Cumbria County Council

Audited Statement of Accounts for the year 2018/19

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Narrative Statement

1. Overview

1.1. The statement of Accounts for 2018/19 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts comply with International Financial Reporting Standards (IFRS) as interpreted by the Code.

1.2. This Narrative Statement explains the key messages resulting from Cumbria County Council's 2018/19 financial position. It also explains how the Council has achieved and delivered on its Council Plan objectives and Medium Term Financial Plan and therefore, overall, how it has used the resources available to it, to achieve the expected outcomes for Cumbria. It also provides assurance as to how well Cumbria County Council is equipped to deal with challenges ahead and how it will continue to deliver services and support to the local community in future years.

1.3. The County Council has an operating model that determines an annual revenue budget for each Directorate within which they must operate and deliver on the Council's priorities. These priorities are presented as performance indicators for each Directorate and monitored alongside the revenue budget monitoring. Strategic and operational risks are identified and managed as appropriate. Overall the performance is achieved by ensuring that all resources (financial, staff and assets) are directed to support the achievement of the stated outcomes. A number of the service provided to achieve these outcomes are listed in paragraph 2.6 below.

1.4. During 2018/19 the Council's financial and non-financial performance was regularly reported to Elected Members. This included updates on staff development and training, governance updates and improvements, internal and external audit commentary, the delivery of the Council Plan and the usual Performance Indicators and financial monitoring.

1.5. The Council works in partnership across many different elements of service delivery from strategic Health and Social Care Integration through to Local Committees working with youth groups and parish councils to support universal and targeted services. The Local Authority landscape is more complex than ever and ensuring that the Council can achieve its outcomes within its financial envelope is critical. This is increasingly challenging but also increasingly the focus.

1.6. At the year end the financial 'outturn' position is reported to the Council and then converted through a series of technical accounting adjustments to present an International Financial Reporting Standards (IFRS) compliant Statement of Accounts.

1.7. The purpose of the Statement of Accounts is to report on the Council, Cumbria Local Government Pension Scheme and Group Accounts financial performance for the year 2018/19 and the overall financial position as at 31st March 2019. This is to give electors, local taxpayers, Elected Members of the Council, employees and other interested parties comprehensive information about the Council's finances and provide confidence that public money, with which the Council has been entrusted, has been used and accounted for in an appropriate manner.

1.8. In respect of the closure of accounts process the closedown timetable has been achieved with the Unaudited Accounts being published by the 31st May. Following the audit process it is expected that the final audited Annual Financial Report 2018/19 will be presented to the Audit and Assurance Committee on the 26th July 2019 for approval.

1.9. The following financial statements are included in the Statement of Accounts (the Council's financial statements are set out in Section 4) :-

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement

1.10. As part of the development of the Statement of Accounts each year the content is reviewed for applicability and materiality. The aim being to 'declutter' the Accounts by only including relevant and material accounting policies and disclosure notes. The Council's materiality level is guided by the the level used by the external auditor. The Council's materiality for accounting purposes in 2018/19 is £15.7m. Where it was felt appropriate to aid in the understanding of the accounts, the Council adopted a lower threshold. Any notes to the accounts below this value that are not statutorily required and where the Council's feels it is not required to aid understanding, have been excluded.

2. Cumbria Context

2.1 The County of Cumbria was established in 1974 and is one of the most sparsely populated counties in the United Kingdom. It is the most north westerly County in England and is the second largest county in England. It covers 6,767 km^2 and its population is estimated to be 498,000.

2.2 Within Cumbria there is the County Council, six District Councils, two National Parks and seven NHS organisations. In addition there are six Members of Parliament and over 250 Parish and Town Councils and Parish meetings.

2.3 Cumbria County Council is responsible for many of the key services that are important to local communities such as education, libraries and youth services, social services, highways maintenance, waste disposal, emergency planning, consumer protection and the Fire and Rescue Service. It employs almost 6,500 people and has a net Budget of £390m.

2.4 Cumbria has a super-ageing population; by 2030 the population aged over 65 is expected to increase by 23,000 to 145,000 and this will represent 30% of the total population (compared to 24% nationally). In contrast the working age population is expected to decline by 24,000, the third biggest fall in the country, unless migration trends change.

2.5 In respect of the Cumbrian economy, there are over 28,000 businesses and 247,000 people in employment, generating Gross Value Added of £11.6bn with opportunities to capitalise on our productivity, innovation and enterprise potential, to develop a better balanced economy and to increase our talent pool.

2.6 To put the services that the Council delivers into context the Council:

- Ensures appropriate support for over 8,000 adults at home or in residential care
- Cares for over 600 looked after children
- Supports 322 Primary, Secondary, Nursery and Special Schools and Pupil Referral Units (including 57 Academies).
- Funds 20 Children centres.
- Provides access to almost 700,000 library books and publications.
- Provides through Libraries and Archives offices over 310 public access computers.
- Carries out more than 10,400 'Safe and Well / Home safety check' assessments annually.
- Maintains approximately 5,000 miles of carriageway 1,775 bridges and 50,000 streetlights
- Grits 1,490 miles per countywide gritting run
- Responds to over 700 fires per annum and an average of 11 emergencies per day
- Registers almost 4,000 births each year.
- Administers the registration of over 3,200 weddings registered and held in Cumbria.
- Contributes approximately £44 million to the Cumbria economy from ceremonies in 2018/19.
- Provides 18,500 hours of music tuition each year.
- Supports 6,500 learners on our community / adult education courses each year, delivered through a network of learning centres.
- Through its 100% owned Company Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd it provides waste management and recycling services and catering, cleaning and facilities management services.

3. Key Messages

3.1 This is a challenging time for the public sector, with funding reductions from Central Government expected to continue, economic uncertainty and increasing pressures upon key local services, in particular, care for the elderly and care for vulnerable adults and children. Local Government is responding to these challenges with increasing focus on collaborative working, integration of services, in particular in health and social care, and looking at alternative delivery mechanisms. This is reflected in the Council Plan.

3.2 The Council Plan sets the Council's priorities and these are further developed in service plans to set the focus for each area within the Council. The Council Plan Delivery Plan is the mechanism through which the performance and delivery of the Council Plan priorities are monitored.

3.3 The updated 2018-2022 Council Plan was approved by Council in February 2018. For 2018/19 the performance of the Council (financial and non- financial) has been measured against delivery of 2018-2022 Council Plan priority outcomes.

3.4 The Council Plan 2018-2022 included the revised Corporate Priority outcomes:

- People in Cumbria are Healthy and Safe
- Places in Cumbria are Well-Connected and Thriving
- The Economy in Cumbria is Growing and Benefitting Everyone

3.5 To ensure that the Council is financially sustainable for the future and able to deliver its priority outcomes it will use new approaches to maximise its contribution to improving the everyday experiences of people in Cumbria This will mean:

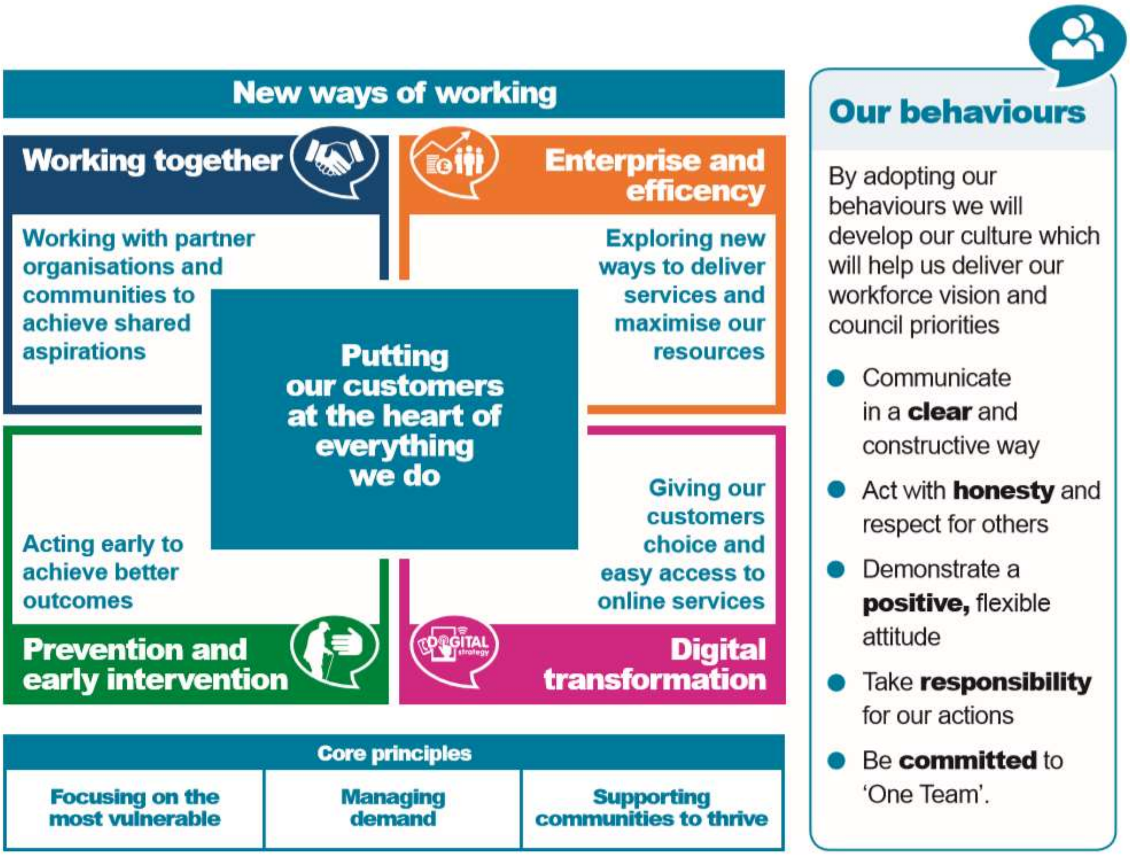
- Putting Customers at the heart of everything we do
- Supporting communities to thrive
- Focusing on the most vulnerable
- Managing Demand

This will be delivered through embedding our new ways of working

- Working Together
- Enterprise and Efficiency
- Digital Transformation
- Prevention and Early Intervention

3.6 As part of this new way of working, an internal Directorate reshaping was undertaken with a new structure effective from 1st May 2018. This audited Statement of Accounts reflects this new structure.

3.7 The Council Plan 2018 -2022 makes a commitment to introduce the following new ways of working which are underpinned by the principle of putting customers at the heart of everything we do. These core principles underpin the Council's actions and decision making processes.



3.8 The Council agreed the net Revenue Budget for 2018/19 as part of the Medium Term Financial Plan (MTFP) at its meeting in February 2018. The net Revenue Budget requirement (gross expenditure less specific grants and fees and charges and excluding transfers from earmarked reserves) was £375.348m. Council also agreed a 1.99% increase in Council Tax and a 2% Adult Social Care precept. The Council Tax levels set by the Council for 2018/19 therefore increased to £1,332.13 per Band D property. The Council Tax Requirement (income raised from Council Tax Payers) was £225.305m.

3.9 The main sources of funding for the Council comes from Council Tax and Retained Business Rates with some funding still from Central Government in the shape of Revenue Support Grant and other general and specific grants. The funding determines the expenditure. For many services income is also a key source of funding. The income provides the ability to continue to deliver often non-statutory services to the public. Note 17 provides the detail for this.

3.10 For 2018/19 the financial performance shows that the Council managed its resources effectively through the year resulting in a balanced position. This is a result of the total spend of £389.814m at the year end being the same as the revised total net expenditure budget for 2018/19 for the Council of £389.814m. This is after agreed transfers to and from reserves. The final budget position reflects the Council's proactive approach to financial management during the year and the need to effectively manage the use of reserves throughout the year as agreed in the MTFP.

3.11 Council approves the minimum level of General Fund Balance each year as part of the Budget approval process. For 2018/19 this level was set at £10m. This is established in relation to the risks and uncertainties facing the Council when the annual budget is set.

3.12 The opening balance on the General Fund Balance for 2018/19 was £10.472m. As a result of the final outturn position the General Fund Balance at year end is £15.056m. This is above the approved minimum level of £10m approved by Council in February 2018. In agreeing the 2019/20 Budget at its meeting on 14th February 2019 Council agreed that the General Fund Balance be no less than £15m for 2019/20 and wherever possible, effort is made to improve this, given the financial context. In short, the continuing savings challenge and the shift in funding to a reliance on locally generated income presents significant risk and general economic and funding uncertainty over the life of this MTFP. The General Fund Balance at 31st March 2019 of £15.056m achieves the Council ambition.

3.13 From a capital investment perspective the Council achieved £132.734m of investment across a number of significant schemes and programmes supporting the delivery of services across the Council. Further information is provided in para 3.44 below.

3.14 For 2018/19 there is also a broadly positive picture of non-financial performance across the full range of the Council's services. Performance is reported in respect of delivery of the Council Plan Delivery Plan and associated indicators. The overall position by the end of Quarter 4 2018/19 was that 57 of the 81 (70%) Council Plan Delivery Plan **actions** had been delivered or met or were on track to meet the planned milestone and rated green, 21 (26%) were in progress and had part delivered and were rated amber. For the same period 3 actions (4%) had missed a key milestone or did not fully deliver as intended and have therefore been rated red.

3.15 The Performance Report aligns with the financial monitoring report and where there are areas of financial pressures they are consistent with the reporting of underperformance or non-delivery of targets. Likewise on the capital investment performance that matches the achievement of the £133m capital expenditure.

3.16 Finally, the draft Annual Governance Statement, which sets out the main features of the Council's corporate governance arrangements and its effectiveness, is presented alongside but separate to the Statement of Accounts. The Council's annual review of the effectiveness of its corporate governance arrangements provides assurance on the governance arrangements in place, the progress made against the previous significant governance issue and includes an action plan to address any significant governance issues identified through the review.

3.17 No significant governance issues were identified for 2018/19. The Annual Governance Statement 2018/19 is available on the Council's website.

3.18 The value for money conclusion for 2017/18 from the External Auditors stated that with the exception of the matter identified in respect of embedding its contract management arrangements, the Council had proper arrangements in all significant respects to secure value for money through economic, efficient and effective use of its resources for the year ended 31st March 2018. The Auditor set out the Council's progress in delivering the actions contained in the Amey Lessons Learned report and acknowledged process and system improvements. In respect of the Medium Term Financial Plan (MTFP) and budget planning the External auditor acknowledged the commitment of the Council in its long term planning for financial sustainability and made recommendations relating to the Council's continuing efforts, financial planning and adequacy of reserves.

Financial Performance – revenue

3.19 The Council budget set in February 2018 included £38.829m of savings. Overall 91.7% of the savings were delivered in year giving a shortfall of £3.242m. These have subsequently been reflected in the 2019/20 revenue budget and 2019-2022 Medium Term Financial Plan.

3.20 Within the overall balanced position there are significant pressures reported within Directorates (£6.501m) that have been offset by the underspend (£8.313m) on Other Corporate Items largely as a result of the one off drawdown of (£7.574m) from the CNDR (Carlisle Northern Development Route) Grant in Advance reserve as part the additional benefit from the CNDR refinancing, as well as an underspend across other areas such as Inflation (£8.313m).

3.21 The significant Directorate pressures are in People £11.911m; offset by Directorate underspends in Finance (£4.540m) Economy & Infrastructure (£0.317m), Fire & Rescue Services of (£0.313m), and Corporate Customer & Community Services (£0.240m).

3.22 The table below summarises the final outturn position (subject to external audit) for 2018/19. This breakeven position is after the transfer to the Innovation Fund at the year end as agreed by Cabinet at its meeting in March 2019.

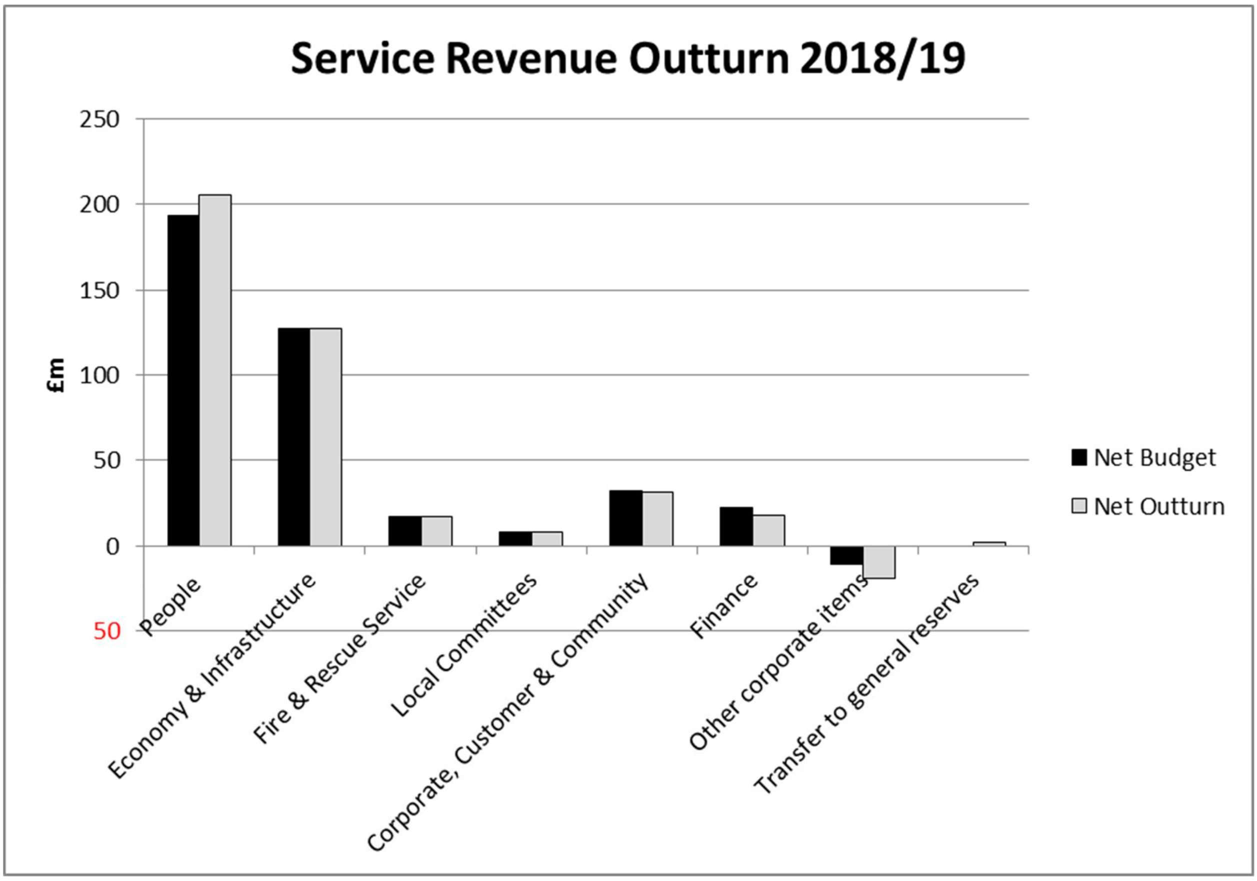
3.23 The budget position has been closely monitored as part of the integrated approach to managing resources to deliver the Council Plan, provide for statutory responsibilities and secure the financial sustainability of the Council going forward. Although the provisional outturn position is a balanced budget position, this has been challenging, given the service demand pressures particularly in People Services, and continues to be so.

Table 1 – Summary of Final Outturn Position 2018/19 as at 31st March 2019

	Original Budget £m	Final Budget £m	Actual £m	Variance Overspend / (Underspend) £m
People	186.532	193.452	205.362	11.911
Economy & Infrastructure	122.261	127.455	127.138	(0.317)
Fire & Rescue Service	16.829	17.214	16.901	(0.313)
Local Committees	7.936	7.813	7.813	(0)
Corporate, Customer & Community	29.389	31.956	31.716	(0.240)
Finance	23.658	22.346	17.806	(4.540)
Other Corporate Items (Inflation, Dividends, residual and past service pensions costs)	(11.257)	(10.421)	(18.734)	(8.313)
Transfer to General Reserves	0	0	1.812	1.812
Total Net Expenditure	**375.348**	**389.814**	**389.814**	**0**

	Original Budget £m	Final Budget £m	Actual £m	Variance Overspend / (Underspend) £m
Financed by:				
Government Grants	122.953	131.045	131.045	0
Retained Business Rates	19.338	21.384	21.384	0
Council Tax	228.514	228.514	228.514	0
Transfer (to)/from Reserves – Earmarked Reserves	4.543	11.645	11.645	0
Transfer (to)/from General Reserves	0	(2.774)	(2.774)	0
Total Financing	**375.348**	**389.814**	**389.814**	**0**

3.24 As part of the Council Plan Delivery Plan 2018/19 Council agreed that we would do things differently. On 1st May 2018, to reflect our commitment to this the Service Directorates were restructured. The following graph shows the restated Service Directorate net budgets and the outturn position for the County Council in 2018/19 for each Directorate against the Net Revenue Budget Position.



3.25 The Expenditure and Funding Analysis (in Note 4) reports the Net Expenditure chargeable to General Reserves which is the outturn position referred to above. These figures are then updated for adjustments between the funding and accounting bases (technical accounting requirements) and the Net Expenditure in the Comprehensive Income and Expenditure Statement (CIES) is reported. The net cost of continuing operations on an accounting basis is £447.957m compared to £389.814m on an outturn position.

3.26 The CIES shows the impact of adjustments to the accounts because of capital accounting requirements, pension adjustments and other technical adjustments. This includes charges to the CIES for impairment and revaluation gains and losses alongside the statutory charges for capital financing. Under the International Accounting Standard (IAS) 19, the Council is also required to recognise the cost of retirement benefits in the cost of services in the Comprehensive Income and Expenditure Statement when they are earned by employees rather than when the benefits are eventually paid as pensions.

3.27 Overall the CIES is reporting a higher net cost of continuing operations than the outturn position. After taking into account other Income and Expenditure which includes all the Council Tax income received and non-specific grants a deficit position of £40.873m is reported as the Deficit on Provision of Services. This compares to a balanced position reported as the outturn position.

3.28 After other adjustments including the re-measurement of the net defined benefit (pension) liability which is an increase of £66.601m in 2018/19 the final position on the CIES is a total deficit of £101.593m. This is compared to a surplus for 2017/18 of (£145.720m). The main reason for the change is the pension liability change. This is explained further in para 3.55 – 3.57.

Financial Performance - Going Concern

3.29 One of the key accounting concepts that underpin the production of the accounts is that they are prepared on a "going concern" basis. Due to the economic and statutory environment in which local authorities operate it has been confirmed that as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis.

3.30 Although that is the technical definition, to allow a going concern basis to be provided the Council can also clearly demonstrate that it can continue to meet its financial commitments as they occur via the delivery of its Medium Term Financial Plan (MTFP). The usable cash reserves position (£75.588m) remains healthy and on the Balance Sheet the Current Assets position of £174.251m is higher than Current Liabilities position of £124.680m so liquidity in the short term is positive.

3.31 Financial Planning for 2020/21 and beyond is underway despite uncertainty of the Local Government funding envelope beyond 1st April 2020. In the absence of government responses to the Fair Funding Review and 75% Business Rates Retention consultations, the Council has determined, at this stage in its planning assumptions that for 2020 and beyond the Council receives no less funding than it currently does i.e. the equivalent of top up grant, BCF, iBCF, and there is no replacement to the Revenue Support Grant.

3.32 When the management accounts are converted into the annual financial statements the Council continues to show that it is in a robust position. Although the Balance Sheet has remained in a negative position in 2018/19 this is due to accounting for its long term pension liabilities. A negative Balance Sheet was also reported in 2016/17 and 2017/18 due to the net pension liabilities. Pension liability figures are volatile and are dependent upon market conditions at the Balance Sheet date as well as specific pension member information for the employer body. This can result in significant shifts in value from one year to the next with the subsequent impact on the net Balance Sheet position.

3.33 The calculation of the future liabilities of the Local Government Pension Fund to be funded is calculated by the Fund Actuary every three years and is known as the Triennial Valuation. This determines the contribution rates of each employer in the Fund.

3.34 The Council is addressing the pension liability position set out in the Triennial Valuation in 2016 in accordance with external requirements and its accounting policies, over both the medium and longer term. As part of the 2016 Triennial Valuation the Council agreed a 16 year deficit recovery period. The Council, along with all other employers, are paying additional employer contributions annually to meet this shortfall as required by the actuarial valuation of the Fund carried out as at 31st March 2016. The next triennial valuation is due for the 1st April 2019.

3.35 The method of calculation of the liability of each employer on an annual basis for the purposes of preparing their annual Accounts to comply with International Accounting Standards is different to that applied in respect of the Triennial Valuation. However, both valuations are undertaken by the Fund Actuary.

Financial Performance – Reserves

3.36 The Movement in Reserves Statement identifies the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and “unusable” reserves (i.e. not cash backed).

3.37 In respect of Usable Reserves this is separated into General Reserves (General Fund Balance and Earmarked Reserves), Capital Receipts Reserve and Capital Grants Unapplied. Usable Reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They are cash backed.

3.38 Unusable reserves are not available to fund services and include reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts may only become available when the assets are sold and others that reflect the timing difference of when certain transactions are accounted within the Statement of Accounts and act as a holding account for changes from one year to the next.

3.39 From a budget management perspective the Council focuses on the level of General Reserves which combines Earmarked Revenue and Capital Reserves and the General Fund Balance. The General Fund Balance provides a general contingency to respond to the impact of unplanned events or emergencies in year and provide flexibility to manage short term fluctuations between planned and actual levels of income and expenditure.

3.40 In respect of Revenue Earmarked Reserves the Council has a long established practice of allowing approved budgets within Directorates to be carried forward to the following financial year on a targeted basis to meet specific objectives. This transfer to Earmarked Reserves will enable the continuation of agreed schemes and activities funded from resources which were allocated as part of the 2018/19 budget to be delivered in 2019/20.

3.41 In addition the Council has a number of specific Earmarked Reserves that are utilised for specific purposes including the Modernisation (Cost of Change) Reserve, Insurance Reserve and DSG reserves for schools.

3.42 Although these Earmarked Reserves are provisionally earmarked to the Services or earmarked for specific purposes they form part of the Council's overall revenue balances and can be used by the Council for any other purpose if decisions are taken accordingly. This excludes the DSG Reserves as they are ring fenced for Schools.

3.43 Overall Earmarked Reserves for the Council have decreased by £11.645m during 2018/19. This is as a result of a number of Earmarked Reserves decreasing e.g. the release of the MRP saving reserve £6.404m, CNDR Grant in Advance £9.459m and the Insurance Reserve £1.004m, whilst there are increases in reserves to reflect the creation of the Volatility and Innovation Fund Reserves as a result of additional funding. The most significant movements in earmarked revenue reserves are explained in Note 34.

3.44 In respect of Unusable Reserves the largest change relates to the Pension Reserve. There is an increase in the shortfall on the Pensions Reserve of £119.662m from £757.514m in 2017/18 to £877.176m in 2018/19. Note 36 explains how the Pensions Reserve works. In summary, the Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Statutory provisions will ensure that funding will have been set aside by the time the benefits come to be paid. The Council currently has an agreed 16 year deficit recovery period (following 2016 Triennial Valuation) in respect of the Cumbria Local Government Pension Fund consistent with actuarial advice. This supports the Council's going concern principle (see para 3.29 – 3.35).

Financial Performance - Capital Investment and Balance Sheet

3.45 Capital expenditure as defined in Accounting Policy xi includes expenditure on buildings, adaptations, roads, equipment and intangible assets such as software and licenses. Capital expenditure is defined by the Code of Practice and capital and revenue transactions must be accounted for separately.

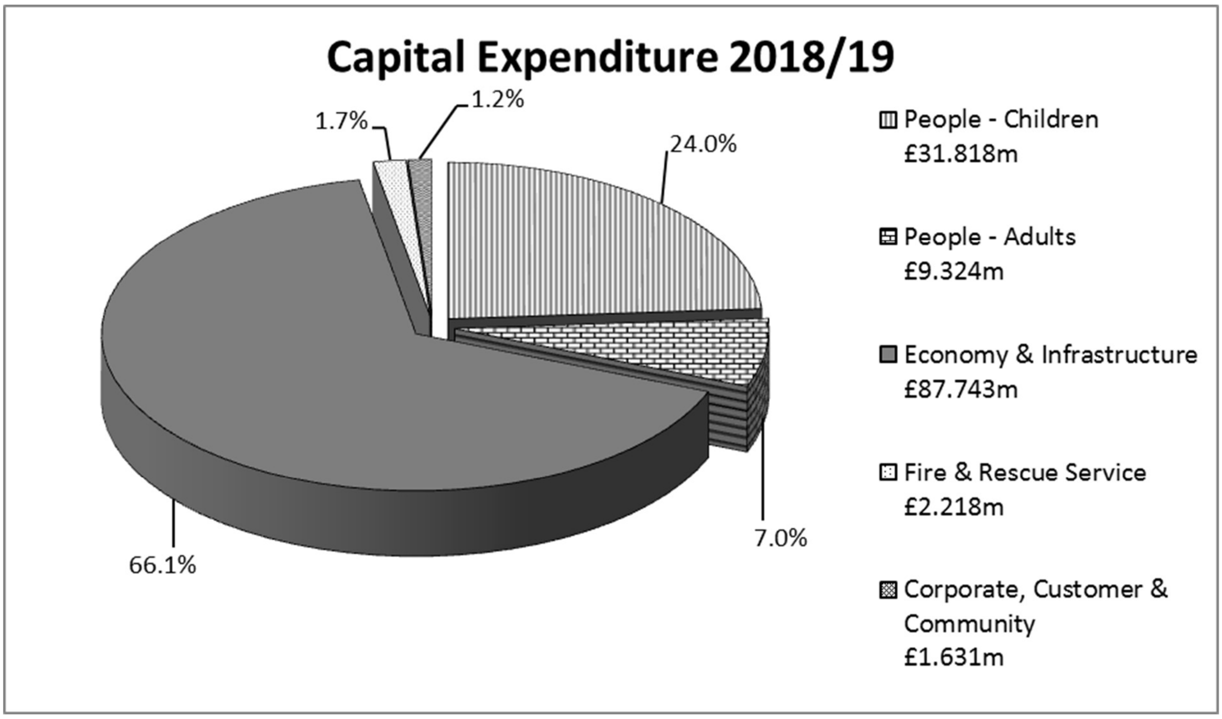
3.46 In 2018/19, the Council's capital investment totalled £132.734m (£137.457m in 2017/18) as reported in Note 18. The Council approved a capital programme for 2018/19 in February 2018 of £135.135m for Council delivered schemes and £2.000m for schemes where the Council is Accountable Body.Following changes approved by Council in June 2018, September 2018, and February 2019 and by Cabinet in September 2018, December 2018 and March 2019 the Council Capital Budget had increased to £143.625m.Quarter 4 shows a net increase of £1.880m in the required Capital Budget 2018/19. This reflects a number of changes to the capital programme as outlined below, giving a revised Council Capital Programme of £145.505m, this excludes the Accountable Bodies programme. Overall there is a variance against the Council capital budget of (£12.771m); the £132.734m spend compares to the £145.505m capital budget. The variance is made up of (£15.285m) slippage, £2.616m accelerated spend and an underspend position of (£0.102m).

3.47 The capital spend represents £133m of capital investment across Directorates to support the delivery of Council services. As well as maintaining the Council's assets there has been significant investment in new scheme developments to support the Council's priorities and continue to deliver the outcomes effectively. This includes:

- £8.674m of capital investment in respect of priority maintenance schemes and individual school expansion schemes, focusing on those in greatest need.
- Campus Whitehaven opened in January 2019 which includes St Benedict's Catholic High School and Mayfield School.
- New care homes at Carlisle and Whitehaven have been completed and opened in early 2019/20 as part of the Cumbria Care Modernisation programme.
- Phase 1 of the works to Jubilee Bridge, Barrow have been completed.
- 3 new nursery buildings were completed under the early education for two year olds programme.
- Construction of Sandside Lodge a 60 place special school has progressed during 2018/19 and is due to complete in July 2019.
- With regards to LEP schemes the South Ulverston junction is nearing completion, whilst the Barrow Waterfront and Maryport Transport Hub have both been completed.

- Across the highway network significant investment has been completed in various locations with £8.0m spent on our principal road networks and £26m spent on our non-principal road networks and £4m on fixing potholes. This included the £12.009m additional funding announced as part of the 2018 Autumn Statement which has been spent within the given timescale.
- With regards to the Government funded National Productivity Investment Fund 2017/18, works have now completed at North Road, Barrow and Warwick Road, Carlisle.
- The highways flood recovery scheme following Storm Desmond (December 2015) has invested £22m across various locations. The flood recovery work will continue into 2019/20.
- Almost 127,000 business and residential properties are now able to access superfast broadband in Cumbria as a result of the Connecting Cumbria programme and further deployment is planned. 60% of properties which can access a fibre broadband service have chosen to get connected.

3.48 The chart below shows the split of the £133m across the Council's Directorates.



3.49 A summary of the capital expenditure and how it was financed is shown in Note 18 to the Statement of Accounts. The Council considers carefully capital financing to ensure it is prudent, affordable and sustainable in the medium and long term. The capital receipts generated in 2018/19 totalled £1.047m (£4.326m in 2017/18), note 33 refers, whilst £6.854m of capital receipts were utilised in year to finance capital expenditure. Capital receipts are earmarked for specific schemes where appropriate.

3.50 The Prudential Code for Capital Finance in Local Authorities regulates Local Authority borrowing and gives freedom to Councils to borrow, providing they are capable of meeting the revenue costs of borrowing and the borrowing strategy is in keeping with Prudential Indicators and guidelines. The Council's borrowing strategy and limit is agreed annually, at the February Council meeting when the budget is set, and the strategy is part of the Treasury Management Strategy.

3.51 With respect to Treasury Management, the Council has continued with the strategy of using cash balances for internal borrowing whilst possible, but to also take tactical decisions to take external borrowing where considered appropriate in order to protect against rising interest rates in the future. In accordance with this strategy the Council has externalised further amounts of borrowing during 2018/19 as illustrated in the table below.

	Amount £m	**Notes**
External borrowing as at 1st April 2018	**337.2**	
External borrowing (May 2018) – 50yrs at an interest rate of 2.25%	10.0	This was the lowest rate available over the six month period, and reduced the average interest rate on the debt portfolio at 30th September 2018 to 4.15%.
Existing loan matured (June 2018)	(7.5)	Repayment of loan at maturity.
External borrowing (October 2018) – £15m for 47yrs at 2.67%, £7.5m for 14yrs at 2.60% £7.5m for 12yrs at 2.50%	30.0	£15m relates to the refinancing of a loan scheduled to mature in 2019/20 (the new loan is at a lower rate than the maturing loan). The balance is the externalisation of £15m (previously internally borrowed) undertaken to "lock in" long term rates whilst they are low.
External borrowing as at 31st March 2019	**369.7**	Short Term £16.0m Long Term £353.7m

3.52 The Council's authorised limit for external debt for 2018/19 was £608m and the operational limit was £573m. In 2018/19 the Council operated within the agreed authorised limits.

3.53 The capital investment of £132.734m was financed as shown in the table below.

Table 3 – Capital Financing 2018/19

	£m
Capital Receipts	6.854
Government Grants and contributions	99.965
Revenue Contributions	2.375
Prudential Borrowing	23.540
Total Capital Financing	**132.734**

3.54 In respect of the overall Balance Sheet position the capital investment is reflected in the value of the Property, Plant and Equipment. The detail is shown in note 21. Overall the fair value is £1.204bn and if additional long term assets are added the overall value of Long Term Assets is £1.217bn.

3.55 In respect of liabilities on the Balance Sheet the largest impact is the Council's net Pensions Liability. Pension liability figures are volatile and dependent upon market conditions at the Balance Sheet date as well as specific pension member information for the employer body. The current economic climate has a significant impact on the calculation of this liability. This can result in significant shifts in value from one year to the next with the consequent impact on the net Balance Sheet position.

3.56 For 2018/19 there has been an increase of £128.853m in the Council's net Pensions Liability to £868.162m (£739.309m in 2017/18). This has resulted in the Council having a Net Liability position (i.e. Assets less than Liabilities) of £143.070m as at 31st March 2019. This also occurred in 2016/17 and 2017/18 where the size of the Pension Liability resulted in the Council having a net Liability position.

3.57 Note 3 of the Accounts provides a summary of the potential impact that a 0.1% change in discount rate could have on the net pension liability position. This demonstrates the volatility of the liability calculation and the sensitivity to market changes.

Non-Financial Performance, Risk and Opportunities

3.58 For 2018/19 there is also a broadly positive picture of non-financial performance across the full range of the Council's services. Performance is reported in respect of delivery of the Council Plan Delivery Plan, and associated indicators reflecting the Council Plan (2018-22) agreed at Council in February 2018. 2018/19 is the first year of the refreshed Plan. Performance and the overall position by the end of Quarter 4 2018/19 was that 57 of the 81 (70%) Council Plan Delivery Plan **actions** had been delivered, met or were on track to meet the planned milestone and rated green, 21 (26%) were in progress and had part delivered and were rated amber. For the same period 3 actions (4%) had missed a key milestone or did not fully deliver as intended and have therefore been rated red.

3.59 A new **joint Public Health Strategy** has been produced and formally endorsed by the County Council, all six District Councils and the Lake District National Park Authority.

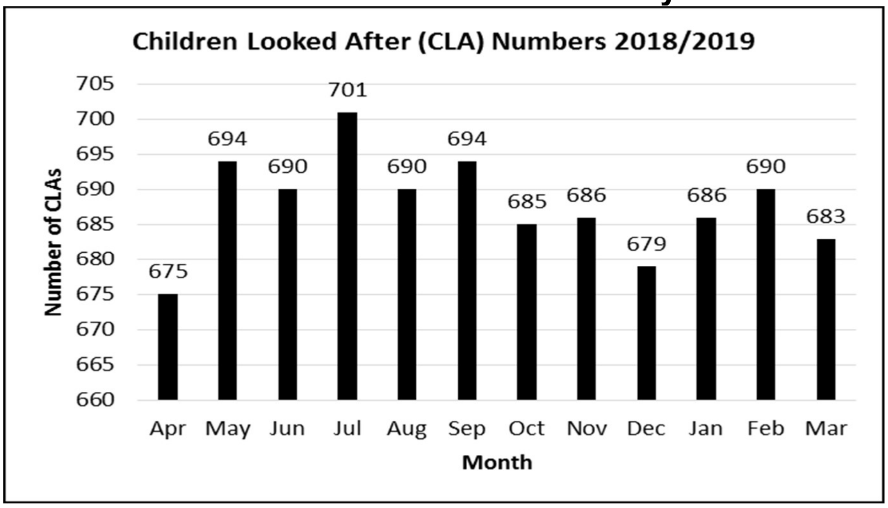
3.60 Two **new residential care homes** for adults in Carlisle and Whitehaven have been completed providing accommodation fit for the future and meeting the expectations of an aging population who want to live independently for as long as possible.

