would be contained by other employers in that Admission Body's group;

(d) any assessment commissioned by the Admission Body on which Cumbria can rely to determine whether the guarantor is suitable; and
(e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

In determining the acceptability as to the level of risk, Cumbria will be mindful of its core principle which is that each Admission Body is accountable for its own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Fund.

7.3.3 Decisions Regarding Admissions

Decisions regarding Admission Bodies will be delegated to the Director of Finance (S151 Officer).

7.4 Fund Employers

The principle that Cumbria undertakes is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

In this regard, Cumbria may:

- make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund;
- taking into account any such assessment, Cumbria may seek any one or more of the following terms of agreement with the new Fund, including:
  - a guarantee/indemnity from another Fund employer;
  - agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer;
  - either in whole or in part;
  - further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer;
  - a revised rates and adjustment certificate for the new Fund employer to take into account the financial risk of failure.

There should be flexibility to consider all relevant circumstances, but Cumbria's objective is to seek appropriate funding from all Fund employers, so that on exit all orphaned liabilities will be funded or subsumed by another Fund employer.

B – TERMINATION POLICY

7.5 BACKGROUND

When an Admission Agreement comes to its end (including where the participating employer ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the Admission Body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a bond/indemnity, guarantor or successor body within the Fund.

7.6 POLICY STATEMENT

7.6.1 Admission Bodies

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

In line with Regulation 64, this assessment will determine the exit payment due from, or the exit credit due to, the outgoing Participating Employer. Where the calculations show that there is a surplus of the Participating Employer’s assets over its liabilities within the Fund, the Administering Authority has discretion when determining what if any exit credit is payable.

As such, the treatment of assets and liabilities at termination will be as follows:

(a) Admission Bodies without a Fund guarantor

Where an Admission Body does not have a guarantee/indemnity from another Fund Employer, and no successor body exists to take responsibility for the liabilities (including those in respect of former members) then:

- Any surplus on termination would be refunded to the Participating Employer via payment of an exit credit (if so determined).

- Any deficit will be recovered from the bond and/or the outgoing Participating Employer;

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

(b) Admission Bodies with a Fund guarantor

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

- The Fund will write to the Admission Body and guarantor requesting written evidence of any risk sharing agreements within 14 days of notification.

- Where evidence is provided, the Fund will follow the risk sharing protocols set out within the agreement between the two parties. Where there is no clarity within the risk sharing agreement as to the treatment of deficits or exit credits on termination, the Fund will determine the amount of any deficit due or exit credit payment due and to which party, having regard to any relevant considerations and taking account of the employers' exposure to risk.

- Where no evidence is provided, the Fund will pursue the Admission Body for any deficit or pay any exit credits to the Admission Body. Where the Admission Body defaults on any liabilities due to the Fund, the guarantee will be called in from the guarantor.

- If the outgoing Admission Body disputes the treatment then the two parties will be expected to reach an agreement amongst themselves, and if they cannot then the Fund's IDRP process should be used. The Pensions Ombudsman has jurisdiction to hear complaints if the IDRP fails to resolve the dispute.

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

(c) Treatment of exit payments and exit credits

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

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

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

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

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

(d) Notification of Termination

In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued. In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Fund will liaise with the actuary to introduce procedures to reduce the volatility risks to the debt amount in the run up to actual termination of the admission.

Further, the Fund may hold more frequent reviews of employer contribution rates in order to manage the gradual reduction of any pension deficit or surplus. This will enable the Fund to gradually manage the termination process, rather than call for one cessation payment.

(e) Funding basis for termination calculations

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

- protecting the other employers in the Fund. At termination, the Admission Body's liabilities may become "orphan liabilities" within the Fund, and there will be no recourse to the Admission Body if a shortfall emerges in the future (after the admission has terminated). A strategy (notionally) backed by corporate bonds provides some protection against this;
- Providing fair value to the outgoing Admission Body and preventing Admission Bodies being trapped in the Scheme by an unaffordable deficit.

The standard policy will be applied unless either:

- the Admission Body has a guarantor within the Fund, or a successor body exists to take over the Admission Body's liabilities (including those of former employees). In this case the valuation funding basis (as defined in 7.5.1 (e) below) will be used;
- The Fund's view is that the risks to the Fund associated with the termination of a particular Admission Body are such that a more prudent basis should be used to protect the remaining Participating Employers. In this case more prudent assumptions, based on a least risk funding basis (as defined in 7.5.1 (e) below), will be used.

(f) Valuation Funding, Corporate Bond and Least Risk Termination Bases

The valuation funding, corporate bond and least risk financial assumptions that applied at the most recent actuarial valuation date (31 March 2019) are set out below for illustration. However, these will be updated for each termination on a case-by-case basis to reflect:

- the prevailing market conditions at the relevant employing body's termination date;
- any changes made to the methodology used to derive these bases (the Fund will decide at what point any such changes take effect).

31 March 2019 assumptions	Valuation funding	Corporate Bond	Least Risk
Discount rate	3.65% p.a.	2.4% p.a.	1.5% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.	2.4% p.a.	2.4% p.a.

All demographic assumptions will be the same as those adopted for the most recent actuarial valuation (the Fund will decide at what point any post-valuation changes to the demographic assumptions take effect), except for the corporate bond and least risk basis in relation to the life expectancy assumption. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. Currently, the assumed rate of long-term longevity improvement will be 2% p.a. rather than the 1.75% p.a. used for funding purposes, but this may be reviewed as necessary based on actuarial advice.

(g) Benefit changes

Periodically changes are made to the Scheme benefits due to changes in Government policy, legislation or legal challenges. In some circumstances these may affect members accrued benefits, which will in turn affect liabilities and so termination positions. The Fund's policy is:

- where such changes are confirmed then they are allowed for as part of the termination assessment in line with the regulations;
- where such changes are proposed but not yet confirmed, the Fund will:
    - take a view as to the likelihood that the changes will be implemented;
    - where the Fund expects the changes to be implemented, include an allowance in the termination position for the estimated impact of the changes, on the basis that if no allowance is included in the termination assessment then the Fund will not be able to recover the additional cost form the outgoing Admission body at a later date, and so this will fall to the other Fund Participating Employers;

In cases where an allowance for potential changes that do not ultimately come into effect, the Fund will refund the value of the adjustment to the former Participating Employer where appropriate (i.e. where the Participating Employer received an exit credit due to a surplus, or paid any deficit in full).

(h) Fund discretion

Notwithstanding the above, where it is deemed to be appropriate the Director of Finance (S151 Officer) may use their discretion to:

- alter the basis and approach to the termination assessment;
- allow the deficit to be paid by instalments;
- allow the guarantor, successor body or the Fund as a whole to subsume the funding deficit or surplus on closure, in place of a termination payment being required of the/to the Admission Body itself.

7.6.2 Fund Employers

For Fund employers the general overall policy is that the principles and procedures outlined above should apply, whilst recognising that there may be specific circumstances which dictate that more flexibility may be needed in some cases.

As has been mentioned, the principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

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

Cumbria recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry into the Fund, Cumbria can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employer, arrangements can be agreed in relation to the rates and adjustment certificate applicable to the Fund employer and/or any deficit on termination; or
- if a previous Fund employer has agreed to pay any deficit payment on exit, this will be taken into account in determining the terms upon which the deficit is calculated.

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

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the rates and adjustment certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Fund, and if unsuccessful apply pressure to former Fund employers.

Admission & Termination Policy

Appendix

Conditions of Participation for Admission Bodies

1. PAYMENTS

1.1. The Admission Body shall pay to Cumbria for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.

1.2. The Admission Body shall pay to Cumbria for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to Cumbria within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3. The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by Cumbria.