3.61 The proportion of **pupils attending good or outstanding school in Cumbria** (as judged by Ofsted at the most recent inspection) has improved from 75.9% in Quarter 4 2017/18 to 82.8% in Quarter 4 2018/19 this is now 4.2% below the April 2019 target of 87%. The percentage of pupil attaining GCSE 9-5 in English and Maths has increased from 42.2% to 43.3%; this is equivalent to the national figure of 43.5%.

3.62 The number of County Council **foster care households** at 31st March 2019 was 179, an increase of 24 from 155 in 2017/18. National and regional data shows continued challenge in foster care recruitment. In 2018/19 Council increased its fees for foster carers and continues a focused and resourced foster carer recruitment campaign, which is having a positive impact.

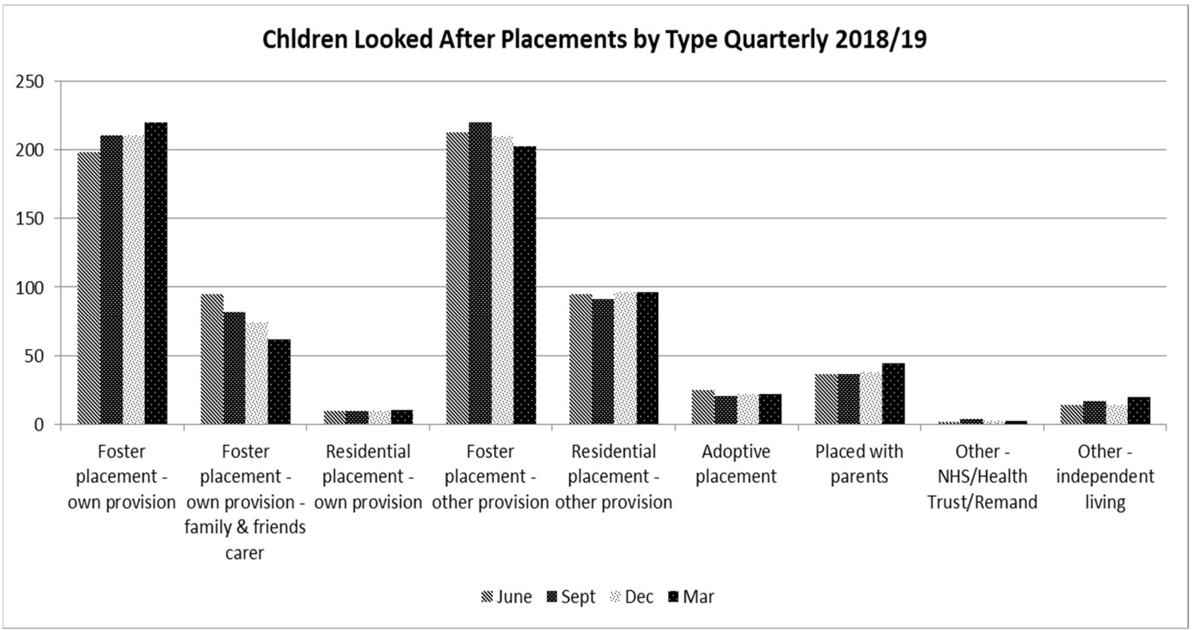
3.63 2018/19 has seen a substantial increase in the **number of Children Looked After (CLA)**; from 666 to 683 (equivalent to a rate of 73.8 per 10,000) see Chart 1 below. The figure remains above the 2018/19 target, and both, statistical neighbours and national comparators. At a district level, rates remain highest in Allerdale & Copeland with 302 looked after children (97.1 per 10,000) and an increasing trend over the year. Numbers in Carlisle & Eden (169 & 55.4 per 10,000) have been relatively unchanged over the last year whilst Barrow & South Lakeland's figure decreased to 212 (68.4 per 10,000) after last years increase. The overall increase in CLA continued for the remainder of the year and resulted in 683 children at 31st March 2019. The CLA Recovery Action Plan was updated in March 2019 for implementation in 2019/20.

Chart 1 – Number of Children Looked After by Month 2018/19



3.64 Linked to this is the number of **Children Looked After (CLA) placed in Cumbria County Council provision** which is at 47.0%. This is below the target of 55%. Actions to achieve the target are included in the Council's Sufficiency Strategy and associated action plan.

Chart 2 – Children Looked After Placements by Type 2018/19



3.65 In respect of the preventative agenda the Council Cumbria Fire and Rescue Service provide **Safe and Well Visits.** These are successful prevention activity in collaboration with health services. Higher risk individual households are identified and provided with a fire home safety visit together with four key health risk areas (falls prevention, smoking cessation, alcohol reduction and social well-being) also assessed. Referrals are made where appropriate and Quarter 4 cumulative performance of 10,035 visits exceeded the target of 10,000.

3.66 The improved use of **assistive technology** has been supported by an extensive set of workshops for practitioners across the County. Types of equipment deployed include bed occupancy sensors and fall detectors. Assistive technology targets to increase utilisation from 2,666 service users in 2017/18 to 3,200 in 2018/19 has been overachieved in Quarter 4 2018/19 by 525 to reach 3,525 in 2018/19.

3.67 The Council launched its refreshed **website** making it easier for customers to access information on the Councils services.

3.68 The four-year (2017-21) public sector **apprenticeships** target of 2.3% of the Council's headcount of staff is on track to be achieved. There were 135 Council apprenticeship starts in the period 1st April 2018 to 31st March 2019, against 124 achieved in 2017/18. In the same period, there were 73 School apprenticeship starts, against 95 in 2017/18. The reduction in school apprenticeships was caused by some apprenticeships lasting for 18 months and schools being unable to accommodate additional starts. Total in-year apprenticeship starts was 208. There was a shortfall on the 2018/19 annual target which was caused by lack of availability of new Apprenticeship Standards required, e.g. Social Work and in some instances lack of availability of training providers, e.g. Finance. These issues have been resolved for 2019/20.

3.69 Year 1 of the well-being strand of the Council's Workforce Plan has been delivered including successfully achieving the Gold Level Better Health At Work Award. The Council is now working towards Continuing Excellence, building upon recommendations identified by the Assessors. Improved information and guidance for employees to support financial wellbeing, including better links/awareness of the services provided by Credit Unions (including salary deductions for savings/loans) and access to Money Advice Services and the advice they provide.

3.70 In respect of effective budget monitoring **the Externally Provided Workforce (EPW) marginal costs** have reduced by 17.2% in 2018/19 compared with 17/18 figures following strong management and innovative solutions driven through the continuation of the EPW Strategy Group. This year end performance exceeded the target of a 15% reduction and reduced marginal costs by just under £0.4m, which has contributed to the Council achieving its balanced position for the 2018/19 budget outturn. Following the success of the EPW Strategy Group it has been decided to continue during 2019/20 to ensure that EPW marginal costs are at least maintained to 2018/19 levels.

3.71 The Council achieved a Band 3 assessment and associated allocation of funding from the **Local Highways Maintenance Block Incentive Funding** in April 2018. The 2019/20 assessment was submitted in February 2019 and the Band 3 assessment has been evidenced to retain Band 3 status.

3.72 The three red actions reported in the 2018/19 Council Plan Delivery Plan were:

• <u>An all-age carer's charter to support all carers to achieve their aspirations developed.</u>
There has been engagement with carer organisations, Children and Adult Social Care management teams and health partners relating to a new all age carers charter led by the Council. The feedback has shaped the development of the charter and will inform the next phase of engagement with carers and Members. The Council is currently in discussion with health colleagues as to how to shape the next phase. Once this is agreed the charter will be ready to proceed to a formal consultation phase.

• <u>A joint Council and NHS commissioning strategy for services for people with a learning disability and/or autism, developed.</u>
Following the reconfiguration of the two CCGs, work has concentrated on developing the working relationships between the three organisations with a focus on by whom and how services and support will be commissioned rather than what will be commissioned.
• <u>A total of £38.829 million of new savings delivered in 2018/19.</u>
A total of £35.587m (91.7%) has been delivered by 31st March 2019, giving a shortfall of £3.242m against the target. The material element of the variance

from target relate to the funding of children's care costs from responsible organisations where final outturn was lower than original estimates and the cross cutting service reviews. Further information, including on other smaller variances, can be found in Appendix 2 of the Budget Outturn report.

3.73 The Council's performance against the Council Plan Delivery Plan is reported on a quarterly basis to Cabinet.

3.74 In June 2018, the refreshed performance and Risk Management Framework was agreed by Cabinet. A significant refresh of all Corporate Risks took place in May 2018, and the refreshed Corporate Risk Register was reported to the September Audit and Assurance Committee.

3.75 On a quarterly basis all Strategic risks are considered by Risk Owners, Risk Owners Group, Directorate Management Teams, the Councils Corporate Management Team and reported to the Audit and Assurance Committee.

3.76 There are currently 12 risks on the Quarter 4 corporate risk register of which 7 are categorised as 'high' risks whilst the remaining 5 are categorised as 'medium' risks. The highest rated risks at quarter 4 are listed in the table below:-

Q4 Council High Rated Risks

1. Prevention of & Placement Sufficiency for Children Looked After
2. Workforce Capacity
3. Care needs & continuity of care
4. Deliver a Financially Sustainable Authority
5. Information Security arrangements
6. Waste Management Contract
7. Learning Disability Partnership arrangements

3.77 The highest risk relates to the Council's ability to implement adequate preventative measures to reduce the number of Children Looked After which links with the overspend position on Children Looked After in the financial monitoring and the performance monitoring information. This is a national issue that is being raised in respect of insufficient funding available and also the impact on outcomes for the Children Looked After.

3.78 No Strategic risks have been added or removed since the refresh.

3.79 Most risk scores have remained the same over the last year with the exception of the ***Management of Significant Contracts*** Risk, which during Quarter 4 has reduced in score from 15 (Likelihood 3 x Impact 5) to 10 (Likelihood 2 x Impact 5) and met its end of year target risk score. The likelihood for this risk has reduced due to the substantial body of work undertaken as part of the Amey Lessons Learned Report and Zurich Municipal Report, with improvements targeted and embedded in the following areas:

- Strengthen Capacity and Capability
- Strengthen Processes & Procedures
- Strengthen Contract Management – Performance, Risk Management & Internal Audit findings

3.80 During 2018/19 the Council adopted a new Corporate reporting template and this has been implemented with the aim of simplifying links between the causal factors of the risk and the key corporate and operational controls and measures in place to maintain or mitigate the risk.

3.81 For all Corporate Risks, current controls and measures are documented and planned improvements to controls are added and reported quarterly. Over the last year the Council has seen ongoing improvements in planned and embedded risk controls across all Directorates related to these risks.

3.82 The main emerging risk that has been monitored during 2018/19 is the Impact of Brexit and especially no-deal Brexit. The Council, through an internal Brexit working group, has undertaken risk assessment activity of the impact on Council services and the wider impact on communities in Cumbria of a potential No Deal Brexit. Alongside this, a review of Business Continuity plans has been completed in a No Deal scenario. Appropriate contingency arrangements are now in place. This has been a focus of activity since the end of 2018 in preparation for the initial scheduled Brexit date of 29th March 2019.

3.83 In light of the decision to delay Brexit, possibly until the end of October, developments in the Brexit process and issues arising will be tracked and responded to as necessary. In addition, further post-Brexit UK policy emerging over the coming months will be tracked and the impacts on the Council assessed.

Opportunities

- On the 14th February 2019, the Secretary of State announced that the Council had been awarded £102m from the Housing Infrastructure Fund for the delivery of the Carlisle Southern Link Road (CSLR), delivery of the road will enable the delivery of the St Cuthbert’s Garden Village. Following the announcement, the Council and Carlisle City Council are working through the conditions of the grant with Homes England, before contract arrangements for the funding are finalised.

- The Borderlands Partnership, which includes the Council submitted its Borderlands Inclusive Growth Deal Proposal to the UK and Scottish

Governments at the end of September 2019. The deal from the UK and Scottish Governments was announced on 13th March 2019. The heads of terms of the deal were signed by all parties on 1st July 2019. The £350m deal is focusing on ways to make the area more attractive to investors, visitors and those who may wish to relocate. Whilst not every town will see a project, the scale of the projects/programmes will benefit the whole area. The Borderlands' key themes are: Digital; Energy; Destination Borderlands; Rural Productivity; Business Growth; Transport; Innovation and Skills and Quality of Place.

4. PENSION FUND

4.1 The Council is the administering body for the Cumbria Local Government Pension Scheme (LGPS) which is managed by the Council on behalf of 127 employers, across the county, and the Firefighters' Pension Scheme, hence the Council's Statement of Accounts includes supplementary financial statements for these pension funds. Section 10 sets out these financial statements and relevant notes for the LGPS and Section 8 for the Firefighters' Pension Scheme.

Cumbria LGPS

4.2 During the year to 31st March 2019 the Cumbria LGPS value increased by £139.303m from £2,563.457m (31/03/18) to £2,702.760m (31/03/19). The Fund returned 6.6% (net of fees) for the year which was marginally below the Fund's bespoke index performance benchmark for the year of 6.8%. Positive performance in the year was attributable to both global equity managers and the alternatives portfolio.

4.3 The main detractor was the negative movement on the equity protection overlay as a result of an increase in equity value over the period. This equates to the notional cost of selling out of the equity protection at the end of the March 2019. It is not expected that this will be a realised cost at the end of the contract (31st March 2020). The movement in equity protection overlay effectively reduces the Fund's asset value at year-end by £14m, or around 0.5%. Excluding the effect of equity protection, the fund return would have been 7.4% (0.6% above the benchmark for the year).

4.4 The Fund has also performed well over the medium to longer term with the three-year return of 9.8% (net of fees) outperforming the bespoke hedged benchmark of 9.4% (per year). The ten year Fund return was 10.7% (net of fees), outperforming the benchmark of 10.0% (per year).

4.5 During the year the Fund commenced transitioning assets to Border to Coast in accordance with the government's policy for the pooling of LGPS assets. The Fund transitioned 10% of its portfolio into the pool.

5. GROUP ACCOUNTS

5.1 The Group Accounting Statements are set out in section 7 and show an increase of £100.781m in the total value of the Group Net Liabilities from a Net Liabilities position of (£30.177m) at 31st March 2018 to a Net Liabilities position of (£130.958m) at 31st March 2019. The increase relates mainly to the increase in the pension liability of £129.473m which reflects the Council's increased net pension liability of £128.853m and the increased net pension liability of Cumbria County Holdings Ltd of £0.620m.

6. EVENTS AFTER THE REPORTING PERIOD

6.1 The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 26th July 2019 in respect of the audited Statement of Accounts for 2018/19.

6.2 Where events taking place before 26th July 2019 provided information about conditions existing at 31st March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer (Director of Finance).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Chief Executive and Executive Directors' Responsibilities

- The Chief Executive and other Executive Directors are each accountable to the Council for the financial management and administration of those services and activities allocated to them in accordance with Council policy, including effective ongoing budgetary control, with appropriate support and advice from the Director of Finance.

- Each Executive Director is responsible for ensuring that adequate and effective systems of internal control are operated to ensure the accuracy, legitimacy and proper processing of transactions and the management of activities.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Director of Finance has also:

1. Kept proper accounting records which were up to date.
2. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the 31st March 2019 and its expenditure and income for the year ended the 31st March 2019.

Signed:

Julie Crellin, Director of Finance (S151 Officer), BA (Hons), CPFA, MBA
26th July 2019

Certificate of Approval of the Council's Statement of Accounts

I certify that the accounts set out in this document have been considered by the Council's Audit and Assurance Committee at its meeting held on 26th July 2019 and have been approved by a resolution of this Committee.

Signed on behalf of Cumbria County Council

Cllr Hilary Carrick
Chair of Audit and Assurance Committee

26th July 2019

Independent auditor's report to the members of Cumbria County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the Firefighters' Pension Scheme Financial Statements comprising the Fund Account, the Net Assets Statement and Notes to the Firefighters' Pension Scheme Financial Statements. The notes to the financial statements include the Introduction to the Accounting Statements, the Accounting Policies, Notes to the Accounting Statements, Introduction to Group Accounts and the Notes to the Group Accounting Statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement other than the Authority and group financial statements, our auditor's report thereon and our auditor's report on the pension scheme financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 26 to 27, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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

Gareth Kelly

Gareth Kelly, Key Audit Partner

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

Glasgow

30 July 2019

Introduction to the Accounting Statements

Section 4 sets out four accounting statements in respect of the Council's activities in 2018/19, showing the previous year's comparators.

Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Due to the organisational restructure in 2018/19 comparative information in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis have been restated to reflect the new management structure.

Movement in Reserves Statement which identifies the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. cash backed reserves which can be used to fund expenditure or reduce local taxation) and other "unusable" reserves (i.e. not cash backed).

The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes.

The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Council.

Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories – usable and unusable.

Usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable reserves are those that the Council is not able to use to provide services. This includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' and detailed in note 9.

Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period.

The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Comprehensive Income and Expenditure Statement

2017/18 Restated Expenditure £000	2017/18 Restated Income £000	2017/18 Restated Net £000		Note Ref	2018/19 Expenditure £000	2018/19 Income £000	2018/19 Net £000
			Services:				
581,803	(367,969)	213,834	People		640,235	(396,584)	243,651
137,377	(25,220)	112,157	Economy & Infrastructure		138,481	(25,220)	113,261
16,379	(600)	15,779	Fire & Rescue Service		15,307	(625)	14,682
8,291	(200)	8,091	Local Committees		8,014	(214)	7,800
37,595	(5,124)	32,471	Corporate, Customer & Community		36,969	(3,829)	33,140
3,858	(1,264)	2,594	Finance		4,453	(1,050)	3,403
24,199	281	24,480	Other Corporate Items		36,275	(4,255)	32,020
809,502	**(400,096)**	**409,406**	**Cost of Services**	**4**	**879,734**	**(431,777)**	**447,957**
2,489	(2,010)	480	Other Operating Expenditure	6	3,506	0	3,506
85,296	(38,404)	46,892	Financing and Investment Income and Expenditure	7	98,804	(41,574)	57,230
0	(475,981)	(475,981)	Taxation and Non Specific Grant Income	8	0	(467,820)	(467,820)
897,287	**(916,491)**	**(19,204)**	**(Surplus) or Deficit on Provision of Services**	**4.3**	**982,044**	**(941,171)**	**40,873**
		(9,626)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	35			(5,881)
		(116,890)	Remeasurement of the net defined benefit liability / (asset)	37			66,601
		(126,516)	**Other Comprehensive Income and Expenditure**				**60,720**
		(145,720)	**Total Comprehensive Income and Expenditure**				**101,593**

2017/18 Cost of Services have been restated to reflect the change in the internal management structure in 2018/19, further details are in Note 43. In addition Financing and Investment Income and Expenditure has been restated to include impairment losses from potential bad debts as a result of the implementation of IFRS9 previously these were shown in the relevant service area.

Movement in Reserves Statement

	Note Ref	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2018	33/34/35	(10,472)	(65,457)	(75,929)	(12,526)	**(88,455)**	129,932	**41,477**
Movement in reserves during 2018/19								
(Surplus) or deficit on the provision of services		40,873	0	40,873	0	**40,873**	0	**40,873**
Other Comprehensive Income / Expenditure		0	0	0	0	**0**	60,720	**60,720**
Total Comprehensive Income and Expenditure		**40,873**	**0**	**40,873**	**0**	**40,873**	**60,720**	**101,593**
Adjustments between accounting basis and funding basis under regulations	9	(33,813)	0	(33,813)	5,807	**(28,006)**	28,006	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**7,060**	**0**	**7,060**	**5,807**	**12,867**	**88,726**	**101,593**
Transfers to / (from) Earmarked Reserves	34	(11,644)	11,644	0	0	**0**	0	**0**
(Increase) or Decrease in 2018/19		**(4,584)**	**11,644**	**7,060**	**5,807**	**12,867**	**88,726**	**101,593**
Balance at 31 March 2019	**33/34/35**	**(15,056)**	**(53,813)**	**(68,869)**	**(6,719)**	**(75,588)**	**218,658**	**143,070**

	Note Ref	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2017	33/34/35	(9,417)	(63,776)	(73,194)	(10,906)	(1,970)	**(86,069)**	273,266	**187,197**
Movement in reserves during 2017/18									
(Surplus) or deficit on the provision of services		(19,204)	0	(19,204)	0	0	**(19,204)**	0	**(19,204)**
Other Comprehensive Income / Expenditure		0	0	0	0	0	**0**	(126,516)	**(126,516)**
Total Comprehensive Income and Expenditure		**(19,204)**	**0**	**(19,204)**	**0**	**0**	**(19,204)**	**(126,516)**	**(145,720)**
Adjustments between accounting basis and funding basis under regulations	9	16,469	0	16,469	(1,620)	1,970	**16,818**	(16,818)	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**(2,735)**	**0**	**(2,735)**	**(1,620)**	**1,970**	**(2,386)**	**(143,335)**	**(145,720)**
Transfers to / (from) Earmarked Reserves	34	1,681	(1,681)	0	0	0	**0**	0	**0**
(Increase) or Decrease in 2017/18		**(1,054)**	**(1,681)**	**(2,735)**	**(1,620)**	**1,970**	**(2,386)**	**(143,335)**	**(145,720)**
Balance at 31 March 2018	**33/34/35**	**(10,472)**	**(65,457)**	**(75,929)**	**(12,526)**	**0**	**(88,455)**	**129,932**	**41,477**

Balance Sheet

31 March 2018 £000		Note Ref	31 March 2019 £000
1,147,236	Property, Plant and Equipment	21	1,203,962
563	Heritage Assets		563
4,905	Investment Properties	23	5,547
416	Intangible Assets	24	232
3,183	Long Term Investments	27/28	3,183
4,063	Long Term Debtors	28	3,682
1,160,366	**Long Term Assets**		**1,217,169**
48,157	Short-term Investments	28	67,292
653	Assets Held for Sale	25	1,565
1,256	Inventories		1,587
52,822	Short Term Debtors	26	67,048
71,533	Cash and Cash Equivalents	30	36,759
174,421	**Current Assets**		**174,251**
(11,747)	Short-Term Borrowing	28	(20,592)
(70,670)	Short-Term Creditors	31	(81,613)
(5,045)	Provisions	32	(5,309)
(11,279)	Grants Receipts in Advance - Revenue	17	(17,166)
(98,741)	**Current Liabilities**		**(124,680)**
(5,181)	Long-Term Creditors		(4,717)
(6,955)	Provisions	32	(8,080)
(330,309)	Long Term Borrowing	28	(354,282)
0	Deferred Income	20	(10,574)
(116,068)	Long Term PFI Liabilities	20	(114,358)
(739,309)	Net Pension Liabilities	37	(868,162)
(79,701)	Grants Receipts in Advance - Capital	17	(49,637)
(1,277,523)	**Long Term Liabilities**		**(1,409,810)**
(41,477)	**Net Liabilities**		**(143,070)**
(88,455)	Usable Reserves	33/34	(75,588)
129,932	Unusable Reserves	35	218,658
41,477	**Total Reserves**		**143,070**

These financial statements replace the unaudited financial statements confirmed by Julie Crellin on 31st May 2019.

Cash Flow Statement

2017/18 £000		Note Ref	2018/19 £000
(19,204)	Net (surplus) or deficit on the provision of services	CIES	40,873
(75,632)	Adjustment to surplus or deficit on the provision of services for noncash movements	38	(132,537)
104,258	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	38	90,022
9,422	**Net cash flows from operating activities**		**(1,642)**
(5,891)	Net cash flows from investing activities	39	78,957
(42,039)	Net cash flows from financing activities	40	(42,541)
(38,508)	**Net (increase) or decrease in cash and cash equivalents**		**34,774**
33,025	Cash and cash equivalents at the beginning of the reporting period	30	71,533
71,533	**Cash and cash equivalents at the end of the reporting period**	**30**	**36,759**

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its overall financial position as at 31st March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost i.e. expenditure is included on the basis of price actually paid rather than the additional allowance being made for changes in purchasing power of money, modified by the revaluation of certain categories of non current assets and financial instruments.

ii. Accounting Concepts

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

ii. Accounting Concepts continued

Accruals of Income and Expenditure continued

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

- Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Relevant

The information in the accounts is useful in assessing the Council's stewardship of public funds and for making economic decisions.

Reliable

The information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors.

Comparable

A consistent approach to accounting policies is used in preparing the accounts to ensure that they may be compared to previous years. Where there is a change in accounting policy that has a material effect on the information, this has been disclosed.

Understandable

The Council endeavours to ensure that an interested reader can understand the accounts.

Materiality

In using its professional judgment, the Council considers the size and nature of any transaction, or set of transactions. An item is considered material where its omission could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Going Concern

The accounts are prepared on a going concern basis which assumes that the Council will continue in existence for the foreseeable future and that there is no intention to significantly reduce operations.

Primacy of Legislative Requirements

The Council operates through the power of statute. Where specific legislative requirements conflict with accounting principles, legislative requirements are applied.

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

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

iv. Charges to Revenue for Non Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible non current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment and revaluation losses or amortisations. However, it is required to make an annual contribution from fund balances towards the reduction in its overall borrowing requirement. This amount is known as the Minimum Revenue Provision (MRP) and is calculated by the Council on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, impairment and revaluation losses and amortisations are therefore reversed and replaced by the MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

iv. Charges to Revenue for Non Current Assets continued

In the case of capital spend incurred before 1st April 2008 and spend financed by "supported" borrowing in all the following years; from 1st April 2009 this is charged on a 2% straight line basis. This ensures that the debt will be repaid within 50 years.

In the case of all capital spend financed by Prudential Borrowing; this is subject to MRP under the Asset life method – equal instalments charged over the estimated life of the asset. MRP is based on the estimated life of the assets, in accordance with the regulations.

Repayments included in the annual PFI charges or finance leases are applied as MRP.

v. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance. Each service segment includes the appropriate charges for the use of its non-current assets e.g. depreciation, impairment, impairment reversals etc. Each service segment also includes the appropriate employee benefit accrued costs.

vi. Principal and Agent Transactions

The Council's financial statements have regard to the general principle of whether the Council is acting as the Principal or Agent.

Where the Council acts as a Principal, i.e. it is acting on its own behalf; transactions are included in the Council's financial statements.

Where the Council acts as an Agent i.e. it is acting as an intermediary, transactions are not reflected in the Council financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal, in which case there is a debtor or creditor position and the net cash position being included in financing activities in the cash flow statement.

vii. Employee Benefits

Benefits Payable During Employment

Short term employee benefits are those falling due wholly within 12 months after the end of the period in which the employees render the related service. These include items such as wages and salaries, paid annual leave, paid sick leave and non monetary benefits for current employees, and are recognised as an expense in services in the year. An accrual is made for the cost of holiday entitlements not taken before the year end and which employees can carry forward into the next financial year.

The accrual is charged to services in the Comprehensive Income and Expenditure Statement. It is then reversed out through the Movement in Reserves Statement. This ensures that holiday benefits are charged to revenue in the financial year in which the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These benefits are charged on an accruals basis to the relevant service(s) line within the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw an offer relating to the termination of the employment of an officer or group of officers, or to encourage voluntary redundancy.

Post Employment Benefits

The majority of employees of the Council are members of one of four separate pension schemes designed to meet the needs of employees in particular services (further details are provided in the Notes to the Accounts). All four schemes (there are four individual firefighters' schemes) provide defined benefits to members (retirement lump sums and pensions), earned as employees of the Council.

a) Teachers' Pensions

This scheme is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). Although the scheme is unfunded, the Government has established a notional fund as the basis for calculating the employers' contributions. The Council contributes at rates determined by the Department for Education. The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is, therefore, accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the People revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

vii. Employee Benefits continued

b) Firefighters' Pensions

There are currently four Fire Fighters Pension Schemes:

- the 1992 scheme which came into effect on 1st March 1992 but became a closed scheme on 6th April 2006;
- the 2006 scheme which came into effect on 6th April 2006;
- the Modified scheme which is open to all Retained Firefighters who were employed between 1st July 2000 and 5th April 2006. Retained firefighters employed between these dates were not given the opportunity to join the membership of the 1992 Scheme. The Modified scheme is a modified section of the 2006 Scheme which gives membership to retained firefighters employed within the above period;
- the 2015 Scheme which came into effect on 1st April 2015 and is available to firefighters appointed on or after that date.

<u>Transfer to 2015 Scheme</u>

The 2015 scheme is open to all firefighters appointed on or after 1st April 2015. Serving firefighters who have an interest in the 1992, 2006 or Modified schemes will either remain in their existing scheme until retirement, transfer into the 2015 scheme on 1st April 2015, or transfer into the 2015 Scheme at a later date dependent on their age.

Firefighters who transfer into the 2015 Scheme have protected rights in the earlier schemes, dependent on their age.

Firefighters who did not transfer into the 2015 scheme on 1st April 2015 will transfer into the scheme on defined taper dates based on their age.

The Firefighters' schemes are accounted for as defined benefits schemes. Although contributions are made into the schemes and they are based on final salary, they are unfunded to the extent that assets are not specifically held to meet pension liabilities. The Home Office provide funds to top up contributions collected from employers and employees to ensure that normal pension liabilities can be paid. The Council is responsible for meeting the cost of additional injury and ill health awards and pensions. The liabilities of the schemes are included in the Council's Balance Sheet.

c) The NHS Pension Scheme

The NHS Scheme is administered by NHS Business Services Authority. The arrangements for the NHS scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is, therefore, accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Public Health revenue account is charged with the employer's contributions payable to NHS pensions in the year.

vii. Employee Benefits continued

Post Employment Benefits continued

d) The Local Government Pension Scheme

All other full time and most part time employees of the Council are eligible to join the Local Government Pension Scheme administered by Cumbria County Council on behalf of the local authorities of Cumbria and other admitted bodies.

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The assets and liabilities are included net in the Balance Sheet:

1. The liabilities of the scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees. Liabilities are measured on an actuarial basis discounted to present value using the projected units method. The discount rate to be used is determined in reference to market yields at the Balance Sheet date of high quality corporate bonds.

2. The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - Equities
    - Government and Other Bonds
    - Property
    - Cash and Other

The change in the net pension liability is analysed into the following components:

a) Service cost comprising:

- ***current service cost*** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- ***past service cost*** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years will be debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Other Corporate Items.
- ***net interest on the net defined benefit liability i.e. net interest expense for the authority*** - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

vii. Employee Benefits continued

Post Employment Benefits continued

b) Re-measurement comprising:

- ***the return on plan assets*** – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

c) Contributions paid to the Cumbria Local Government Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

viii. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed as specified or returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. If there is reasonable assurance that the condition will be met, but this has not yet occurred, any grant/contributions received will be held on the Balance Sheet as Grant Receipts in Advance (in Liabilities).

viii. Government Grants and Contributions continued

When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure. A grant or contribution that becomes repayable shall be accounted for as a revision to an accounting estimate. Repayment shall first be applied to any receipt in advance set up in respect of the grant or contribution. To the extent that the repayment exceeds any such receipt in advance, or where no receipt in advance exists, the repayment shall be recognised within the Comprehensive Income and Expenditure Statement as an expense.

Revenue Grants

Where revenue grants are credited to the Comprehensive Income and Expenditure Statement and the grant has yet to be used to finance revenue expenditure, and there are restrictions as to how the monies are to be applied, an earmarked reserve will be established and the monies transferred into the earmarked reserve through the Movement in Reserves Statement. When the grant is applied, an amount equal to the expenditure may then be transferred back from the earmarked reserve to the General Fund.

ix. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Buildings

Where a lease agreement is for greater than 750 years, the asset will be automatically treated as freehold and accounted for as a Council asset.

Where a lease agreement is for between 100 years and 749 years, the lease will automatically be treated as finance lease and accounted for appropriately.

ix. Leases continued

Where a lease agreement is between 26 years and 99 years, it will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

Where a lease agreement is for 25 years or less, the lease will automatically be treated as an operating lease and accounted for appropriately.

Land

Where a lease agreement is for greater than 750 years, the asset will be automatically treated as freehold and accounted for as a Council asset.

All other leases will be assessed against the IFRS criteria that establish if a lease is finance or operating and accounted for accordingly.

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the period in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid in the year under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

ix. Leases continued

Finance Leases continued

The Council as Lessor

Buildings

Where a lease agreement is for greater than 750 years, the asset will be automatically treated as freehold and not included as a Council asset.

Where a lease agreement is for between 100 years and 749 years, the lease will automatically be treated as finance lease and accounted for appropriately.

Where a lease agreement is between 26 years and 99 years, it will be assessed against the IFRS criteria that establishes if a lease is finance or operating and accounted for accordingly.

Where a lease agreement is for 25 years or less, the lease will automatically be treated as an operating lease and accounted for appropriately.

Land

Where a lease agreement is for greater than 750 years, the asset will be automatically treated as freehold and not included as a Council asset.

All other leases will be assessed against the IFRS criteria that establish if a lease is finance or operating and accounted for accordingly.

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a long term debtor in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a capital receipt for the disposal of the asset – applied to write down the Debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

ix. Leases continued

Finance Leases continued

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are charged as an expense as they occur.

x. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

Any gains arising from re-negotiation of the financing arrangements of the PFI is spread over the contract term as a reduction in the interest charge. This is done by posting the payment to the Balance Sheet as deferred income and releasing it to the Comprehensive Income and Expenditure Statement as the Council's exposure to repaying the sum is reduced (eg by scheduling).

x. Private Finance Initiative (PFI) and Similar Contracts continued

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator; and
- lifecycle replacement costs – are either recognised immediately as additions to Property, Plant and Equipment on the Balance Sheet when the relevant works are carried out or if required a prepayment is posted to the Balance Sheet for the lifecycle costs payable in that year and then recognised as additions to PPE when the relevant works are carried out. Where it is not possible to evidence that lifecycle replacements costs meet the capital expenditure definition then it is treated as revenue.

xi. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Expenditure that adds to an asset's potential to deliver future economic benefits or service potential but costs less than £12,000 in total (deemed to be de minimis) can be charged direct to service revenue accounts as it is incurred.

xi. Property, Plant and Equipment continued

Componentisation

IAS 16 – Property, Plant and Equipment (PPE) states that each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. This is applicable to both enhancements and acquisition expenditure incurred and revaluations carried out from 1st April 2010. It is not retrospective. This includes specific infrastructure assets.

Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. Significant components will be separately accounted for where there are different useful lives and / or depreciation methods.

Individual PPE assets with a Net Book Value of less than and including £2.5m will be classed as de minimis and be excluded from the requirement to be componentised.

Where a component of an asset is replaced or restored, the carrying amount of the old component shall be derecognised to avoid double counting and the new component reflected in the carrying amount.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price; and
  - any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost; and

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

xi. Property, Plant and Equipment continued
Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Where non property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued at intervals of not greater than five years via a rolling programme of asset revaluations to ensure that their carrying amount is not materially different from their fair value at the year end. The carrying value of land and buildings is reviewed annually to ensure that it is not materially different to the current value. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

<u>Revaluation losses</u>
Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment as detailed above), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

<u>Impairment</u>
Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

xi. Property, Plant and Equipment continued

Disposals and Non Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Within the Council's accounts these assets will only be reclassified at 31st March of the financial year. The following criteria have to be met before an asset can be classified as held for sale:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets.
- The sale must be highly probable; the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The asset must be actively marketed for a sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

xi. Property, Plant and Equipment continued

The written off value of disposals is not a charge against council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Where the assets of a school are recognised on the Council's Balance Sheet prior to a transfer to an Academy they are treated as a derecognition in year. The assets are treated as a disposal with nil sale proceeds to be recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, Heritage and Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is charged on a straight line basis based upon asset values at the beginning of the year of account. The Council uses the following assumptions in assessing the useful life of assets. Because of the diverse nature of the Council's assets individual asset lives have been assigned as appropriate within the ranges shown below.

Operational Buildings	Up to 60 years
Waste Disposal Sites	30 years
Infrastructure assets	Up to 40 years
Vehicles, Plant, Furniture & Equipment	Up to 50 years
Assets Under Construction	Not charged until brought into use
Community Assets / Investment properties	No depreciation charged
Land	Infinite life and therefore no depreciation charged

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Components have been recognised in the financial year where:

- there has been a revaluation of assets;
- there has been an acquisition of assets within the financial year;
- enhancement expenditure has been incurred within the financial year.

xi. Property, Plant and Equipment continued

Depreciation continued

Components have also been depreciated over different lives than the host (main) asset and recognised where they have a significant value when compared to the value of the host assets.

Non Current Assets - Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.

Schools Non-Current Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Where the Council undertakes the rebuilding of a school on behalf of an Academy, the assets are included on the Council's Balance Sheet during the construction phase as assets under construction. They are treated as a disposal when the school is complete and transferred to the Academy. The assets are not reclassified as assets held for sale.

xii. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue expenditure incurred during the year that may be capitalised under statutory provisions, but does not result in the creation of a non current asset, has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged, so that there is no impact on the level of council tax. REFCUS includes, for example, capital expenditure on assets not owned by the Council, such as Voluntary Aided schools.

xiii. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

xiii. Investment Properties continued

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Financial Instruments

xiv. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Borrowing

The Council's borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long term liability, repayable after 12 months or longer, or a current liability if it is repayable within 12 months. Gains and losses on the repurchase or early settlement of borrowing, are credited and debited to the Financing and Investment Income and Expenditure line, in the Comprehensive Income and Expenditure Statement, in the period in which the repurchase or settlement is made. Through the Movement in Reserves Statement this will then be adjusted to neutralise the effect on the amounts to be raised through council tax in the year, by charging or crediting the Financial Instruments Adjustment Account. This reserve will in turn be written off over the remaining life of the new loan through the Movement in Reserves Statement as permitted by statute.

Creditors

Creditors are recognised when a supplier has provided goods and services to the Council for an agreed price. Short-term creditors are carried at cost as this is a fair approximation of their value.

xv. Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Debtors

Debtors are recognised when goods and services have been provided by the Council for an agreed price. Short-term debtors are carried at cost as this is a fair approximation of their value.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line, in the Comprehensive Income and Expenditure Statement (CIES), for interest receivable, are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset, are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place, because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

xv. Financial Assets

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Any gains and losses that arise on the derecognition of the asset, are credited or debited to the Financing and Investment Income and Expenditure line, in the Comprehensive Income and Expenditure Statement.

The Council holds no assets under this classification.

xvi. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Cash equivalents will only be money market fund deposits, as fixed maturity deposits have penalties built in for early redemption.

xvii. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation, that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement, in the year that the Council becomes aware of the obligation. They are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties, and are classified as current or non current liabilities on the Balance Sheet.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes likely that a payment will not be made or the estimated liability is reduced, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received.

xviii. Reserves

In addition to its General Fund Balance the Council sets aside specific amounts as reserves for future policy purposes, to cover contingencies or for specific areas of future risk. This allows the Council to manage the impact of its spending in a planned and prudent way. The Council continually reviews these reserves to ensure that they remain appropriate and aligned to the Council's priorities.

The Council's main usable reserves are as follows:

- The General Fund Balance is set aside to meet general future revenue expenditure and to protect the Council against exposure to unexpected events.

- Earmarked Reserves are set aside to meet specific items of future expenditure.

- Under the Government's Fair Funding arrangements individual schools manage their own budgets and are allowed to carry forward accumulated surpluses and deficits as reserves.

Reserves are created by appropriating amounts from the General Fund Balance in the Movement in Reserves Statement to specific reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue service in that year to score against the Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

<u>Unusable Reserves</u>

Certain reserves are maintained to manage the accounting processes for non current assets and retirement benefits and do not represent usable resources for the council – these reserves are explained within the relevant accounting policies in this statement.

Further detail in respect of the Council's reserves is set out in the Notes to the Accounts.

xix. Interests in Companies and Other Entities

An assessment of the Council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors.

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint arrangements and require it to prepare group accounts.

xix. Interests in Companies and Other Entities continued

The Council has majority and minority interests in a number of companies. Of the Council's investments in related companies, only the investment in Cumbria County Holdings Ltd is material and shown in the Council's Balance Sheet at cost. Contributions to other companies have been charged as expenditure in the year in which they were made. Any profit or loss on realisation is only taken into account at the time of realisation.

Within the Group Accounts, separate accounting policies have been applied in accordance with CIPFA recommendations and are shown in this section of the Statement of Accounts.

xx. Joint Arrangements

Joint Arrangements are arrangements by which two or more parties have joint control bound by contract. A Joint Arrangement can be classed as:

- A Joint Venture
- A Joint Operation

Joint Venture

A Joint Venture is an arrangement under which two or more parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

Joint Operation

A Joint Operation is an arrangement by which the parties that have joint control of the arrangement, have the rights to the assets and obligations for the liabilities relating to the arrangement. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

xxi. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events, not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made, but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

xxii. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

Adjusting Events

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and

Non Adjusting Events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

xxiii. Value Added Tax

Value Added Tax payable is included only to the extent that it is not recoverable from HM Revenue & Customs. Value Added Tax receivable is excluded from income.

xxiv. Pooled Funds

The People Directorate – Childrens and Adults, both work with authorities outside the Council to ensure that a coordinated approach to service delivery is achieved. Operating surpluses or deficits are shared in accordance with the agreements between the parties. The Council only accounts for its own share of income, expenditure and assets and liabilities in accordance IFRS 11 Joint Arrangements and Accounting policy xx Joint Arrangements.

xxv. Council Tax and Business Rates
Both Council Tax and Business Rates are collected by District Councils on behalf of the County Council. The Council's share of income from both of these sources is recognised in the Comprehensive Income and Expenditure Statement in the Taxation and Non Specific Grant Income line. The difference between the income which has been recognised in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. The Balance Sheet includes all creditor and debtor balances relating to the Council's share of Council Tax and Business Rates balances.

Cumbria has a Business Rate Pool, established on 1st April 2018; it comprises the County Council, Allerdale Borough Council, Barrow Borough Council, Eden District Council, South Lakeland District Council, Copeland Borough Council and Carlisle City Council. Government treats the Pool as a single body with the County Council acting as the lead authority. The Cumbria Business Rate Pool has a formal agreement and a financial protocol agreed by all members. At the financial year end, alongside the reporting of the Business Rate income for the Council as reported above, the financial protocol requires that each member retains its relative proportion of the Cumbria Business Rate Pool Local Volatility Reserve on its own Balance Sheet. An element of the Net Retained Levy for the Pool is set aside each year, to provide protection for Pool members from falls in business rate income.

xxvi. Fair Value Measurement
The Council measures some of its non-financial assets, such as surplus assets, investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability, (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets and liabilities that the Council can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability

xxvii. Rounding

The Council accepts that minor rounding differences of between £1k and £2k may occur within its Statements of Accounts, these amounts are not material and the Council does not intend to alter any totals where this occurs.

Note 1 - Accounting Standards Issued, Not Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard which has been issued but is yet to be adopted by the 2018/19 Code.

The Code also requires that changes in accounting policy are to be applied retrospectively unless transitional arrangements are specified, this would result in an impact on disclosures spanning two financial years.

Accounting changes that are introduced by the 2019/20 code are:

- Amendments to IAS40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC22 Foreign Currency Transactions and Advance Consideration
- IFRIC23 Uncertainty over Income Tax Treatments
- Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation.

These changes are not expected to have a material impact on the Council's single entity statements or group statements.

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government until 1st April 2020 i.e. financial year 2020/21.

Note 2 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Section 5, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement is required for the accounts, in many cases the approach has been to document the accounting guidance and focus the judgements made by the relevant officers.

Private Finance Initiatives (PFI) and Public Private Partnership (PPP) Arrangements

The Council is deemed to control the services provided under the three PFI/PPP type agreements in relation to the Carlisle Northern Development Route (CNDR), the replacement of five fire stations and the Waste PPP arrangement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the assets are recognised as Property, Plant and Equipment on the Balance Sheet when they are brought into use.

Land and Buildings

The Council has to decide whether land and buildings owned by the Council are investment properties. The Council's Valuers make judgements in accordance with IAS 40 Investment Property and IFRS13 Fair Value Measurement. In 2018/19 it has been determined that the Council has eleven investment properties from which £0.353m net income was generated (2017/18 ten investment properties from which £0.344m net income was generated).

The Capital Programme & Property Team is required to exercise judgement in determining the carrying value of land and buildings on the Council's Balance Sheet. The Council owns a large and diverse range of property assets. All properties are revalued on a five year rolling programme and reflect the fair value. The carrying value of land and buildings is reviewed annually to ensure that it is not materially different to the current value.

Annual review of carrying value

In 2018/19 the largest individual category of land and buildings in terms of both Net Book Value and the number of assets is schools, they account for £260m (53.7%) of the £484m Land and Building Net Book Value on the Balance Sheet.

The accounting treatment for all schools was revised in 2014/15 following a change in the Accounting Code of Practice. As a consequence all schools were revalued in that year.

The Community Primary Schools account for 61.6% of the overall £260m schools Net Book Value (NBV). The percentage change in the average Community Primary Schools NBV when compared to 2014/15 is:

Year of valuation	% increase/(decrease) in average NBV from 2014/15
2014/15	(14.1%)
2015/16	7.3%
2016/17	8.1%
2017/18	9.4%

If the percentage changes in the average NBV in the previous table are applied to the elements of the total Community Primary Schools NBV as at 31st March 2019 then theoretically there could be an increase of £6.3m. This is summarised in the table below:

	% increase / (decrease) in average NBV from 2014/15	**Potential increase / (decrease) in average NBV**
Schools last valued in 2014/15	14.1% decrease	(£1.8m)
Schools last valued in 2015/16	7.3% increase	£3.5m
Schools last valued in 2016/17	8.1% increase	£2.5m
Schools last valued in 2017/18	9.4% increase	£2.1m
	Total	**£6.3m**

However, these are only average figures and do not take into account any local conditions. The Council's materiality for accounting purposes in 2018/19 is £15.7m which equates to 1.75% of forecast gross expenditure for the year (2017/18 £14.907m) so the Balance Sheet is not materially different to the current value.

During 2018/19 the Valuers have assessed that there has been no general impairment.

Judgement is required in determining the significant components of property, plant and equipment assets and their related useful lives for accurate depreciation purposes. The Council's Valuers and accountants worked together to determine this. It has been judged that the useful lives of the Council's properties as they currently stand provide a depreciation charge that is an accurate proxy for component accounting purposes.

Group Accounts
The Council has to decide whether there is a group relationship between the Council and other entities. Finance staff assess each relationship that exists between the Council and other entities that may result in a group accounts relationship using a flowchart of decisions based on CIPFA group accounting guidance. It has been determined that there is one material group relationship that requires the production of group accounts. Further details of the Group Accounts are in Section 7.

Investments
The Council has an investment valued at £3.183m representing a 100% shareholding in Cumbria County Holdings Limited (CCHL), a private limited company. It has been determined that the Council does have control of the company and it is accounted for as a subsidiary of the Council. As the fair value of the shares cannot be determined and it does not have a quoted market price in an active market, the investment is carried at cost as a proxy for fair value. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data.

Provisions and Contingent Liabilities
The Council has to decide whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability. These decisions are taken by a combination of the Council's finance staff, solicitors and departmental officers based on their detailed knowledge of the circumstances.

Grants Receivable
Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non expenditure, the income is not recognised until the expenditure is incurred.

Schools
Accounting for Schools – Consolidation
In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the County are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The timetable for the closure of the Council's accounts requires the 84 schools that operate a "cheque book" arrangement locally i.e. they manage the day to day accounting for income and payments close their accounts by mid March. Therefore they have to make use of estimates for their March payroll costs.

Accounting for Schools – Balance Sheet Recognition of Schools
The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools' land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

The table below sets out the number and type of schools within the County as at 31st March 2019.

Type of School	No. of Primary Schools	No. of Secondary Schools	No. of Nursery Schools	No of Special Schools	No. of Pupil Referral Units	Total No. of Schools	On Council's Balance Sheet	Off Council's Balance Sheet
Community	109	8	6	3	3	129	129	0
Voluntary Controlled (VC)	48	1	0	0	0	49	0	49
Voluntary Aided (VA)	69	4	0	0	0	73	0	73
Foundation	12	2	0	0	0	14	10	4
Total Maintained Schools	**238**	**15**	**6**	**3**	**3**	**265**	**139**	**126**
Academies	32	21	0	2	0	55	0	55
Total	**270**	**36**	**6**	**5**	**3**	**320**	**139**	**181**

Academies are not considered to be maintained schools in the Council's control. Thus the land and building assets are not owned by the Council and not included on the Council's Balance Sheet.

<u>Accounting for Schools - Transfers to Academy status</u>

When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil consideration, on the date that the school converts to Academy status. The Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. The resultant gain or loss is recognised in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the Asset is transferred to Other Land and Buildings (within Property Plant & Equipment), on the date of transfer to Academy the Council accounts for this as a disposal for nil consideration.

<u>Closed Landfill Sites</u>

Consideration of the Issue

The sites have already been returned to the levels/standards required of any original planning consent; most are already in use for example as grazing land. The only spend that is being incurred is on environmental monitoring and routine site maintenance. A reliable estimate of the future costs that relate to the closed landfill sites cannot be made because of the age of the sites and lack of information on the type and volumes of waste disposed of and they are not engineered sites.

The Council has considered this issue again in 2018/19 and has concluded that no provision is required for the 2018/19 accounts but will continue to make disclosure in contingent liabilities (note 42).

Note 3 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are either based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Provisions

Uncertainties	**Consequences if actual results differ from assumption**
Insurance The insurance provision represents the sum estimated to meet motor, employers' liability, public liability and education related fire claims identified and also claims incurred. The estimate is based on the advice of consulting actuaries – Marsh Risk Consulting.	The long term and short term provisions are estimated at £6.921m at 31st March 2019 (£6.640m at 31st March 2018). If the estimate of the insurance provision was underestimated by 10% then the charge to the accounts would increase by £0.692m.
Business Rates Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2018/19 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have challenged up to 31st March 2019. The Council's provision for the Business Rates appeals is a 10% share of the provision calculated by each of the six District Councils in Cumbria.	The provision as at 31st March 2019 is £1.386m (31st March 2018 £0.792m), if the District Councils had either under or over estimated their provisions by 10% then the Council provision would be increased or decreased respectively by £0.139m.

Other short term provisions represent amounts calculated and expected to be paid within the next 12 months. For future years, where it is difficult to provide a reliable estimate, contingent liabilities have been disclosed in addition to long term provisions.

Property, Plant and Equipment

Uncertainties	Consequences if actual results differ from assumption
Useful Life of Assets Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to deliver the backlog maintenance programme following the condition surveys recently undertaken, bringing into doubt the useful lives assigned to assets.	The largest elements of the Council's annual depreciation charge of £36m are operational buildings £11.9m and infrastructure £18.2m. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £0.895m and infrastructure by £0.665m for every year that useful lives had to be reduced.
Asset Valuation Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets. The Council's valuers provided valuations as at 31st March 2019 for all of the Council's investment portfolio and approximately 20% of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values reflect current values. The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council valuers.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's operational properties were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £48m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.
Fair Value Measurement When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;	Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible; judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.

Pensions Liability

Uncertainties	**Consequences if actual results differ from assumption**
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercers, a firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. Note 37 includes a sensitivity analysis. In summary for all Pension schemes the effects are: 0.1% increase in the discount rate assumption would result in a decrease in the net pension deficit of £42.135m and vice versa. 0.1% increase in inflation would result in an increase of £42.878m in the net pension liabilities 1 year increase in life expectancy would increase net liabilities by £55.179m.

Note 4 - Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates to council tax payers how the funding available to the Council (i.e. government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2017/18 Restated				2018/19		
Net Expenditure Chargeable to the General Fund Balance	**Adjustments Between Funding and Accounting Basis**	**Net Expenditure in the Compre-hensive Income and Expenditure Statement**		**Net Expenditure Chargeable to the General Fund Balance**	**Adjustments Between Funding and Accounting Basis**	**Net Expenditure in the Compre-hensive Income and Expenditure Statement**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
197,406	16,426	213,832	People	205,362	38,289	243,651
123,992	(11,835)	112,157	Economy & Infrastructure	127,138	(13,877)	113,261
16,803	(1,024)	15,779	Fire & Rescue Service	16,901	(2,219)	14,682
8,057	34	8,091	Local Committees	7,813	(13)	7,800
30,343	2,128	32,471	Corporate, Customer & Community	31,716	1,424	33,140
15,489	(12,895)	2,594	Finance	17,806	(14,403)	3,403
(17,332)	41,814	24,481	Other Corporate Items	(18,734)	50,754	32,020
374,758	**34,648**	**409,406**	**Net Cost of Services**	**388,002**	**59,955**	**447,957**
(377,493)	(51,116)	(428,609)	Other Income and Expenditure	(380,943)	(26,141)	(407,084)
(2,735)	**(16,468)**	**(19,204)**	**(Surplus) or Deficit on Provision of Services**	**7,059**	**33,814**	**40,873**
(73,193)			Opening Combined Reserves	(75,929)		
(2,735)			Plus / less (Surplus) or Deficit on the General Fund Reserves for the Year (Statutory basis)	7,059		
(75,929)			**Closing Combined General Reserves**	**(68,870)**		

Note 4.1 - Note to the Expenditure and Funding Analysis

Adjustment Between Funding and Accounting Basis

The adjustments between the funding and accounting basis shown in the Expenditure and Funding Analysis can be further broken down into the following three categories:

Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

This column includes the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

This column includes all other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

	2018/19			
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Statutory Adjustments	Total Adjustments
	£000	£000	£000	£000
People	22,197	14,257	1,835	38,289
Economy & Infrastructure	(1,249)	2,006	(14,634)	(13,877)
Fire & Rescue Service	(122)	(2,490)	393	(2,219)
Local Committees	(20)	6	1	(13)
Corporate, Customer & Community	(369)	1,685	108	1,424
Finance	(1,198)	375	(13,580)	(14,403)
Other Corporate Items	35,720	16,842	(1,808)	50,754
Net Cost of Services	**54,959**	**32,681**	**(27,685)**	**59,955**
Other Income and Expenditure	(79,546)	20,379	33,025	(26,141)
Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement	**(24,587)**	**53,060**	**5,340**	**33,814**

	2017/18 Restated			
	Net Capital Statutory Adjustments	Net Pensions Statutory Adjustments	Other Statutory Adjustments	Total Adjustments
	£000	£000	£000	£000
People	(297)	16,090	633	16,426
Economy & Infrastructure	374	2,511	(14,720)	(11,835)
Fire & Rescue Service	(462)	(410)	(152)	(1,024)
Local Committees	26	7	1	34
Corporate, Customer & Community	(313)	2,575	(134)	2,128
Finance	(421)	0	(12,474)	(12,895)
Other Corporate Items	46,260	(4,236)	(210)	41,814
Net Cost of Services	**45,167**	**16,537**	**(27,056)**	**34,648**
Other Income and Expenditure	(101,397)	20,708	29,573	(51,116)
Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement	**(56,230)**	**37,246**	**2,514**	**(16,470)**

Note 4.2 - Segmental Analysis of Income and Expenditure

	2018/19		
	Revenues from External Customers	**Adult Social Care Income**	**Depreciation and Amortisation**
	£000	**£000**	**£000**
People	(17,687)	(34,941)	9,468
Economy & Infrastructure	(9,646)	0	23,795
Fire & Rescue Service	(137)	0	1,609
Local Committees	(192)	0	13
Corporate, Customer & Community	(2,100)	0	794
Finance	(205)	0	0
Other Corporate Items	(119)	0	61
Total Managed by Segments	**(30,086)**	**(34,941)**	**35,740**

	2017/18 Restated		
	Revenues from External Customers	**Adult Social Care Income**	**Depreciation and Amortisation**
	£000	**£000**	**£000**
People	(17,042)	(34,241)	8,186
Economy & Infrastructure	(10,030)	0	21,898
Fire & Rescue Service	(75)	0	1,521
Local Committees	(178)	0	11
Corporate, Customer & Community	(1,876)	0	885
Finance	(431)	0	0
Other Corporate Items	(232)	0	34
Total Managed by Segments	**(29,864)**	**(34,241)**	**32,535**

Note 4.3 - Expenditure and Income Analysed by Nature

2017/18 £000	Nature of Expenditure or Income	2018/19 £000
(29,864)	Fees and charges	(30,086)
(34,241)	Adult Social Care income	(34,941)
(19,611)	Other income	(29,344)
(2,721)	Interest and investment income	(2,519)
(279,134)	Income from local taxation	(304,706)
(513,227)	Government grants and contributions	(496,826)
374,994	Employee benefits expenses (see note below)	383,244
388,024	Other service expenses	434,709
48,144	Depreciation, amortisation and impairment and (gains) / losses on revaluation of non current assets	59,054
48,017	Net Interest payments	49,067
827	Precepts and levies	843
815	Impairment losses	2,406
(1,228)	(Gain) / loss on disposal of non-current assets	9,972
(19,204)	**(Surplus) or Deficit for Year**	**40,873**

Employee benefits expenses in the table above include Voluntary Aided and Foundation Schools employee expenditure of £65.102m (2017/18 £64.046m).

Note 5 - Material Items of Income and Expense

The Council has considered items within the Comprehensive Income and Expenditure Statement in relation to the materiality threshold of £15.7m. The following payments to contractors are included in the Accounts but have not been disclosed separately in the CIES but are set out below for information.

- Renewi plc - £28.267m which comprises £23.121m unitary charge and £5.146m for other services (2017/18 total £27.604m, £22.585m unitary charge and £5.019m for services) in respect of the Public Private Partnership for Waste Management.
- Connect CNDR Ltd - £14.164m which comprises solely of unitary charge in respect of the Carlisle Northern Development Route PFI scheme (2017/18 total £14.040m, £14.031m unitary charge and £0.009m of other services).

Note 6 - Other Operating Expenditure

Other operating expenditure included in Comprehensive Income and Expenditure Statement.

2017/18 £000	Other Operating Expenditure	2018/19 £000
827	Levies	843
(2,010)	(Gains)/losses on the Disposal of Non-Current Assets	1,696
1,662	Other	967
480	**Total Other Operating Expenditure**	**3,506**

Note 7 - Financing and Investment Income and Expenditure

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement.

2017/18 £000	Financing & Investment Income & Expenditure	2018/19 £000
28,238	Interest payable and similar charges	29,654
55,138	Net interest on the net defined benefit liability	58,209
(35,359)	Net interest on the net defined benefit (asset)	(38,796)
(2,140)	Interest receivable and similar income	(1,622)
(668)	Income in relation to investment properties	(612)
324	Expenditure in relation to investment properties	259
(237)	Investment properties change fair value	(544)
782	Loss on Disposal of Academies	8,276
815	Impairment Losses	2,406
46,893	**Total**	**57,230**

The implementation of IFRS9 Financial Instruments in 2018/19 re-categorised impairment losses arising from potential bad debt write off should be included in Financing and Investment Income and Expenditure. In previous years these impairment losses had been included in Cost of Services in the relevant service line.

Further details on the Pension interest cost and return on pension assets can be found in note 37. When a school becomes an Academy the Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. Net assets are therefore written off to revenue. The resultant loss is recognised in the Financing and Investing Income and Expenditure line of the Comprehensive Income and Expenditure Statement. Further details on the schools that have transferred to Academy status during the year are included in note 10.

Note 8 - Taxation and Non-Specific Grant Income

The Council raises Council Tax and receives Business Rates and grants from central government each year to support revenue expenditure which is not attributable to specific services. The grants, Business Rates and Council Tax received for 2018/19 were:

2017/18 £000	Taxation and Non Specific Grant Income	2018/19 £000
(215,882)	Council tax income	(225,524)
(63,251)	Non-domestic rates income and expenditure	(79,182)
(279,133)	**Income from Local Taxation**	**(304,706)**
(96,916)	Non-ringfenced government grants	(74,140)
(99,932)	Capital grants and contributions	(88,974)
(475,981)	**Total**	**(467,820)**

Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

2018/19	**General Fund Balance £000**	**Capital Receipts Reserve £000**	**Movement in Unusable Reserves £000**
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pension cost (transferred to (or from) the Pensions Reserve)	(53,061)	0	(53,061)
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	16	0	16
Council tax and NDR (transfers to or from the Collection Fund)	(2,098)	0	(2,098)
Holiday pay (transferred to the Accumulated Absences reserve)	(3,256)	0	(3,256)
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	19,445	0	19,445
Total Adjustments to Revenue Resources	**(38,954)**	**0**	**(38,954)**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,047	(1,047)	0
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	1,719	0	1,719
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,375	0	2,375
Total Adjustments between Revenue and Capital Resources	**5,141**	**(1,047)**	**4,094**
Use of the Capital Receipts Reserve to finance capital expenditure	0	6,854	6,854
Application of capital grants to finance capital expenditure	0	0	0
Total Adjustments to Capital Resources	**0**	**6,854**	**6,854**
Total Adjustments	**(33,813)**	**5,807**	**(33,813)**

Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations continued

2017/18	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Pension cost (transferred to (or from) the Pensions Reserve)	(37,246)	0	0	37,246
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	15	0	0	(15)
Council tax and NDR (transfers to or from the Collection Fund)	(1,444)	0	0	1,444
Holiday pay (transferred to the Accumulated Absences reserve)	(352)	0	0	352
Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	48,927	0	0	(48,927)
Total Adjustments to Revenue Resources	9,899	0	0	(9,899)
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4,326	(4,326)	0	0
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	853	0	0	(853)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,391	0	0	(1,391)
Total Adjustments between Revenue and Capital Resources	6,570	(4,326)	0	(2,244)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	2,706	0	(2,706)
Application of capital grants to finance capital expenditure	0	0	1,970	(1,970)
Total Adjustments to Capital Resources	0	2,706	1,970	(4,676)
Total Adjustments	**16,469**	**(1,620)**	**1,970**	**(16,818)**

Note 10 - Acquired and Discontinued Operations

Where operations have been acquired or discontinued in the year, the Code requires disclosure of the nature of the acquired or discontinued operations and details of any outstanding liabilities in respect of discontinued operations.

The transfer of schools to Academy status continued with three schools, James Rennie, Flimby and Dean, (1 in 2017/18) converting during the year, this resulted in a reduction in gross income of £2.117m (2017/18 £0.005m) and expenditure of £2.273m (2017/18 £0.023m). This transfer of responsibility also resulted in a reduction of £8.276m (2017/18 £0.782m) in the net book value of land, buildings and equipment recorded on the Balance Sheet.

Note 11 - Pooled Budgets

There are occasions when the needs of service users cannot be met in full from within the Council. In particular, there is a need to work with the North Cumbria Clinical Commissioning Group and Morecambe Bay Clinical Commissioning Group as well as the Police and Probation Services. The Council has entered into a number of arrangements with these agencies to ensure proper care is provided in a coordinated manner. These arrangements are known as 'Pooled Funds' and the Council and these agencies contribute to the costs of care. Grants are also received from Government.

The Council's share of overall surpluses or deficits are credited or charged to People directorate. The Council's legal requirements in respect of costs for each of the Pooled Funds is shown in the tables below.

Youth Offending Service

The Council acts as a lead agency for the Youth Offending Service within Cumbria, established in April 2000. The purpose of the Youth Offending Service is to work with young offenders and reduce the level of offending and reoffending amongst young persons.

2017/18 £000	Youth Offending Service	2018/19 £000
(443)	Authority Funding	(564)
(1,145)	Partner Funding	(1,025)
(1,588)	Total Pooled Funding	(1,589)
1,520	Authority Expenditure	489
0	Partner Expenditure	1,025
1,520	Expenditure	1,514
(68)	**Net (Surplus)/Deficit on the Pooled Budget**	**(75)**
(68)	**Authority Share of the Net (Surplus) / Deficit**	**(75)**

Better Care Fund

The Better Care Fund creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services.

Locally, the primary aims of the fund are:

- Supporting independence in the community by placed-based activity.
- Reducing non-elective admissions and reducing residential admissions by providing the right care and support within the community.
- Facilitating earlier hospital discharge.

2017/18 £000	**Better Care Fund**	**2018/19 £000**
(17,582)	Authority Funding	(24,088)
(36,493)	Partner Funding	(36,961)
(54,075)	Total Pooled Funding	(61,049)
54,075	Authority Expenditure	61,049
0	Partner Expenditure	0
54,075	Expenditure	61,049
0	**Net (Surplus)/Deficit on the Pooled Budget**	**0**
0	**Authority Share of the Net (Surplus) / Deficit**	**0**

Specialised Commissioning Pooled Fund

The Specialised Commissioning Pooled Fund ceased on 31st March 2018. It allowed for joint commissioning of statutory social care and some clinical services to improve general well-being and life chances of adults with a learning disability.

2017/18 £000	**Specialised Commissioning Fund**	**2018/19 £000**
(20,880)	Authority Funding	0
(7,266)	Partner Funding	0
(28,146)	Total Pooled Funding	0
28,146	Authority Expenditure	0
0	Partner Expenditure	0
28,146	Expenditure	0
0	**Net (Surplus)/Deficit on the Pooled Budget**	**0**
0	**Authority Share of the Net (Surplus) / Deficit**	**0**

Note 12 – Officers' Remuneration

The Accounts and Audit Regulations 2015 sets out the disclosure requirements for Senior Employees remuneration. The requirements provide transparency in respect of the total remuneration package for the senior team charged with the stewardship of the organisation. Senior employees include the Chief Executive, Executive Directors, the Director of Finance, the Monitoring Officer, the Chief Fire Officer and the Director of Public Health.

In 2018/19 there was a restructure of the Extended Leadership Team which was effective from 1st May 2018. Further information is on the next page.

Senior Officers' Remuneration		**Salary, Fees and Allowances**	**Payment upon Termination of Employment**	**Pension Contributions payable to the Pension Fund (including pension strain costs)**	**Total**
		£	**£**	**£**	**£**
Katherine Fairclough - Chief Executive	**2018/19**	145,670	0	21,705	**167,375**
	2017/18	142,814	0	21,279	**164,093**
John Macilwraith, Executive Director – People and Deputy Chief Executive	**2018/19**	136,129	0	20,283	**156,412**
	2017/18	127,513	0	18,999	**146,512**
Dawn Roberts, Executive Director – Corporate, Customer & Community Services	**2018/19**	130,063	0	19,379	**149,442**
	2017/18	127,513	0	18,999	**146,512**
Dominic Donnini, Executive Director - Economy & Infrastructure Services (to 31/10/18)	**2018/19**	83,851	73,731	11,305	**168,887**
	2017/18	127,513	0	18,999	**146,512**
Angela Jones, Acting Executive Director - Economy & Infrastructure Services (from 1/12/18)	**2018/19**	43,473	0	6,478	**49,951**
	2017/18	0	0	0	**0**
Brenda Smith, Corporate Director - Health, Care and Community Services (to 30/6/18)	**2018/19**	38,481	74,878	248,941	**362,300**
	2017/18	127,513	0	18,999	**146,512**
Julie Crellin, Director of Finance	**2018/19**	99,749	0	14,863	**114,612**
	2017/18	93,645	0	13,953	**107,598**
Iolanda Puzio, Chief Legal Officer (Monitoring Officer)	**2018/19**	99,241	0	14,700	**113,941**
	2017/18	79,011	0	10,696	**89,707**
Steve Healey, Chief Fire Officer	**2018/19**	109,201	0	15,616	**124,817**
	2017/18	71,909	0	10,283	**82,192**
Colin Cox, Director of Public Health	**2018/19**	100,825	0	14,499	**115,324**
	2017/18	98,848	0	14,214	**113,062**
Total	**2018/19**	**986,683**	**148,609**	**387,769**	**1,523,061**
	2017/18	**996,279**	**0**	**146,424**	**1,142,703**

Definitions

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

- Payment upon Termination of Employment Salary – includes redundancy costs and pay in lieu of notice.

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2018/19 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2018/19.

- Employer's Current Service Pension Contribution - LGPS 14.9%, NHS Pension Scheme 14.3%, and Firefighters' Pension Scheme 21.7% - on continuing employment and in relation to the salary thereof.

- Under the terms of the LGPS, officers who, with the agreement of the employer, retire on the grounds of efficiency of the service or voluntary redundancy and are over the age of 55 are statutorily entitled to access their pension. As a result of retiring in advance of the statutory retirement age, there is a cost charged from the Pension Fund to the Council, is known as "pension strain". This is included in the figures in the table on the previous page.

Notes

During 2018/19 the Council's internal management structure was re-designed to support a new "cluster" operating model and links to the Council's vision and priorities contained within the Council Plan and Medium Term Financial Plan. The redesign initially focussed on roles at the level of Corporate Director and Assistant Director. Within the previous structure there were 22 posts. The new structure sees a reduction to 19 posts.

However, this is the first phase of a wider organisational change programme aimed at ensuring resources are properly aligned to the vision and priorities. It is aimed at introducing more flexibility in service delivery so that the organisation can adapt readily to the challenges which will inevitably occur over the next few years.

The new "cluster" operating model focusses on the following areas:

People – and the response to service users with assessed needs. This will include the existing services of the children and young people's directorate, adult social care, public health, Cumbria Care, health and care integration and partnerships.
Strategic core – and the response to meeting the council's internal governance, democratic, strategic commissioning, communications, planning responsibilities and enterprise.
Customer – and the response to the universal customer's needs this will include customer transformation, customer service centre and community services
Locality – and the response to place based issues of infrastructure and growth and transportation.

In addition to the Senior Officer's Remuneration details, the number of officers, including staff in County maintained schools, who received annual remuneration of more than £50,000 during the year, is shown in the table below.

There were 9 non-school staff (5 for 2017/18) whose salary is less than £50,000 but have been included in the note as they received or were due to receive payments upon the termination of their employment that brought their total remuneration above £50,000.

Remuneration for the purposes of this note consists of gross pay, sums due by way of expense allowances, payments in connection with the termination of employment and the money value of any benefits received other than in cash, employer's pension contributions are excluded.

Officer Remuneration

2017/18				2018/19		
Number of Employees				Number of Employees		
School Staff	Other Staff	Total		School Staff	Other Staff	Total
95	32	**127**	£50,001 to £55,000	84	47	**131**
61	58	**119**	£55,001 to £60,000	64	52	**116**
28	10	**38**	£60,001 to £65,000	39	25	**64**
23	31	**54**	£65,001 to £70,000	26	31	**57**
12	8	**20**	£70,001 to £75,000	10	11	**21**
6	4	**10**	£75,001 to £80,000	4	3	**7**
2	2	**4**	£80,001 to £85,000	4	2	**6**
0	3	**3**	£85,001 to £90,000	4	6	**10**
1	4	**5**	£90,001 to £95,000	2	3	**5**
1	1	**2**	£95,001 to £100,000	0	5	**5**
1	0	**1**	£100,001 to £105,000	2	3	**5**
0	0	**0**	£105,001 to £110,000	0	0	**0**
0	0	**0**	£110,001 to £115,000	0	0	**0**
1	1	**2**	£115,001 to £120,000	0	0	**0**
0	0	**0**	£120,001 to £125,000	1	1	**2**
0	0	**0**	£125,001 to £130,000	0	0	**0**
0	0	**0**	£130,001 to £135,000	0	0	**0**
0	0	**0**	£135,001 to £140,000	0	0	**0**
0	0	**0**	£140,001 to £145,000	0	0	**0**
0	0	**0**	£145,001 to £150,000	1	0	**1**
231	**154**	**385**	**Total**	**241**	**189**	**430**

Exit Packages

The Code of Practice on Local Authority Accounting includes a requirement to disclose the number and total cost of exit packages which the Council "can no longer withdraw from" in bands of £20,000. Exit package payments include all redundancy costs, pension strain costs, payment in lieu of notice or any other departure costs.

The Council has undergone a considerable programme of rationalisation and restructuring in recent years, to reflect a reduction in total grant funding from Government. This has led to the redundancy of a number of employees. The tables below gives further details for both schools and non schools including the number of employees and the value of the packages, including, where applicable, the pension strain costs due from the Council to the Pension Fund attributable to the departure costs of some of the employees that were made redundant.

The total value of exit packages agreed in 2018/19 was £2.920m for 139 employees, an average of £21k (£1.536m for 117 employees in 2017/18, an average of £13.1k). The value of exit packages related to schools in 2018/19 was £0.668m for 47 employees, an average of £14k (£0.670m for 53 employees in 2017/18, an average of £12.6k). The table excludes those packages for senior officers already disclosed in the table on page 78.

Exit Packages

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0-£20,000	1	0	95	103	96	103	550,527	870,391
£20,001 - £40,000	2	0	11	22	13	22	358,487	635,033
£40,001 - £60,000	0	0	3	4	3	4	139,841	208,946
£60,001 - £80,000	0	0	2	3	2	3	158,599	215,191
£80,001 - £100,000	0	0	1	2	1	2	89,001	193,864
£100,001 - £150,000	0	0	2	3	2	3	240,038	326,009
£150,001 to £200,000	0	0	0	0	0	0	0	0
£200,001 to £250,000	0	0	0	1	0	1	0	219,333
£250,001 to £300,000	0	0	0	1	0	1	0	251,258
Total	**3**	**0**	**114**	**139**	**117**	**139**	**1,536,493**	**2,920,025**

Note 13 - Termination Benefits

Termination payments to employees include: redundancy payments, payment in lieu of notice, or any other departure payments, but do not include any pension costs. In 2018/19 the termination payments made to employees totalled £1.708m and related to 138 staff. In 2017/18 the termination payments made to employees totalled £1.072m and related to 112 staff.

Note 14 - Members' Allowances

Allowances and expenses paid to elected Members (Councillors) during 2018/19 were:

31 March 2018 £000	Members Allowances	31 March 2019 £000
928	Allowances	947
100	Expenses	107
1,028	**Total Members' Allowances**	1,054

The allowances and expenses are published annually, in full, on the Council's website at www.cumbria.gov.uk.

Note 15 - External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and other services provided by the Council's external auditors, Grant Thornton:

2017/18 £000	External Audit Costs	2018/19 £000
115	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	88
7	Fees payable in respect of other services provided by external auditors during the year *	19
122	**Total**	**107**

*Other services includes, audit related services £6k (2018: 7k) and other non-audit services £13k (2018: nil).

Note 16 - Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency, the Dedicated Schools Grant (DSG). An element of DSG is recouped to fund Academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the School Finance and Early Years (England) Regulations 2015. The Schools' Budget includes elements for a range of educational services provided on an authority wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

The increase in the Dedicated Schools Grant deficit from 2017/18 to 2018/19 is due to an overspend against the High Needs Block which has been offset by a transfer into the DSG reserves of £1.5m relating to the recovery of income from health partners for pupils in specialised education provision. At its meeting on 15th December 2016, Cabinet approved a Schools Forum recommended recovery plan for the High Needs Block. However, the demand for SEND services has increased significantly in 2018/19 and a revised plan to bring the DSG balance back to a balanced position by 2021/22 is in progress.

Details of the deployment of DSG receivable for 2018/19 are as follows:

DSG Receivable for 2018/19	Central Expenditure £000	Individual Schools Budget £000	Total £000	Total Carry Forward £000
Final DSG for year before Academies recoupment			354,390	
Academy figure recouped for year			(105,963)	
Total DSG after academy recoupment			**248,427**	
Plus: Brought forward from previous year			(3,553)	
Less: Carry forward to following year (agreed in advance)			3,553	3,553
Agreed initial budgeted distribution in year	**34,907**	**213,520**	**248,427**	
In year adjustments	0	0	0	
Final budget distribution for year	**34,907**	**213,520**	**248,427**	
Less: Actual central expenditure	(36,524)		(36,524)	
Less: Actual ISB deployed to schools		(213,691)	(213,691)	
Plus: Local Authority contribution for year	0	0	0	(1,500)
Carry forward to 2019/20	**(1,617)**	**(171)**	**(1,788)**	1,788
Total Carry Forward				**3,841**

DSG Receivable for 2017/18 Restated	Central Expenditure £000	Individual Schools Budget £000	Total £000	Total Carry Forward £000
Final DSG for year before Academies recoupment			345,273	
Academy figure recouped for year			(103,009)	
Total DSG after academy recoupment			**242,264**	
Plus: Brought forward from previous year			(5,666)	
Less: Carry forward to following year (agreed in advance)			5,033	5,033
Agreed initial budgeted distribution in year	**34,138**	**207,492**	**241,631**	
In year adjustments	0	0	0	
Final budget distribution for year	**34,138**	**207,492**	**241,631**	
Less: Actual central expenditure	(33,560)	0	(33,560)	
Less: Actual ISB deployed to schools	0	(206,590)	(206,590)	
Plus: Local Authority contribution for year	0	0	0	
Carry forward to 2018/19	**578**	**902**		(1,480)
Total Carry Forward				**3,553**

The 2017/18 note was restated after a minor error of £0.688m in the split between actual central expenditure and the Actual ISB deployed to schools was noted after the 2017/18 audit was complete.

Note 17 - Grant Income

The Council received the following non ring-fenced Government Grants and Capital Grants and contributions in 2018/19 which were credited to taxation and non specific grant income in the CIES and summarised in note 8.