1.4. The Admission Body shall pay to Cumbria for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from Cumbria.

1.5. Any employees' Additional Voluntary Contributions ("**AVC's**") or Shared Cost Additional Voluntary Contributions ("**SCAVC's**") are to be paid direct to such AVC body and/or AVC insurance company selected by Cumbria. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.6. Where the Admission Body certifies that:

1.6.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or

1.6.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or

1.6.3. the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to Cumbria for credit to the Scheme the sum notified to them in writing by Cumbria as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

1.7. The Admission Body shall indemnify Cumbria against any financial penalty and associated costs and expenses incurred by Cumbria or by the Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from Cumbria.

1.8. If any sum payable under this Agreement or the Regulations by the Admission Body to Cumbria or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) Cumbria may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY’S UNDERTAKINGS

2.1. The Admission Body undertakes:

2.1.1. to provide or procure to be provided such information as is reasonably required by Cumbria relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2. to comply with the reasonable requests of Cumbria to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);

2.1.3. to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations and in any employer’s guide published by Cumbria and provided by Cumbria to the Admission Body;

2.1.4. to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body’s policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

2.1.5. to notify Cumbria of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.1.6. to notify promptly Cumbria in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;

2.1.7. to immediately notify Cumbria and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;

2.1.8. not to do anything which would prejudice the LGPS' status as a registered pension scheme; and

2.1.9. to make available for public inspection at Cumbria and the Fund employer's office a copy of the Admission Agreement.

3. ACTUARIAL VALUATIONS

3.1. Cumbria may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer’s contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2. Upon termination of this Agreement Cumbria must obtain:

3.2.1. an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and

3.2.2. a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

3.3. The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by Cumbria in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from Cumbria.

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. Additionally, the administering authority is required to exercise certain discretions relating to former employees of defunct employers which are contained within this policy.

The Discretions Policy was reviewed by the Cumbria Pensions Committee on 11 September 2018. This review included ensuring the policy was in accordance with the latest Local Government Pension Committee (LGPC) guidance issued July 2018.

8.1 Administering Authority Discretions for use in the Cumbria Local Government Pension Scheme

Discretions from 1 April 2014 in relation to post 31 March 2014 active members (excluding councillor members) and post 31 March 2014 leavers (excluding councillor members), being discretions under:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Whether to issue actuarial guidance to administering authorities	**R**2(3)	Exercised by the Secretary of State
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	**R**4(2)(b)	Depending on circumstances, and only in accordance with the published Fund Admissions Policy

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Whether to agree to an admission agreement with a body applying to be an admission body	**R**3(1(a), **R**5(5) &**R**Sch 2, Part 3, para 1	Depending on circumstances, and only in accordance with the published Fund Admissions Policy
Whether to agree that an admission agreement may take effect on a date before the date on which it is executed	**R**sch2, Part 3, para 14	To adopt this discretion where there have been delays in finalising an admission agreement
Whether to approve / withdraw approval of an admission body providing a public service in the UK and the conditions for such approval / withdrawal	**R**Sch 2, Part 3, paras 1(e) and 2	Exercised by the Secretary of State
Whether to terminate an admission agreement in the event of • insolvency, winding up or liquidation of the body • breach by that body of its obligations under the admission agreement • failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**R**Sch 2, Part 3, para 9(d)	Yes as stated in termination policy. However in exceptional circumstances this may be varied**.**
Define what is meant by "employed in connection with"	**R**Sch 2, Part 3, para 12(a)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the	**R**16(1)	To turn down request where the monthly payment is below £20, or in the absence of a satisfactory medical report

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
sum being paid is very small and could be paid as a single payment)		
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC and whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health	**R**16(10)	Application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	**R**17(12)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Pension account may be kept in such form as is considered appropriate	**R**22(3)(c)	To maintain pension accounts in accordance with the approved administration policy
Where there are multiple ongoing employments, in the absence of an election from the member within 12 months of ceasing a concurrent employment, decide to which record the benefits from the ceased concurrent employment should be aggregated.	**TP**10(9)	In the absence of an election from the member the Administering Authority will make the final decision

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	**R**30(8)*	Not to waive actuarial reductions on flexible retirement
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age other than on the grounds of flexible retirement (where the member only has post 31 March 2014 membership)	**R**30(8)*	Not to waive actuarial reductions on benefits drawn voluntarily
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under **R**30(6) (flexible retirement), **R**30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under **R**30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	**R**68(2)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Whether to "switch on" the 85year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (other than on the grounds of flexible retirement).	**TP**Sch 2, para 1(2)*	Not to waive actuarial reductions or "switch on" the 85year rule on benefits drawn voluntarily
Whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age other than on the grounds of flexible retirement (where the member has both pre and post 1 April 2014 membership):	**TP3(1), TP**Sch 2, para 2(1) **B**30(5), **B**30A(5)	Not to waive actuarial reductions on any grounds (including compassionate grounds) to all members

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
a) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was not in the Scheme before 1 October 2006, b) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was in the Scheme before 1 October 2006 will not be 60 by 31 March 2016 and will not attain 60 between 1 April 2016 and 31 March 2020 inclusive, c) on compassionate grounds (pre 1 April 2016 membership) and in whole or in part on any grounds (post 31 March 2016 membership) if the member was in the Scheme before 1 October 2006 and will be 60 by 31 March 2016, d) on compassionate grounds (pre 1 April 2020 membership) and in whole or in part on any grounds (post March 2020 membership) if the member was in the Scheme before 1 October 2006, will not be 60 by 31 March 2016 and will attain 60 between 1 April 2016 and 31 March 2020 inclusive.		
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60 or waives an actuarial reductions	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reductions exercised by the employer, unless the Fund Actuary advises otherwise.

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
on compassionate grounds under TPSch2, para 2(1)		
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	**R**32(7)	Not to extend the time limit unless there are exceptional circumstances
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pension credit members where the effective date of the PSO is after 31 March 2014 and the debited member had some post 31 March 2014 membership).	**R**34(1)(a)	Do this at the members request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	**R**34(1)(b)	Do this at the beneficiaries request
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and includes pension credit members where the effective date of the Pension Sharing Order is after 31 March 2014 and the debited member had some post 31 March 2014 membership)	**R**34(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.
Approve medical advisors used by employers (for ill health benefits)	**R**36(3)	Delegated to Employer

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
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.	**TP**12(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.	**R**38(3)	To take the advice of the Fund IRMP, before any decision is made.
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	**R**38(6)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	**TP**17(5) to (8) & **R**40(2), **R**43(2) & **R**46(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be	**R**49(1)(c)	Always pay the highest benefit to a member of the fund

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership		
Whether to set up a separate admission agreement fund	**R**54(1)	Not to set up a separate admission agreement fund
Determine assets to be transferred from main fund to admission agreement fund	**R**54(4)(b)	Not applicable
Governance policy must state whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state: • the frequency of any committee or sub-committee meetings • the terms, structure and operational procedures appertaining to the delegation • whether representatives of employing authorities or members are included and, if so, whether they have voting rights The policy must also state: • the extent to which a delegation, or the absence of a delegation, complies with Secretary of State	**R**55*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 13th March 2020

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
guidance and, to the extent it does not so comply, state the reasons for not complying, and • the terms, structure and operational procedures appertaining to the Local Pensions Board		
Decide on Funding Strategy for inclusion in Funding Strategy Statement	**R**58*	This was approved by the Pensions Committee at the meeting held on the 8 December 2016
Whether to have a written pensions administration strategy and, if so, the matters it should include	**R**59(1) & (2)	An administration strategy has been set out in the Scheme policy document
Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Fund employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	**R**61*	A communications policy has been set out in the Scheme policy document
Whether to extend valuation report and certificate deadline	**R**62(2)	Exercised by the Secretary of State
Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.	**R**64(2A)	To extend the period with agreement of the exiting Employer
Whether to suspend (by way of issuing a suspension notice), for up to 3 years, an	**R**64(4)	To consider applications for a suspension notice on a case by case basis. Decision to issue a