Grant Income Credited to Taxation and non-specific Grant Income and Expenditure

31 March 2018 £000		31 March 2019 £000
(40,572)	Revenue Support Grant	(28,943)
(21,153)	Top Up Grant (Central Government)	(10,250)
(13,536)	PFI Grant	(13,537)
(1,861)	New Homes Bonus Grant	(1,106)
(1,235)	Education Services Grant	0
(2,860)	NNDR Small Businesses Relief Grant	(4,326)
(1,606)	Troubled Families Grant	(1,802)
(3,452)	Independent Living Fund	(3,343)
(4,659)	Rural Services Support Grant	(5,806)
(2,518)	Adult Social Care Grant	(1,567)
(3,464)	Other Grants & Contributions < £1m	(3,460)
(99,932)	Capital Grants and Contributions	(88,974)
(196,848)	**Total**	**(163,114)**

Credited to Services Specific grants are credited to services and shown as Gross Income in the Comprehensive Income and Expenditure Account. The Council received the specific grants detailed above in 2018/19 that were credited to Services.

31 March 2018 £000		31 March 2019 £000
(242,264)	Dedicated Schools Grant	(248,427)
49	Dedicated Schools Grant – adjustment re previous year	102
(11,745)	Pupil Premium Grant	(12,081)
(2,566)	Primary PE & Sports Grant	(3,612)
(6,060)	Sixth Form Funding	(5,595)
(2,868)	Adult & Community Learning Grants	(2,689)
(4,782)	Universal Free School Meals Grant	(4,645)
(156)	Business Recovery Grant	0
(745)	Youth Offending Team Grant	(745)
(18,886)	Public Health Grant	(18,400)
(10,542)	Improved Better Care Fund	(18,279)
0	Winter Pressure s Funding	(2,507)
0	Teachers Pay Grant	(977)
(3,446)	Other Grants & Contributions < £1m	(4,866)
(12,369)	REFCUS Grants	(10,990)
(316,380)	**Total**	**(337,711)**

The Council is required to disclose the following specific grants individually to meet the terms and conditions of the grants:

- £51,355 Police and Crime Panel Grant for the Home Office in 2018/19 (£53,152 in 2017/18). This grant is made to Cumbria County Council, as the host authority, for the maintenance of the police and crime panel for the Cumbria police area in 2018/19.

- The Dedicated Schools Grant adjustment re previous years shown in the table above relates to adjustments to the early years block of the grant updated to reflect pupil numbers on the January census which was notified to the Council in the following May.

- Active Cumbria received £392,943 from Sport England in 2018/19 (£399,939 in 2017/18). Further details of Active Cumbria's accounts can be found at www.activecumbria.org.

Grants Receipts in Advance (Revenue Grants) - Current Liabilities

31 March 2018 £000		31 March 2019 £000
(8,035)	Revenue Grants Receipts in Advance < £1m	(8,675)
(3,244)	Revenue Contributions Receipts in Advance < £1m	(8,491)
(11,279)	**Total**	**(17,166)**

The Council has received a number of capital grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year end are as follows:

Grants Receipts in Advance (Capital Grants) - Long Term Liabilities

31 March 2018 £000		31 March 2019 £000
(59,706)	Highways & Flood Recovery (2015) Grant	(29,037)
(3,971)	Campus Whitehaven Contributions	0
(7,133)	Basic Need Grant	(5,113)
(2,010)	Fire Transformation Grant	(2,010)
(1,785)	Capital Maintenance Grant	0
(1,613)	Devolved Formula Capital Grant	(3,239)
(1,587)	Department of Health Grant	(1,525)
0	DfT Safer Roads	(1,901)
0	DfT Additional Highways Grant	(1,417)
0	S278Contributions	(1,438)
(1,897)	Other Grants & Contributions <£1m	(3,957)
(79,701)	**Total**	**(49,637)**

Note 18 - Capital Expenditure and Capital Financing

Capital Expenditure and Capital Financing

31 March 2018 £000		31 March 2019 £000
500,640	Opening Capital Financing Requirement	518,877
	Capital Investment:	
124,991	Property Plant and Equipment	121,705
13	Investment Property	38
85	Intangible Assets	0
0	Assets Held for Sale	0
12,369	Revenue Expenditure Funded from Capital Under Statute	10,990
137,457	**Total Capital Spending**	**132,734**
	Sources of Finance:	
(2,706)	Capital receipts	(6,854)
(114,270)	Government Grants and other contributions	(99,965)
	Sums set aside from revenue:	
(1,391)	- Direct revenue contributions	(2,375)
(853)	- Minimum revenue provision	(1,719)
(119,220)	**Total Sources of Finance**	**(110,912)**
518,877	**Closing Capital Financing Requirement**	**540,698**

Explanation of movements in year

31 March 2018 £000		31 March 2019 £000
(853)	(Decrease) in underlying need to borrow (supported by government financial assistance)	(1,719)
19,089	Increase in underlying need to borrow (unsupported by government financial assistance)	23,540
18,236	**Increase/(decrease) in Capital Financing Requirement**	**21,822**

Minimum Revenue Provision

The Council is required to set aside a minimum revenue provision (MRP) for the redemption of external debt in accordance with its MRP Policy which is approved by Council for each financial year. The difference between the MRP and depreciation is transferred to the Capital Adjustment Account to ensure capital charges do not impact on the amount to be raised by Government grant and local taxation.

In November 2016 Council approved a change to the MRP policy for supported and pre 2008 borrowing from 4% reducing balance to 2% straight line which results in a MRP charge which is more aligned with the period over which the underlying assets provide benefit (see Accounting Policy iv). For 2018/19 the MRP was £1.719m (2017/18 £0.853m).

Note 19 - Leases

The Council has acquired a number of assets using finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet in Other Land and Buildings.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property/ equipment acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding.

For all the Council's finance lease property assets there are only minimum rentals paid hence the payments have not been split between financing costs and principal elements. The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 there were no contingent rents payable by the Council (None in 2017/18).

The Council sub lets part of one of the buildings which it leases in. Income of £0.228m was received in 2018/19 (£0.587m 2017/18).

Authority as Lessee - Finance Leases

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2018 £000		31 March 2019 £000
15,881	Other Land and Buildings	15,483
0	Vehicles, Plant, Furniture, Equipment and Other	0
15,881	**Total**	**15,483**

Authority as Lessee - Operating Leases

The future minimum lease payments due under non-cancellable operating leases in future years are set out below:

31 March 2018 £000		31 March 2019 £000
1,288	Not later than one year	602
1,726	Later than one year and not later than five years	1,092
4,377	Later than five years	4,135
7,391	**Total**	**5,829**

The Council leases a number of buildings and land as operating leases over varied time periods. The Council also leases in vehicles, plant and equipment. Operating leases give the Council the right to use the assets for a period of time, but do not give similar ownership rights as for assets acquired under finance leases.

The expenditure charged to services in the CIES during the year in relation to these leases was:

31 March 2018 £000		31 March 2019 £000
2,314	Minimum lease payments	2,177
(587)	Less: Sublease payments receivable	(228)
1,727	**Total**	**1,949**

Authority as Lessor - Operating Leases

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2018 £000		31 March 2019 £000
626	Not later than one year	307
2,355	Later than one year and not later than five years	1,139
4,208	Later than five years	1,627
7,189	**Total**	**3,073**

The Council has a number of leased out properties all of which are operating leases. It leases out these properties for the following purposes:

- The provision of community services, such as sports facilities and community centres

- For economic development purposes to provide suitable office accommodation for local businesses.

The income is allocated to the appropriate service within the Comprehensive Income and Expenditure Statement for 2018/19. Lease income of £0.685m (2017/18 £1.147m) were recognised as income in the Comprehensive Income and Expenditure Statement.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no contingent rents receivable by the Council in 2018/19 or 2017/18.

Note 20 - Service Concession Arrangements

The Council currently has three PFI/PPP contracts which are detailed below. Although the payments made to the contractors are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable, whilst the capital expenditure remains to be reimbursed. The liability is established at the same time that the assets are recognised on the Balance Sheet i.e. when they become operational.

Waste Management Contract

The Waste Management Contract was signed in June 2009; it is a 25 year Public Private Partnership (PPP) contract between the Council and Renewi plc. The cost to the Council over the remaining life of the contract is expected to be £436m. The overall aim of the project is to reduce the volume of waste sent to landfill and hence reduce landfill taxes and potential fines arising from the Government's Landfill Allowance Trading Scheme.

To achieve this aim, Renewi constructed two waste treatment facilities; one in the North and one in the South of the County, these are designed to dramatically reduce the amount of residual waste sent to landfill. Renewi are also responsible for managing, maintaining and operating the existing 14 Household Waste Recycling Centres across the County. At the end of the concession period the waste treatment plants will be transferred to the Council's ownership.

The waste treatment facility in the North became operational in December 2011 and the facility in the South in January 2013. Renewi have taken over responsibility for disposing of the County's residual waste via landfill.

Carlisle Northern Development Route

The Carlisle Northern Development Route (CNDR) contract was signed in July 2009; it is a 30 year Private Finance Initiative (PFI) contract between the Council and Connect CNDR Ltd. The cost to the Council over the remaining life of the contract is expected to be £343m. The contract is an essential component of the economic regeneration of West Cumbria, one of the most economically deprived parts of the North West.

The primary aim of the contract was to design, build, finance and operate a new 8.3km largely single carriageway road to connect the North and West of Carlisle. The intention is to relieve pressure on radial routes within Carlisle City, which is key to realising development of the strategic employment site at Kingmoor Park to its full potential of 5,500 jobs. The CNDR was scheduled to be fully completed, contractually, by 2013, but was completed and became operational in February 2012. Connect CNDR are also responsible for the management, maintenance and operation of some 150km of the existing principal road network in the surrounding area. At the end of the concession period the road will be transferred to the Council's ownership.

The re-negotiation of the highways contract in respect of the operation of the CNDR Route was concluded in December 2018, the Council elected to take its share of the gain from the re-financing as an upfront lump sum of £10.574m. The recommended accounting treatment of such a gain is that the gain should be held on the Council's Balance Sheet as deferred income and spread over the contract term rather than be recognised in the year that it is received.

To enable the Council to take the full benefit of this gain in 2018/19 as intended and set out in the re-financing agreement a corresponding draw down has been made from the CNDR Grant In Advance. As the annual sum is released from the deferred income it will be transferred to the CNDR Grant in Advance reserve to replenish the reserve. The ability to meet future commitments upon the reserve have been reviewed and remains satisfactory, and the deferred income will be ring-fenced and released over the period.

Fire Station Replacement PFI Scheme

The Council is involved in a PFI project, with Merseyside and Lancashire Fire and Rescue Authorities, to provide sixteen new fire stations, five of which are in Cumbria. The basis of the partnership is set out in a joint working agreement. Contracts were signed between Balfour Beatty Fire and Rescue NW Ltd in February 2011, with construction commencing in 2011/12 and completion in 2013/14. The cost to the Council of the Cumbria element of the contract is expected to be £47m. At the end of the concession period the fire stations will be transferred to the Council's ownership. The contract will run for 25 years from the date of final handover, and the Council pays a unitary payment. The stations built in Cumbria are:

- Carlisle - 2 sites - Carlisle East and Carlisle West.
- Workington – includes the Locality Headquarters.
- Penrith - includes the Council's Resilience Unit and Fire & Rescue Service Headquarters & Learning & Development Department.
- Patterdale.

Movement in PFI Assets

2018/19	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	**£000**	**£000**	**£000**
Cost or Valuation				
at 1 April 2018	39,113	57,057	15,295	111,465
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	(80)	(80)
at 31 March 2019	**39,113**	**57,057**	**15,215**	**111,385**
Accumulated Depreciation and Impairment				
at 1 April 2018	**(3,084)**	**(7,199)**	**(413)**	**(10,696)**
Depreciation charge	(1,427)	(1,426)	(387)	(3,240)
Depreciation written out to Revaluation Reserve	0	0	375	375
Depreciation written out to the (Surplus) / Deficit on the Provision of Services	0	0	103	103
at 31 March 2019	**(4,511)**	**(8,625)**	**(322)**	**(13,458)**
Net Book Value				
at 31 March 2019	**34,602**	**48,432**	**14,893**	**97,927**
at 1 April 2018	**36,028**	**49,858**	**14,882**	**100,768**

2017/18	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	**£000**	**£000**	**£000**
Cost or Valuation				
at 1 April 2017	39,113	57,057	15,343	111,513
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	901	901
Revaluation increases/(decreases) recognised in the (Surplus) / Deficit on the Provision of Services	0	0	(949)	(949)
at 31 March 2018	**39,113**	**57,057**	**15,295**	**111,464**
Accumulated Depreciation and Impairment				
at 1 April 2017	(1,596)	(5,773)	(1,180)	(8,549)
Depreciation charge	(1,489)	(1,426)	(369)	(3,284)
Depreciation written out to the (Surplus) / Deficit on the Provision of Services	0	0	1,136	1,136
at 31 March 2018	**(3,084)**	**(7,199)**	**(413)**	**(10,696)**
Net Book Value				
at 31 March 2018	**36,028**	**49,858**	**14,882**	**100,768**
at 1 April 2017	**37,517**	**51,284**	**14,163**	**102,963**

Movement in PFI Liabilities

2018/19	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Balance outstanding at start of year	(42,545)	(58,903)	(15,266)	(116,714)
Payments during the year	(126)	341	305	520
Balance outstanding at year-end	**(42,671)**	**(58,562)**	**(14,961)**	**(116,194)**

2017/18	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Balance outstanding at start of year	(42,578)	(59,020)	(15,548)	(117,146)
Payments during the year	33	117	282	432
Balance outstanding at year-end	**(42,545)**	**(58,903)**	**(15,266)**	**(116,714)**

Payments due under PFI schemes - 2018/19

1. Reimbursement of Capital Expenditure	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Payable within one year	(50)	(1,455)	(330)	(1,835)
Payable within two to five years	(2,625)	(4,353)	(1,617)	(8,595)
Payable within six to ten years	(11,190)	(9,629)	(2,909)	(23,728)
Payable within eleven to fifteen years	(28,806)	(15,326)	(4,366)	(48,498)
Payable within sixteen to twenty years	0	(26,560)	(5,739)	(32,299)
Payable after twenty years	0	(1,239)	0	(1,239)
Total	**(42,671)**	**(58,562)**	**(14,961)**	**(116,194)**

2. Interest	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Payable within one year	(5,767)	(8,431)	(1,313)	(15,511)
Payable within two to five years	(22,571)	(31,762)	(5,008)	(59,341)
Payable within six to ten years	(23,782)	(37,933)	(5,496)	(67,211)
Payable within eleven to fifteen years	(10,739)	(32,044)	(4,172)	(46,955)
Payable within sixteen to twenty years	0	(21,084)	(1,901)	(22,985)
Payable after twenty years	0	(1,348)	0	(1,348)
Total	**(62,859)**	**(132,602)**	**(17,890)**	**(213,351)**

3. Payment for Services	**Waste Management PPP**	**Carlisle Northern Development Route PFI**	**Fire Station Replacement PFI**	**Total**
	£000	**£000**	**£000**	**£000**
Payable within one year	(18,195)	(4,672)	(571)	(23,438)
Payable within two to five years	(77,445)	(24,330)	(2,452)	(104,227)
Payable within six to ten years	(109,521)	(33,388)	(3,491)	(146,400)
Payable within eleven to fifteen years	(125,479)	(40,281)	(4,043)	(169,803)
Payable within sixteen to twenty years	0	(47,586)	(4,050)	(51,636)
Payable after twenty years	0	(1,993)	0	(1,993)
Total	**(330,640)**	**(152,250)**	**(14,607)**	**(497,497)**

4. Total Payments Due under PFI	**Waste Management PPP**	**Carlisle Northern Development Route PFI**	**Fire Station Replacement PFI**	**Total**
	£000	**£000**	**£000**	**£000**
Total	**(436,170)**	**(343,414)**	**(47,458)**	**(827,042)**

Note 21 - Property, Plant and Equipment

Movements to 31 March 2019	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation							
at 1 April 2018	**497,537**	**85,334**	**725,844**	**53**	**19,813**	**26,657**	**1,355,237**
Additions	11,784	5,278	69,461	0	610	34,574	**121,705**
Accumulated Depreciation written out to Gross Carrying Amount	(9,872)	0	0	0	(52)	0	**(9,924)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,789	0	0	0	92	0	**5,881**
Revaluation increases/(decreases) recognised in the (Surplus) / Deficit on the Provision of Services	(22,367)	0	0	0	(948)	0	**(23,315)**
Derecognition – disposals	(8,857)	(905)	0	0	(1,808)	0	**(11,569)**
Reclassifications and transfer	31,190	802	0	0	1,626	(33,618)	**0**
Assets reclassified (to)/from Investment Property	0	0	0	0	(60)	0	**(60)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(1,565)	0	**(1,565)**
at 31 March 2019	**505,205**	**90,509**	**795,305**	**53**	**17,707**	**27,611**	**1,436,390**
Accumulated Depreciation and Impairment							
at 1 April 2018	**(18,518)**	**(48,801)**	**(140,471)**	**0**	**(211)**	**0**	**(208,001)**
Depreciation charge	(12,722)	(4,442)	(18,170)	0	(222)	0	**(35,556)**
Accumulated Depreciation written out to Gross Carrying Amount	9,872	0	0	0	52	0	**9,924**
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	**0**
Depreciation written out to the (Surplus) / Deficit on the Provision of Services	0	0	0	0	0	0	**0**
Impairment losses/(reversals) recognised in the (Surplus) / Deficit on the Provision of Services	0	0	0	0	0	0	**0**
Derecognition – disposals	428	752	0	0	24	0	**1,204**
Reclassifications and transfers	0	0	0	0	0	0	**0**
at 31 March 2019	**(20,940)**	**(52,491)**	**(158,641)**	**0**	**(356)**	**0**	**(232,428)**
Net Book Value							
at 31 March 2019	**484,265**	**38,018**	**636,664**	**53**	**17,351**	**27,611**	**1,203,962**
at 31 March 2018	**479,019**	**36,533**	**585,373**	**53**	**19,601**	**26,657**	**1,147,236**

Movements to 31 March 2018	**Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant and Equipment**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation							
at 1 April 2017	497,345	78,158	649,284	53	15,455	4,480	**1,244,776**
Additions	16,126	6,210	76,560	0	2,189	23,905	**124,991**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,001	35	0	0	617	0	**6,652**
Revaluation increases/(decreases) recognised in the (Surplus) / Deficit on the Provision of Services	(5,221)	0	0	0	(13,061)	0	**(18,283)**
Derecognition – disposals	(11)	(510)	0	0	(1,147)	0	**(1,667)**
Derecognition – other	(1,131)	(13)	0	0	(139)	0	**(1,283)**
Reclassifications and transfer	(15,572)	1,453	0	0	15,778	(1,728)	**(70)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	121	0	**121**
at 31 March 2018	**497,537**	**85,334**	**725,844**	**53**	**19,813**	**26,657**	**1,355,237**
Accumulated Depreciation and Impairment							
at 1 April 2017	(13,489)	(44,908)	(124,207)	0	(23)	0	**(182,628)**
Depreciation charge	(11,445)	(4,365)	(16,264)	0	(195)	0	**(32,268)**
Depreciation written out to the Revaluation Reserve	2,648	0	0	0	326	0	**2,974**
Depreciation written out to the (Surplus) / Deficit on the Provision of Services	3,069	0	0	0	84	0	**3,152**
Impairment losses/(reversals) recognised in the (Surplus) / Deficit on the Provision of Services	0	0	0	0	254	0	**254**
Derecognition – disposals	0	472	0	0	5	0	**477**
Derecognition – other	37	0	0	0	0	0	**38**
Reclassifications and transfers	663	0	0	0	(663)	0	**0**
at 31 March 2018	**(18,518)**	**(48,801)**	**(140,471)**	**0**	**(211)**	**0**	**(208,001)**
Net Book Value							
at 31 March 2018	**479,019**	**36,533**	**585,373**	**53**	**19,601**	**26,657**	**1,147,236**
at 31 March 2017	**483,856**	**33,250**	**525,077**	**53**	**15,432**	**4,480**	**1,062,148**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The officers who undertook these valuations in 2018/19 were:

- D Wiggins, BSc (Hons) MRICS
- D Kirkwood, BSc (Hons) MRICS
- P Robinson, MSc MRICS
- D Rawle, BSc (Hons) MRICS
- E McQuillan, MRICS

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors and in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset. Furniture and equipment is only treated as a non current asset when purchased as part of a capital project, otherwise it is treated as de minimis expenditure and is a direct charge to the revenue account in the year of purchase. The exception to this is schools' equipment funded from capital grant.

The significant assumptions applied in estimating the fair values are:

- That all required, valid planning permissions and statutory approvals for the buildings and for their use, including any extensions or alterations, have been obtained and complied with.
- That no deleterious or hazardous materials or techniques have been used, that there is no contamination in or from the ground, and it is not landfilled ground.
- That the properties are connected to, and there is a right to use, the reported mains services on normal terms.
- That sewer, main services and the roads giving access to the property have been adopted.
- Unless otherwise stated, the Valuers will take no account of any form of taxation, grants or costs that may arise on acquisition or disposal of the properties.

Property assets are classified as:

- Property plant and equipment
- Leases and lease type arrangements
- Investment property
- Assets held for sale
- Surplus Assets

Fair Value is reported or measured as follows:

Category	Basis
Property plant and equipment (except infrastructure community assets and assets under construction)	Current Value (EUV)
Specialised property	Current Value (DRC) or Existing Use Value (EUV)
Investment Property	Fair Value (highest and best use) (IFRS 13)
Assets held for sale	Lower of carrying amount and fair value less costs to sell (IFRS 13)
Surplus Assets	Fair Value (IFRS 13)

The Council has set in place a five year rolling programme of asset revaluations.

The history of asset valuations is as follows:

Property, Plant and Equipment Revaluations

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
Carried at historical cost	0	36,254	0	36,254
Valued at current value as at:				
31/03/2019	108,569	0	1,470	110,039
31/03/2018	74,613	0	5,659	80,272
31/03/2017	96,632	1,764	3,916	102,312
31/03/2016	134,412	0	6,306	140,718
31/03/2015	70,037	0	0	70,038
Total	**484,265**	**38,018**	**17,351**	**539,633**

Capital Commitments

At 31st March 2019 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £7.906m. Similar commitments at 31st March 2018 were £20.797m. The major commitments are:

2017/18		2018/19
£000	Capital Project	£000
	School Projects:	
350	Priority Maintenance (Schools)	200
13,000	Whitehaven Education campus	600
0	Basic Need schemes	280
500	Inclusive Cumbria –Sandside Lodge	1,663
100	Individual Access Needs Capital	0
0	DSG Funded CMF - Contributions to Schools	218
19	Other School Projects	224
	Other Projects:	
500	Modernising Cumbria Care	0
0	Corporate Property Planned Maintenance and Improvement	1,390
0	Lonsdale Building Car Park	400
0	County Hall Car Park	750
0	BP4W West Cumbria	1,500
3,022	Highways Schemes	381
300	LEP - Devolved Major Transport Scheme Funding	50
0	Leachate Management - various closed landfill sites	150
400	LEP – Kendal Infrastructure	0
400	LEP - South Ulverston	0
1,976	Co-located Emergency Response Centre - Ulverston	100
230	Other Minor commitments	0
20,797		**7,906**

The Council has further contractual commitments in respect of PFI/PPP schemes that are detailed in Note 20.

Note 21.1 - Impairment Losses

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure.

There were impairment losses of £0.924m in 2015/16 as a result of damage caused to three Council properties in the December 2015 flooding. In 2018/19 impairment losses of £0.085m have been written out on revaluation. £0.254m was written out on revaluation in 2017/18 and £0.585m written out on disposal of the affected property in 2016/17.

Note 22 - Fair Value Disclosures for Surplus Assets

All the Council's surplus assets have been value assessed as Level 2 of the fair value hierarchy for valuation purposes. The fair value of surplus assets has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's asset portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year. In estimating their fair value, the Council's surplus assets have been valued to their highest and best use. The net book value at 31st March 2019 was £17.351m (31st March 2018 £19.601m).

Note 23 - Investment Properties

Each year the Council reviews its property portfolio to identify any properties that should be classified as Investment Properties. The 2018/19 review identified one further property to be re-classified as an investment property. There are a total of eleven (ten in 2017/18) investment properties. The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

31 March 2018 £000	**Investment Property Income and Expenditure**	**31 March 2019 £000**
(668)	Rental income from investment property	(612)
324	Direct operating expenses from investment property	259
(344)	**Net (gain)/loss**	**(353)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement. The above items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

31 March 2018 Non-Current £000	Investment Properties Movements in Year	31 March 2019 Non-Current £000
4,655	Opening Balance	4,905
	Additions:	
13	Subsequent expenditure	38
237	Net gains/losses from fair value adjustments	544
	Transfers:	
0	to/from Property Plant and Equipment	60
4,905	**Balance at the end of the year**	**5,547**

All the Council's investment properties have been value assessed as Level 2 of the fair value hierarchy for valuation purposes. The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's asset portfolio.

Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.

There has been no change in the valuation techniques used during the year. In estimating their fair values, the Council's investment properties have been valued at their highest and best use.

Note 24 - Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licenses and software. All software is given a finite useful life of five years, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.184m charged to revenue in 2018/19 (£0.267m 2017/18) was charged to Corporate, Customer and Community directorate as part of the IT department costs in the Comprehensive Income and Expenditure Statement. The movement on Intangible Asset balances during the year is as follows:

31 March 2018 Total £000	Intangible Assets	31 March 2019 Total £000
	Balance at start of year:	
20,378	Gross carrying amounts	20,533
(19,850)	Accumulated amortisation	(20,117)
528	**Net carrying amount at start of year**	**416**
	Additions:	
85	Purchases	0
70	Reclassifications and transfers	0
(267)	Amortisation for the period	(184)
416	**Net carrying amount at end of year**	**232**
	Comprising:	
20,533	Gross carrying amounts	20,533
(20,117)	Accumulated amortisation	(20,301)
416	**Total**	**232**

Note 25 - Assets Held for Sale

Current 31 March 2018 £000	Non-current 31 March 2018 £000	Assets Held for Sale	Current 31 March 2019 £000
1,623	548	Balance outstanding at start of year	654
		Assets newly classified as held for sale:	
100	0	- Property Plant and Equipment	1,565
(733)	0	Revaluation losses	0
		Assets declassified as held for sale:	
(221)	0	- Property Plant and Equipment	0
(663)	0	Assets sold	(654)
548	(548)	Transfers from non current and current	0
654	**0**	**Balance Outstanding year end**	**1,565**

There are no non-current assets held for sale in 2018/19.

Note 26 – Short Term Debtors

An analysis of sums due to the Council as at 31st March 2019 is as follows:

31 March 2018 £000	Debtors	31 March 2019 £000
9,347	Central Government Bodies	8,923
5,723	Trade Debtors with Other Local Authorities	7,858
5,433	Trade Debtors with NHS Bodies	15,468
0	Trade Debtors with Public Corporations and Trading Funds	26
6,616	Local Taxation (council tax and non-domestic rates)	7,729
27,119	**Sub Total**	**40,004**
10,927	Prepayments	10,957
10,595	Residential and non-residential care charges	10,735
4,181	Other Debtors	5,352
25,703	**Sub Total – Financial Instruments**	**27,044**
52,822	**Total Debtors**	**67,048**

Note 27 - Financial Instruments

The carrying amounts of financial assets presented in the Balance Sheet relate to the following measurement categories:

Financial Instruments

Financial Assets

	Non-Current				Current			
	Investments		Debtors		Investments		Debtors	
	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000
Amortised Cost								
Investments	0	0	0	0	48,157	67,292	0	0
Debtors	0	0	4,063	3,682	0	0	25,703	27,043
Cash and Cash Equivalent	0	0	0	0	71,533	36,759	0	0
Sub Total Amortised Cost	**0**	**0**	**4,063**	**3,682**	**119,690**	**104,051**	**25,703**	**27,043**
Assets held at Fair Value Through Other Comprehensive Income (FVOCI)								
Equity	3,183	3,183	0	0	0	0	0	0
Total financial assets	**3,183**	**3,183**	**4,063**	**3,682**	**119,690**	**104,051**	**25,703**	**27,043**
Short Term Debtors - Non-financial assets	0	0	0	0	0	0	27,119	40,005
Total	**3,183**	**3,183**	**4,063**	**3,682**	**119,690**	**104,051**	**52,822**	**67,048**

Financial Liabilities

Non-Current				Current			
Borrowing		Other Liabilities		Borrowing		Creditors	
31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31March 2019	31 March 2018	31 March 2019

	£000	£000	£000	£000	£000	£000	£000	£000
Amortised Cost								
Borrowing	(330,309)	(354,282)	0	0	(11,747)	(20,592)	0	0
Short Term Creditors	0	0	0	0	0	0	(39,855)	(44,684)
PFI and financial lease liabilities	0	0	(116,067)	(114,359)	0	0	(647)	(1,835)
Total financial liabilities	**(330,309)**	**(354,282)**	**(116,067)**	**(114,359)**	**(11,747)**	**(20,592)**	**(40,502)**	**(46,519)**
Non-financial liabilities:								
Net Pension Liabilities	0	0	(739,309)	(852,219)	0	0	0	0
Short-term creditors	0	0	0	0	0	0	(30,168)	(35,094)
Total	**(330,309)**	**(354,282)**	**(855,376)**	**(966,578)**	**(11,747)**	**(20,592)**	**(70,670)**	**(81,613)**

Reclassification and re-measurement of financial assets at 1st April 2018

The effect of reclassification of financial assets following the adoption of IFRS9 Financial Instruments by the Code of Practice on Local Authority Accounting has not resulted in any re-measurement to the carrying amounts of assets or liabilities

The adoption of IFRS9 Financial Instruments has had no impact on the general fund or financial instrument revaluation reserve. The effect of the adoption of IFRS9 has had no material impact on the measurement of impairment loss allowances and no opening balances have therefor been restated

Items of income, expense, gains or losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2017/18	2017/18	2018/19	2018/19
	(Surplus) or deficit on the Provision of services £000	Other comprehensive Income and Expenditure £000	(Surplus) or deficit on the Provision of services £000	Other comprehensive Income and Expenditure £000
(Gain)/Losses on:				
Amortised Cost	**44**	**0**	**606**	**0**
Interest Expense				
Amortised Cost	13,060	0	14,480	0
PFI and financial lease liabilities	15,189	0	15,174	0
Total Interest Expense	**28,238**	**0**	**29,654**	**0**
Interest Income				
Amortised Cost	**(2,140)**	**0**	**(1,622)**	**0**
Total	**26,142**	**0**	**28,638**	**0**

Note 28 - Financial Instruments - Fair Value

Fair Value Of Assets And Liabilities

The Council has a number of financial assets and liabilities on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For Public Works Loan Board (PWLB) debt, new borrowing rates as per PWLB rate sheet number 127/19 have been applied to provide the fair value under PWLB debt redemption procedures.
- For other market debt i.e. LOBOs and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender.
- Interpolation techniques between available rates have been used where the exact maturity period was not available.
- No early repayment or impairment is recognised. Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Short term debtors and creditors are carried at cost as this is a fair approximation of their value.
- For PFI Liabilities the PWLB premature repayment rate has been applied.

The Fair Values of Financial Liabilities and Financial Assets that are not Measured at Fair Value (but for which Fair Value Disclosures are required)

Financial Liabilities

	31 March 2018		31 March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Amortised Cost	(342,056)	(432,609)	(374,874)	(474,010)
PFI liabilities	(116,714)	(217,927)	(116,194)	(219,631)
Total	**(458,770)**	**(650,536)**	**(491,068)**	**(693,641)**

The fair value of the PWLB borrowings, Market Loans (LOBOs) and PFI liabilities is higher than the carrying amount because the majority of the Council's portfolio of loans is at a fixed rate which is higher than the prevailing rate at the Balance Sheet date.

Financial Assets

	31 March 2018		31 March 2019	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Amortised Cost	119,690	119,676	104,051	104,051
Long-Term Debtors	4,063	4,063	3,682	3,682
Total	**123,753**	**123,739**	**107,733**	**107,733**

The Fair Values of Financial Assets that are measured at Cost

The Council has financial assets that are measured at cost. This is the Council's shareholding in Cumbria County Holdings Ltd.

The shares (representing 100% of the Company's capital) are carried at a cost of £3.183m and have not been valued, as a fair value cannot be measured reliably. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shareholding.

As a result of Government legislation, Cumbria Waste Management Ltd (CWM) was created in 1993 as a wholly owned company tendering for the waste disposal business within Cumbria in competition with the private sector. The majority of the waste disposal assets of the Council were transferred to the company in exchange for £2,813,000 of shares. In 2012/13, the Council exchanged shares in CWM for shares in Cumbria County Holdings Ltd (CCH), which is also wholly owned by the Council. This company owns the shares in CWM.

On 1st April 2013 the Council purchased 370,000 ordinary £1 shares in Orian Solutions Ltd for a consideration of £0.370m. Orian Solutions Ltd is wholly owned by Cumbria County Holdings Ltd. The balance as at 31st March 2018 and 31st March 2019 is £3.183m.

In June 2009, the Council selected a waste management partner, Renewi plc, in a 25 year Public Private Partnership (PPP) contract. CWM Ltd is a subcontractor to Renewi, under this contract.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

Basis for recurring fair value measurements:

- Level 1 Inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.
- Level 2 Inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs – unobservable inputs for the asset or liability.

During the years 2017/18 and 2018/19 all fair value measurements were based on level 2 inputs, with no Level 1 or 3 for either year.

Basis for recurring fair value measurements

	31 March 2018	31 March 2019
	Level 2 £000	Level 2 £000
Financial liabilities held at amortised cost:		
PWLB	394,197	434,628
Non-PWLB	34,165	34,790
Short term debt	4,247	4,592
PFI and finance lease liability	217,927	219,631
	650,536	**693,641**
Financial assets		
Financial assets held at amortised cost:	119,676	104,051
Other financial assets	4,063	3,682
	123,739	**107,733**

Note 29 - Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy which requires that deposits are only placed with institutions that meet specific creditworthiness criteria. The credit ratings of investments as at 31st March 2019 are detailed below:

Credit ratings of Investments as at 31st March 2019

Deposits with Banks and Financial Institutions	Fitch Rating	Amount at 31 March 2019 £000
Cash and Cash Equivalents		
J P MORGAN MMF STERLING LIQUIDITY FUND	AAA	6,300
BNP PARIBAS MMF - INSTICASH	AAA	7,700
ABERDEEN STANDARD MMF	AAA	4,208
FEDERATED ST PRIME MMF	AAA	3,908
SOUTH TYNESIDE COUNCIL	AA	5,000
DUMFRIES & GALLOWAY	AA	5,000
Short Term Investments		
SCHOOL INVESTMENTS (Lloyds Bank)	A+	80
BAYERISCHE LANDESBANK	A-	5,000
SANTANDER UK	A	5,000
BANK OF SCOTLAND (LLOYDS GRP)	A+	5,000
NATIONWIDE	A	7,000
THURROCK COUNCIL	AA	10,000
WEST DUNBARTONSHIRE COUNCIL	AA	15,000
LONDON BOROUGH OF BARNET	AA	5,000
LONDON BOROUGH OF CROYDON	AA	5,000
DUNDEE CITY COUNCIL	AA	5,000
LONDON BOROUGH OF HACKNEY	AA	5,000
	Total	**99,196**

Note: Local Authorities do not have a specific credit rating, the UK Government credit rating has been used

The Treasury Management Strategy, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These counterparties are chosen, by officers, using credit rating data supplied by the Council's treasury advisers (based on data from the three main credit rating agencies, overlaid by:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap spreads (i.e. insurance policies) to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there is no evidence at 31st March 2019 that this was likely to crystallise.

Debtors

The table below analyses the age of the outstanding debt within the Accounts Receivable system for those debtors that are classed as financial instruments. The Council generally allows 30 days credit for customers, such that £3.511m (£1.227m 2017/18) of the £6.100m (£2.483m 2017/18) balance is past its due date for payment.

This analysis does not include all contractual debtors. The Council also has £13.360m owed by individuals in respect of outstanding residential and non residential care charges (£13.607m in 2017/18). Of this debt £2.625m (2017/18 £3.012m) is considered as long term debt, as it is either secured by a charge on property or on deferred payment agreements.

Credit Risk - Debtors	**31 March 2018**	**31 March 2019**
	£000	**£000**
Less than three months	1,750	5,274
Three to six months	148	159
Six months to one year	187	126
More than one year	398	541
	2,483	6,100

Amounts Arising from Expected Credit Losses

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES. During 2018/19 the credit losses of £0.606m recognised related only to receivables (debtors) and was calculated on a lifetime basis.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All financial assets investments sums owing (£67.292m) are due to be paid in less than one year.

The maturity of long and short term loans is as follows:

Liquidity Risk	**31 March 2018**	**31 March 2019**
	£000	**£000**
Less than one year	7,500	16,000
Between one and two years	16,000	7,500
Between two and five years	12,500	15,700
More Than 5 Years	47,200	36,500
More Than 10 years	254,609	294,582
	337,809	**370,282**

Balance Sheet	**£000**	**£000**
Short Term Borrowing	7,500	16,000
Long term Borrowings	330,309	354,282
	337,809	**370,282**

Lender	**31 March 2018**	**31 March 2019**
	£000	**£000**
Public Works Loans Board	312,200	344,700
Market Debt	25,465	25,450
Other	144	132
	337,809	**370,282**

In the more than 10 years category there are £24m of Lender Options Borrower Option (LOBOs) market loans which have a call date in the next 12 months. The LOBOs are unlikely to be called as the rate being charged is higher than the current prevailing rate.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk.

The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;

- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The Council has safeguards in place to ensure that no more than 10% of its borrowings mature for repayment in any one year to reduce the financial impact of reborrowing at a time of unfavourable interest rates. This is managed through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

Market Risk

Interest Rate Risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid/received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets are held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value in the Balance Sheet, which would also be reflected in the Comprehensive Income and Expenditure Statement.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities are held at amortised cost, but will impact on the disclosure note for fair value.
- However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31st March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a net increase in investment income of £1.079m. The impact of a 1% fall in interest rates would be a net decrease in income of £0.831m, as the average rate of interest on investments is currently below 1%.

Price Risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

Note 30 - Cash and Cash Equivalents

The balances on the Council's various imprest accounts, school bank accounts and cash in transit between internal accounts amounted to £4.622m (2017/18 £4.034m) and are included as cash and cash equivalents in Current Assets. Short term deposits totalling £32.137m (2017/18 £67.499m) are funds invested by the Council in money market funds or business reserve accounts and are available on demand. On a daily basis the Council's Treasury Management function actively manages the cleared bank balance as close to zero as possible to maximise interest receipts and minimise interest payments.

31 March 2018 £000	Cash and Cash Equivalents	31 March 2019 £000
4,034	Cash and Bank balances	4,622
67,499	Short Term Deposits	32,137
71,533	**Total Cash and Cash Equivalents**	**36,759**

Note 31 – Short Term Creditors

An analysis of amounts owed by the Council at 31st March 2019 is:

31 March 2018 £000	Creditors	31 March 2019 £000
(8,801)	Central Government Bodies	(9,549)
(3,758)	Trade Creditors with Other Local Authorities	(5,965)
(554)	Trade Creditors with NHS Bodies	(1,431)
(2,908)	Trade Creditors with Public Corporations and Trading Funds	(866)
(4,457)	Local Taxation (council tax and non-domestic rates)	(4,662)
(9,690)	Employee leave accrual	(12,622)
(30,168)	**Sub Total**	**(35,095)**
(647)	PFI Creditors	(1,835)
(39,855)	Other Trade Creditors	(44,683)
(40,502)	**Sub Total Financial Instruments**	**(46,518)**
(70,670)	**Total Creditors**	**(81,613)**

Note 32 - Provisions

Current Provisions

2018/19	Insurance - Motor and Fire £000	MMI Provision £000	Equal Pay £000	Voluntary Redundancies £000	Other Provisions £000	Total £000
Opening Balance	(238)	(86)	(155)	(99)	(4,468)	(5,045)
Increase in provision during year	0	0	0	(1,979)	(1,047)	(3,026)

Utilised during year	11	85	155	99	2,413	2,762
Closing Balance	**(227)**	**(1)**	**0**	**(1,979)**	**(3,102)**	**(5,309)**

2017/18	**Insurance - Motor and Fire**	**MMI Provision**	**Equal Pay**	**Voluntary Redundancies**	**Other Provisions**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Opening Balance	(218)	(197)	(165)	(1,353)	(3,408)	(5,341)
Increase in provision during year	(20)	0	(155)	(22)	(3,050)	(3,247)
Utilised during year	0	111	165	1,277	1,990	3,542
Closing Balance	**(238)**	**(86)**	**(155)**	**(99)**	**(4,468)**	**(5,045)**

Long Term Provisions

2018/19	**Insurance - employers and public liability**	**Business Rates Appeals**	**Total**
	£000	**£000**	**£000**
Opening Balance	(6,163)	(792)	(6,955)
Increase in provision during year	(531)	(1,386)	(1,917)
Utilised during year	0	792	792
Closing Balance	**(6,694)**	**(1,386)**	**(8,080)**

2017/18	**Insurance - employers and public liability**	**Business Rates Appeals**	**Total**
	£000	**£000**	**£000**
Opening Balance	(6,532)	(792)	(7,324)
Increase in provision during year	0	(792)	(792)
Utilised during year	369	792	1,161
Closing Balance	**(6,163)**	**(792)**	**(6,955)**

Total Provisions

2017/18 £000	**Total Provisions**	**2018/19 £000**
(12,665)	Opening Balance	(12,000)
(4,039)	Increase in provision during year	(4,943)
4,704	Utilised during year	3,554
(12,000)	**Closing Balance**	**(13,389)**

Note 33 - Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and are summarised in the table below:

31 March 2018 £000	**Usable Reserves**	**31 March 2019 £000**
(10,472)	General Fund Balance	(15,056)
(65,457)	Earmarked General Fund Reserves	(53,813)
(75,929)	**Total General Reserves**	**(68,869)**

(12,526)	Capital Receipts Reserve	(6,719)
(88,455)	**Total Usable Reserves**	**(75,588)**

Capital Receipts Reserve

Receipts from the sale of assets are credited here and used to fund capital expenditure or repay debt. The balance on the reserve is the unused capital receipts at the end of the year.

31 March 2018		**31 March 2019**
£000	**Capital Receipts Reserve**	**£000**
(10,906)	Balance 1 April	(12,526)
(4,326)	Capital Receipts in year	(1,047)
2,706	Capital Receipts used for financing	6,854
(12,526)	**Balance 31 March**	**(6,719)**

Capital Grants Unapplied

Capital grants and contributions received in year where there are no conditions (no requirement to repay the grant), are recorded as income in the Comprehensive Income & Expenditure Statement, regardless of the year to which they relate. They are then transferred to the Capital Grants and Contributions Unapplied Reserve via the Movement in Reserves Statement.

31 March 2018		**31 March 2019**
£000	**Capital Grants Unapplied Account**	**£000**
(1,970)	Balance 1 April	0
1,970	Capital grants and contributions applied	0
0	Other movements	0
0	**Balance 31 March**	**0**

Note 34 - Transfers to/from Earmarked Reserves

This note sets out the amounts transferred to and from earmarked reserves to provide financing for in year and future expenditure plans.

	Balance at 1 April 2017	**Tfr In 17/18**	**Tfr Out 17/18**	**Balance at 31 March 2018**	**Tfrs Between Reserves 18/19**	**Tfr In 18/19**	**Tfr Out 18/19**	**Balance at 31 March 2019**
	£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**
DSG Funded Reserves								
Schools ring fenced Reserves	**(3,284)**	(2,368)	3,967	**(1,685)**	0	(3,678)	3,007	**(2,356)**
DSG Reserve	**5,666**	(2,113)	0	**3,553**	0	(1,649)	1,937	**3,841**

Sub Total DSG Funded Reserves	**2,382**	**(4,481)**	**3,967**	**1,868**	**0**	**(5,327)**	**4,944**	**1,485**
Ring Fenced Earmarked Reserves:								
Revenue Grants Reserves	**(34,524)**	(1,826)	3,564	**(32,786)**	0	(3,245)	12,728	**(23,303)**
Revenue Reserve for Capital Purposes	**(523)**	(1,386)	113	**(1,796)**	0	(1,288)	1,550	**(1,534)**
Long Term Investment Reserve	**(2,813)**	0	0	**(2,813)**	0	0	0	**(2,813)**
Insurance Reserve	**(9,857)**	(2,427)	0	**(12,284)**	0	(176)	1,180	**(11,280)**
Sub Total Ring Fenced Earmarked Reserves	**(47,717)**	**(5,639)**	**3,677**	**(49,679)**	**0**	**(4,709)**	**15,458**	**(38,930)**
Elections Reserve	**(572)**	(119)	691	**0**	0	(341)	0	**(341)**
Innovation Fund	**0**	0	0	**0**	(1,075)	(1,000)	0	**(2,075)**
Business Rates Pool Volatility Reserve	**(380)**	0	0	**(380)**	0	0	0	**(380)**
Other Services	**(6,638)**	(8,025)	7,375	**(7,288)**	1,075	(4,526)	6,404	**(4,335)**
Sub Total Centrally Held Earmarked Reserves	**(7,590)**	**(8,144)**	**8,066**	**(7,668)**	**0**	**(5,867)**	**6,404**	**(7,131)**
Modernisation (Cost of Change) Reserve	**(5,002)**	0	96	**(4,906)**	0	0	39	**(4,867)**
Directorate Reserves								
Children & Families Services	**61**	(8)	0	**53**	(53)	0	0	**0**
Health Care & Community Services	**(973)**	(366)	500	**(839)**	839	0	0	**0**
Resources & Transformation	**(1,549)**	(300)	279	**(1,570)**	1,570	0	0	**0**
People	**0**	0	0	**0**	(1,466)	(32)	741	**(757)**
Corporate, Customer & Community				**0**	(890)	(50)	241	**(699)**
Economy & Infrastructure (formerly Economy & Highways Services)	**(2,541)**	(38)	642	**(1,937)**	0	(631)	569	**(1,999)**
Local Committees	**(847)**	(779)	847	**(779)**	0	(914)	779	**(914)**
Sub Total Directorate Earmarked Reserves	**(5,849)**	**(1,491)**	**2,268**	**(5,072)**	**0**	**(1,627)**	**2,330**	**(4,369)**
Total General Fund Earmarked Reserves	**(63,776)**	**(19,755)**	**18,074**	**(65,457)**	**0**	**(17,530)**	**29,175**	**(53,813)**
Net Transfer (to) / from Earmarked Reserves						**11,645**		

Directorates
The Council has a long established practice of allowing approved budgets within Directorates to be carried forward to the following financial year on a targeted basis to meet specific objectives. Although these balances are, provisionally, earmarked to the Services concerned, they form part of the Council's overall revenue balances and can be used by the Council for any other purpose, should they so choose.

Modernisation (Cost of Change) Reserve
Over a number of years the Council has set aside funds to meet the costs and risks associated with equal pay claims, single status implementation and meet the costs of organisational change, such as redundancies or transition costs. At 1st April 2018 the balance on this reserve was £4.906m.

The Council has not utilised the Reserve in 2018/19 to meet the cost of restructuring through service reviews and voluntary redundancy. The cost of redundancies has either been funded in year by Directorate budgets or by the use of flexible capital receipts.

Small transfers from the reserve totalled £0.039m in respect of ill health retirements in the year. The balance on the reserve at 31st March 2019 is £4.867m.

Revenue Grants
Where revenue grants have been received, and there are no conditions i.e. no possibility or requirement to pay back the grant, then, irrespective of which year the money is for it must be recorded in the Comprehensive Income & Expenditure Statement as income and then in the Movement In Reserves Statement be transferred to an earmarked reserve.

The re-negotiation of the highways contract in respect of the operation of the CNDR Route was concluded in December 2018, the Council elected to take its share of the gain from the re-financing as an upfront lump sum of £10.574m. The recommended accounting treatment of such a gain is that the gain should be held on the Council's Balance Sheet as deferred income and spread over the contract term rather than be recognised in the year that it is received.

To enable the Council to take the full benefit of this gain in 2018/19 as intended and set out in the re-financing agreement a corresponding draw down has been made from the CNDR Grant In Advance. As the annual sum is released from the deferred income it will be transferred to the CNDR Grant in Advance reserve to replenish the reserve. The ability to meet future commitments upon the reserve have been reviewed and remain satisfactory, and the deferred income will be ring-fenced and released over the period.

The balance on the Revenue Grants Reserves at 31st March 2019 is £23.303m which includes £19.492m of PFI grant and contributions to support the Carlisle Northern Development Route and replacement fire stations project (£28.873m 2017/18).

Insurance
The Council self-insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self-insurance; the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision £6.921m (long term £6.694m and short term £0.227m note 32) represents the sum estimated to meet claims identified at 31st March 2019. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'.

The balance of funding is held in an insurance reserve to support the ongoing self-insurance programme. As at 31st March 2019 the reserve is £11.280m.

Schools
Under the provisions of the Education Reform Act 1988, the governors of schools became responsible for managing their own budgets from 1st April 1990. The total budget available to governors is based on a local formula approved by the Secretary of State for Education. Any over or under spending by the governors is carried forward to the following year. Whilst such sums form part of the Council's revenue balances, they are not available to the Council when managing the finances of the Council. Delegated Funds surpluses and deficits for Schools at 31st March are as shown below.

The following table summarises the surplus/deficit position for all Cumbria schools excluding academies irrespective of whether the asset is on the Council's Balance Sheet or not.

Schools Earmarked Reserves

	31 March 2018		31 March 2019	
Schools Earmarked Reserves	**No.**	**£000**	**No.**	**£000**
Schools in surplus	207	(8,066)	210	(9,017)
Schools in deficit	62	6,381	56	6,661
	269	**(1,685)**	**266**	**(2,356)**
Children's Services - DSG ring fenced to schools		3,553		3,841
Total		**1,868**		**1,485**

Schools Surpluses and Deficits
There has been a decrease of three in the overall number of schools as a result of James Rennie, and Dean Schools converting to Academy status during the year. Further details are in Note 10. Included in the schools in deficit is one Community Development Centre which is attached to a school.

Children's Services - DSG ring fenced to schools
The movement on the Dedicated Schools Grant central reserve is set out below:

	2017/18		2018/19	
	£000	**£000**	**£000**	**£000**
Balance as at 1 April		5,666		3,553
Transfer to Reserve	(698)		(1,500)	
High Needs Service (overspend) / underspend	(522)		2,194	
Other DSG central budgets underspend	(957)		(406)	
Other net transfers from reserve	64	(2,113)	0	288
Balance as at 31 March		**3,553**		**3,841**

Note 35 - Unusable Reserves

Unusable Reserves are summarised on the Balance Sheet. The details of each unusable reserve are set out in the notes below.

31 March 2018 £000	Unusable Reserves	31 March 2019 £000
(108,469)	Revaluation Reserve	(106,934)
(526,802)	Capital Adjustment Account	(564,610)
465	Financial Instruments Adjustment Account	449
757,514	Pension Reserve	877,176
(1,994)	Collection Fund Adjustment Account	105
9,216	Accumulated Absences Account	12,472
129,932	**Total**	**218,658**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment and intangible assets.

The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2018 £000	Revaluation Reserve	31 March 2019 £000
(101,319)	**Balance 1 April**	(108,469)
(14,855)	Upward revaluation of assets	(7,822)
5,229	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	1,941
(9,626)	**Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services**	**(5,881)**
1,939	Difference between fair value depreciation and historical cost depreciation	2,151
1,811	Accumulated gains on assets sold or scrapped	5,264
3,750	**Amount written off to the Capital Adjustment Account**	**7,415**
(1,275)	Other movements	0
(108,469)	**Balance 31 March**	**(106,934)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

31 March 2018 £000	Capital Adjustment Account	31 March 2019 £000
(468,480)	**Balance 1 April**	**(526,802)**
32,747	Charges for depreciation and impairment of non-current assets	35,556
15,130	Revaluation losses on non-current assets	23,315
267	Amortisation of intangible assets	184
12,369	Revenue expenditure funded from capital under statute	10,990
3,099	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	11,018
63,611	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	81,063
(3,750)	Adjusting Amounts written out of the Revaluation Reserve	(7,415)
59,861	**Net written out amount of the cost of non-current assets consumed in the year**	**73,647**
(2,706)	Use of Capital Receipts Reserve to finance new capital expenditure	(6,854)
(114,270)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(99,965)
(853)	Statutory provision for the financing of capital investment charged against the General Fund	(1,719)
(1,391)	Capital expenditure charged against the General Fund balances	(2,375)
(119,220)	**Capital financing applied in year:**	**(110,912)**
(237)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(544)
1,275	Other movements	0
(526,802)	**Balance 31 March**	**(564,610)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

31 March 2018 £000	Financial Instruments Adjustment Account	31 March 2019 £000
480	**Balance 1 April**	465
(15)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(16)
(15)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(16)
465	**Balance 31 March**	449

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2018 £000	Pensions Reserve	31 March 2019 £000
837,158	Balance 1 April	757,514
(116,890)	Remeasurements of the net defined benefit (liability)/asset	66,601
83,454	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	100,369
(46,208)	Employer's pensions contributions and direct payments to pensioners payable in the year	(47,308)
757,514	**Balance 31 March**	**877,176**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 March 2018 £000	Collection Fund Adjustment Account	31 March 2019 £000
(3,438)	Balance 1 April	(1,994)
1,444	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2,099
(1,994)	**Balance 31 March**	**105**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

31 March 2018 £000	Accumulated Absences Account	31 March 2019 £000
8,864	**Balance 1 April**	9,216
(8,864)	Settlement or cancellation of accrual made at the end of the preceding year	(9,216)
9,216	Amounts accrued at the end of the current year	12,472
352	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	3,256
9,216	**Balance 31 March**	**12,472**

Note 36 - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2018/19, the Council paid £16.183m to Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2017/18 were £16.166m and 16.48%. Although the Scheme is a defined benefit scheme, the arrangements for the scheme mean that the liabilities for these benefits cannot be identified to the Council, therefore for the purposes of this Statement of Accounts; it is accounted for on the same basis as a defined contribution scheme.

NHS Staff Pension Scheme

Council staff who transferred from the NHS have maintained their membership in the NHS Pension Scheme. In 2018/19, the Council paid £0.067m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.38% of pensionable pay. The figures for 2017/18 were £0.068m and 14.38%.

Nature of Funds

Both Schemes target a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2015 and on revalued average salary (a "career average" scheme) for service from 1st April 2015 onwards.

Governance

These arrangements are managed centrally by government departments/agencies, and there is no material involvement for the Council.

Funding the liabilities

Contributions to the arrangements are set by the government, having taken advice from the government actuary. Again, the Council has no material involvement in this process. The exception to this is the additional pensions to retired teachers which were awarded at the point of retirement, and for which the Council is responsible. The weighted average duration of these particular liabilities is 8 years, measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the funding standards relating to them, which could increase the Council's contributions to them.

Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 37. Additional and discretionary pensions paid to retired teachers by the Council totalled £2.973m in 2018/19 and £3.093m 2017/18.

Firefighters Pension Scheme

The Fire and Rescue Service has four pension schemes (1992, 2006, the modified and the 2015 schemes). The table below sets out the contributions received from both employees and employers and the Benefits paid.

During 2014/15 an additional Firefighters Pension scheme was introduced for retained firefighters employed between 1st July 2000 and 5th April 2006 who, at that time, didn't have access to a Pension Scheme. This is known as the modified scheme.

	1992		2006		Modified		2015		Total	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Contributions Receivable										
Employers Contributions	-652	-498	-15	-15	-65	-54	-736	-867	-1,469	-1,434
Employees Contributions	-442	-337	-12	-13	-104	-91	-635	-768	-1,193	-1,209
Total Income	**-1,094**	**-834**	**-27**	**-29**	**-169**	**-144**	**-1,372**	**-1,635**	**-2,662**	**-2,644**
Benefits Payable										
Pensions Paid	4,400	4,671	27	30	71	81	0	0	4,499	4,781
Ill Health and Injury	1,293	1,236	7	7	2	2	8	12	1,309	1,256
Lump Sums	648	1,388	3	2	75	45	71	0	796	1,435
Lump Sum Death Benefits & Widows Pensions	506	539	0	0	2	2	6	5	514	546
Total Expenditure	**6,847**	**7,834**	**37**	**39**	**150**	**130**	**85**	**17**	**7,118**	**8,019**
Contribution Rates										
Employers	21.7%	21.7%	19.8%	11.9%	21.7%	21.7%	14.3%	14.3%		
Employees - range depending on pensionable pay	11% - 17.0%	11% - 17.0%	8.5% - 12.5%	8.5% - 12.5%	11% - 17.0%	11% - 17.0%	10.0% - 14.5%	11.0% - 14.5%		

Nature of Funds

The Schemes target a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2015 and on revalued average salary (a "career average" scheme) for service from 1st April 2015 onwards – the 2015 scheme.

Governance

These arrangements are managed by the Council, although this essentially involves administering the plan, including managing its cash flows.

Funding the liabilities

Given that the arrangements are unfunded, meaning that there are no investment assets built up to meet the pension liabilities the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government via a top up grant to meet the gap between pensions paid and contributions from employees and employers collected. The weighted average duration of the liabilities ranges from 17 years for the 1992 scheme to 32 years for the 2015 scheme, it is measured on the actuarial assumptions used for IAS19 purposes.

Investment Risks

There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the arrangements for meeting part of the benefit outgo, which could increase the Council's contributions to them.

Other risks

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

High Court Case – Welsh Firefighters

In March 2019 the High Court ruled that firefighters making additional earnings through working extended hours or doing additional duties are entitled to increased pensions as paid training and overtime were pensionable. Firefighters in Wales claimed that they were regularly paid additional allowance through working extra hours in the Fire Authority's training school or additional shifts, up to 42 hours longer than their standard contracted hours and this entitled them to further pension benefits. The Mid and West Wales Fire and Rescue Authority argued that, because the arrangement were not permanent and could be ended at any time, they were not pensionable. However the High Court decided that the payments were regular, and therefore qualified for pension benefits. The Fire Authority has now been ordered to pay retrospective pension contributions, although it is now considering whether to appeal the decision. It is not yet clear what the implications will be for all other Fire Authorities.

Employment Tribunal - McCloud / Sargeant

In December 2018 the Court of Appeal made a ruling in two separate Employment Tribunal cases involving members of the Judiciary and Firefighter pensions schemes, regarding possible age discrimination arising from the transitional arrangements included the reformed schemes introduced in 2015. On 27th June 2019 the Supreme Court refused the Government's application for permission to appeal the Court of Appeal ruling. This was the last legal hurdle in the dispute, leaving the Government with no further avenue to exhaust. The case will now be referred back to the employment tribunal for a detailed decision on the remedies, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.

At this stage the extent of any issue for the Firefighters Pension scheme is not clear, but the Council's Actuary, Mercers, have calculated the approximate effects of the costs if the transitional protections need to be extended to younger members and this has been incorporated into the net pension liabilities on the Council's Balance Sheet.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Firefighters Pension valuation is due to take place in 2020 with implementation of the results planned for 2023/24 and authorities will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Firefighters Pension Scheme (England) Order 2006. These require a fire authority to maintain a pension fund into which employee and employer contributions are paid and out of which pension payments to retirees are made. If the pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the fire authority in the form of a central government top-up grant.

Note 37 - Defined Benefit Pension Scheme

Participation in Pensions Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payment for those benefits and to disclose them at the time that employees earn their future entitlement.

The majority of the Council's staff belong to the Cumbria Local Government Pension Scheme (CLGPS). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated (based on the 2016 valuation) at a level intended to balance the pensions liabilities with investment assets over a period of approximately 15 years. The deficit on the CLGPS will be made good by increased contributions as assessed by the Scheme Actuary.

Early payment of 3 years LGPS deficit lump sum in April 2017

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. the County Council) pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has forgone. At the time of calculating the deficit lump sum amounts (as part of the 2016 valuation) the Council had a total deficit repayment value of £126m, with an agreed 16 year deficit recovery period. Paying in advance of this schedule enables a gross saving due to the avoidance of these "interest" payments. This is then netted off against the interest that could have been earned by the Council placing this money on deposit.

The value of the benefit from this lump sum early repayment is significant because the pension fund return on its investments is much greater than the returns the County Council can make on its deposits. For Council Treasury monies, as dictated by the Prudential Code, the primary driver is capital preservation while for the Pension Fund, which has a much longer time horizon and therefore relatively higher risk tolerance, the drivers are financial return and diversification. In addition, by making the early repayment, this reduces the balance of Council's short-term cash deposits, for which there remains counter party (lending) risk.

The contribution rates are based upon a triennial actuarial review of the fund. As part of the 2016 valuation the actuary calculated the rates required to be paid by the Council, as an employer within the Fund, for both the current service cost and the past service cost to reduce the deficit over 16 years.

- Current service cost – 14.9% of pensionable pay.
- Past service cost – a lump sum prepayment of £27.575m for the three years from 1st April 2017 to 31st March 2020.

The total of employer's contributions to the scheme is:

2017/18 £000	**Employers Pension Contributions**	**2018/19 £000**
23,068	14.9% of pensionable pay	24,012
9,370	Annual element of 3 year lump sum prepayment	9,191
2,711	Actuarial strain costs	2,186
2,021	Benefits recharged	2,010
37,170		**37,399**

Nature of LGPS Scheme

The Scheme targets a pension paid throughout life. The amount of pension depends on how long employees are active members of the scheme and their salary when they leave the scheme (a "final salary" scheme) for service up to 31st March 2014 and on revalued average salary (a "career average" scheme) for service from 1st April 2014 onwards.

Governance

Management of the Scheme is vested in Cumbria County Council as Administering Authority of the Scheme. Cumbria County Council has appointed a Pension Committee (comprised of 8 County Councillors, 1 District Councillor and two non-voting employee representatives) to manage the Scheme. Advice is given by Cumbria County Council's Director of Finance (s.151 Officer), the Council's finance team and by two independent advisers. The current advisers are appointed for their knowledge of investments and of pension funds; one adviser being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Scheme.

Funding the liabilities

Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions required from each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's Funding Strategy Statement.

A valuation was undertaken as at 31st March 2016 with the resultant contribution rates for employers being effective from 1st April 2017 to 31st March 2020. This has valued the shortfall of assets against liabilities for the Fund as being £210m as at 31st March 2016, equivalent to a funding level of 91%. The Council's Pensions Committee set the parameters for this valuation in September 2016 which included the reduction in deficit recovery period to 16 years.

The weighted average duration of the authority's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes. The duration profile used to determine the assumptions is "very mature".

Risks and Investment strategy

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. accrued benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund's assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term. To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. Mitigation against market risk is also achieved by diversifying across multiple investment managers and regularly reviewing the Investment Strategy and performance of the Fund.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

Foreign exchange risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. To reduce the volatility from foreign currency exposure, the Cumbria Fund has 50% of the investments (excluding alternatives) denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program.

Credit / Counterparty risk

Credit risk is the risk that a counterparty to a transaction or a financial instrument will fail to discharge an obligation or commitment that it has entered into and cause the Fund to incur financial loss. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Through review of the Fund's external Investment Managers annual internal control reports the Fund monitors its exposure to credit and counterparty risk.

Liquidity risks

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered. The Fund holds a large value of very liquid securities which could be promptly realised if required.

Other risks

Actions taken by the Government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the authority's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material.

Employment Tribunal - McCloud / Sargeant

The Court of Appeal in the McCloud / Sargeant cases has ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constitute unlawful age discrimination. At this stage it is uncertain whether or not there will be an issue for the LGPS, nor is it clear what the exact extent would be of any required changes. The Council's Actuary, Mercers, have calculated some approximate effects of the costs if the transitional protections need to be extended to younger members. The costings of the potential effect of McCloud at 31st March 2019, based on individual member data as at 2016 actuarial valuation and the results of those calculations based on the IAS19 assumptions have been included in the net pension liabilities on the Council's Balance Sheet. The costings reflect in broad terms the cost of applying a "final salary underpin" to those active members who joined the LGPS before 12st April 2012 and who would not otherwise have benefited from the underpin.

Local Government Pension Scheme

The LGPS have commissioned the Government Actuarial Department (GAD) to prepare an assessment of the potential impact on a LGPS scheme wide basis if the Government's appeal is unsuccessful. Initial estimates place the potential impact in the region of 0.5% to 1.0% of total liabilities.

The Fund considers that at the time of producing these financial statements there is no certainty that a possible obligation exits until the outcome of the Government's appeal is known and therefore the extent of any obligation cannot be measured with sufficient reliability; therefore no allowance has been made within the 2018/19 financial statements.

Amendments, curtailments and settlements

The provisions of the Fund were amended with effect from 1st April 2014. As explained above for service up to 31st March 2014 benefits were based on salaries when members leave the Fund, whereas for service after that date benefits are based on career average salary. Further details are available from the Fund's administering authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the authority's assets and liabilities as a result of employing members who have accrued benefits with the authority.

Transactions Relating to Post Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

37.1 Transactions Relating to Retirement Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2017/18 LGPS £000	2017/18 Firefighters Pension Schemes £000	2017/18 Teachers Pension Schemes £000	2017/18 Total £000		2018/19 LGPS £000	2018/19 Firefighters Pension Schemes £000	2018/19 Teachers Pension Schemes £000	2018/19 Total £000
Comprehensive Income and Expenditure Statement								
Cost of Services:								
				Service cost comprising:				
52,512	5,446	0	57,958	Current service cost	50,748	4,392	0	55,140
2,400	976	0	3,376	Past service cost	12,613	13,465	0	26,078
1,412	0	0	1,412	(Gain) / loss from curtailments	1,220	0	0	1,220
0	0	0	0	(Gain) / loss from settlements	(2,449)	0	0	(2,449)
				Other Operating Expenditure:				
929	0	0	929	Administration expenses	967	0	0	967
				Financing and Investment Income and Expenditure				
12,284	6,596	899	19,779	Net interest expense	12,251	6,256	906	19,413
69,537	**13,018**	**899**	**83,454**	**Total charged to (Surplus) and Deficit on Provision of Services**	**75,350**	**24,113**	**906**	**100,369**
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement								
				Re-measurement of the net defined benefit liability comprising:				
(9,866)	0	0	(9,866)	Return on plan assets (excluding the amount included in the net interest expense)	(55,245)	0	0	(55,245)
0	(3,053)	0	(3,053)	Actuarial (gains) and losses - experience	0	0	0	0
0	(17,353)	0	(17,353)	Actuarial (gains) and losses arising on changes in demographic assumptions	0	0	0	0
(76,939)	(9,388)	(291)	(86,618)	Actuarial (gains) and losses arising on changes in financial assumptions	107,829	14,017	0	121,846
(86,805)	**(29,794)**	**(291)**	**(116,890)**	**Total re-measurement of the net defined benefit liability**	**52,584**	**14,017**	**0**	**66,601**
(17,268)	**(16,776)**	**608**	**(33,436)**	**Total charged to the Comprehensive Income and Expenditure Statement**	**127,934**	**38,130**	**906**	**166,970**

Movement in Reserves Statement

2017/18 LGPS	2017/18 Firefighters Pension Schemes	2017/18 Teachers Pension Schemes	2017/18 Total		2018/19 LGPS	2018/19 Firefighters Pension Schemes	2018/19 Teachers Pension Schemes	2018/19 Total
£000	£000	£000	£000		£000	£000	£000	£000
(69,537)	(13,018)	(899)	(83,454)	Reversal of net charges made to the (Surplus) or Deficit on the Provision of Services	(75,350)	(24,113)	(906)	(100,369)
				Actual amount charged against the general fund balance for pensions in the year:				
37,170	5,945			Employers' contributions payable to scheme	37,399	6,967		
		3,093		Retirement Benefits Payable to Pensioners			2,943	
			46,208	**Total Employers Contributions and Retirement Benefits Payable**				**47,308**

The **current service cost** is an estimate of the true economic cost of employing people in a financial year. It measures the full liability estimated to have been generated in the year.

The **past service costs** arise from decisions taken in the current year but whose financial effect is derived from years of service earned in earlier years.

Interest cost is the amount needed to unwind the discount applied in calculating the defined benefit obligations (liability). As members of the plan are one year closer to receiving their pension, the provisions made at present value in previous years for their retirement costs need to be uplifted by a year's discount to keep pace with current values.

The **expected return on assets** is a measure of the return on the investment assets held by the plan for the year. It is not intended to reflect the actual realised return by the plan, but a longer term measure based on the value of assets at the start of the year taking into account movements in assets during the year and an expected return factor.

Actuarial gains and losses arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

The most significant changes between 2017/18 and 2018/19 arise in the Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement. In 2017/18 the total re-measurement recognised in Other Comprehensive Income and Expenditure in the CIES was a net gain of £116.890m and in 2018/19 it is a net charge of £66.601m. This is a change of £183.491m.

These changes to the Council’s net pensions liabilities arise because events have not coincided with assumptions made at the last actuarial valuation or because of updated assumptions. The current economic climate, financial assumptions, and in particular the effect of bond yields on the discount rate used by the Actuaries can also have a significant impact on the estimated net pension liabilities.

Bond yields are a fundamental building block in setting the discount rate applied to the estimated pension liabilities to reflect the ‘time value of money’ i.e. £1 now is worth more than £1 in the future (assuming no deflation in the future). The lower the discount rate the higher the pension liability. Due to the long timeframes involved in pensions liabilities (70 years plus), a small change in the discount rate can lead to large changes in the estimated promised retirement benefits. The discount rate at the start of the year was 2.7% and at the end of the year it was 2.4%. In 2017/18 the discount rate increased from 2.5% at the start of the year to 2.7% at the end of the year. A 0.1% increase in the discount rate results in a ££42.135m decrease in the pension liability and vice versa. Further sensitivity analysis provided by the Actuary is on page 134.

37.2 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amounts recognised in the Balance Sheet arising from the Council's obligation in respect of its defined benefit schemes is as follows:

2017/18 LGPS £000	2017/18 Firefighters Pension Schemes £000	2017/18 Teachers Pension Schemes £000	2017/18 Total £000		2018/19 LGPS £000	2018/19 Firefighters Pension Schemes £000	2018/19 Teachers Pension Schemes £000	2018/19 Total £000
1,434,818	0	0	1,434,818	Fair value of plan assets	1,523,028	0	0	1,523,028
(1,895,019)	(244,099)	(35,009)	(2,174,127)	Present value of the defined obligation	(2,082,956)	(275,262)	(32,972)	(2,391,190)
(460,201)	**(244,099)**	**(35,009)**	**(739,309)**	**Net (liability) / asset arising from the defined benefit obligation**	**(559,928)**	**(275,262)**	**(32,972)**	**(868,162)**

37.2a Movement in the Value of Scheme Assets

2017/18 LGPS £000	2017/18 Firefighters Pension Schemes £000	2017/18 Teachers Pension Schemes £000	2017/18 Total £000		2018/19 LGPS £000	2018/19 Firefighters Pension Schemes £000	2018/19 Teachers Pension Schemes £000	2018/19 Total £000
1,392,427	0		1,392,427	Opening fair value of scheme assets	1,434,818	0	0	1,434,818
35,359	0		35,359	Interest income	38,796	0		38,796
				Re-measurement gain / (loss):				
9,866	0	0	9,866	- The return on plan assets, excluding the amount included in the net interest expense	55,245	0	0	55,245
37,170	5,945	3,093	46,208	Contributions from employer	37,398	6,967	2,943	47,308
9,651	1,191	0	10,842	Contributions from employees into the scheme	10,228	1,202	0	11,430
(48,726)	(7,136)	(3,093)	(58,955)	Benefits / transfers paid	(51,244)	(8,169)	(2,943)	(62,356)
(929)	0	0	(929)	Administration expenses	(967)	0	0	(967)
0	0	0	0	Assets Extinguished on Settlement	(1,246)	0	0	(1,246)
1,434,818	**0**	**0**	**1,434,818**	**Closing Value of Scheme Assets**	**1,523,028**	**0**	**0**	**1,523,028**

37.2b Movements in the Fair Value of Scheme Liabilities

2017/18 LGPS £000	2017/18 Firefighters Pension Schemes £000	2017/18 Teachers Pension Schemes £000	2017/18 Total £000		2018/19 LGPS £000	2018/19 Firefighters Pension Schemes £000	2018/19 Teachers Pension Schemes £000	2018/19 Total £000
(1,925,271)	(266,820)	(37,494)	(2,229,585)	Opening balance at 1 April	(1,895,019)	(244,099)	(35,009)	(2,174,127)
(52,512)	(5,446)	0	(57,958)	Current service cost	(50,748)	(4,392)	0	(55,140)
(47,643)	(6,596)	(899)	(55,138)	Interest cost	(51,047)	(6,256)	(906)	(58,209)
(9,651)	(1,191)	0	(10,842)	Contributions from scheme participants	(10,228)	(1,202)	0	(11,430)
				Re-measurement gains and losses:				
0	3,053	0	3,053	- Actuarial gains / (losses) - experience	0	0	0	0
0	17,353	0	17,353	- Actuarial gains / (losses) from changes in demographic assumptions	0	0	0	0
76,939	9,388	291	86,618	- Actuarial gains / (losses) from changes in financial assumptions	(107,829)	(14,017)	0	(121,846)
(2,400)	(976)	0	(3,376)	Past service cost	(12,613)	(13,465)	0	(26,078)
(1,412)	0	0	(1,412)	Gains / (losses) on curtailments	(1,220)	0	0	(1,220)
48,726	7,136	3,093	58,955	Benefits / transfers paid	51,244	8,169	2,943	62,356
0	0	0	0	Liabilities extinguished on settlements	3,695	0	0	3,695
18,205	0	0	18,205	Lump sum deficit repayment	(9,191)	0	0	(9,191)
(1,895,019)	**(244,099)**	**(35,009)**	**(2,174,127)**	**Closing Value of Scheme Liabilities**	**(2,082,956)**	**(275,262)**	**(32,972)**	**(2,391,190)**

37.3 LGPS - Pension Scheme - Assets comprised of:

Fair value of scheme assets

2017/18				2018/19		
Quoted	**Unquoted**	**Total**		**Quoted**	**Unquoted**	**Total**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
76,045	0	76,045	Cash and Cash Equivalents	73,105		73,105
0	0	0	Net Current Assets		1,523	1,523
76,045	**0**	**76,045**	**Subtotal Cash and cash equivalents**	**73,105**	**1,523**	**74,628**
			Equity Instruments			
182,223	0	182,223	UK Quoted	143,165		143,165
307,051	0	307,051	Global Quoted	328,974		328974
0	15,783	15,783	UK Equity Pooled	15,230		15,230
0	208,049	208,049	Overseas Equity Pooled		214,747	214,747
0	0	0	Equity Protection		19,799	19,799
489,274	**223,832**	**713,106**	**Subtotal Equity Instruments**	**487,369**	**234,546**	**721,915**
			Bonds			
84,654	0	84,654	UK Corporate Bonds	92,905		92,905
4,304	0	4,304	Overseas Corporate Bonds	3,046		3,046
0	251,093	251,093	UK Government Indexed Pool		272,622	272,622
88,958	**251,093**	**340,051**	**Subtotal Bonds**	**95,951**	**272,622**	**368,573**
			Property			
0	91,828	91,828	UK Property		95,951	95,951
0	41,610	41,610	Property Funds		45,691	45,691
0	**133,438**	**133,438**	**Subtotal Property**		**141,642**	**141,642**
			Other Investment Funds			
0	31,566	31,566	Private Debt Funds		36,553	36,553
0	34,436	34,436	Private Equity Funds		44,168	44168
0	91,828	91,828	Infrastructure Funds		118,796	118,796
0	8,609	8,609	Real Estate Debt Funds		7,615	7,615
	5,739	5,739	Healthcare Royalties		9,138	9,138
0	**172,178**	**172,178**	**Subtotal Other Investment Funds**		**216,270**	**216,270**
654,277	**780,541**	**1,434,818**	**Total Assets**	**656,425**	**866,603**	**1,523,028**

37.4 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities for Local Government Pension Scheme, Firefighters' Pension Schemes and the Teachers Discretionary Benefits have been assessed by Mercer Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the full valuation of the scheme as at 31st March 2016.