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
employer’s obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.		suspension notice to be granted by the Director of Finance (S151 Officer).
Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Fund employer will become an exiting employer	**R**64(4)	Only do this if advised to do so by the fund actuary
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	**R**69(1)	The due date for employer contributions is the 19th of the month following the month to which they relate. Where invoices are issued for any payments the due date is one month from date of invoice. Administration charges are covered by the employer contribution rates.
Decide form and frequency of information to accompany payments to the Fund	**R**69(4)	Detailed remittance advice required for all payments to the Fund. Payments relating to contributions must provide pensionable pay, employer contributions, employee contributions and any additional contributions.
Whether to issue employer with notice to recover additional costs incurred as a result of the employer’s level of performance	**R**70 &**TP**22(2)	Issue such a notice when an employers level of performance gives rise to additional costs
Whether to charge interest on payments by employers which are overdue	**R**71(1)	The interest charge will be calculated in accordance with statutory requirements i.e. Base rate plus 1 %
Whether to extend six month period to lodge a stage one IDRP appeal	**R**74(4)	On the discretion of the Adjudicator investigating a stage one IDRP

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
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	**R**74(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	**R**76(4)	Procedure laid down
Whether administering authority should appeal against employer decision (or lack of a decision)	**R**79(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for administering authority to lodge an appeal against an employer decision	**R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**R**80(1)(b) & **TP**22(1)	Employers to supply information in accordance with the approved administration policy
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: • the personal representatives, or • anyone appearing to be beneficially entitled to the estate Without need for grant of probate/letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	**R**82(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pension Committee

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**R**83	In the case of an adult incapable of managing their affairs the Fund would normally require power of attorney, but where this is not provided each case will be individually determined. In cases relating to children incapable of managing their affairs the Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined. In both situations described determinations will be made by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to issue a forfeiture certificate	**R**91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	**R**98(1)(b)	On the advice of the Fund actuary
Agree to set aside of bulk transfer assets / cash and acquisition of rights in new scheme	**R**98(4)(a)	Fund actuary / new scheme actuary
Determine amount of, and adjustments to, bulk transfer payment	**R**99(1) & (2)	On the advice of the Fund actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	**R**99(5)	On the advice of the Fund actuary

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	**R**100(6)	Not to extend the normal time limit unless there are exceptional circumstances
Allow transfer of pension rights into the Fund	**R**100(7)	Allow following advice from the Fund actuary
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	**R**103(3)	As determined by the Actuaries for both Funds
Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **B**10(2)	Always pay the highest benefit to a member of the Fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008)	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **T**Sch 1 & **L**23(9)	Always pay the highest benefit to or on behalf of a member of the Fund
Decide to treat a child (who has not reached the age of 23) as being in continuous education or vocational training despite a break	**R**Sch 1 & **TP**17(9)	Adopt this discretion
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	**R**Sch 1 & **TP**17(9)(b)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
Decide appropriate Fund if employer applies to be moved to a different Fund	**R**Sch 3, Part 2, para 3	Exercised by the Secretary of State

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	**TP**3(13) & **A**70(1)* & **A**71(4)(c)	Not to abate pension on re-employment
Extend time period for capitalisation of added years contract	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	Not to extend time period
Decide whether to delegate any administering authority functions under the Regulations.	**R**105(2)	Details are contained within the Administration Strategy set out in the Scheme policy document
Decide whether to establish a joint local pensions board (if approval has been granted by the Secretary of State).	**R**106(3)	This would be considered by the Pensions Committee and Local Pension Board
Decide procedures applicable to the local pension board.	**R**106(6)	Procedures set out in the terms of reference of the Local Pension Board
Decide appointment procedures , terms of appointment and membership of the local pension board	**R**107(1)	Procedures set out in the terms of reference of the Local Pension Board

* These are matters about which the regulations require there must be a written policy.

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1 April 2008 and before 1 April 2014, being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]

- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Extend time period for capitalisation of added years contract where the member leaves their employment by reason of redundancy.	**T**Sch1 & **L**83(5)	Not to extend time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3)	To adopt this
Whether to pay the whole or part of the amount that is due to the personnel representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	**A**52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	**A**56(2)	Delegated to employer

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	On the discretion of the adjudicator investigating the stage one IDRP
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those functions are to be exercised.	**TP**23 & **R**74(6)	Procedure laid down in the employers IDRP guide
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	**TP**23 & **R**76(4)	Procedure laid down in the employers IDRP guide
Whether administering authority should appeal against employer decision (or lack of a decision)	**TP**23 & **R**76(4)	Will decide this depending on the particular circumstances
Whether to extend six month period for administering authority to lodge an appeal against an employer decision	**TP**23 & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	**TP**23, **TP**22(1) & **R**80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document
Decide policy on abatement of pensions following re-employment	**TP**3(13) & **A**70(1)* & **A**71(4)(c)	Not to abate pensions following re-employment
Whether to issue a forfeiture certificate	**A**72(1)	Exercised by the Secretary of State
Where member to whom **B**10 applies (use of average of 3 years pay within the period of 13	**B**10(2)	Always pay the highest benefit to a member of the fund

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
years ending with the last day of active membership for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member		
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	**B**27(5)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**A**52A	Would normally require power of attorney, but where not available each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under **B**30	**B**30(5)*	Not to waive actuarial reduction on compassionate grounds

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60	**B**30A(3)*	To take the advice of the Fund IRMP, before any decision is made
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under **B**30A	**B**30A(5)	Not to waive actuarial reduction on compassionate grounds
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring prior to age 60, or waives an actuarial reduction on compassionate grounds under **TP**Sch2, para 2(1)	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reduction on voluntary retirement or on compassionate grounds unless the Fund Actuary advises otherwise.
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	**B**31(4)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment	**B**31(7)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	**B**23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
		under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500, determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	**R**Sch1 & **TP**17(9)(a)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break	**R**Sch1 & **TP** 17(9)(a)	Adopt this discretion
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004	**B**39(1)(a) & **T**14(3)	To do so at the member's request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 1994	**R**39(1)(b)	To do so at the beneficiaries request
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised	**R**39(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.

<u>**Discretion**</u>	<u>**Regulation**</u>	<u>**Discretion made by Cumbria County Council as Administering Authority**</u>
Payments) Regulations 2009 (excludes survivor pensions and pension credit members).		
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	**B**42(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 pre01/04/08)	**T**Sch 1 & **L**23(9)	Always pay the highest benefit to or on behalf of a member of the fund

* These are matters about which the regulations require there must be a written policy.