The estimate of the defined benefit obligation is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analyses have followed the Accounting Policies for the Scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

<u>37.4a LGPS</u>

The significant assumptions used by the actuary have been:

2017/18		2018/19
Mortality assumptions		
Longevity at retirement for current pensioners		
23.2	Men	23.3
25.8	Women	25.9
Longevity at retirement for future pensioners		
25.5	Men	25.6
28.5	Women	28.6
Other assumptions		
2.2%	Rate of inflation	2.2%
3.7%	Rate of increase in salaries	3.7%
2.3%	Rate of increase in pensions	2.3%
2.7%	Rate for discounting scheme liabilities	2.4%

Impact of assumptions on the LGPS obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(55,179)	Longevity change by 1 year	55,179
(42,878)	Rate of inflation change by 0.1%	42,878
(5,197)	Rate of increase in salaries change by 0.1%	5,197
42,135	Rate for discounting scheme liabilities change by 0.1%	(42,135)

37.4b Firefighters Pension Scheme
The significant assumptions used by the actuary have been:

2017/18	Firefighters Pension Schemes	2018/19
Mortality assumptions		
Longevity at retirement for current pensioners		
26.3	Men	26.4
28.3	Women	28.4
Longevity at retirement for future pensioners		
28.2	Men	28.3
30.2	Women	30.3
Other assumptions		
2.1%	Rate of inflation	2.2%
3.6%	Rate of increase in salaries	3.7%
2.2%	Rate of increase in pensions	2.3%
2.6%	Rate for discounting scheme liabilities	2.4%

Impact of assumptions on the Firefighters Pension Scheme obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(7,691)	Longevity change by 1 year	7,691
(4,800)	Rate of inflation change by 0.1%	4,800
(738)	Rate of increase in salaries change by 0.1%	738
4,725	Rate for discounting scheme liabilities change by 0.1%	(4,725)

37.4c Teachers Pension Scheme
The significant assumptions used by the actuary have been:

2017/18	Teachers Pension Schemes	2018/19
Mortality assumptions		
Longevity at retirement for current pensioners		
14.3	Men	14.4
16.4	Women	16.5
Other assumptions		
2.4%	Rate of inflation	2.4%
2.4%	Rate of increase in pensions	2.4%
2.7%	Rate for discounting scheme liabilities	2.7%

Impact of assumptions on the Teachers Pension obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(1,350)	Longevity change by 1 year	1,350
(274)	Rate of inflation change by 0.1%	274
272	Rate for discounting scheme liabilities change by 0.1%	(272)

Impact on the Council's Cash Flows
One of the objectives of CLGPS is to keep employers' contributions at as constant a rate as possible. As part of the 2016 valuation the Fund agreed a strategy with the Fund's Actuary to achieve a funding level of 100% over 16 years from 1st April 2016. The resultant contribution rates from this valuation are effective from 1st April 2017 to 31st March 2020. Funding levels are monitored on an annual basis.

The pension contributions expected to be made by the Council in the year to 31st March 2020 are:

- Local Government Pension Scheme £34.705m.
- Teachers Discretionary Benefits Scheme £2.943m.
- Firefighters Pension Scheme £6.967m.

Note 38 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2018 £000		31 March 2019 £000
(2,380)	Interest received	(792)
28,313	Interest paid	29,324
25,933	**Total**	**28,532**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2018 £000		31 March 2019 £000
(32,268)	Depreciation	(35,556)
(15,609)	Impairment and downward valuations	(23,315)
(267)	Amortisation	(184)
2,118	(Increase)/decrease in creditors	(15,348)
(8,396)	Increase/(decrease) in debtors	15,635
72	Increase/(decrease) in inventories	331
(19,041)	Movement in pension liability	(62,252)
(3,099)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(11,018)
858	Other non-cash movements charged to the surplus or deficit on provision of services	(830)
(75,632)	**Total**	**(132,537)**

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

31 March 2018 £000		31 March 2019 £000
4,326	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,047
99,932	Any other items for which the cash effects are investing or financing cash flows	88,975
104,258	**Total**	**90,022**

Note 39 - Cash Flow from Investing Activities

31 March 2018 £000		31 March 2019 £000
127,090	Purchase of property, plant and equipment, investment property and intangible assets	121,569
58,000	Purchase of short-term and long-term investments	130,000
(4,326)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,047)
(135,050)	Proceeds from short-term and long-term investments	(110,970)
(51,606)	Other receipts from investing activities	(60,595)
(5,891)	**Net cash flows from investing activities**	**78,957**

Note 40 - Cash Flow from Financing Activities

31 March 2018 £000		31 March 2019 £000
(50,000)	Cash receipts of short-term and long-term borrowing	(40,000)
(73)	Other receipts from financing activities	(10,574)
523	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	521
7,511	Repayments of short-term and long-term borrowing	7,512
(42,039)	**Net cash flows from financing activities**	**(42,541)**

Note 41 - Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Government

The Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from Government departments are set out in Notes 4.2 and 4.3 on expenditure and income analysed by nature and by segment. Grant receipts in advance at 31st March 2019 are shown in Note 17.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2018/19 is shown in Note 14. Members declare any transactions that they, their families or organisations in which they have a controlling interest have undertaken with the Council outside of their roles as elected councillors. Contracts were entered into in full compliance with the Council's standing orders. During 2018/19 there were no significant amounts paid.

A number of Members represent trusts and non profit making organisations which receive funding from the Council. The Members' Register of Interests is published on the Council's website on each individual member's page.

Officers

The Council is required to identify any related party transactions for key management personnel within the Council. The Code defines this as all chief officers (or equivalent), chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities. The Council defines Senior Officers for the purposes of related party disclosure as Executive Directors, Assistant Directors, Senior Managers and those staff involved in procurement that may be in a position to have significant influence on decisions of awarding contracts for the procurement of goods and services. Senior Officers declare any transactions that they, their families or organisations in which they have a controlling interest have undertaken with the County Council outside of their roles as employees of the Council. Contracts were entered into in full compliance with the Council's standing orders. The Council commissioned works or services totalling £0.163m during the year from a company in which one officer has an interest. There was no balance outstanding at the year end.

<u>Other Public Bodies</u>
Pooled Funds
The Council has pooled budget arrangements with a number of organisations, the details of which are included in Note 11.

Border to Coast Pension Partnership Ltd (BCPP Ltd)
BCPP Ltd is the organisation set up to run pooled LGPS investments for 12 Pension Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. BCPP Ltd was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. For Accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

NW FiReControl Limited
NW Fire Control Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. The Company has four members - Cheshire, Cumbria, Greater Manchester and Lancashire Fire & Rescue Authorities (FRAs). The liability of each member in the event of the company being wound up is limited and shall not exceed £1. Each member of the company has the right to appoint two directors, who are Councillors appointed to their respective FRAs. All directors have equal voting rights. In 2014 all four services transferred their Control Room functions into the regionalised service provided by NW Fire Control Ltd. The cost of the service is charged out to the four FRAs on an agreed pro rata basis set out in a Service Level Agreement.

An assessment for Group Accounting requirements has taken place during 2018/19 in respect of NW Fire Control Ltd. in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS10, 11 & 12).

It has been determined that the company is governed by Joint Control as unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement. However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2018/19.

The table below shows key Information for NW Fire Control Ltd:

Accounts Information	Year-Ended 2017/18 £000	Year-Ended 2018/19 £000
Total Assets Less Current Liabilities	285	305
Net Liabilities	(2,857)	(3,953)
Deficit Before Taxation	(427)	(412)
Deficit After Taxation	(432)	(417)
Balance owed to CCC	0	0
Balance owed by CCC	0	0
Invoices Raised By NW Fire Control to CCC	360	367
Invoices Raised by CCC to NW Fire Control	0	0

The Companies Financial Statements can be obtained from Companies House with the deadline for submission as 31st December 2019 for the final audited 2018/19 accounts.

Entities Controlled or Significantly Influenced by the Council

One of the Council's key strategic objectives is to promote thriving communities by championing local economies and creating the right opportunities and environment for investment. Council funds are rarely available for such ventures and the Council believes that supporting specific initiatives rather than making direct investments normally best serves its contribution to economic regeneration within Cumbria. This support is made in a number of ways but can include:

- Acting as the Accountable Body. The Council effectively becomes the conduit enabling available funding streams to be accessed in a more effective manner. As the Council is underwriting performance on these projects for which grants have been obtained, it is incurring a financial risk. However, without this position being taken, many sources of funding would not be available.
- Providing administrative and advisory support.
- Providing political support through the involvement of Members.
- Providing technical expertise, particularly for land reclamation schemes.

In some instances, the Council has taken a direct investment in the companies listed in the table below. The results of Cumbria County Holdings Ltd and its subsidiaries, which are shown in the table below, have been consolidated within the group accounts. Copies of the accounts can be obtained from The Company Secretary, Unit 5A, Wavell Drive, Rosehill Estate, Carlisle, CA1 2ST.

			2017/18 (Audited Accounts)		2018/19 (unaudited Accounts)	
Company Name	**Nature of Business**	**Shareholding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Cumbria County Holdings Ltd	Holding Co	100%	1,498	3,679	722	3,676
Cumbria Waste Management Ltd	Waste disposal service	100%	1,193	6,853	416	6,821
Lakeland Waste Management Ltd	Waste disposal service	100%	315	2,047	265	2,312
Trotters Dry Waste Ltd	Waste disposal service	100%	17	20	0	20
Cumbria Waste Recycling Service	Waste disposal service	100%	1,088	3,811	820	4,231
Lakeland Minerals Ltd	Waste disposal service	50%	149	566	147	713
Orian Solutions Ltd	Catering / Cleaning Services	100%	299	1,874	501	1,896
SLS (Cumbria) Ltd	Cleaning	100%	113	90	108	189
		Total	**4,672**	**18,940**	**2,979**	**19,858**

In 2018/19 Cumbria County Holdings Ltd paid a dividend of £0.725m to the Council (2017/18 £1.500m).

The Council has the following direct investments in limited companies. Each year consideration is given to whether an entity should be included in the group accounts. On the basis of materiality it has been determined that the companies below should not be consolidated into the group accounts. Copies of the accounts can be obtained from the Director of Finance, Cumbria House, 117 Botchergate, Carlisle, Cumbria CA1 1RD.

				2017/18		2018/19	
Company Name	**Nature of Business**		**Share holding %**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**	**Profit / (Loss) after Tax £000**	**Net Assets / (Liabilities) £000**
Traveline Cumbria Ltd (Note 1)	Travel enquiry call centre	Company limited by guarantee	49%	2	58	2	60

Note 1 – The financial year end for Traveline is 19th July. The majority shareholder is Stagecoach Ltd.

In addition to direct shareholdings on the previous page the Council is also a member of, and has voting rights in, Energy Coast West Cumbria Ltd (ECWC). As it is a partnership with a number of other parties with decisions covered by majority voting, where the Council is a minority partner, it is not appropriate for the Council to consolidate ECWC in the group accounts.

ECWC aims to support new business initiatives and to promote economic development. West Cumbria is facing significant losses of employment opportunities following the decommissioning of the Sellafield nuclear facility.
The Board membership comprises:

Nuclear Decommissioning Agency	3 nominated members (1 from Nuclear Decommissioning Authority, 1 from Nuclear Management Partners and 1 from Sellafield Limited).
Cumbria County Council	1 nominated member
Copeland Borough Council	1 nominated member
Allerdale Borough Council	1 nominated member
Independent board members	6 selected by Nolan Principles. One of the independent members is elected as Chair.

During 2018/19 the Council had the following transactions with the companies in which it has an interest.

Organisation	**Payments to Companies £000**	**Creditor Outstanding £000**	**Income from Companies £000**	**Debtor Outstanding £000**
Cumbria Waste Management Ltd	1,083	85	115	213
Lakeland Waste Management Ltd	42	3	0	0
Cumbria Waste Recycling	342	54	2	0
Orian Solutions Ltd	7,362	1,574	0	7
SLS (Cumbria) Ltd	107	30	0	0
	8,936	**1,746**	**117**	**220**

Note 42 - Contingent Liabilities

Accountable Body Status

The Council is the Accountable Body for a number of organisations. As Accountable Body, the Council underwrites that grants have been properly applied for and expended. To the extent that this is not the position, the Council is exposed, as guarantor, to grant repayments if the conditions on which grant funding was given are not met.

Local Government Pension Scheme

The Council is the Administering Body for the Cumbria Local Government Pension Scheme. Employers across Cumbria are either mandated or may be permitted to offer their employees membership of this pension scheme. Where an employer applies to join the Pension Scheme, the employer is required to secure a bond or guarantee acceptable to the Pension Scheme. This bond / guarantee would be required to meet their financial obligations to the Pension Scheme in the event of them being unable to do so.

Where an employer is unable to meet their financial obligations to the Pension Scheme and this is not covered by a bond or guarantee, all other employers within the Pension Scheme (of which there are 127 at 31st March 2019) are jointly and severally liable for these liabilities. As the Council comprises of approximately 50% of the Pension Scheme, the Council would be liable for approximately 50% of any resulting liabilities.

Landfill Sites - Gas/Leachates

Note 2 - Critical Judgements in Applying Accounting Policies sets out the Council's approach to closed landfill sites. No provision has been made in the accounts for any legal liability that may arise as a result of gas and leachate from closed landfill sites, most of which, after restoration, have been either returned to the original owner or sold.

Background to the Sites

The Council has responsibility for 35 closed landfill sites (27 for non inert waste and 8 for inert waste). The sites are spread throughout the County and are relatively small scale in nature. The 8 sites that have inert waste landfilled were closed between 1970 and 1995 and monitoring is subject to a schedule agreed with the Environment Agency.

All the sites vary considerably in size and the nature of the waste landfilled. However all of the 27 sites that contain non inert waste were closed a number of years ago (between 18 and 40+ years ago). This means they predate current site engineering methods.

The Council spends in the region of £0.400m per annum monitoring and routinely maintaining sites. The Council is in the process of undertaking a risk review of these closed landfill sites with the aim of assessing the Council's current and future liabilities.

Site Management
The Council has a planned monitoring regime with the work contracted to Cumbria Waste Management Ltd. Despite this, much of the work that is carried out by the Waste Management team is still reactive, adapting to conditions on the ground. Monitoring could for example, pick up a site with a leachate outbreak. This would be extremely difficult to predict and could occur at a site which had previously had no problems. The cost of any remedy would depend on the site, the problem that had occurred and the possible solutions available to remedy the issue and could vary considerably. Therefore any future investment that may be required for the sites is unquantifiable, planned monitoring is about environmental protection on a risk assessed basis and is a revenue running cost and any unplanned maintenance is extremely difficult to predict.

The Council continues to monitor for landfill gas on those sites that are felt to be most at risk. This is an extremely complex exposure to compute with very uncertain timescales. It is also an issue that impacts on many other Local Authorities. Nevertheless, exposures may be considerable and may not be met from the Council's own reserves. Cumbria Waste Management Ltd has a provision for aftercare costs post closure of their own landfill sites, this currently stands at £10.553m (2017/18 £10.243m).

In addition, a review has found that there are another 33 closed landfill sites that the Council may be responsible for. These are sites that the Council does not own, was not previously aware of and historically have not been subject to monitoring. The Council is in the process of collating the information held on these sites with the aim of assessing the Council's liabilities.

Municipal Mutual Insurance Ltd
On 30th September 1992, the Council's insurers, Municipal Mutual Insurance Ltd (MMI), announced that it had ceased taking new business or issuing renewals and had placed a moratorium on claims payments.

On 6th October 1992, MMI resumed the full payment of claims and has continued to do so since that date. MMI was only able to do this following an agreement with Local Authorities that they would underwrite their respective exposures to the extent that MMI was unable to meet the claims in full. The Council elected to participate in this Scheme of Arrangements. MMI's business was then purchased by a new insurer, Zurich Municipal, who is triple 'A' rated so far as claims payment is concerned. However, this does not guarantee claims which arose up to 31st March 1993 which will be dealt with by the MMI 'rump' company.

In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years). An initial 15% 'clawback' levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicate that the situation continues to worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. There is no intention to increase the levy beyond the current 25%. In 2018/19 this equated to a provision of £0.001m (2017/18 £0.086m).

Business Rates
The Local Government Finance Act 2012 introduced a Business Rates Retention Scheme that enables local authorities to retain a proportion of the business rates generated in their area. The new arrangements came into effect on 1st April 2013. The Council, acting as agent on behalf of the major preceptors, central government and themselves, is required to make provision for refunding ratepayers who successfully appeal to the Valuation Office Agency against the rateable value of their properties on the rating list. The overall provision for appeals outstanding at 31st March 2019 has been assessed as £13.860m (2017/18 £7.921m), of which the Council share is £1.386m (2017/18 £0.792m). Local businesses can only appeal against the Rateable Value on the 2010 Rating List in very limited circumstances, although they can now make an appeal against the new 2017 Rating List. It is difficult to estimate the likelihood of businesses both submitting and being successful for an appeal that is yet to be made and therefore the Council has made no provision in its accounts for future appeals.

Note 43 Prior Period Adjustment

Expenditure on services and income relating to or derived from those services is classified in the Comprehensive Income and Expenditure Statement in accordance with the CIPFA Code on Local Authority Accounting in the UK. The Code requires authorities to present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the Council's internal management reporting structure. During 2018/19 the Council's internal management structure was re-designed to support the new "cluster" operating model:

I. **People** – and the response to service users with assessed needs. This will include the existing services of the children and young people's directorate, adult social care, public health, Cumbria Care, health and care integration and partnerships.
II. **Strategic core** – and the response to meeting the council's internal governance, democratic, strategic commissioning, communications, planning responsibilities and enterprise.
III. **Customer** – and the response to the universal customer's needs this will include customer transformation, customer service centre and community services
IV. **Locality** – and the response to place based issues of infrastructure and growth and transportation.

In addition the introduction of IFRS9 requires potential Impairment Losses from bad debts to be recognised in Financing & Investment Income and Expenditure rather than in the Cost of Services. Although a restatement of 2017/18 was not required as part of the Code change it has been incorporated here to aid comparability between 2017/18 and 2018/19.

There is no impact on any other of the main statements.

43. Prior Period Restatement continued

The table below shows how the gross expenditure and income and the net expenditure have been restated for 2017/18.

2017/18 Directorate Service Line:	As reported in the Comprehensive Income & Expenditure Statement 2017/18 £000	Adjustments Between Old and New internal reporting structures £000	Comprehensive Income & Expenditure Statement as restated for 2017/18 £000	Directorate:
Gross Expenditure				**Gross Expenditure**
Children & Families Services	383,911	(383,911)	0	
Health, Care & Community Services	200,353	(200,353)	0	
Economy & Highways Services	139,409	(2,032)	137,377	Economy & Infrastructure
Fire & Rescue Service	16,380	(1)	16,379	Fire & Rescue Service
Local Committees	8,290	1	8,291	Local Committees
Resources & Transformation	37,066	(37,066)	0	
Other Corporate Items	20,119	(708)	19,411	Other Corporate Items
Non Distributed Costs	4,788	0	4,788	Non Distributed Costs
	0	581,803	581,803	People
	0	37,595	37,595	Corporate, Customer & Community
	0	3,858	3,858	Finance
Cost of Services - Gross Expenditure	**810,316**	**(814)**	**809,502**	**Cost of Services - Gross Expenditure**
Gross Income				**Gross Income**
Children & Families Services	(292,961)	292,961	0	
Health, Care & Community Services	(73,266)	73,266	0	
Economy & Highways Services	(25,388)	168	(25,220)	Economy & Infrastructure
Fire & Rescue Service	(600)	0	(600)	Fire & Rescue Service
Local Committees	(200)	0	(200)	Local Committees
Resources & Transformation	(7,197)	7,197	0	
Other Corporate Items	(484)	765	281	Other Corporate Items
Non Distributed Costs	0	0	0	Non Distributed Costs
	0	(367,969)	(367,969)	People
	0	(5,124)	(5,124)	Corporate, Customer & Community
	0	(1,264)	(1,264)	Finance
Cost of Services - Gross Income	**(400,096)**	**0**	**(400,096)**	**Cost of Services - Gross Income**
Net Expenditure				**Net Expenditure**
Children & Families Services	90,950	(90,950)	0	
Health, Care & Community Services	127,087	(127,087)	0	
Economy & Highways Services	114,021	(1,864)	112,157	Economy & Infrastructure
Fire & Rescue Service	15,780	(1)	15,779	Fire & Rescue Service
Local Committees	8,090	1	8,091	Local Committees
Resources & Transformation	29,869	(29,869)	0	
Other Corporate Items	19,635	57	19,692	Other Corporate Items
Non Distributed Costs	4,788	0	4,788	Non Distributed Costs
		213,834	213,834	People
		32,471	32,471	Corporate, Customer & Community
		2,594	2,594	Finance
Cost of Services - Net Expenditure	**410,220**	**(814)**	**409,406**	**Cost of Services - Net Expenditure**
Other Income & Expenditure - Expenditure				
Other Operating Expenditure	2,489	0	2,489	Other Operating Expenditure
Financing and Investment Income and Expenditure	84,482	814	85,296	Financing and Investment Income and Expenditure
Taxation and Non Specific Grant Income	0	0	0	Taxation and Non Specific Grant Income
	86,971	**814**	**87,785**	
Other Income & Expenditure - Income				
Other Operating Expenditure	(2,010)	0	(2,010)	Other Operating Expenditure
Financing and Investment Income and Expenditure	(38,404)	0	(38,404)	Financing and Investment Income and Expenditure
Taxation and Non Specific Grant Income	(475,981)	0	(475,981)	Taxation and Non Specific Grant Income
	(516,395)	**0**	**(516,395)**	
Other Income & Expenditure - Net				
Other Operating Expenditure	479	0	479	Other Operating Expenditure
Financing and Investment Income and Expenditure	46,078	814	46,892	Financing and Investment Income and Expenditure
Taxation and Non Specific Grant Income	(475,981)	0	(475,981)	Taxation and Non Specific Grant Income
	(429,424)	**814**	**(428,610)**	
Surplus / Deficit on Provision of Services - Total Expenditure	**897,287**	**0**	**897,287**	**Surplus / Deficit on Provision of Services - Total Expenditure**
Surplus / Deficit on Provision of Services -Total Income	**(916,491)**	**0**	**(916,491)**	**Surplus / Deficit on Provision of Services -Total Income**
Surplus / Deficit on Provision of Services - Net	**(19,204)**	**0**	**(19,204)**	**Surplus / Deficit on Provision of Services - Net**

Note 44 - Trust Funds

The Council acts as trustee for a number of legacies by former inhabitants of Cumbria and is responsible for the administration. The funds are not owned by the Council and are used in accordance with the aims of the trusts. The Trust Funds are not included in either the Council's single entity or the group accounts as the Council acts as an agent for these transactions.

Holehird Trust

The Holehird Trust, created under the bequest of Henry Leigh Groves, includes the Holehird estate near Windermere. The balances held by the trust funds are invested in gilt edged and equity securities in accordance with the regulations contained in the Trustee Investment Acts. The income of the trust funds is distributed in accordance with the terms of the trust deeds. The various trust funds can be broadly categorised as follows:

2018/19

Fund	Income £000	Expenditure £000	Assets £000	Liabilities £000
Holehird Trust	(234)	69	3,880	0
Archives Trusts	(51)	9	596	0
Education Trusts	(18)	6	415	0
Social Services Trusts	0	1	0	0
Total	**(303)**	**85**	**4,891**	**0**

2017/18

Fund	Income £000	Expenditure £000	Assets £000	Liabilities £000
Holehird Trust	(44)	62	3,715	0
Archives Trusts	(5)	2	555	0
Education Trusts	(19)	8	408	0
Social Services Trusts	0	2	0	0
Total	**(68)**	**74**	**4,678**	**0**

Note 45 - Accountable Body Funds

The Council is the Accountable Body for a number of projects; the largest are Copeland Community Fund and Growing Places Fund. The Accountable Body are not included in either the Council's single entity or the group accounts as the Council acts as an agent for these transactions.

Copeland Community Fund

The Nuclear Decommissioning Agency (NDA) established the Copeland Community Fund in January 2008 to recognise the unique role Copeland plays in hosting a low level nuclear waste storage facility on behalf of the nation.

The Council acts as Treasurer for the Fund, but it is administered by a Project Board of eight members, of which two are Cumbria County Council Councillors, two Copeland Borough Council Councillors, two independent members, one member from the NDA and one from the Low Level Waste Repository (LLWR). Disbursements from the Fund are considered and approved by the Project Board, in accordance with the unilateral undertaking entered into between the NDA, the County Council and Copeland Borough Council which was updated in July 2016. The Fund is to be spent on schemes and initiatives that are consistent with the NDA's socio-economic policy including employment, education and skills and economic and social infrastructure.

The cash balance of the fund at 31st March 2019 is £8.076m. Income is received from the NDA each year to top up the fund, and from the Council in respect of interest due for funds invested. The table below shows a summary of the transactions for the past two years.

Balance at 1 April 2017 £000	2017/18 Receipts £000	2017/18 Payments £000	Balance at 31 March 2018 £000	2018/19 Receipts £000	2018/19 Payments £000	Balance at 31 March 2019 £000
(11,678)	(1,635)	2,632	(10,681)	(1,656)	4,261	(8,076)

Growing Places Fund

The Growing Places Fund was announced by government in November 2011. Renamed locally as the Cumbria Infrastructure Fund (CIF), the total allocation for Cumbria was £6,667,772 split between Capital £6,162,467 and Revenue £505,305.

The CIF is identified to help create jobs and homes in Cumbria, through support for infrastructure projects that unlock housing and workspace developments and for capital projects within businesses. The CIF is managed as a revolving fund and support to projects is primarily in the form of loans, as a minimum providing a return of the funds invested and in most cases with interest added, however in some cases support has been in the form of non-repayable grants. Returns to the fund are recycled to support further developments.

Cumbria County Council holds the funding as the Accountable Body for the CIF and the Cumbria LEP Board agree the fund priorities. As accountable body, Cumbria County Council enters into formal agreements with the applicants (and if required the relevant District Councils) before the CIF is invested to ensure that projects are delivered within the agreed timescales or against agreed milestones and loan funding is repaid.

Currently there are 4 'live' CIF projects in the delivery or repayment phases (1 Large Infrastructure Repayable Grant and 3 Small Business Development Loans). Income in 2018/19 relates to the interest (revenue) and principal (capital) repayments received during the year from loans. Both revenue and capital returns are available to the LEP for reinvestment.

The revenue balance brought forward from 2017/18 was £0.339m. In 2018/19 there was income of £0.006 and expenditure of £0.013m (including £0.007m of bad debts written off), leaving a balance of £0.332m to be carried forward into 2019/20. The capital balance brought forward was £5.241m, with loan repayments of £0.065m and expenditure of £0.975m which consisted of £0.850m for Barrow Waterfront and £0.125 of bad debts written off. This leaves a balance of £4.331m to carry forward to 2019/20.

	Balance at 1 April 2017 £000	**2017/18 Receipts £000**	**2017/18 Payments £000**	**Balance at 31 March 2018 £000**	**2018/19 Receipts £000**	**2018/19 Payments £000**	**Balance at 31 March 2019 £000**
Revenue	(478)	(5)	144	(339)	(6)	13	(332)
Capital	(5,288)	(53)	100	(5,241)	(65)	975	(4,331)
Total	**(5,766)**	**(58)**	**244**	**(5,580)**	**(71)**	**988**	**(4,663)**

The Council is also Accountable Body for the following:

- Rural Growth Network Pilot – balance at 31st March 2019 £0.0m (31st March 2018 £0.012m).
- Local Enterprise Partnership Core and Strategic Funding – balance at 31st March 2019 £0.572m (31st March 2018 £0.208m).
- Growth Hub – balance at 31st March 2019 is £0.022m (31st March 2017 £0.0m).
- Enterprise Advisor Network – balance as at 31st March 2019 £0.094m (31st March 2018 £0.041m).

Note 46 - Events After the Balance Sheet Date

The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 26th July 2019 in respect of the audited Statement of Accounts for 2018/19.

Where events taking place before 26th July 2019 provided information about conditions existing at 31st March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Introduction to the Group Accounts

7.1 Introduction

The Group Accounting Statements have been prepared on the basis of a full consolidation of the financial transactions of the Council and its subsidiary companies. The subsidiary companies have all prepared their accounts to 31st March 2019. Cumbria County Holdings Ltd have then produced their own consolidated group accounts for 2018/19 and these have been used to produce the Cumbria County Council Group Accounts. Where balances are materially different from the Council's Accounting Statements the Group notes have been included.

The Council has restated the 2017/18 Comprehensive Income and Expenditure Statement. Although this primarily is a change to the single entity accounts, consequently it does then impact on the Group Statement of Accounts. Note 43 of the Council's single entity financial statements sets out the details of the prior period adjustment. CCHL also restated their 2017/18 CIES for a change in presentation of the landfill tax in 2018/19. This added £5m to both gross income and gross expenditure. The 2017/18 Group statements were also updated to reflect the final audited accounts of CCHL which resulted in minor amendments to CIES, Balance Sheet and Cash Flow Statement.

7.2 Group Boundary

During 2018/19 the group boundary (i.e. what should be included within the Council's group accounts) was re-examined to determine whether the existing members of the group were still appropriate and in addition whether there were any other bodies that should be included. This review took account of the materiality of the bodies in terms of value and the nature of their relationships.
In 2018/19 the Group accounts includes Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd.

CWM has the subsidiaries - Cumbria Waste Recycling Ltd (CWR) and Trotters Dry Waste Ltd and Lakeland Waste Management Ltd which it wholly owned and a subsidiary Lakeland Minerals Ltd, which is 50% owned and is run as a joint venture with Norman Harrison. Orian Solutions has a wholly owned subsidiary SLS (Cumbria) Ltd (SLS).

The results of the companies are summarised in Note 41.

The Council also has an interest in the following companies - Traveline Ltd and NW Fire Control Ltd. These are relatively small and do not materially alter the group accounting statements if they are either included or excluded. So, on the grounds of materiality they are not included in the group accounts but are still included in the related parties note to the accounts including their results for the year (Note 41).

The other entities within the group are limited companies, which are separate distinct legal entities. This restricts the Council's risk to potential financial loss to the value of the initial shareholding and the costs associated with any continuity of the services they provide to the Council.

7.3 Joint Ventures

During 2015/16 the wholly owned LWM acquired a 50% share of Lakeland Minerals Ltd. This is classified as a joint venture as there is a contractual agreement to share control and the joint venturers have the right to the net assets of the arrangement. The Code of Practice requires that this is incorporated into the group accounts using the equity method, adjusting the original cost of investment for any post acquisition change in its share of net assets, and including any share of profit or loss into the Group Comprehensive Income and Expenditure Statement.

7.4 Statement of Accounting Policies

The majority of the accounting policies adopted to produce the group accounts complement those used to prepare the Council's own accounts. However, additional policies and departures have occurred in order to meet IFRS requirements for the preparation of Group Accounts. These policies are:

i. Non Current Assets

Profits and losses on disposal are treated as a charge to the cost of services. Significant profits and losses on disposal are shown as exceptional items. Other subsidiaries do not hold interests in land & buildings. Their non current assets are held at cost with depreciation charged over their estimated useful lives.

The Cumbria Waste Management group completes a revaluation to reflect the cost and associated liabilities of managing active landfill sites. In order to accommodate the estimated future costs of restoration and aftercare on these sites, restoration and aftercare costs are capitalised and a provision created. The total cost of non current assets are amortised and charges to the Group Comprehensive Income & Expenditure are based on the overall proportion of void space consumed during the accounting period. The total provision created by Cumbria Waste Management Ltd in 2018/19 is £10.553m (2017/18 £10.231m).

Trades between the Council and its subsidiaries are eliminated on consolidation.

Group Comprehensive Income and Expenditure Statement

2017/18 Restated				2018/19		
Expenditure £000	**Income £000**	**Net £000**		**Expenditure £000**	**Income £000**	**Net £000**
			Services:			
573,948	(367,969)	205,979	People	633,488	(396,584)	236,904
135,859	(25,103)	110,756	Economy & Infrastructure	136,627	(25,103)	111,524
16,334	(600)	15,734	Fire & Rescue Service	15,185	(625)	14,560
8,291	(200)	8,091	Local Committees	8,014	(214)	7,800
37,319	(5,124)	32,195	Corporate, Customer & Community	36,756	(3,829)	32,927
3,858	(1,264)	2,594	Finance	4,453	(1,050)	3,403
24,199	281	24,480	Other Corporate Items	36,275	(4,255)	32,020
42,474	(36,288)	6,186	Cumbria County Holdings Group	45,517	(39,105)	6,412
842,282	**(436,267)**	**406,015**	**Cost of Services**	**916,315**	**(470,765)**	**445,550**
2,489	(2,010)	479	Other Operating Expenditure	3,506	0	3,506
85,614	(36,982)	48,632	Financing and Investment Income and Expenditure	99,101	(40,970)	58,131
0	(475,981)	(475,981)	Taxation and Non Specific Grant Income	0	(467,820)	(467,820)
930,385	**(951,240)**	**(20,855)**	**(Surplus) or Deficit on Provision of Services**	**1,018,922**	**(979,555)**	**39,367**
0	(33)	(33)	Associates and Joint Ventures (Equity Basis)	0	(31)	(31)
827	0	827	Tax Expenses of Subsidiaries	470	0	470
931,212	**(951,273)**	**(20,061)**	**Group (Surplus) or Deficit**	**1,019,392**	**(979,586)**	**39,806**
		(9,626)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(5,881)
		(118,060)	Remeasurement of the net defined benefit liability / (asset)			66,855
		(127,686)	**Other Comprehensive Income and Expenditure**			**60,974**
		(147,747)	**Total Comprehensive Income and Expenditure**			**100,780**

Group Movement in Reserves Statement

	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority Share of Subsidiary Joint Venture and Associate Reserves £000	Total Reserves £000
Balance at 31 March 2018	**(88,455)**	**129,932**	**41,477**	**(11,300)**	**30,177**
Movement in reserves during 2018/19					
Total Comprehensive Income and Expenditure	32,778	60,720	93,498	7,282	100,780
Adjustments between Group Accounts and Authority Accounts	8,094	0	8,094	(8,094)	0
	40,872	**60,720**	**101,592**	**(812)**	**100,780**
Adjustments between accounting basis and funding basis under regulations	(28,006)	28,006	0	0	0
(Increase) or Decrease in 2018/19	**12,866**	**88,726**	**101,592**	**(812)**	**100,780**
Balance at 31 March 2019	**(75,589)**	**218,658**	**143,069**	**(12,112)**	**130,957**

	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority Share of Subsidiary Joint Venture and Associate Reserves £000	Total Reserves £000
Balance at 31 March 2017	**(86,069)**	**273,266**	**187,197**	**(9,273)**	**177,924**
Movement in reserves during 2017/18					
Total Comprehensive Income and Expenditure	(27,281)	(126,516)	(153,797)	6,050	(147,747)
Adjustments between Group Accounts and Authority Accounts	8,077	0	8,077	(8,077)	0
	19,204	(126,516)	145,720	(2,027)	(147,747)
Adjustments between accounting basis and funding basis under regulations	16,818	(16,818)	0	0	0
(Increase) or Decrease in 2017/18	**(2,386)**	**(143,335)**	**(145,720)**	**(2,027)**	**(147,747)**
Balance at 31 March 2018	**(88,455)**	**129,932**	**41,477**	**(11,300)**	**30,177**

Group Balance Sheet

Note Ref	Restated 31 March 2018 £000		31 March 2019 £000
G1	1,158,058	Property, Plant and Equipment	1,214,743
	563	Heritage Assets	563
	4,905	Investment Property	5,547
	282	Intangible Assets	180
	721	Investments in Joint Ventures	734
	4,449	Long Term Debtors	4,182
	1,168,978	**Long Term Assets**	**1,225,949**
	53,157	Short-term Investments	67,292
	653	Assets Held for Sale	1,565
	1,319	Inventories	1,659
G3	61,261	Short Term Debtors	76,545
G2	81,592	Cash and Cash Equivalents	51,884
	197,982	**Current Assets**	**198,945**
	(11,747)	Short-Term Borrowing	(20,592)
G4	(78,297)	Short-Term Creditors	(89,086)
G5	(5,060)	Provisions	(5,323)
	(11,279)	Grants Receipts in Advance - Revenue	(17,166)
	(106,383)	**Current Liabilities**	**(132,167)**
	(6,050)	Long-Term Creditors	(5,301)
G5	(17,186)	Provisions	(18,620)
	(330,309)	Long Term Borrowing	(354,282)
	(116,067)	Long Term PFI Liabilities	(114,358)
	(741,440)	Net Pension Liabilities	(870,913)
	0	Deferred Income	(10,574)
	(79,702)	Grants Receipts in Advance - Capital	(49,637)
	(1,290,754)	**Long Term Liabilities**	**(1,423,685)**
	(30,177)	**Net Asset / (Liabilities)**	**(130,958)**
	(99,755)	Usable Reserves	(87,700)
	129,932	Unusable Reserves	218,658
G6	**30,177**	**Total Reserves**	**130,958**

Group Cash Flow Statement

Restated 2017/18 £000		2018/19 £000
(20,061)	Net (surplus) or deficit on the provision of services	39,806
(77,550)	Adjustment to surplus or deficit on the provision of services for noncash movements	(134,001)
104,258	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	90,022
6,647	**Net cash flows from operating activities**	**(4,173)**
(3,443)	Net cash flows from investing activities	76,137
(41,807)	Net cash flows from financing activities	(42,256)
(38,603)	**Net (increase) or decrease in cash and cash equivalents**	**29,708**
42,989	Cash and cash equivalents at the beginning of the reporting period	81,592
81,592	**Cash and cash equivalents at the end of the reporting period**	**51,884**

NOTES TO THE GROUP ACCOUNTING STATEMENTS

G1 - Property, Plant and Equipment

Movements to 31 March 2019

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
at 1 April 2018	**524,737**	**99,086**	**725,844**	**53**	**19,813**	**26,657**	**1,396,189**
Additions	12,457	6,884	69,461	0	610	34,573	**123,985**
Accumulated Depreciation written out to Gross Carrying Amount	(9,872)	0	0	0	(52)	0	**(9,924)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,789	0	0	0	92	0	**5,881**
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(22,367)	0	0	0	(948)	0	**(23,315)**
Derecognition – disposals	(8,857)	(1,570)	0	0	(1,808)	0	**(12,235)**
Assets reclassified (to)/from Investment Properties	0	0	0	0	(60)	0	**(60)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(1,565)	0	**(1,565)**
Other Movements	31,190	802	0	0	1,626	(33,619)	**0**
at 31 March 2019	**533,077**	**105,202**	**795,305**	**53**	**17,708**	**27,611**	**1,478,956**
Accumulated Depreciation and Impairment							
at 1 April 2018	**(39,387)**	**(58,062)**	**(140,471)**	**0**	**(211)**	**0**	**(238,131)**
Depreciation charge	(13,238)	(6,112)	(18,170)	0	(222)	0	**(37,742)**
Accumulated Depreciation written out to Gross Carrying Amount	9,872	0	0	0	52	0	**9,924**
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	**0**
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	0	0	0	0	0	0	**0**
Derecognition – disposals	428	1,283	0	0	24	0	**1,735**
at 31 March 2019	**(42,325)**	**(62,891)**	**(158,641)**	**0**	**(357)**	**0**	**(264,214)**
Net Book Value							
at 31 March 2019	**490,752**	**42,311**	**636,664**	**53**	**17,351**	**27,611**	**1,214,742**
at 31 March 2018	**485,350**	**41,024**	**585,373**	**53**	**19,601**	**26,657**	**1,158,058**

Movements to 31 March 2018

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
at 1 April 2017	523,674	92,196	649,284	53	15,455	4,480	**1,285,143**
Additions	16,997	7,303	76,560	0	2,189	23,905	**126,955**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,001	35	0	0	617	0	**6,652**
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(5,221)	0	0	0	(13,061)	0	**(18,283)**
Derecognition – disposals	(11)	(1,889)	0	0	(1,147)	0	**(3,046)**
Derecognition – other	(1,131)	(13)	0	0	(139)	0	**(1,283)**
Reclassifications and transfer	(15,572)	1,453	0	0	15,778	(1,728)	**(70)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	121	0	**121**
at 31 March 2018	**524,737**	**99,086**	**725,844**	**53**	**19,813**	**26,657**	**1,396,189**
Accumulated Depreciation and Impairment							
at 1 April 2017	(33,728)	(53,333)	(124,207)	0	(23)	0	**(211,292)**
Depreciation charge	(12,075)	(5,998)	(16,264)	0	(195)	0	**(34,531)**
Depreciation written out to the Revaluation Reserve	2,648	0	0	0	326	0	**2,974**
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	3,069	0	0	0	84	0	**3,152**
Impairment losses/(reversals) recognised in the (Surplus)/Deficit on the Provision of Services	0	(126)	0	0	254	0	**128**
Derecognition – disposals	0	1,395	0	0	5	0	**1,400**
Derecognition – other	37	0	0	0	0	0	**38**
Reclassifications and transfers	663	0	0	0	(663)	0	**0**
at 31 March 2018	**(39,387)**	**(58,062)**	**(140,471)**	**0**	**(211)**	**0**	**(238,131)**
Net Book Value							
at 31 March 2018	**485,350**	**41,024**	**585,373**	**53**	**19,601**	**26,657**	**1,158,058**
at 31 March 2017	**489,946**	**38,863**	**525,077**	**53**	**15,432**	**4,480**	**1,073,851**

G2 - Cash and Cash Equivalents

31 March 2018 Council £000	31 March 2018 Group £000		31 March 2019 Council £000	31 March 2019 Group £000
4,034	14,094	Cash and Bank balances	4,623	19,748
67,499	67,499	Short Term Deposits	32,136	32,136
71,533	**81,593**	**Total Cash and Cash Equivalents**	**36,759**	**51,884**

G3 - Debtors

An analysis of sums due to the Council as at 31st March 2019 is as follows:

31 March 2018 Council £000	31 March 2018 Group £000		31 March 2019 Council £000	31 March 2019 Group £000
9,347	9,668	Central Government Bodies	8,923	9,093
5,723	6,037	Trade Debtors with Other Local Authorities	7,858	8,750
5,433	5,469	Trade Debtors with NHS Bodies	15,468	16,113
0	0	Trade Debtors with Public Corporations and Trading Funds	26	26
6,616	6,616	Local Taxation	7,729	7,729
10,927	13,029	Prepayments	10,957	13,107
10,595	10,595	Residential and non-residential care charges	10,735	10,735
4,181	9,847	Other Trade Debtors	5,352	10,992
52,822	**61,261**	**Total Debtors**	**67,048**	**76,545**

G4 - Creditors

An analysis of amounts owed by the Council at 31st March 2019 is:

31 March 2018 Council £000	31 March 2018 Group £000		31 March 2019 Council £000	31 March 2019 Group £000
(8,801)	(12,540)	Central Government Bodies	(9,549)	(13,291)
(3,758)	(4,264)	Trade Creditors with Other Local Authorities	(5,965)	(6,408)
(554)	(554)	Trade Creditors with NHS Bodies	(1,431)	(1,431)
(2,908)	(2,908)	Trade Creditors with Public Corporations and Trading Funds	(866)	(866)
(4,457)	(4,457)	Local Taxation	(4,662)	(4,662)
(9,690)	(9,690)	Employee leave accrual	(12,621)	(12,621)
(647)	(647)	PFI Creditors	(1,835)	(1,835)
(39,855)	(43,237)	Other Trade Creditors	(44,684)	(47,972)
(70,670)	**(78,297)**	**Total Creditors**	**(81,613)**	**(89,086)**

G5 - Provisions

Current Provisions

2018/19	Insurance - Motor and Fire	MMI Provision	Equal Pay	Voluntary Redundancies	Other Provisions	Deferred Taxation	Restoration and Aftercare of Landfill Sites	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Opening Balance	(238)	(86)	(155)	(99)	(4,468)	0	(14)	(5,059)
Increase in provision during year	0	0	0	(1,979)	(1,047)	0	(14)	(3,040)
Utilised during year	11	85	155	99	2,413	0	14	2,777
Closing Balance	**(227)**	**(1)**	**0**	**(1,979)**	**(3,102)**	**0**	**(14)**	**(5,323)**

2017/18	Insurance - Motor and Fire	MMI Provision	Equal Pay	Voluntary Redundancies	Other Provisions	Deferred Taxation	Restoration and Aftercare of Landfill Sites	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Opening Balance	(218)	(197)	(165)	(1,353)	(3,408)	(14)	0	(5,355)
Increase in provision during year	(20)	0	(155)	(22)	(3,050)	0	(14)	(3,261)
Utilised during year	0	111	165	1,277	1,990	14	0	3,556
Closing Balance	**(238)**	**(86)**	**(155)**	**(99)**	**(4,468)**	**0**	**(14)**	**(5,059)**

Long Term Provisions

2018/19	**Insurance - employers and public liability**	**Business Rates Appeals**	**Restoration and aftercare of landfill sites**	**Total**
	£000	**£000**	**£000**	**£000**
Opening Balance	(6,163)	(792)	(10,231)	(17,186)
Increase in provision during year	(531)	(1,386)	(217)	(2,134)
Utilised during year	0	792	107	899
Unwinding of discounting	0	0	(200)	(200)
Closing Balance	**(6,694)**	**(1,386)**	**(10,539)**	**(18,619)**

2017/18	**Insurance - employers and public liability**	**Business Rates Appeals**	**Restoration and aftercare of landfill sites**	**Total**
	£000	**£000**	**£000**	**£000**
Opening Balance	(6,532)	(792)	(10,111)	(17,435)
Increase in provision during year	0	(792)	0	(792)
Utilised during year	369	792	65	1,226
Unwinding of discounting	0	0	(199)	(199)
Other movements	0	0	14	14
Closing Balance	**(6,163)**	**(792)**	**(10,231)**	**(17,186)**

Total Provisions

2017/18		**2018/19**
£000		**£000**
(22,790)	Opening Balance	(22,245)
(4,053)	Increase in provision during year	(5,174)
4,783	Utilised during year	3,676
(199)	Unwinding of discounting	(200)
14	Other movements	0
(22,245)	**Closing Balance**	**(23,943)**

G6 - Group Summary of Reserves

	Cumbria County Council £000	Cumbria County Holdings Group £000	Inter Group Transactions £000	TOTAL £000
Usable Reserves				
Usable Capital Receipts Reserve	(6,719)	0	0	(6,719)
Revenue - Earmarked	(53,813)	0	0	(53,813)
Revenue - General	(15,056)	(12,112)	0	(27,168)
	(75,588)	**(12,112)**	**0**	**(87,700)**
Unusable Reserves				
Share Capital	0	(3,183)	3,183	0
Revaluation Reserve	(106,934)	0	0	(106,934)
Capital Adjustment Account	(564,610)	0	0	(564,610)
Financial Instruments Adjustment Account	449	0	0	449
Pensions	877,176	0	0	877,176
Collection Fund Adjustment Account	105	0	0	105
Accumulated Absences Account	12,472	0	0	12,472
	218,658	**(3,183)**	**3,183**	**218,659**
TOTAL FUNDS	**143,070**	**(15,295)**	**3,183**	**130,959**

The Firefighters' Pension Scheme Financial Statement 2018/19

2017/18			2018/19	
£000	£000		£000	£000
		FUND ACCOUNT		
		Contributions Receivable		
(1,469)		From Employer	(1,434)	
(1,193)		From Members	(1,209)	
	(2,661)			(2,642)
		Transfers In		
(9)		Individual transfers from other Schemes	(38)	
	(9)			(38)
	(2,671)	**Total income**		(2,680)
		Benefits Payable		
4,499		Pensions	5,328	
1,309		Ill Health and Injury	1,256	
796		Lump Sums	1,435	
514		Lump Sum Death Benefits & Widows Pensions	0	
	7,118			8,019
		Payments to and on account of leavers		
0		Other	12	
	0			12
	7,118	**Total Expenditure**		**8,031**
	4,447	**Net amount receivable/payable before top-up from Government**		**5,351**
	4,447	**Top-up receivable/(payable) from Government**		**5,351**
	0	**Net amount receivable/(payable) for the year**		**0**
		NET ASSETS STATEMENT		
		Current Assets		
		Contributions due from Employer		
1		Contributions due from Employee	4	
821		Pension top-up receivable from Government	1,270	
440		Prepaid Pensions	465	
	1,262			1,739
		Current Liabilities		
(1,262)		Other current assets and liabilities	(1,739)	
	(1,262)			(1,739)
	0			**0**

Notes to the Firefighters' Pension Scheme Financial Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the scheme and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting Policies

The principal accounting policies are as follows:

<u>Contributions</u>
Contributions represent the total amounts receivable from the Council and the pensionable employees. The employer's contributions are made at the rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighters' Pension Scheme and for the Modified Scheme, 11.9% for the 2006 Scheme, and 14.3% for the 2015 Scheme. The Council is required to make payments into the pension fund in respect of ill health retirements, when they are granted. No provision is made in the accounts for employees' and employers' contributions relating to sums due on pay awards not yet settled.

<u>Benefits and Refunds</u>
Benefits and refunds are accounted for in the year in which they become due for payment.

<u>Transfer Values</u>
Transfer values are those sums paid to, or received from, other pension schemes and the Firefighters' Pension Scheme outside England, for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

3. Fund's Operation

All the Firefighters' Schemes are statutory, unfunded pension schemes. The benefits for both schemes are defined and guaranteed in law. Both schemes are contracted out of the State Second Pension (S2P) and must provide benefits at least as good as most members would have received had they been members of S2P. Benefits provided include a guaranteed pension based on final salary upon retirement and an option to commute pension in favour of a tax free lump sum.

Notes to the Firefighters' Pension Scheme Financial Statements continued

3. Fund's Operation continued

The Council administers and pays firefighters' pensions from a separate local firefighters' pension fund. Employee contributions, employer's contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top up grant or by paying the surplus back to Central Government. The underlying principle is that the employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

The fund has no investment assets.

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The long term pensions obligations is included in the Council's pensions liability (and pensions reserve) in the Balance Sheet. The liability for the Firefighters pensions scheme at 31st March 2019 was £262.634m (31st March 2018 £244.099m) Further details can be found in notes 36 and 37 to the Council's Statement of Accounts.

Employment Tribunal - McCloud / Sargeant

In December 2018 the Court of Appeal made a ruling in two separate Employment Tribunal cases involving members of the Judiciary and Firefighter pensions schemes, regarding possible age discrimination arising from the transitional arrangements included the reformed schemes introduced in 2015. On 27th June 2019 the Supreme Court refused the Government's application for permission to appeal the Court of Appeal ruling. This was the last legal hurdle in the dispute, leaving the Government with no further avenue to exhaust. The case will now be referred back to the employment tribunal for a detailed decision on the remedies, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.

At this stage the extent of any issue for the Firefighters Pension scheme is not clear, but the Council's Actuary, Mercers, have calculated the approximate effects of the costs if the transitional protections need to be extended to younger members and this has been incorporated into the net pension liabilities on the Council's Balance Sheet.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Firefighters Pension valuation is due to take place in 2020 with implementation of the results planned for 2023/24 and authorities will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

Notes to the Firefighters' Pension Scheme Financial Statements continued

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Firefighters Pension Scheme (England) Order 2006. These require a fire authority to maintain a pension fund into which employee and employer contributions are paid and out of which pension payments to retirees are made. If the pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the fire authority in the form of a central government top-up grant.

Glossary

AAA FITCH RATING
Highest credit quality - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA FITCH RATING
Very high credit quality - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A FITCH RATING
High credit quality - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

ACCOUNTING PERIOD
The period of time covered by the accounts, normally a period of twelve months commencing on 1st April. The end of the accounting period is the Balance Sheet date.

ACCRUALS
Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31st March.

ACTUARIAL GAINS AND LOSSES
For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:
· Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
· The actuarial assumptions have changed

ASSET
An item having value to the authority in monetary terms. Assets are categorised as either current or non-current
· A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
· A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

BALANCE SHEET
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING
Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

BUDGET
The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME
The capital schemes the Authority intends to carry out over a specific period of time.

CAPITAL RECEIPT
The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy

COMMUNITY ASSETS
Assets that the Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)
The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

CONSISTENCY
The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

CONTINGENT LIABILITY
A contingent liability is either:
· A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
· A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CREDITOR
Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR
Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION SCHEME
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)
Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXPECTED RETURN ON PENSION ASSETS
For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

FAIR VALUE
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

FINANCE LEASE
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GOING CONCERN
The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS
Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

IMPAIRMENT
A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

INFRASTRUCTURE ASSETS
Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVENTORIES
Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

INVESTMENTS (PENSION FUND)
The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY
A liability is where the Authority owes payment to an individual or another organisation.
· A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
· A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

LIQUID RESOURCES
Current asset investments that are readily disposable by the Authority without disrupting its business and are either:
· Readily convertible to known amounts of cash at or close to the carrying amount; or
· Traded in an active market.

LONG-TERM CONTRACT
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

NET BOOK VALUE (NBV)
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT
The Authority’s borrowings less cash and liquid resources.

NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services.

NON-DOMESTIC RATES (NDR)
The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

NON-OPERATIONAL ASSETS
Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

OPERATING LEASE
A lease where the ownership of the fixed asset remains with the lessor.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST (PENSIONS)
For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

PENSION SCHEME LIABILITIES
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

PRECEPT
The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PUBLIC WORKS LOAN BOARD (PWLB)
A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

RELATED PARTIES
There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS
The Code of Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves cannot be used to meet current expenditure.

RESIDUAL VALUE
The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE
The day-to-day expenses of providing services.

REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)
Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

TRUST FUNDS
Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)
The period over which the Authority will derive benefits from the use of a fixed asset.

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10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

10.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2019

	Notes	2017/18		2018/19	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		110,986		64,102
Transfers in from other pension funds	4		5,668		3,000
			116,654		**67,102**
Benefits	5		(80,228)		(83,204)
Payments to and on account of leavers / employer exit	6		(4,795)		(4,889)
Net additions / (deductions) from members			**31,631**		**(20,991)**
Management expenses	7 & 8		(11,393)		(20,381)
Net additions / (deductions) including fund management expenses			**20,238**		**(41,372)**
Returns on investments					
Investment Income		57,481		52,667	
Taxes on Income		(239)		(233)	
Net investment income	9	57,242		52,434	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	62,651		128,241	
Net return on investments			**119,893**		**180,675**
Net increase in the net assets available for benefits during the year			**140,131**		**139,303**
Net assets at the start of the year			**2,423,326**		**2,563,457**
Net assets at the end of the year			**2,563,457**		**2,702,760**

NET ASSETS STATEMENT AS AT 31st MARCH 2019

	Notes	31 March 2018 £'000	31 March 2019 £'000
Investment assets	10	2,547,532	2,706,212
Investment liabilities	10	(4,547)	(8,611)
Total net investment assets		**2,542,985**	**2,697,601**
Long term assets	12a	657	328
Current assets	12b	22,287	7,056
Long term liabilities	13a	(87)	-
Current liabilities	13b	(2,385)	(2,225)
Net assets of the Fund available to fund benefits at the period end		**2,563,457**	**2,702,760**

10.2 NOTES TO THE FINANCIAL STATEMENTS

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

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

The Purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and

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

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

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;

- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes; and

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

Membership to the Cumbria LGPS is open to:-

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers); and

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

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

As at 31st March 2019 the total membership of the Fund was 57,840 (2017/18: 57,266) and consisted of 16,453 contributors/actives (2017/18: 17,034), 25,202 deferred members (2017/18: 24,436) and 16,185 pensioners (2017/18: 15,796).

At 31st March 2019 there were 127 (31st March 2018: 127) employer bodies in the Cumbria LGPS (for the full list see Note 25). Whilst the number of employers was 127 at both the start and end of the year, 2 Academy employers joined the Fund and 1 left during the year; whereas in respect of Admitted bodies, 1 employer joined the Fund and 2 left the Fund during the year. Whilst there has been no change in the number of employers in the Scheme during 2018/19, it is expected that the continued growth in academies and outsourcing of local government services to other providers will see an increase in the number of employers within the Scheme in future years.

Basis of Preparation:

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

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2018/19 and the position at the year-end date, 31st March 2019. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

The main change to the CIPFA Code accounting guidance in 2018/19 was the adoption of IFRS 9 Financial Instruments, which introduced the following (none of which require a restatement of comparative data):

- new financial instrument classification, with new categories of Fair Value Through Comprehensive Income (FVOCI);
- new requirement for an expected loss allowance should there be any potential material impairments (prospective – looking forward); and
- the option of additional disclosures for hedging (should it be assessed as adding to the readability of the accounts).

In addition, there were minor changes related to:

- separate disclosures required should there be any de-recognition of assets at amortised costs,
- a move away from a prescriptive list of accounting policies,

- the option to remove the analysis of debtors and creditors across the public sector.

These changes have not caused any significant changes to the compilation of the accounts for 2018/19 primarily because the Financial Instruments held are already valued at Fair Value Through Profit & Loss (FVTPL), and because the proposed detail was at a level that the Cumbria LGPS accounts already met or exceeded. Therefore there have been no substantial changes to, or any additional notes or disclosures made to the accounts for 2018/19.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2017/18 comparatives.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2018/19

For the twelve month period to March 2019, the majority of markets in which the Fund holds investments showed positive returns. Whilst there was significant volatility during the year with a low point in December 2018, markets recovered in the final quarter of the financial year to March 2019.

The ongoing uncertainty posed by Brexit has contributed to the volatility in UK financial markets, and also impacted on sterling which experienced devaluation against most other currencies, whereas there has been a marginal recovery against the euro over the year.

The Global Equities markets have shown a rise overall in 2018/19 of 11.0%, although there were variations by region. North America showed the strongest performance at 17.5% with the UK, Asia Pacific and Europe growing by 6.4%, 4.7% and 2.7% respectively. UK equities hit a low for the year in December 2018 when the FTSE100 was priced at 6,585, this was followed by a recovery during spring, and this replicated similar developments in the US markets. Levels of volatility in equity markets were seen throughout the year, as a result of market sentiment around the trade tensions between the United States and China and the move of central banks away from quantitative easing to interest rate increases.

In 2018/19 the Pension Fund entered into a suite of derivative (Equity Protection) options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices being mindful of the upcoming triennial actuarial valuation as at 31st March 2019. These derivative option contracts are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle, with Cumbria LGPS being the sole investor. Further information on these options is included in note 10(c).

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values have a nominal impact on the quarterly and annual performance of the Fund whilst they are in place. The duration of the contracts is until 31st March 2020, which is the date that the triennial valuation is signed off by the Actuary and therefore any significant adverse market movement could still affect the valuation outcomes up to this point.

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

NOTE 1 (c): FUND PERFORMANCE 2018/19

During the year to 31st March 2019 the Cumbria LGPS value increased by £139.303m from £2,563.457m (31/03/18) to £2,702.760m (31/03/19). The Fund returned 6.6% (net of fees) for the year which was marginally below the Fund's bespoke index performance benchmark for the year of 6.8%. Positive performance in the year was attributable to both global equity managers and the alternatives portfolio.

The main detractor was the negative movement on the equity protection overlay as a result of an increase in equity value over the period. This equates to the notional cost of selling out of the equity protection at the end of the March 2019. It is not expected that this will be a realised cost at the end of the contract (31st March 2020). The movement in equity protection overlay effectively reduces the Fund's asset value at year-end by £14m, or around 0.5%. Excluding the effect of equity protection, the fund return would have been 7.4% (0.6% above the benchmark for the year).

The Fund performed well over the medium to longer term with the three-year return of 9.8% (net of fees) outperforming the bespoke hedged benchmark of 9.4% (per year) by 0.4%. The five year Fund return was 9.3% (net of fees), 1.2% above the benchmark of 8.1% (per year). The ten year Fund return was 10.7% (net of fees), 0.7% above the benchmark of 10.0% (per year). These longer term performance figures include the overall Fund's net of fees position (i.e. including equity protection); whilst this is a marginally lower performance, the impact of the equity protection products on performance over these longer term time horizons is negligible.

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

The Fund underwent a Strategic Investment Review in 2017/18 and the key conclusion of this review was that "the Fund's investment strategy is in good shape with no material changes required". An interim review undertaken during 2018/19 echoed this conclusion whilst also recommending that a full review of the Strategy be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund. A full review of the Investment Strategy has therefore been incorporated within the Fund's business plan for 2019/20.

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

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

- The selection of suitable investments for the infrastructure and opportunistic portfolios, including new investment commitments made to Pantheon Private Equity, Healthcare Royalty Partners, SL Capital, and the first Border to Coast private markets fund to be launched in 2019/20 - Border to Coast Private Equity 2019;

- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with new investment commitments made to Barings Global Private Loan Funds, and the use of cash as a strategic holding; and

- The liquidation of the BlackRock alternatives portfolio has continued, with the Fund's assets held by BlackRock reducing (from £21.7m at 31/03/18 to £19.0m at 31/03/19) as funds are released for new investment into infrastructure and opportunistic products.

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

All targets set within the 2018/19 Business Plan have been achieved during the year with key tasks either completed, or are ongoing work that is on track for completion and these have been delivered within the approved budget.

In addition to continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned and delivered through the 2018/19 Business Plan were:-

- **Prepare for transition of assets from Cumbria LGPS to Border to Coast.**

  Border to Coast Pensions Partnership Limited ('Border to Coast') was formed in 2017 to enable the pooling of assets of twelve Administering Authorities of the Local Government Pension Scheme ('Partner Funds'), including Cumbria ('the Fund'). This was in response to government requirements for LGPS Funds in England and Wales to "pool" investments to achieve economies of scale with the aim of reducing investment costs and in turn improve asset return.

  Throughout the year the Fund has been actively engaging with Border to Coast and Partner Funds on the development and build of a range of investment capabilities ('sub-funds'). The aim of this work is to design and build sub-funds which enable Partner Funds to efficiently and effectively fulfil their strategic asset allocations and deliver the required returns within appropriate risk parameters.

  Key developments include:

  - In September 2018 the Cumbria Pensions Committee agreed in principle to transfer the 10% of the Fund's investments allocated to UK Equity to Border to Coast. Following the completion of due diligence work on the investment, the transition of these assets was effected in December 2018.

  - The Investment Sub Group agreed in November 2018 to invest £50m in the Private Equity Fund of Border to Coast and it is anticipated that this will be drawn down by Border to Coast over the next 2 to 3 years.

  - Additionally, Pensions Committee agreed in principle in December 2018 to transfer the 20% of the Fund's investments allocated to actively managed Global Equity to Border to Coast. Due diligence work on this investment is now in its final stages and, subject to its satisfactory conclusion, it is anticipated that the assets will transition during 2019.

- **Implementation of Equity Protection solutions within the Fund.**

  The purchase of Equity Protection was approved by the Investment Sub Group on 20th February 2018 and the products were purchased on 4th April 2018 providing protection against significant falls in the value of equity until 31st March 2020, when the triennial valuation is signed off by the Actuary.

- **Review data quality held by the Fund in preparation for the 2019 Actuarial Valuation.**

  During 2018/19 the Fund developed a Data Improvement Plan with progress against this plan reported to Pensions Committee and the Local Pension Board at each meeting.

  Whilst the action to review data quality in preparation for the Actuarial Valuation is now complete, the Fund will continue to monitor and aim to enhance data quality on an on-going basis.

- **Gross Minimum Pension Reconciliation**.

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

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

- **Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.**

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

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

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

New contracts are commissioned through the national LGPS Framework where appropriate. During the year the Fund used the framework to contract for:

- a Transition Manager to support the transition of UK equities to Border to Coast as approved by Pensions Committee in September; and
- scheme member data tracing.

Officers met at least quarterly with the Deputy Director of Your Pensions Service (YPS), the Fund's pensions' administration provider, to review performance standards. These meetings were more frequent between April and December 2018 due to performance issues as regularly reported to Pensions Committee throughout the year.

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

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

  During 2018/19 the Fund responded to the following consultations:
    - CIPFA LGPS Annual Report Guidance – Dec 2018
    - MHCLG Consultation on Asset Pooling – March 2019

In addition to the 2018/19 Business Plan, the Fund has delivered against a number of additional activities during the year. These included:

- Increasing the frequency of Local Pension Board meetings from two to four meetings per year.

- Engagement with the Pensions Regulator through its cohort review of the LGPS.

- Increased management oversight on Your Pensions Service (YPS), the Fund's pensions' administration provider. YPS experienced performance issues following a restructure in the first quarter of 2018/19. In response to this the Fund increased its management oversight of this service and worked closely with YPS to understand the issues and challenge the recovery plans proposed and implemented by YPS. Performance recovered to pre-restructure performance levels in the third quarter of 2018/19, however officers continued with their enhanced monitoring of the quality of YPS performance throughout the remainder of the year.

These activities, which were unforeseen when the business plan was approved in March 2018, have required significant resource from the officers involved. However, these have been delivered within the approved budget for the year.

Looking forward to 2019/20, the proposed key deliverables (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Pensions Administration

- Undertake the Triennial Actuarial Valuation as at 31st March 2019.
- Implement action plan from the Pensions Regulator's cohort review of the Fund.
- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues.
- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator.
- Continual improvement programme for the quality of data held by the Fund.

Investment Management

- Undertake a full Investment Strategy Review, to consider the key outcomes of the 2019 actuarial valuation and their implications for the Fund going forwards.
- Continue to investigate investment options for the Fund's 'underweight' positions in asset allocations (subject to outcomes of the strategy review).
- Continue the transition of assets from the Fund to Border to Coast.
- Consideration of options to address negative cash flow position at a contributions level of the Fund.
- Continual monitoring of the Equity Protection solutions held within the Fund.

Oversight & Governance

- Undertake the election process for membership of the Local Pension Board.
- Review and update of Fund risks, policies and strategies.
- Continue to influence the development and maintenance of robust Governance arrangements in respect of the relationships between the Pension Fund and Border to Coast.
- Review, measure and deliver training to Members and Officers as outlined in the Training Plan.

- Compliance with contract review processes and performance monitoring at both Committee and Officer level.

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

- Review of governance arrangements in response to financial, regulatory and structural changes.

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund's performance, management structure and investment news. The Annual Report and Accounts 2018/19 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2019) on the Cumbria LGPS website under 'Key Cumbria LGPS Documents' where the previous year's report is also available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2018/19.

Fund account – revenue recognition

2.1. Contribution Income

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

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

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

2.2. Transfers to and from other schemes

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

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

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

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

2.3. Investment income (Note 9)

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

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

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

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

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

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

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

2.6. Administrative expenses (Note 7)

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

2.7. Investment management expenses (Note 7)

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

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

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

The majority of the Fund's investment managers have signed up to the cost transparency code (the voluntary code which covers the provision of transparent and consistent investment cost and fee information between investment managers and Funds). The Fund has reviewed the first submissions of cost transparency templates received from those managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued, updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

2.8. Oversight and Governance costs (Note 7)

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

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

<u>Net assets statement</u>

2.9. Financial Assets

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

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

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

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

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

    - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There were no such investments at 31st March 2019.

    - Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See **Note 14**).

- In the case of the unquoted equity shares for Cumbria LGPS's ownership of share capital in Border to Coast Pensions Partnership Ltd, as no market or comparable market exists, and as there are no financial accounts or published trading results for the newly formed company, the shares are valued at cost (£833,334).

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

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

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2019. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see **Note 10(a).**

f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2019 by an independent valuer, CBRE Ltd, Chartered Surveyors, Henrietta House, Henrietta Place, London W1G 0NB, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Global Standards 2017 (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").

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

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

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

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

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

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

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

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

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

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

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

Long-Term Assets

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

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 29th March 2019.

2.11. Derivatives

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

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

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

Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Legal and General utilise the industry standard Black-Scholes method of valuing these contracts as detailed in Note 10(c).

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

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

2.13. Financial liabilities

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

2.14. Actuarial present value of promised retirement benefits

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

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

2.15. Additional voluntary contributions

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

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

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

2.16. Contingent assets and contingent liabilities

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

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

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

2.17. Stock Lending

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund’s financial position or financial performance. Where a change is made, it is applied retrospectively by

adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Director of Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Director of Finance (Section 151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2018/19 accounts.

NOTE 3: CONTRIBUTIONS

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

Contribution rates for 2018/19 are as follows:

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

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

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

By Category	**2017/18 £'000**	**2018/19 £'000**
Employee contributions to the fund	16,581	17,272
Employer contributions to the fund:		
Normal contributions	42,887	43,270
Deficit recovery contributions	51,518	3,560
Total Employer contributions	94,405	46,830
Total Contributions receivable	**110,986**	**64,102**
By Employer Type	**2017/18 £'000**	**2018/19 £'000**
Administering Authority	62,996	36,040
Other Scheduled bodies	35,493	26,317
Admitted bodies	12,497	1,745
	110,986	**64,102**

As shown in the above table the administering authority contributions (Cumbria County Council) were £36.040m (£62.996m 2017/18). The value for 2017/18 was inclusive of £27.575m which related to historic deficit contributions for three financial years from 2017/18 to 2019/20.

In April 2017, Cumbria County Council, Allerdale Borough Council, Carlisle City Council, Copeland Borough Council, South Lakeland District Council and the Lake District National Park Authority all paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20, totalling £37.806m. These additional payments in 2017/18 explain the significantly higher contributions in 2017/18 in the table above.

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

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

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this are contained in the full Actuarial Valuation Report as at 31st March 2016, and all other Cumbria LGPS employer policies that are relevant to the 2018/19 financial year are available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

	2017/18 £'000	2018/19 £'000
Individual transfers	5,668	3,000
	5,668	**3,000**

NOTE 5: BENEFITS

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

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

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

By Category	2017/18 £'000	2018/19 £'000
Net pensions paid	67,266	70,525
Net lump sum on retirement	11,334	11,324
Net lump sum on death	1,628	1,355
	80,228	**83,204**
By Employer Type	**2017/18 £'000**	**2018/19 £'000**
Administering Authority	45,168	46,615
Scheduled bodies	28,124	29,499
Admitted bodies	6,936	7,090
	80,228	**83,204**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2018/19 were £46.615m (£45.168m 2017/18).

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

	2017/18 £'000	2018/19 £'000
Refund of member contributions	163	139
Individual transfers out to other Schemes	4,632	4,750
Group transfer out to other Schemes	-	-
	4,795	**4,889**

NOTE 7: MANAGEMENT EXPENSES

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

Further details of management expenses are as follows:

	2017/18 £'000	2018/19 £'000
Administrative costs	1,152	1,268
Investment management costs	9,364	18,394
Oversight and governance costs	877	719
	11,393	**20,381**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted from 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2018/19 is provided for information in the next note.

Administration costs were £0.116m higher in 2018/19 than the previous year. This was primarily due to an increased staffing allocation to this section of the team to allow focus on administration aspects of the Fund together with the costs of the scheme member tracing exercise.

Investment management costs were £9.030m higher in 2018/19 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.158m lower in 2018/19 than the previous year, for further details refer to Note 8.

NOTE 8: MANAGEMENT EXPENSES ADDITIONAL INFORMATION

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2018/19 is provided below.

	2017/18 £'000	2018/19 £'000
Administrative costs:		
Pensions Administration	1,016	1,038
Employee costs	127	198
Legal advice	9	5
Other	-	27
	1,152	1,268
Investment Management costs:		
Fund management fees	3,584	4,719
Custody fees	93	107
Pooled fund costs including entry fees*	5,445	13,266
Transaction costs	242	302
	9,364	18,394
Oversight and governance costs:		
Employee costs	352	361
Pension fund committee	26	10
Pension Board	9	10
Investment consultancy fees	140	94
Performance monitoring service	27	30
Shareholder voting service	14	17
Actuarial fees	60	72
Audit fees	27	21
Legal and tax advice	29	21
Border to Coast Pensions Partnership	169	77
Other (including bank charges)	24	6
	877	719
	11,393	**20,381**

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

Variations on spend between years include:-

- Employee costs (including staff training and travel) – in 2018/19 the Fund reallocated staff from the oversight and governance section to the administration section to allow them to focus on administration aspects of the fund. Although there was no increase in staff time overall, the increased spend in year relates to two things; 2017/18 included a rebate of staff time and expenses received from the other Partner Funds for work undertaken during the early stages of the creation of the pool and in 2018/19 there is a necessary increase in travel and associated costs required to support the ongoing development and transition of assets to Border to Coast.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance. As the Fund's investments have returned 7.4% growth (net of fees and the impact of the nominal equity protection products) from March 2018, Fund management fees in 2018/19 have increased from the fees paid in 2017/18.

- Pooled fund costs and entry fees – key drivers of the increase in costs between 2017/18 and 2018/19 were:

    - Equity Protection: In April 2018, the Fund implemented an Equity Protection policy assisting the Fund in mitigating the risk of employer contributions increasing due to a significant downturn in equity markets before the 2019 Fund Valuation is completed. The premium paid for these products (£8.360m) is the primary explanation for the increase in costs between 2017/18 and 2018/19.

    - Fees on investments in alternatives: The objective of the Fund's strategic investment allocation to alternatives is to select a portfolio of alternative assets which aids cash flow and increases diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £3.493m in 2018/19 (£3.322m 2017/18) and the result of the positive investment returns has required the accrual of performance fees of £1.396m in 2018/19 (£1.668m 2017/18). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2018/19 entry costs of £0.017m were incurred (£0.455m 2017/18), however as the valuation of the investments by March 2018 exceeded the price paid, the costs of entry had been recouped within a matter of months. These funds are viewed as long-term illiquid investments.

- Transaction costs – these costs occur on trades of shares and bonds and are payable to third party agents as brokerage fees; they are variable depending on investment manager purchases and sales. There were more of these transactions in 2018/19 than 2017/18, partially due to the transition of the UK equity portfolio to Border to Coast (approximately 500 transactions), resulting in a higher cost than paid in 2017/18.

- Investment consultancy fees – there has been a reduced need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda due to the senior manager being in post for the full year. Additionally in the prior year there were increased costs associated with the Investment Strategy Review completion and advice related to the purchase of equity protection products.

- Border to Coast Pensions Partnership – there have been reduced costs in year that were related solely to the creation of the pooling company. The costs shown relate to the set up and development of the Fund's LGPS pooling company, up to the point at which the company began to transition investments into the pool; thereafter costs are included in Fund Management fees under the 'Investment Management costs' heading.

The Fund has reviewed the first submissions of cost transparency templates received from its investment managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £52.434m (2017/18 £57.242m) net of £0.233m (2017/18: £0.239m) irrecoverable tax on dividends, and including stock lending income of £0.090m (2017/18: £0.068m), can be analysed as follows:

	2017/18 £'000	2018/19 £'000
Interest from fixed interest securities (corporate bonds)	6,970	7,030
UK equities dividends	12,067	10,570
Overseas equities dividends	9,940	9,684
Distributions from pooled investment vehicles	20,134	16,675
Net rental income from investment properties (see note 10b)	7,741	7,848
Interest on cash deposits	390	627
	57,242	**52,434**

In December 2018 the Fund transitioned from Schroders (UK equity segregated portfolio manager) to the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. The Fund does not receive investment income on investments of pooled equity as the income received by the pooled fund instead increases the value of the unitised holdings, hence the reduction in UK equity dividends between 2017/18 and 2018/19.

‘Distributions from pooled investment vehicles’ relates to income earned from the Fund’s alternatives portfolio. The £16.675m received in relation to 2018/19 consisted of income from infrastructure funds £7.393m (2017/18 £6.951m), pooled property funds £2.651m (2017/18 £2.942m), private loan and multi asset credit funds £2.442m (2017/18 £1.698m), opportunistic investments £4.168m (£8.278m) and other pooled investments £0.021m (2017/18 £0.265m). The decrease in amounts received between 2017/18 and 2018/19 was primarily due to the timing of distributed income from the opportunistic investments; this timing is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle.

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2018			31 March 2019		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		311,732	503,151	**814,883**	36,781	574,520	**611,301**
Equities - unquoted					833		**833**
		311,732	503,151	**814,883**	37,614	574,520	**612,134**
Fixed interest securities							
Corporate bonds - quoted		154,734	6,377	**161,111**	164,494	6,417	**170,911**
		154,734	6,377	**161,111**	164,494	6,417	**170,911**
Pooled investment vehicles							
Pooled investments - quoted		6,539	4,005	**10,544**	-	4,829	**4,829**
Pooled investments - unquoted		728,472	574,967	**1,303,439**	1,053,858	647,642	**1,701,500**
	10(a)	735,011	578,972	**1,313,983**	1,053,858	652,471	**1,706,329**
Investment properties							
Freehold		137,800	-	**137,800**	125,180	-	**125,180**
Long leasehold		27,875	-	**27,875**	36,100	-	**36,100**
	10(b)	165,675	-	**165,675**	161,280	-	**161,280**
Derivative contracts	10(c)	2,332	-	**2,332**	268	-	**268**
Cash Deposits		40,694	40,155	**80,849**	22,798	21,562	**44,360**
Amounts receivable for sales *		2,642	-	**2,642**	5,820	-	**5,820**
Investment income accrued *		5,409	-	**5,409**	4,330	-	**4,330**
Property rental debtors *		648	-	**648**	780	-	**780**
		51,725	40,155	**91,880**	33,996	21,562	**55,558**
Subtotal investment assets		1,418,877	1,128,655	**2,547,532**	1,451,242	1,254,970	**2,706,212**
Investment liabilities							
Derivative contracts	10(c)	(58)	-	**(58)**	(5,437)	-	**(5,437)**
Amounts payable for purchases *		(1,982)	-	**(1,982)**	(708)	-	**(708)**
Property creditors *		(2,507)	-	**(2,507)**	(2,466)	-	**(2,466)**
Subtotal investment liabilities		(4,547)	-	**(4,547)**	(8,611)	-	**(8,611)**
Total Net Investments		1,414,330	1,128,655	**2,542,985**	1,442,631	1,254,970	**2,697,601**

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

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

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

Note 10(c) details the derivative contracts above. These are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2019.

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund, hence the reduction in quoted UK equity, and increase in pooled investment vehicles since 2017/18.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £915.226m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in the table below. Further information on these options is included in note 10(c).

Border to Coast Pensions Partnership Ltd, the company created for the pooling of LGPS investment assets by twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management into units in the Border to Coast UK Equity Fund in December 2018. As a pooled unquoted investment, this is shown in the following table as UK equities managed by the Border to Coast Pool.