<u>Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:</u>

- active councillor members, and
- councillor members who ceased active membership on or after 1 April 1998, and
- any other fund members who ceased active membership on or after 1 April 1998 and before 1 April 2008 being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]

- the Local Government Pension Scheme Regulations 1997 (as amended)

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Frequency of payment of councillors' contributions	12(5)	Determined that councillors are not eligible for membership of the CLGPS
Decide to whom death grant is paid in respect of post 31 March 1998. / pre 1 April 2008 leavers	38(1) & 155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	**TP**17(9)(a) 7 **R**Sch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	47(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pre 1 April 2008 leavers or Pension credit members	49(1) & T14(3)	To do this at member's request

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
where the effective date of the Pension Sharing Order was pre 1 April 2014 or where the effective date is after 31 March 2014 but the debited member had no post 31 March 2014 membership.		
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	49(1)	To do this at the beneficiaries request
Decide whether to commute benefits due to exceptional ill-health (including Pension Credit members where the effective date is after 31 March 2014 but the debited member had no post 31 March 2014 membership	50 and 157	Adopt this discretion
Whether to require any strain on Fund costs to be paid “up front” by employing authority following early payment of a deferred benefit on health grounds or from age 50 and prior to age 55 with employer consent.	80(5)	The strain on Fund costs to be paid up front following early payment of deferred benefits with employer consent unless the Fund actuary advises otherwise
Whether to require any strain on Fund costs to be paid “up front” by employing authority if the employing authority “switches on” the 85 year rule for a member voluntarily retiring on or after age 55 and prior to age 60, or waives an actuarial reduction on compassionate grounds under **TP**Sch2 para 2(1)	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following early payment of benefits with employer consent unless the Fund actuary advises otherwise
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 01/04/08 leavers)	89(3)	Adopt this discretion

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Timing of pension increase payments by employers to fund.	91(6)	Pension increase payments will be invoiced monthly, quarterly or annually dependant on circumstances
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less that amount specified in s6 of the Administration of Estatees (Small Payments) Act 1965.(death of pre 01/04/08 leaver)	95	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Approve medical advisors used by employers.	97(10)	Delegated to the employer
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	At the discretion of the adjudicator making stage one IDRP decision
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those function are to be exercised	**TP**23 & **R**74(6)	Procedure laid down in the IDRP employers guide
Decide procedure to be followed by administering authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised.	**TP**23 & **R**76(4)	Procedure laid down in the IDRP employers guide

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether administering authority should appeal against employer decision, or lack of a decision.	**TP**23 & **R**79(2)	Will decide this depending on the particular circumstances
Whether to extend 6 month period for an administering authority to lodge an appeal against an employer decision.	**TP**23, & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	**TP**23, **TP**22(1) & **R**80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Benefits to be based as at 31 March
Abatement of pensions following re-employment	109* & 110(4)(b)	Not to abate pension following re-employment
Retention of Contributions Equivalent Premium where member transfers out.	118	Adopt this discretion
Discharge Pension Credit liability.	147	Depending on individual circumstances

*These are matters about which the regulations require there must be a written policy.

Discretionary policies in relation to scheme members who ceased active membership before 1 April 1998:

- LGPS Regulations 1995 [Prefix TL]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 [Prefix TL]
- The Local Government Pension Scheme Regulations 1997 (as amended) [Prefix L]
- The Local Government Pension Scheme (Administration) Regulations 2008 [Prefix A] LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [Prefix TP]
- The Local Government Pension Scheme Regulations 2013 [Prefix R]

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Decide to whom death grant is paid.	E8	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500, determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to pay spouse's pensions for life (rather than ceasing during any period of remarriage or co-habitation)	F7	To adopt this discretion
Decide to treat child (who has not yet reached the age of 23) as being in continuous education or vocational training despite a break.	**TP**17(9)(a) & **R**Sch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	G11(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	G11(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	At the discretion of the adjudicator making stage one IDRP decision
Decide procedure to be followed by adjudicator when exercising stage one IDRP	**TP**23 & **R**74(6)	Procedure laid down in the IDRP employers guide

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
functions and decide the manner in which those functions are to be exercised		
Decide procedure to be followed by administrating authority when exercising stage two IDRP functions and decide the manner in which those functions are to be exercised	**TP**23 & **R**76(4)	Procedure laid down in the IDRP employers guide
Whether administering authority should appeal against employer decision (or lack of a decision)	**TP**23 & **R**79(2)	To review each case individually
Whether to extend six month period for an administering authority to lodge an appeal against an employer decision.	**TP**23 & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions.	**TP**23, **TP**22(1) & **R80**(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document

9.0 TRAINING POLICY

Contents

Cumbria LGPS Training Policy

9.1 Introduction
9.2 Policy Objectives
9.3 Application of Training Policy
9.4 Purpose of Training
9.5 Review and Maintenance

9.6 CIPFA Requirements
- 9.6.1 CIPFA Knowledge and Skills Framework
- 9.6.2 CIPFA's Principles of Investment Decision Making & Disclosure

9.7 Measurement, Assessment and Training Provision
- 9.7.1 Members
- 9.7.2 Officers
- 9.7.3 Training provision and evaluation cycle
- 9.7.4 Delivery of Training
- 9.7.5 External Events Members and Officers
- 9.7.6 Training Plan 2020/21 (per the Business Plan Agreed at Committee 13 March 2020)

9.0 CUMBRIA LGPS TRAINING POLICY

9.1 Introduction

A major factor in the governance arrangements of the Fund is ensuring committee members and officers have the relevant skills and knowledge. The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training.

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

- the Members of the Pension Committee and the Investment Sub-Group;
- the Members of Cumbria Local Pension Board; and
- officers of Cumbria CC responsible for the management of the Local Government Pension Scheme (LGPS).

The Training Policy is established to aid Members of the Pension Committee in performing and developing personally in their individual role in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that Members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

The code of practice no. 14 – Governance and administration of public service pension schemes issued by the Pensions Regulator in April 2015 contains practical guidance for fund managers and pension board members. The code sets out standards of conduct and practice expected of those who carry out functions for public service pension schemes in relation to legal requirements. The legislative requirements about knowledge and understanding outlined in the code only apply to pension board members. It is their individual responsibility to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board. However, fund managers are expected to take account of the guidance as it offers them support in understanding the legal framework and enables them to help pension board members meet their legal obligations.

On appointment, new Members of the Pensions Committee (including substitutes) and new appointees to the Local Pension Board (including substitutes) are provided with access to the relevant scheme documents including the most recent Annual Report and Accounts. To ensure a minimum level of training is achieved, a senior officer of the Pensions team holds an induction meeting with the new Members (including substitutes) to provide an oversight of the LGPS, details of the Cumbria LGPS and outline the key governance arrangements for the Fund including the responsibilities of Committee and Board members.

The EU directive, MiFID ii (Markets in Financial Instruments Directive), became enforceable in all European Economic Area (EEA) states from 3rd January 2018.

Following the introduction of MiFID ii from 3rd January 2018, financial institutions were no longer be able to categorise a local authority as a ’per se professional client’. Instead, all local authorities must be classified as a ‘retail client’ unless they were opted up by firms to an ‘elective professional client’ status.

In July 2017, the Financial Conduct Authority (FCA) released details of the opt up criteria which local authority clients must satisfy in order for firms to reclassify them as an elective professional client. The Scheme Advisory Board in association with the Investment Association (IA) subsequently provided a range of supporting documentation for local authorities (in their role as administering authorities for LGPS pension funds) to support the opt up process.

MiFID ii allows for retail clients which meet certain conditions to elect to be treated as professional clients through an ‘opt up’ process. There are two tests which must be met by the client when being assessed by the financial institution (Investment Manager) - the quantitative and the qualitative test.

One of the qualitative tests indicates that Investment Managers needs to be able to assess whether the Fund as a client can demonstrate their expertise, experience and knowledge, such that the manager can gain reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. The FCA criteria confirmed that this test could be assessed on an Administering Authority as a collective rather than on specific individuals.

The training policy assists the Fund to ensure that the assessed levels of expertise, experience and knowledge are maintained; in addition the Administering Authority are required to review the information and notify all managers of any changes to the collective circumstance which could affect their status.

9.2 Policy objectives

The Fund’s objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- Those persons responsible for governing the Fund have sufficient expertise, experience and knowledge, such that the investments managers can gain reasonable assurance that the Fund as the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. This is required to maintain the Fund’s status as elective professional clients under the EU directive, MiFID ii (Markets in Financial Instruments Directive)

- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice and the public service code of practice issued by the Pensions Regulator (as detailed above).

9.3 Application of the Training Policy

The Training Policy will apply to all elected Members and representatives with a role on the Pension Committee and the Investment Sub-Group, and Officers equal to and above the level of Technical Finance Officer of the Fund regardless of experience. (Officers below this level will have their own sectional and personal training plans and career development objectives).

The Pension Board will be responsible for establishing their own training plan and identifying their individual training needs. Board members of a funded scheme e.g. the LGPS are required to have a working knowledge of documented policies about investment governance, therefore board members will be invited to attend the Member and Officer training and development sessions outlined in the 2020/21 training plan.

9.4 Purpose of training

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria LGPS is to:

- equip those charged with the oversight and management of the Fund with the necessary skills, knowledge and training, and
- meet the required needs in relation to the Fund's objectives.

9.5 Review and maintenance

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

The Fund's Training Plans will be updated annually, taking account of the results from the Training Needs Evaluations, and on emerging issues. It will be updated with events and training opportunities as and when they become available or relevant to ongoing business or emerging issues.

Key themes for training in 2020/21 will be to:

- Assist with the ongoing development of Border to Coast Pensions Partnership Ltd (BCPP) sub-fund offering, with the other LGPS partner funds to allow Cumbria LGPS to comply with the requirement to pool LGPS assets.
- Review of governance arrangements in response to financial, regulatory and structural changes associated with the ongoing development of investment asset pools.

- Support Pension Committee Members in respect of the workings of the Joint Committee of the partner funds of BCPP and the requirements of the role as shareholder of the BCPP company.

- Continue to develop the Fund's corporate governance and engagement framework in light of the changes to the Fund's investment managers and the government's continued focus in this area.

- Ongoing training of Officers to ensure they meet the high level of knowledge required to ensure the Fund continues to be well governed and managed and remain compliant with the MiFID ii regulations.

- Keep Members and officers abreast of developments in the wider pensions and investments markets in respect of the governments approach to the implementation of regulation such as:

    - Cost Transparency obligations which are required for inclusion in the financial accounts 2019/20.

    - The UK Stewardship Code 2020 which replaces the 2012 Code; the Fund's statement of compliance with the 2012 code was accepted at Tier 1 for Asset Owners. The changes set out in the new code are substantial and officers are working closely with BCPP and other partner funds to assess the requirements and develop an appropriate and consistent response.

9.6 CIPFA REQUIREMENTS

9.6.1 CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements-

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

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:

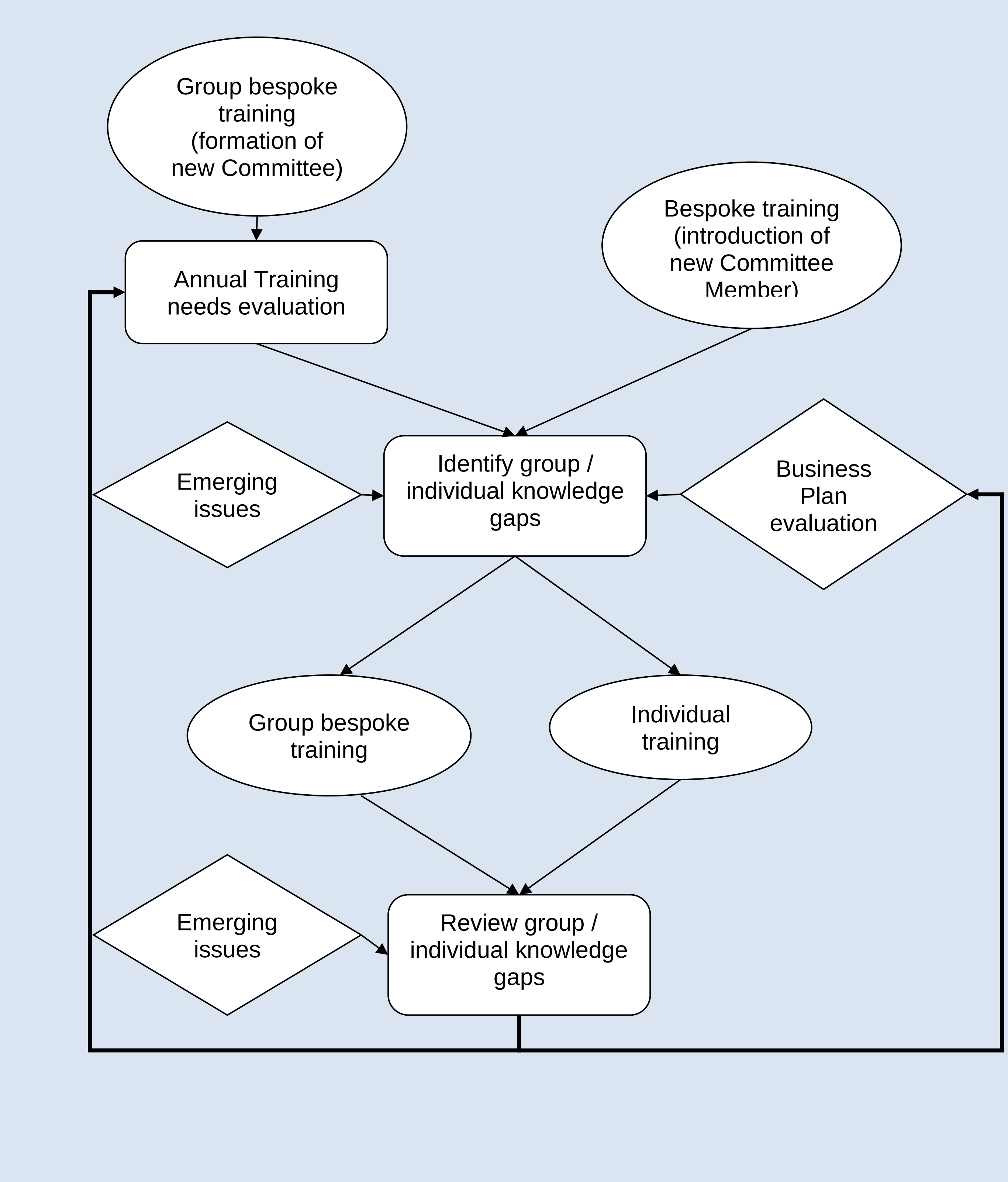
- Undertake as a Committee and a Board, an annual Training Needs Evaluation exercise. This evaluation will be used to identify both group and individual training gaps.
- Substitute Members will be invited to complete this annual evaluation and training exercise so that they have a base grounding in the LGPS and the requirements placed on themselves as Committee or Board members.
- Where the evaluation highlights that there is a knowledge gap the Committee and Board will undertake either additional internal group be-spoke training or individual external training as appropriate.
- The Committee and Board will as part of the annual Business Plan commit to an outline of internal be-spoke training. This will be focused around either up and coming national changes or internal workloads (e.g. introduction of new asset classes).
- Investment Sub-Group Members – will be expected to obtain an individual level of knowledge and skills in relation to the investment modules of the CIPFA Framework. Support from Officers and the Fund's Independent Advisors will be available as and when required, but always in advance of any decision being taken.
- Report as appropriate in external documentation compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the CIPFA Principles of Investment Decision Making and Disclosure.

9.7.2 Officers:

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Technical Finance Officer level or above will be expected to achieve a reasonable level of competence across the topics within the CIPFA Training Needs Assessment for LGPS Practitioners taking account of the requirements of their roles.