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

	2017/18 £'000	2018/19 £'000
Pooled investment vehicles - managed by Border to Coast Pool		
UK equities	-	268,002
	-	**268,002**
Unitised insurance policies - unquoted		
UK equities	27,097	28,839
Overseas equities	360,035	387,003
UK index-linked securities	468,128	494,170
UK sterling liquidity fund	58,469	22,939
Equity protection derivatives	-	(14,243)
Equity protection cash balance	-	812
Equity protection accruals	-	(4,294)
	913,729	**915,226**
Unit trusts		
UK - quoted	6,539	-
	6,539	**-**
Other Managed funds		
Pooled property REIT's - quoted	4,005	4,829
Pooled property funds - unquoted	76,216	78,372
Other managed funds - unquoted	313,494	439,900
	393,715	**523,101**
Total	**1,313,983**	**1,706,329**

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

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2019 the portfolio valued at £161.280m included 25 properties ranging from £1.150m to £16.800m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in **note 11(a)** 'Valuation of Financial Instruments carried at fair value'.

However as these assets are illiquid and prices are not readily quantifiable. In this regard they are level 3 assets in the Fair Value analysis in **Notes 10(g) to (i).**

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

	2017/18 £'000	2018/19 £'000
Rental income from investment property	8,093	8,308
Direct operating expenses arising from investment property	(352)	(460)
	7,741	**7,848**

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

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

	2017/18 £'000	2018/19 £'000
Balance at the start of the year	**161,190**	**165,675**
Additions:		
Purchases	-	8,089
Subsequent expenditure	69	-
Disposals	(3,220)	(11,229)
Net gains/(losses) from fair value adjustments	7,636	(1,255)
Balance at the end of the year	**165,675**	**161,280**

The Fund's property investments are commercial leased out properties, all of which are operating leases. The future minimum lease payments receivable under non-cancellable leases for these	2017/18 £'000	2017/18 Restated £'000	2018/19 £'000

land and buildings in future years are shown as follows (in addition to the figures published in the 2017/18 accounts we have restated those figures to take account of the non-cancellable lease periods only):			
Not later than one year	8,167	8,155	7,796
Later than one year and not later than five years	27,862	26,748	24,500
Later than five years	26,763	20,672	17,731
Total future lease payments due under existing contracts	**62,792**	**55,575**	**50,027**

To satisfy the requirements of IFRS9 Credit Losses, an individual targeted assessment has been performed to quantify possible credit losses (or bad debt provisions) on rental income, rather than adopting a matrix based collective assessment. Historical loss rates have been assessed to adjust forward looking information. A combination of the assessment of historic rental payment trends for individual occupiers by the managing agents, with the use of a credit check risk score based on company accounts, payment information and up to date news reports, gives an individual assessment of balances. Where a provision is recommended, it is for 100% of the arrear rather than on a probability-adjusted basis.

In comparison to an annual rental income figure of £8.308 million, and outstanding arrears of £0.430m (as at 31st March 2019), the approach has given rise to an allowance for credit loss for one former tenant which is 0.62% of the annual rental income). This targeted approach has resulted in no adjustments to the future minimum lease disclosure. We are comfortable that the level of provisioning is appropriately prudent in the context of the financial statements.

NOTE 10(c): DERIVATIVES

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

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

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

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

The derivatives held by Cumbria LGPS (shown in Note 10) can be summarised as follows:

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

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

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

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2018 £'000	Economic exposure	Market Value at 31 March 2019 £'000
Assets					
UK Fixed Interest	Less than one year	11,422	216	9,832	162
Overseas Fixed Interest	Less than one year	-	-	-	-
			216		**162**
Liabilities					
Overseas Fixed Interest	Less than one year	(4,621)	(56)	(3,548)	(86)
			(56)		**(86)**
		Net Futures	**160**		**76**

Equity Protection Overlay Derivatives

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

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in note 10(a). The details are therefore disclosed below as a note only.

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values are reflected in the last of the following tables. The duration of the contract is until 31st March 2020.

The basis of valuing the options (which are "over-the-counter" derivatives) is the Black-Scholes model. Black-Scholes is a pricing model used to determine the fair price or theoretical value for a derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

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

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

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

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

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

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Authorised Contractual Scheme (ACS) pooled UK equity fund with Border to Coast, hence increasing both sales and purchases within UK equity, and purchase of pooled vehicles.

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

2018/19:

Asset Class	Value at 1 April 2018 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2019 £'000
Fixed interest securities (Corporate Bonds)	161,111	23,502	(13,359)	(1,276)	933	170,911
Equities						
UK equities	311,732	427,040	(687,835)	27,965	(41,288)	37,614
Overseas equities	503,151	182,893	(176,603)	26,388	38,691	574,520
	814,883	609,933	(864,438)	54,353	(2,597)	612,134
Pooled investment vehicles	913,729	352,028	(162,313)	18,230	61,554	1,183,228
Unit Trusts	6,539	-	(6,443)	3,809	(3,905)	-
Managed funds	393,715	150,427	(49,588)	11,446	17,101	523,101
Property (See Note 10b)	165,675	8,089	(11,229)	4,517	(5,772)	161,280
Derivatives (forward foreign exchange contracts, futures)	2,274	47,483	(25,964)	(21,518)	(7,444)	(5,169)
	2,457,926	**1,191,462**	**(1,133,334)**	**69,561**	**59,870**	**2,645,485**
Cash	80,849			(1,275)	85	44,360
Amounts receivable for sales	2,642					5,820
Investment income accrued	5,409					4,330
Property rental debtors	648					780
Amounts payable for purchases	(1,982)					(708)
Property creditors	(2,507)					(2,466)
Total Net Investments	**2,542,985**			68,286	59,955	**2,697,601**

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

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

2017/18:

Asset Class	Value at 1 April 2017 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2018 £'000
Fixed interest securities (Corporate Bonds)	158,742	17,441	(9,402)	(270)	(5,400)	161,111
Equities						
UK equities	304,023	54,306	(37,632)	11,737	(20,702)	311,732
Overseas equities	493,020	147,746	(156,657)	42,834	(23,792)	503,151
	797,043	202,052	(194,289)	54,571	(44,494)	814,883
Pooled investment vehicles	880,426	60,197	(40,000)	14,798	(1,692)	913,729
Unit Trusts	8,959	11	(3,129)	695	3	6,539
Managed funds	327,546	104,790	(52,513)	15,275	(1,383)	393,715
Property (See Note 10b)	161,190	69	(3,220)	(247)	7,883	165,675
Derivatives (forward foreign exchange contracts, futures)	8,023	16,996	(55,572)	38,575	(5,748)	2,274
	2,341,929	**401,556**	**(358,125)**	**123,397**	**(50,831)**	**2,457,926**
Cash	72,283			(5,929)	(3,986)	80,849
Amounts receivable for sales	2,382					2,642
Investment income accrued	5,044					5,409
Property rental debtors	619					648
Amounts payable for purchases	(2,754)					(1,982)
Property creditors	(2,768)					(2,507)
Total Net Investments	**2,416,735**			117,468	(54,817)	**2,542,985**

Analysis of gains/(losses) for the year	**2017/18 £'000**
Realised - Profit and losses on disposal of investments	117,468
Unrealised - Changes in the market value of investments	(54,817)
	62,651

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2018		31 March 2019	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity	Equities	-	0.0%	268,002	9.9%
	Managed by Pool	**-**	**0.0%**	**268,002**	**9.9%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	398,195	15.7%	401,853	15.0%
Legal & General Policy No. 2	Index-linked bonds	389,209	15.3%	388,496	14.4%
Legal & General Policy No. 3	Global equities	126,325	5.0%	124,877	4.6%
Legal & General Passive Currency	Currency overlay	2,018	0.1%	(5,352)	-0.2%
Loomis Sayles	Global equities	288,047	11.3%	333,604	12.4%
Nordea	Global equities	261,195	10.3%	294,517	10.9%
Aberdeen Standard Investments	UK corporate bonds	171,400	6.7%	178,252	6.6%
Aberdeen Standard Investments	Direct property	169,169	6.7%	163,091	6.0%
JP Morgan	Infrastructure	96,787	3.8%	121,907	4.5%
Insight Investments	Fixed income/cash	-	0.0%	60,029	2.2%
Partners Group	Infrastructure	39,410	1.6%	49,954	1.9%
Barings	Private Loan Fund	34,238	1.3%	42,130	1.5%
M&G	Property Fund	38,657	1.5%	39,867	1.5%
Aviva	Property Fund	36,809	1.4%	37,960	1.4%
Unigestion	Secondary Funds	30,110	1.2%	31,144	1.2%
Strategic cash allocation	Cash	56,836	2.2%	28,197	1.0%
SL Capital	Infrastructure	23,883	0.9%	26,538	1.0%
Partners Group MAC	Private Market Credit	26,148	1.0%	24,298	0.9%
SL Capital	Secondary Funds	17,957	0.7%	20,286	0.8%
BlackRock	Alternatives	21,744	0.9%	19,475	0.7%
Healthcare Royalty Partners	Royalties Fund	9,647	0.4%	17,788	0.7%
Pantheon	Private Equity Funds	-	0.0%	13,913	0.5%
M&G	Real Estate Debt	15,043	0.6%	12,897	0.5%
Sales outstanding receivable	Infrastructure	-	0.0%	2,370	0.1%
Border to Coast Ltd	Share capital	-	0.0%	833	0.0%
Aberdeen Asset Management	Indirect property	750	0.0%	546	0.0%
Schroders Investment Management	UK equities	289,398	11.4%	84	0.0%
Transition residual	Overseas/UK equities	10	0.0%	45	0.0%
	Outside Pool	**2,542,985**	**100.0%**	**2,429,599**	**90.1%**
Total Net Investments		**2,542,985**	**100.0%**	**2,697,601**	**100.0%**

Since 2012, actions to implement the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams.

Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management to receive units in the Border to Coast UK Equity Fund in December 2018, a pooled unquoted investment, managed by the Border to Coast Pool.

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

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

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

In December 2018, Cumbria LGPS purchased units in the Border to Coast UK Equity Fund, a pooled unquoted investment managed internally by the Border to Coast Pool.

Holding	31 March 2018 £'000	% of Total Net Investments	31 March 2019 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	-	0.0%	268,002	9.9%
Investments managed by Border to Coast	**-**	**0.0%**	**268,002**	**9.9%**
Policy 1 Legal and General North America Index	151,261	5.9%	177,996	6.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	87,620	3.4%	92,636	3.4%
Policy 1 Legal and General UK Equity Index	27,096	1.1%	28,839	1.1%
Policy 1 Legal and General Europe(Ex UK)Equity Index	38,664	1.5%	39,693	1.5%
Policy 1 Legal and General Japan Index	24,320	1.0%	24,100	0.9%
Policy 1 Legal and General Other Pacific Basin Index	19,465	0.8%	20,338	0.8%
Policy 1 Legal and General Sterling Liquidity Fund	49,769	2.0%	18,251	0.7%
Policy 1 Total	398,195	15.7%	401,853	15.0%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	238,521	9.4%	155,433	5.8%
Policy 2 Legal and General Bespoke Equity Protection	150,688	5.9%	233,063	8.6%
Policy 2 Total	389,209	15.3%	388,496	14.4%
Policy 3 Legal and General FTSE World Equity Index	126,325	5.0%	124,877	4.6%
Investments managed by Legal and General	**913,729**	**36.0%**	**915,226**	**34.0%**
	913,729	**36.0%**	**1,183,228**	**43.9%**

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

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

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

Description of Asset/Liability	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds*	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
UK and Overseas equity and bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - UK & overseas equity, overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by independent valuers CBRE Ltd in accordance with the *RICS Valuation Global Standards 2017* (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Private/Unquoted equity (Pooled funds in Alternative Assets)	Level 3	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occuring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

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

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2019.

Fair Value – Sensitivity of Assets values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	5%	198,398	208,120	188,677
Alternatives - Other	12%	319,874	358,898	280,849
Freehold and leasehold property	9%	161,280	175,795	146,765
Total		**679,552**	**742,813**	**616,291**

NOTE 10(h): FAIR VALUE HIERARCHY

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

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

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

Level 1: 31% of Total Investments (2017/18: 42%)
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities,

quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

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

The proportion of assets at level 1 has decreased in 2018/19 following the transition of the Schroders UK equity segregated portfolio into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. This transition reduced quoted UK equity (level 1), and increased pooled investment vehicles (level 2).

Level 2: 44% of Total Investments (2017/18: 36%)
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the techniques used are based significantly on observable market data.

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

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

Level 3: 25% of Total Investments (2017/18: 22%)
Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

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

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

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

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

	31 March 2018				31 March 2019			
	Quoted market price	Using observable inputs	With significant unobservable inputs		Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss								
Equities - quoted	814,883	-	-	814,883	611,301	-	-	611,301
Equities - unquoted	-	-	-	-	-	-	833	833
Fixed interest securities- Corporate bonds - quoted	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investments - quoted	10,544	-	-	10,544	4,829	-	-	4,829
Pooled investments - unquoted	-	913,729	389,710	1,303,439	-	1,183,228	518,272	1,701,500
Derivative contracts	-	2,332	-	2,332	-	268	-	268
Cash Deposits	98,587	-	-	98,587	47,124	-	-	47,124
Total Financial assets at fair value through profit and loss	**1,085,125**	**916,061**	**389,710**	**2,390,896**	**834,165**	**1,183,496**	**519,105**	**2,536,766**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	165,675	165,675	-	-	161,280	161,280
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(58)	-	(58)	-	(5,437)	-	(5,437)
Total Investments at Fair Value	**1,085,125**	**916,003**	**555,385**	**2,556,513**	**834,165**	**1,178,059**	**680,385**	**2,692,609**
Percentage of Total Investments	**42%**	**36%**	**22%**	**100%**	**31%**	**44%**	**25%**	**100%**

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

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

Period 2018/19	Market value 1 April 2018 £'000	Transfers into level 3 £'000	Transfers out of level 3 £'000	Purchases during the year and derivatives payments £'000	Sales during the year and derivatives receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Market value 31 March 2019 £'000
Unquoted Equities	-	-	-	833	-	-	-	**833**
Private/Unquoted equity (Pooled funds in Alternative Assets)	**389,710**	-	-	147,552	(46,627)	11,281	16,356	**518,272**
Investment Properties	**165,675**	-	-	8,089	(11,229)	4,517	(5,772)	**161,280**
	555,385	**-**	**-**	**156,474**	**(57,856)**	**15,798**	**10,584**	**680,385**

NOTE 11: FINANCIAL INSTRUMENTS

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

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

	31 March 2018 £'000	31 March 2019 £'000
Financial Instruments	2,393,712	2,538,341
Statutory debts / liabilities & provisions	4,070	3,139
Investment Property	165,675	161,280
Net Assets of the Fund	**2,563,457**	**2,702,760**

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

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2019.

	31 March 2018				31 March 2019			
	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	814,883	-	-	814,883	612,134	-	-	612,134
Fixed interest securities (corporate bonds)	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investment vehicles	1,313,983	-	-	1,313,983	1,706,329	-	-	1,706,329
Derivative contracts	2,332	-	-	2,332	268	-	-	268
Cash deposits	-	98,587	-	98,587	-	47,124	-	47,124
Investment receivables/debtors	-	8,699	-	8,699	-	10,930	-	10,930
Current & long-term assets	-	319	-	319	-	691	-	691
	2,292,309	**107,605**	**-**	**2,399,914**	**2,489,642**	**58,745**	**-**	**2,548,387**
Financial Liabilities								
Derivative contracts	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Investment payables/creditors	-	-	(4,489)	(4,489)	-	-	(3,174)	(3,174)
Current/long-term liabilities	-	-	(1,655)	(1,655)	-	-	(1,435)	(1,435)
Total Financial Instruments	**2,292,251**	**107,605**	**(6,144)**	**2,393,712**	**2,484,205**	**58,745**	**(4,609)**	**2,538,341**
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	55,073	-	-	55,073	134,933	-	-	134,933
Financial Liabilities	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Total Net Gains/(Losses)				55,015				129,496

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

NOTE 12(a): LONG TERM ASSETS

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

	31 March 2018 £'000	31 March 2019 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	657	328
Total Long Term Assets	**657**	**328**

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments are received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £0.328m shown above as 'Long Term Debtors – Employer exit'.

NOTE 12(b): CURRENT ASSETS

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

	31 March 2018 £'000	31 March 2019 £'000
Cash balances	**17,738**	2,764
Current Debtors		
Contributions due	3,449	2,796
Employer exit from scheme due < 1 year	329	329
Miscellaneous	771	1,167
Total Current Debtors	**4,549**	**4,292**
Total Current Assets	**22,287**	**7,056**

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

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

NOTE 13(a): LONG TERM LIABILITIES

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

	31 March 2018 £'000	31 March 2019 £'000
Long term Creditors		
Interest provision on long-term debt	87	-
Total Long term Liabilities	**87**	**-**

The long-term interest provision liability ended in 2018/19, being related to a debt received in ten annual instalments from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government. The payments end in April 2020.

NOTE 13(b): CURRENT LIABILITIES

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

	31 March 2018 £'000	31 March 2019 £'000
Current Creditors		
Investment Managers fees	927	900
Tax payable	651	703
Interest provision on long-term debt	79	87
Miscellaneous	728	535
Total Current Liabilities	**2,385**	**2,225**

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

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

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

Summary of Financial Risks	Credit Risk	Market Risk: Foreign Exchange	Market Risk: Interest rate	Market Risk: Liquidity	Market Risk: Other risks	2017/18 £'000	2018/19 £'000
UK Equities	◐	◐	◐	○	◐	345,368	334,455
Overseas Equities	◐	●	◐	○	◐	867,191	966,352
UK Bonds	◐	◐	●	○	◐	154,734	164,494
Overseas Bonds	◐	●	●	○	◐	6,377	6,417
Index Linked Gilts	○	○	◐	○	◐	468,128	494,170
Property *	◐	○	◐	●	◐	165,675	161,280
Alternative Investments	◐	◐	◐	●	◐	389,710	518,272
Derivatives**	◐	●	○	○	◐	2,274	(23,706)
UK Cash	◐	○	◐	○	◐	116,901	49,313
Overseas Cash	◐	●	◐	○	◐	40,155	21,562
Total Investments at Fair Value						**2,556,513**	**2,692,609**

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

○ Minimally ◐ Partially ● Significantly

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

** Derivatives shown above include Equity protection options detailed in Note 10c together with associated accruals.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016[1] and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

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

The Fund annually reviews its policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. These are detailed in the Fund's Investment Strategy Statement which was last reviewed in March 2019.

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

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

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

The Fund underwent a Strategic Investment Review in 2017/18, the main conclusion of this review was that “the Fund’s investment strategy is in good shape with no material changes required”. A further recommendation was made to consider options for banking some of the funding level improvements, and following significant work in 2017/18, an ‘equity protection’ overlay was in place from early April 2018. This brings the Fund protection from falls of more than 5% in the value of its equity from 4th April 2018 (the date the protection was purchased) until 31st March 2020 – the date at which the 2019 Actuarial Valuation is required to be formally completed. This protection is aimed at mitigating the risk of significant increases in employer contribution rates increasing for the period of April 2020 to March 2023.

A full Strategic Investment Review will be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund.

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers’ performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 6 years it has been in place. The process continues to evolve and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

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

Credit Risk

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

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

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

The Fund's cash and cash-like holdings as at 31st March 2019 were £2.764m (2017/18: £17.738m) within current assets (see Note 12(b)), and £44.360m (2017/18: £80.849m) shown as cash within investments (see Note 10). In addition to this, in 2018/19 £22.939m (2017/18: £58.469m) of the Fund's holding in unitised insurance policies shown in Note 10a under pooled investments together with £0.812m (2017/18: £nil), relating to the Equity protection cash balance, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments and as collateral for the equity protection overlay. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2019	Balances as at 31 March 2018	Balances as at 31 March 2019
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	28,582	15,708
SSGA EUR Liquidity Fund	AAA	20,575	15,862
SSGA USD Liquidity Fund	AAA	14,884	2,409
Legal & General Sterling Liquidity Fund	AAA	58,469	22,939
Aberdeen Standard Sterling Liquidity Fund	AAA	8,905	1,502
Federated Short Term Prime Fund	AAA	-	1,003
Goldman Sachs Sterling Reserves Fund	AAA	8,602	-
Standard Life Euro Liquidity Fund	AAA	131	111
Bank deposit accounts			
National Westminster Bank	A+	231	259
Bank current accounts			
State Street Bank & Trust	AA-	4,795	3,475
Barclays Bank	A+	5,353	3,497
Northern Trust	AA-	-	812
Short Term Deposit			
Cash Collateral Swaps		(131)	(110)
The Bank of New York Mellon call account	AA	6,660	3,408
Total		**157,056**	**70,875**

Market Risk

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

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

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

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

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. In addition to mitigate against the impact of equity market falls, the Fund implemented an 'equity protection' overlay in April 2018 to be in place until March 2020.

Market Risk – Sensitivity Analysis

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

Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	334,455	9%	364,556	304,354
Overseas Equities	966,352	10%	1,062,987	869,717
Fixed interest securities (corporate bonds)	170,911	6%	181,166	160,656
Index Linked Gilts	494,170	12%	553,470	434,870
Alternatives - Infrastructure	198,398	5%	208,318	188,479
Alternatives - Other	319,874	12%	358,258	281,489
Property	161,280	3%	166,118	156,442
Cash	70,875	1%	71,584	70,166
	2,716,315		**2,966,457**	**2,466,173**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2019, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,233.408m and £21.562m cash denominated in currencies other than sterling. The impact of a 9% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £112.970m, or 4.2% of the Fund’s total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund’s performance monitoring advisor (State Street Investment Analytics), it is considered that a 9% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
US Dollar denominated assets	824,994	9%	899,243	750,745
European currency denominated assets	228,530	9%	249,098	207,962
Other currency denominated assets	201,447	9%	219,577	183,317
	1,254,971		**1,367,918**	**1,142,024**

Foreign Exchange – Derivative Contracts

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

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

As at 31st March 2019, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates increased in November 2017 from their historic low of 0.25% to 0.50% and subsequently increased to 0.75% in August 2018, the pace and rate of change over the past few years has been slow and measured. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2019 and 31st March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	31 March 2018 £'000	31 March 2019 £'000
Fixed interest securities (including pooled investments)	629,239	665,081
Cash and cash equivalents	16,908	11,341
Money market funds and pooled cash vehicles	140,148	59,534
	786,295	**735,956**

Liquidity Risk

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

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

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e.

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

In 2018/19, as in past years, the Fund experienced a contribution cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members, this is expected in years that are not at the start of the valuation cycle where 'up-front' contributions are often made by some of the larger employers.

In 2017/18 the Fund had a surplus of £6.671m, which is net of the £24.959m prepayment for the following years (2018/19 and 2019/20). This was primarily due to a number of employers paying historic pension deficits early as detailed in Note 3.

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

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2019 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £2,012.224m, i.e. 75% of net assets (31st March 2018 £2,001.128m, 78%). The value of the illiquid assets including investment properties was £680.385m which represented 25% of net assets (31st March 2018 £555.385m, 22%).

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

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

Maturity Risk - Long term liabilities	**31 March 2018 £'000**	**31 March 2019 £'000**
Due 1 to 2 years	87	-
Due 2 to 5 years	-	-
Due 5 to 10 years	-	-
Total Long term liabilities	**87**	-

Counterparty Risk

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

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

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

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

Settlement Risk

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

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £5.169m loss on the currency derivatives at 31st March 2019 (see note 10c).

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

Unquoted Investments

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

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

The unquoted investments held at 31st March 2019 are as follows:

Asset Class	2017/18 £'000	2018/19 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	-	268,002	Border to Coast	UK equity fund.
Unitised insurance policies	913,729	915,226	Legal and General	Index tracking funds.
Other managed funds	96,787	121,907	JP Morgan	Infrastructure fund.
	-	60,029	Insight	Fixed Income funds.
	39,410	49,954	Partners Grp	Infrastructure fund.
	34,238	42,130	Barings	Global private loan fund.
	38,657	39,867	M&G	Long-lease property fund.
	36,809	37,960	Aviva	Long-lease property fund.
	30,110	31,144	Unigestion	Secondary private equity funds
	23,883	26,538	SL Capital	Infrastructure fund.
	26,148	24,298	Partners Grp	Multi Asset Credit
	17,957	20,286	SL Capital	Secondary private equity funds
	20,270	19,015	BlackRock	BlackRock in-house funds.
	9,647	17,788	HRP	Healthcare Royalties Partners Fund.
		13,913	Pantheon	Private Equity funds.
	15,043	12,897	M&G	Real estate debt funds.
	750	546	Aberdeen	Overseas property funds (ex-BlackRock).
UK equity unquoted	-	833	Border to Coast	Company share capital.
	1,303,438	**1,702,333**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

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

	2017/18 £'000	2018/19 £'000
Standard Life	958	1,003
Scottish Widows	1,146	1,128
Equitable Life	684	671
Prudential	936	1,235
Total AVCs	**3,724**	**4,037**

AVC contributions of £0.685m were paid directly from employees pay to the providers during the year (2017/18: £0.504m).

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

NOTE 16: RELATED PARTY TRANSACTIONS

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

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

Border to Coast Pension Partnership Ltd (Border to Coast)

As detailed in section 1 (d) of the accounts, in 2017/18 the Fund became a partner in Border to Coast as its chosen route to pool investment assets across the LGPS. Border to Coast is the organisation set up to run pooled LGPS investments for the Fund and 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

There are no material transactions in respect of related parties requiring separate reporting for 2018/19.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2018/19 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been achieved in 2018/19.

Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 17 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2018/19 (see Note 12 to those statements).

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

Notes on below table

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

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2018/19 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2018/19

- Cumbria County Council's Employer's Future Service Rate – LGPS 14.9% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2018/19 on Cumbria LGPS specific work.

- During 2018/19, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2017/18:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of this Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

- From May 2017, the Chair of the Cumbria Pensions Committee has been entitled to a special responsibility allowance. In 2018/19 this allowance was £7,018. This cost is charged to Cumbria LGPS.

- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

2018/19 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	12,469	12,469	1,858	14,327
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	48,135	48,135	7,172	55,307
	60,604	**60,604**	**9,030**	**69,634**

2017/18 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	11,706	11,706	1,744	13,450
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS):				
1st April 2017 - 31st December 2017	35,937	35,937	5,355	41,292
5th March 2018 - 31st March 2018	3,545	3,545	528	4,073
Senior Manager total	39,482	39,482	5,883	45,365
	51,188	**51,188**	**7,627**	**58,815**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding contractual commitments at 31st March 2019.

NOTE 18: CONTINGENT ASSETS

Tax Reclaims

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2018/19. The estimated value of claims still outstanding is £4.002m (value in GBP at 31st March 2019, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2018/19 and progress has slowed for Fokus Bank (withholding tax) claims in France, Germany and Italy and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the settlements previously received from other European countries such as the Netherlands in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

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

The fees incurred to date for all the above tax claims regardless of the outcome total £0.471m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class Actions

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

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2018/19 are considered to be recoverable with no further impairment beyond the existing provision for credit losses or bad and doubtful debts.

There were no impairments of investments during 2018/19.

Financial Assets That Are Past Due As At 31st March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.034m of debtors aged between two and six months (£0.002m 2017/18). Debtors aged greater than six months totalled £0.040m as at 31st March 2019 (£0.017m 31st March 2018).

NOTE 20: STOCK LENDING

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

The value of securities on loan as at 31st March 2019 has reduced in comparison to prior years primarily following the transition of assets away from a segregated mandate with Schroders where the Fund is the asset owner and can therefore stock lend; to a unitised holding of UK Equity with Border to Coast where the Investments Manager is the asset owner. Within the Border to Coast UK equity sub-fund that the Fund has subscribed to, Border to Coast do actively participate in stock lending and the income from this forms part of the return on that holding.

Securities on loan at the 31st March 2019 of £9.232m (2017/18: £54.618m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £0.150m UK equities and £9.082m overseas equities (2017/18: £45.657m UK equities, £5.568m overseas equities and £3.393m UK corporate bonds). The related collateral totalled £9.483m (2017/18: £57.651m), consisting £9.326m overseas bonds and £0.157m UK equities (2017/18: £32.327m overseas bonds, £22.753m UK equities and £2.571m UK bonds).

For the year to 31st March 2019, the Fund earned income of £0.090m (2017/18 £0.068m) through stock lending of the various assets (as detailed in **Note 9**).

NOTE 21: EVENTS AFTER THE REPORTING DATE

In light of the progression, during July 2019, of the McCloud/Sargeant Court case (relating to the transitional provisions of the new Firefighters and Judicial Pension Schemes) and the possible future effect of the judgement on other public service schemes (including the LGPS) the Fund's liabilities have been re-assessed. At this stage the full details of the implications for the LGPS are unclear. However, in recognition of the importance of the judgement and the anticipated retrospective application of any related remedy, it is considered prudent to include an estimate of the impact on the present value of past service liabilities of the Fund in the amounts disclosed in Note 23.

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

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

NOTE 22: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND THE USE OF ESTIMATES AND UNCERTAINTIES

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

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

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.	For every 1% increase in market value, the value of the Fund will increase by approx. £27.028m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power

	Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons. For each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £53m increase in deficit shortfall as identified in the 2016 valuation. The Actuarial Valuation at March 2016 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Allowance for credit losses / bad debt provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

Investment in our asset pooling company – Border to Coast Pensions Partnership Ltd

Border to Coast is the organisation set up to run pooled LGPS investments for 12 Pensions Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 ‘A Ordinary’ shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council, as Administering Authority for the Cumbria Local Government Pension Scheme, holds £1 of ‘A Ordinary’ share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

This investment has been valued at cost on the basis that fair value as at 31st March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd became licensed to trade in May 2018;
- No published trading results are as yet available, which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company’s business plan to be assessed with confidence;

- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with a variety of rental periods. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a accruals basis, over the life of the lease, even if this does not match the pattern of payments (eg if there is a premium paid at the commencement of the lease).

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31st March 2016 to determine the contribution rates with effect from 1st April 2017 to 31st March 2020. A valuation estimate based on similar actuarial assumptions was also carried out at 31st March 2018 and 31st March 2019.

The full Actuarial Valuation Report as at 31st March 2016 is available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'. Once published the new Actuarial Valuation Report 2019 will also be made available on the Council's website.

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The calculation of the liabilities in compliance with IAS 19 uses different, and more prudent, assumptions than that used for the valuation basis. The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

	31 March 2018 £'m	31 March 2019 £'m
Valuation Basis		
Present value of past service liabilities	(2,618)	(2,745)
Net assets of the Fund	2,563	2,703
Net liability (Valuation Basis)	**(55)**	**(42)**
IAS 19 Basis		
Present value of past service liabilities	(3,245)	(3,553)
Net assets of the Fund	2,563	2,703
Net liability (IAS 19 Basis)	**(682)**	**(850)**

The statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) and in compliance with IAS 26 and on the basis of IAS19 is presented below.

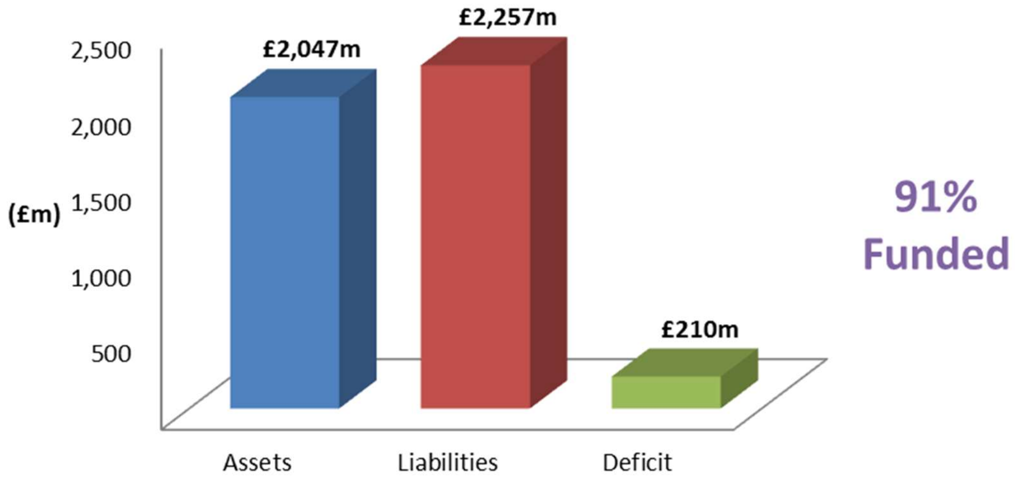
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



At 31 March 2016

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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the “Secondary rate”) for 2019/20 is approximately £16.0 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.3% per annum

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

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

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,245 million. Interest over the year increased the liabilities by c£85 million, and net benefits accrued/paid over the period also increased the liabilities by c£20 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £18 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £185 million due to "actuarial gains" (i.e. the effects of the changes in actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £3,553 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £18 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey
Fellow of the Institute and Faculty of Actuaries

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
July 2019

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

There have been no such accounting standards issued that would materially impact on the 2018/19 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2019 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Fund as at 31 March 2019 (total 127)

Scheduled Scheme Employers (13)

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

Scheduled Resolution Bodies (15)

- Aspatria Town Council
- Cleator Moor Town Council
- Cockermouth Town Council
- Cumbria Waste Management
- Egremont Town Council
- Grange Town Council
- Kendal Town Council
- Keswick Town Council
- Maryport Town Council
- Orian Solutions
- Penrith Town Council
- Ulverston Town Council
- Whitehaven Town Council
- Wigton Town Council
- Workington Town Council

Scheduled Bodies - Academy employers (43)
(number of academies 57)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy (New)
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Castle Carrock Academy
- Chetwynd School Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Dallam Academy
- Dearham Primary Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary Academy
- Flimby Academy (New)
- Furness Academy
- George Hastwell School Academy
- Ghyllside Academy
- Gilsland Academy

Scheduled Bodies - Academies (cont)

- Great Corby Academy
- James Rennie Academy (New)
- Kendal MAT - Castle Park Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Northside Academy
- Penny Bridge Academy
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- Stanwix School Academy
- Stramongate Academy
- The Queen Katherine School Academy
- Trinity Academy
- Walney Academy
- West Lakes Academy

Inspired Learning MAT (one employer):

- Parkside GGI Academy
- Victoria Primary Academy
- Yarlside Primary Academy

The Good Shepherd MAT (one employer):

- Ambleside Primary Academy
- Braithwaite Primary Academy
- Dean Academy (New)
- Lazonby Academy
- Lorton Academy
- Whitfield Academy

Cumbria Education Trust (one employer)

- Longtown Academy
- Tebay Academy
- The Workington Academy
- Whitehaven Academy
- William Howard Academy
- Yanwath Academy
- Yewdale Academy

Lunesdale MAT (one employer)

- Queen Elizabeth Academy
- Queen Elizabeth Studio School

Scheduled Bodies No Actives (12)

- Brampton Parish Council
- Charlotte Mason College
- Cumbria Institute of the Arts
- Cumbria Primary Teacher Training
- Cumbria Sea Fisheries
- Dept Constit Affairs (Cumbria Magistrates)
- Health Authority
- Millom Town Council
- Port of Workington
- Practical Alternatives to Custody (Ltd)
- Seaton Parish Council
- Water Authority

Admitted Bodies Transferee (18)

- Bulloughs - Solway
- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Caterlink - W/Lakes
- Caterlink - WHT
- FCC Environment
- Greenwich Leisure (Copeland)
- Greenwich Leisure (South Lakes)
- Life Leisure (New)
- Mellors Catering - Appleby
- Mellors Catering - Kirkby Stephen
- Mellors Catering Services - Rockcliffe
- People First
- SLS (Cumbria) Ltd - QK
- SLS (Cumbria) Ltd - StH
- Tullie House Trust

Admitted Bodies Community (16)

- Commission for Social Care Inspection
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Eden Housing Association
- Glenmore Trust
- Harraby Community Centre
- Higham Hall
- Home Group (Copeland)
- Kendal Brewery Arts Centre Trust Ltd
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- Soundwave
- South Lakes Housing
- West House
- Wigton Joint Burial Committee

Admitted Bodies No Actives (10)

- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- Henry Lonsdale Trust
- Kendal Citizens Advice
- Lake District Cheshire Homes
- Lakeland Arts Trust
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swimming Pool

APPENDIX B: GLOSSARY

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

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

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

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

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

Black-Scholes – Is a pricing model used to determine the fair price or theoretical value for an 'over-the-counter' derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

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

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

Call option – see Options contract**.**

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

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Counterparty - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government. In January 2018 this was renamed the Ministry of Housing, Communities and Local Government ("MHCLG").

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Equity Protection – Is a product which is designed to protect the value of an equity portfolio, from significant falls in the value of specific equity market indices. These products can cover equities held in more than one country e.g. UK, US and Europe and often utilise derivatives options.

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

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

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

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

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

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

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

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

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

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

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value – The price at which an investment can be bought or sold at a given date.

MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government ("MHCLG").

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

Options contract – this grants to the entity the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The two terms used to identify the type of option are:

- Call option – gives the holder the right but not obligation to buy an underlying asset
- Put option – gives the holder the right but not obligation to sell an underlying asset

Over-the-Counter (OTC) - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Put option – see Options contract.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

Scheme Employers – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

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

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

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

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

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

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

Resolutions which are voted upon include:-
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors
Approve dividend
Approve political donations

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

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

Stewardship - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

Independent auditor's report to the members of Cumbria County Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme

Opinion

We have audited the financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') administered by Cumbria County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Pension Fund Account for the year ended 31 March 2019, the Net Assets Statement as at 31 March 2019 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2019 and of the amount and disposition at that date of the scheme's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension scheme's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension scheme's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension scheme's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension scheme for a period of at least twelve months from the date when the pension scheme's financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the Pension Scheme Annual Report and information included in the Cumbria County Council Statement of Accounts and Annual Governance Statement, other than the Cumbria Local Government Pension Scheme Financial Statement, our auditor's report thereon and our auditor's report on the Administering Authority's financial statements. Our opinion on the pension scheme's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension scheme's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension scheme's financial statements or our knowledge of the pension scheme obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension scheme's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension scheme's financial statements and our knowledge of the pension scheme, the other information published together with the pension scheme's financial statements in the Pension Scheme Annual Report, the Cumbria County Council Statement of Accounts and the Cumbria County Council Annual Governance Statement for the financial year for which the pension scheme financial statements are prepared is consistent with the pension scheme financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 26 to 27, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance.

The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension scheme's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension scheme's financial statements, the Director of Finance is responsible for assessing the pension scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension scheme will no longer be provided.

The Audit and Assurance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension scheme's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Gareth Kelly

Gareth Kelly, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

30 July 2019