9.7.3 Training Provision and Evaluation Cycle

To illustrate this above process see below diagram of the annual training evaluation and programme scheduling:



9.7.4 Delivery of Training

Consideration will be given to various training resources available in delivering training to Members of the Pension Committee, Pension Board, Investment Sub-Group or Officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs (based on annual evaluation per paragraph 9.7.1 to 9.7.3) and ongoing requirements (per the Annual Business Plan) and emerging events. It is to be delivered in a manner that balances both demands on Members time and costs. These may include but are not restricted to:

For Pension Committee, Investment Sub-Group and Local Pension Board Members	For Officers
• In-house • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Internally developed training days and pre/post Committee sessions • Shared training with other Schemes or Frameworks • Regular updates from officers and/or advisors	• Desktop / work based training • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. IMC/CFA, CIPP, CIPFA,) • Internally developed sessions • Shared training with other Schemes or Frameworks

9.7.5 External Events

Members All relevant external events will be e-mailed to Members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points –

- Their view on value of the event and the merit, if any, of attendance at this event or similar events in the future.
- A summary of the key learning points gained from attending the event, and
- Recommendations of any key issues identified of relevance to Cumbria LGPS to which training would be beneficial to other officers.
- Any other issues arising

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

9.7.6 Training Plan (per the Business Plan agreed at Committee March 2020)

The table of training topics below provides a summary of the proposed training programme as highlighted by the Annual Training Needs Assessment. It has been prepared by taking account of up and coming national legislative / policy changes such as the continued development of BCPP as the Funds chosen vehicle to comply with LGPS Pooling, the further development the Fund's approach to the Cost Transparency regulations for inclusion in the 2019/20 financial accounts, the assessment of requirements of the FRC UK Stewardship Code 2020 and develop an appropriate response, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in December 2019 and January 2020.

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

Training Topics
The progression of the Cost Transparency agenda, including the availability of accurate information and related reporting requirements.
Awareness of the revised UK Stewardship Code (2020) and how this links to shareholder engagement, responsible investing and the views of the wider community.
The implications of national consultations on the LGPS for example the Scheme Advisory Board's 'Good Governance Review'
LGPS discretions policy and how these are operated in practice.
Roles and powers of the Pensions Regulator and the Pensions Ombudsman.
The implications of Climate Change within Responsible Investment.

As indicated in section 9.7.4 Delivery of Training, where possible the Fund will endeavour to timetable internal training by officers or external presenters to coincide with scheduled meetings of the Committee or Board which are detailed on the schedule below for 2020/21.

Date	Meeting Title and Venue
15 April 2020	Cumbria Local Pension Board in Carlisle
23 June 2020	Quarterly Pensions Committee in Carlisle
2 July 2020	Cumbria Local Pension Board in Kendal
15 & 16 September 2020	Quarterly Pensions Committee in Edinburgh
6 October 2020	Cumbria Local Pension Board in Carlisle
26 October 2020	Annual Pension Forum in Penrith
15 December 2020	Quarterly Pensions Committee in Carlisle

Date	Meeting Title and Venue
October to December 2020	Annual Training Needs Evaluation
13 January 2021	Cumbria Local Pension Board in Carlisle
30 March 2021	Quarterly Pensions Committee in Carlisle

10 CUMBRIA LGPS POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Contents:

10.1 Introduction

10.2 Requirements

10.2.1 Introduction

10.2.2 Pensions Act 2004

10.2.3 The Pensions Regulator Code of Practice

10.2.4 Application to Cumbria LGPS

10.3 Reporting breaches procedure

10.3.1 Introduction

10.3.2 Clarification of the law

10.3.3 Clarification when a breach is suspected

10.3.4 Determining if a breach is materially significant

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

10.3.6 Decision tree: Deciding whether or not to report

10.3.7 Timescales for reporting

10.3.8 Recording all breaches even if not reported

10.3.9 Reporting a breach

10.3.10 Confidentiality

10.3.11 Reporting to the Pensions Committee and Pension 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 advisor and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

10.1.5 This document applies, in the main, to:

- all Members of the Cumbria Local Pension Board;
- all Members of the Cumbria Pension Committee;
- all officers involved in the management of the Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund;
- any professional advisors including independent advisors, auditors, actuaries, legal advisors and fund investment managers of the Fund;
- officers of employers participating in the Fund who are responsible for pension matters; and
- any other person involved in the administration of the Fund and/or in advising the Administering authority in relation to the Fund

10.2 Requirements

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

10.2.1 Pensions Act 2004

Section 70 of the Pensions Act 2004 requires that certain people must report breaches of the law in writing to The Pensions' Regulator as soon as reasonably practicable and where they have reasonable cause to believe that:

a. a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with: this could relate for instance to keeping records, internal controls, calculating benefits and investment governance and administration matters; and
b. the failure to comply is likely to be of material significance to The Pensions' Regulator (TPR).

The Act states that a person can be subject to a civil penalty, imposed by the Pensions Regulator, if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal advisor and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The requirement applies to the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional advisor in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

10.2.3The Pensions Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice[3] 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.

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

10.2.2 Application to Cumbria LGPS ('the Fund')

This policy and procedure has been developed to reflect the guidance contained in The Pensions Regulator's Code of Practice in relation to the Fund and this document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure.

10.3 The Fund Reporting Breaches Procedure

10.3.1 Introduction

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

10.3.2 Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: **www.legislation.gov.uk/ukpga/2004/35/contents**
- Employment Rights Act 1996: **www.legislation.gov.uk/ukpga/1996/18/contents**
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): **www.legislation.gov.uk/uksi/2013/2734/contents/made**
- Public Service Pension Schemes Act 2013: **www.legislation.gov.uk/ukpga/2013/25/contents**
- Local Government Pension Scheme Regulations (various): **http://www.lgpsregs.org/timelineregs/Default.html** (pre 2014 schemes) **http://www.lgpsregs.org/index.php/regs-legislation** (2014 scheme)
- The Pensions Regulator's Code of Practice: http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

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

10.3.3 Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Administering authority or the Pensions Regulator may require before taking legal action.

It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

Subject to paragraph 10.3.5 where a breach is suspected it will usually be appropriate for the individual to report reasonable suspicions to one of the following who will undertake appropriate checks to determine whether a breach has occurred:

- Director of Finance (S151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy S151 Officer LGPS);
- Chief Legal Officer (Monitoring Officer);
- Senior Manager – Legal & Democratic Services;
- a member of the Pensions Committee or Pension Board (details of the members of the Committee and Board can be found at **http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150** & **http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164** respectively); or
- a member of the Pensions Team (**pensions@cumbria.gov.uk**).

There are some instances where it would not be appropriate to report reasonable suspicions to the above individuals or to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases, The Pensions Regulator should be contacted without delay.

10.3.4 Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Annex A to this procedure.

The individual should use the traffic light framework described in Annex B to help assess the material significance of each breach and to formally support and document their decision.

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

Subject to paragraph 10.3.3 before you submit a report to The Pensions Regulator you should refer the suspected breach to the appropriate level of authority to assist in determining whether a report needs to be made. Cumbria County Council has determined that the appropriate persons are the Director of Finance (S151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS)) and/or the Chief Legal Officer (Monitoring Officer) (or in their absence the Senior Manager – Legal & Democratic Services) and/or External Audit. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to TPR, where appropriate.

Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - **http://www.lgpsregs.org/**). If timescales allow, legal advice or other professional advice can be sought.

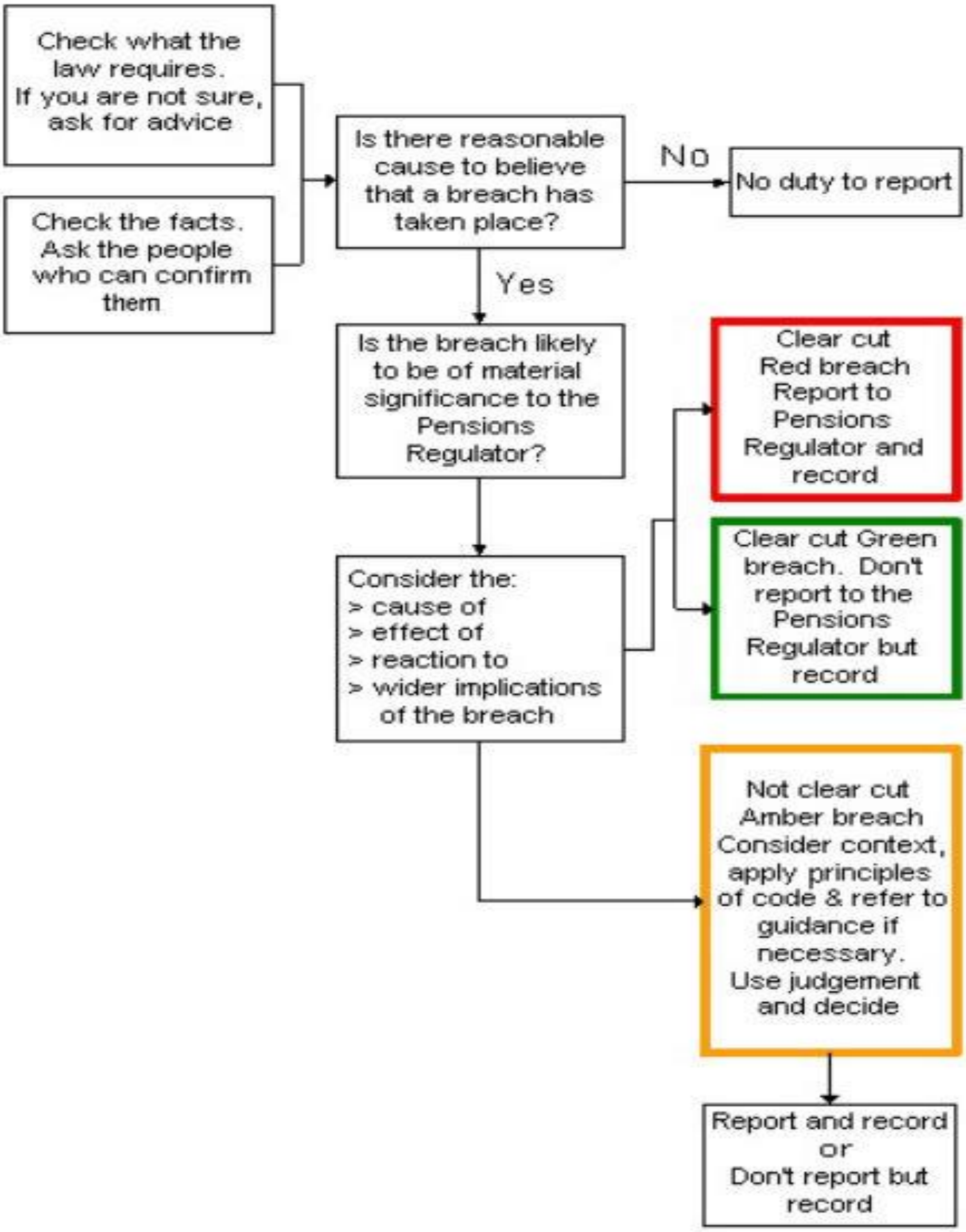
The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches. Before referring to the Pensions Regulator the individual may prefer to approach External Audit for their opinion.

Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to TPR.

10.3.6 Decision Tree: deciding whether or not to report:

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

Decision-tree: deciding whether to report



10.3.7 Timescales for reporting

The Pensions Act and The Pensions Regulator's Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which TPR may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

Early identification of very serious breaches: In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, TPR does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert TPR to the breach.

10.3.8 Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Cumbria County Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Senior Manager: Pensions & Financial Services (Deputy S151 Officer LGPS) or the Monitoring Officer. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Local Pension Board.

10.3.9 Reporting a breach

Reports must be submitted in writing via TPR's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to TPR. TPR will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by TPR due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full fund name (Cumbria Local Government Pension Scheme);
- 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;

Annex A

- Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the administering authority breaching legal requirements;
- Inadequate internal controls, which may lead to the Fund not being run in accordance with scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;
- Inaccurate or incomplete information about benefits and scheme information provided to members, which may result in members not being able to effectively plan or make decisions about their retirement;
- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
- Misappropriation of assets, resulting in scheme assets not being safeguarded; and
- Any other breaches which may result in the scheme being poorly governed, managed or administered.

5. The reaction to the breach

5.1. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members the regulator will not normally consider this to be materially significant.

5.2. A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

6. The wider implications of the breach

6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Annex B

Traffic light framework for deciding whether or not to report

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

RED

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

These must be reported to The Pensions Regulator.

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

AMBER

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

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

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

GREEN

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

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

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

Annex B

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

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:
https://www.thepensionsregulator.gov.uk/en/document-library/code-related-guidance/complying-with-the-duty-to-report-breaches-of-the-law

Annex B

Example Record of Breaches

Date	**Category** *(e.g. administration, contributions, funding, investment, criminal activity)*	**Description and cause of breach**	**Possible effect of breach and wider implications**	**Response of relevant parties to breach**	**Reported / Not reported (with justification if not reported and dates)**	**Outcome of report and/or investigations**	**Outstanding actions**

INTERNAL CONTROL & RISK MANAGEMENT POLICY

1. Background

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

1.2. Internal controls are systems, arrangements and procedures that are put in place to ensure that the Fund is being run in accordance with Local Government Pension Scheme regulations and other law. They cover:

- scheme administration and management,
- monitoring that administration and management, and
- the safe custody and security of Fund assets.

1.3. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.

1.5. Internal controls should address significant risks which are likely to have a material impact on the Fund. A risk-based approach should be taken to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

1.6. A key determinant in selecting the actions to be taken in relation to a risk will be its potential impact on the Fund's objectives in the light of the administering authority's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring.

2. Regulatory requirements and Guidance

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

2.2. **Pensions Act 2004:**

2.2.1. Sections 249A(5) and 249B of the Pensions Act 2004 require that the scheme manager of a public service pension scheme such as the Cumbria Local Government Pension Scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the Fund is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

2.3. **The Pensions Regulator:**

2.3.1. In accordance with Section 90(2)(k) of the Pensions Act 2004 the Pensions Regulator has issued a code of practice (09) on internal controls (the Code). This requires Scheme Managers (i.e. administering authorities) such as Cumbria County Council to establish and operate adequate internal controls and that these should address significant risks which are likely to have a material impact on the Fund.

2.3.2. The Code states that, before implementing an internal controls framework, Funds should carry out a risk assessment and produce a risk register which should be reviewed regularly. The impact of a risk on Fund operations and members and the likelihood of it materialising should be considered and Funds should focus on those areas where the impact and likelihood of a risk materialising is high.

2.3.3. Following this consideration of risk, the Code states that Funds should consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. This should be a continual process and should take account of a changing environment and new and emerging risks.

2.3.4. Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

2.4. **Other relevant guidance**:

2.4.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)

2.4.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)

2.4.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)

2.4.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

3. <u>Review of policy</u>

3.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.

3.2. This Internal Control and Risk Management Policy was approved at the Cumbria Pensions Committee on 13 March 2020.

4. Application to the Fund

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

5. Responsibility

5.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Director of Finance (S151 Officer) is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee and Local Pension Board.

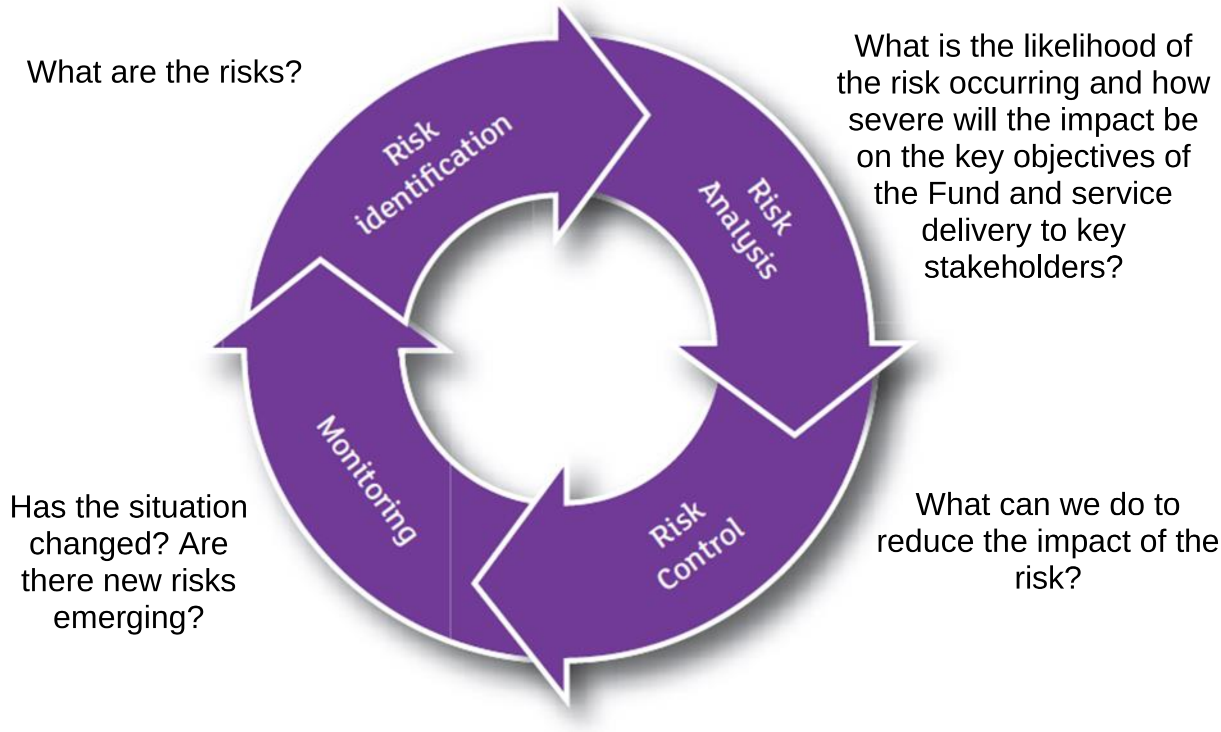
5.2. The Pensions Committee is charged with actively monitoring, on a quarterly basis, progress in relation to controls and actions taken to mitigate risk. Should any major risk emerge between meetings, this will be escalated by Fund Officers to the Chair and Director of Finance (S151 Officer).

5.3. The Local Pension Board, in its role in assisting the Administering Authority of the Fund to comply with relevant legislative requirements and ensuring the effective governance of the scheme, provides comment on and inputs into the management of risks.

5.4. It is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

6. Process

6.1. The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



6.2. **Risk Identification:**

6.2.1. Risk identification involves assessing risks in the context of the objectives and targets of the Fund. The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the Fund.

6.2.2. Risks to the Fund are identified by a number of means including, but not limited to:

- Formal risk assessment exercises,
- Informal meetings of senior officers or other staff involved in the management of the Fund,
- Findings of External or Internal audit work,
- Performance monitoring (e.g. administrative KPIs),
- Monitoring against the Fund’s Business Plan,
- Feedback from Local Pension Board and / or Pensions Committee meetings or directly from members,
- Liaison with other administering authorities and regional and national groups, including the Scheme Advisory Board, CIPFA, Border to Coast Pensions Partnership Ltd (BCPP) etc.,
- Legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases, and
- Business or service continuity plans developed by the administering authority.

6.2.3. Once identified, risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

6.3. **Risk Analysis:**

6.3.1. Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Impact / Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Very unlikely	1	2	3	4	5

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

6.4. **Risk Control:**

6.4.1. The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Fund should understand the nature of risk and how the Fund systemically identifies, analyses, treats, monitors and reviews those risks.

6.4.2. Fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls of the Fund could result in any of the following:

- *Risk elimination:* e.g., ceasing an activity or course of action that would give rise to the risk;

- *Risk reduction*: e.g. choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises;
- *Risk toleration*: e.g. where risk is unavoidable or more tolerable than alternatives, or where impact is assessed to be minimal. This is partially driven by the Fund's risk 'appetite'.
- *Risk transfer*: e.g. transferring risk to another party either by insurance or through a contractual arrangement.

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

6.4.4. Risk appetite: this is the level of risk the Fund chooses to take (or 'accepts') in pursuit of its strategic objectives. The Fund's overarching appetite for risk is conservative and focused on complying with its fiduciary duty and ensuring reliable delivery of quality services to stakeholders. The Fund recognises that it is not possible to completely eliminate all possible risks but seeks to recognise risks and deal with them appropriately. Further details on how this is taken into account in relation to the Fund's Investments can be found in the Investment Strategy Statement (section 4.5.2)

6.5. **Risk Monitoring:**

6.5.1. Risk monitoring is an ongoing part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Pensions Committee will consider whether:

- The risk controls taken achieve the desired outcomes;
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate;
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
- There are any lessons to be learned for the future assessment and management of risks.

6.5.2. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to internal controls, will be provided to the Pensions Committee and Local Pension Board on a quarterly basis. An example of the summary page of the risk register (as at March 2020) is shown below, indicating the matrix of risk profiles that are considered.

	PENSION FUND RISKS	Q4	Q1	Q2	Q3	Target	DOT
1	1.1. Information security arrangements	15	15	15	15	10	→
2	1.2. Pensions administration processes	12	12	12	9	6	↓
3	1.3. Scheme member communication	4	4	4	4	4	→
4	1.4. Data quality	6	6	6	6	3	→
5	1.5. Payment of contributions	8	8	8	8	8	→
6	1.6. McCloud Judgement	n/a	n/a	12	12	9	→
7	1.7 Scam Detection & Prevention	n/a	n/a	n/a	4	4	NEW
8	2.1. Pension Regulator Intervention	5	5	5	5	5	→
9	2.2. Regulatory changes	8	8	8	8	8	→
10	2.3. Financial irregularity	6	6	6	6	6	→
11	2.4 Loss of key personnel	4	4	4	4	4	→
12	2.5. Conflicts of Interest	4	4	4	4	4	→
13	2.6 Operational disaster	4	4	4	4	4	→
14	3.1 Investment performance	8	8	8	8	8	→
15	3.2 Availability of investment opportunities	n/a	n/a	n/a	6	6	NEW

CORPORATE RISK PROFILE
(Risk Score = Likelihood x Impact)

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

Summary of risk changes since last quarter

New Risks:

- Availability of investment opportunities that enable the Fund to implement its Investment Strategy.
- Ability of the Fund to detect and prevent scams

Removed Risks:

- Cashflow to ensure monthly pensions can be paid
- Flexibility of investment strategy

Amended Risks:

- Reduction in the risk of a failure occurring within YPS having a detrimental effect to Scheme Members

Emerging Risks

- Currently there are no emerging risks of specific significance within the Fund.

6.5.3. The Pensions Committee and Local Pension Board will be provided with updates on a quarterly basis in relation to any changes to risks and newly identified risks. Should any major risk emerge or significant control failure takes place between meetings, this will be escalated by Fund Officers to the Chair of the Committee and Director of Finance (S151 Officer). Where changes to a risk, a new risk or control failures arise as a result of a breach of the law or indicate a potential breach of the law, the Fund's policy and procedure on reporting breaches of the law must be followed.

6.5.4. Where a risk is identified that could be of significance to the Council it will be recorded in the Corporate Risk Register. Where appropriate the Fund will adhere to the Council's broader risk reporting framework and escalation process.

7. Key risks to the effective delivery of this Policy

7.1.1. The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Local Pension Board membership, the two Independent Advisors and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk exposure without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

8. Costs

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