Cumbria County Council

Audited Statement of Accounts for the year 2020/21

Contents

Narrative Statement

1. Introduction and Overview

1.1 The Statement of Accounts for 2020/21 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2020/21 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 The purpose of the Narrative Statement is to provide information on the Council, its main objectives and strategies and the principal risks it faces. It sets out information to help readers understand the Council's financial position and performance during 2020/21. 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 Cumbria County Council provides services to residents, businesses and communities across the whole county. The 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, as set out in the Council Plan and the annual Council Plan Delivery Plan. 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.

1.4 During 2020/21 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 This is a challenging time for the public sector; constrained funding, pressures in demand for in particular, care for the elderly and care for vulnerable adults and children and significant economic uncertainty as the country continues to respond to and recover from the COVID-19 pandemic. 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 COVID-19 has had a significant impact on people's lives, communities, the economy and public services across Cumbria. The financial implications of the pandemic have also been significant, and are likely to be ongoing in the medium-term. Section 11 of the Narrative Statement provides more information on the impact of the pandemic on the Council.

1.7 On 21st July 2021 the Secretary of State announced the outcome of the consultation for Local Government Reorganisation in Cumbria. Subject to Parliamentary approval he is proposing two unitary councils - an East unitary council covering the existing areas of Barrow, Eden and South Lakeland and a West unitary council covering the existing areas of Allerdale, Carlisle and Copeland.

1.8 The Secretary of State will be seeking Parliamentary approval to implement the above proposal and start a process to draft a Structural Change Order. He has indicated that the structural change order would be laid before Parliament before the end of the year. The Structural Change Order provides the legal basis on which to implement the change to local government structures, creating the new authorities from the Vesting Day of 1st April 2023.

1.9 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.

Vision for Cumbria

1.10 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 km2 and its population is estimated to be 498,000.

1.11 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.

1.12 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.

1.13 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.

1.14 Cumbria County Council is responsible for many key local services:

People

- *Children and Families* - including the safeguarding of children, looked after children, services to vulnerable children and young people and their families and adoption and fostering services;

- *Health and Adult Social Care* - including services for older people, people with physical or learning disabilities, public health, mental health services, child health related matters and drug and alcohol matters;

- *Education and Skills* - including early years and pre-school, mainstream schools and education, special educational needs provision, school improvement, youth services and career advice, and Traded Services;

Economy and Infrastructure

- *Highways and Transportation* - including highways maintenance, street lighting, traffic regulation and road safety, parking, public rights of way and schools and community transport;

- *Economy & Environment* - including enterprise and inward investment, strategic spatial planning, minerals and waste planning, development and investment, carbon strategy, waste disposal and recycling and flood management;

Fire and Rescue Services

- including resilience*;*

Corporate, Customer and Community Services

- including libraries, archives, registration services, legal and democratic services, digital and IT services, human resource management, coroner and customer services;

Finance

- including accountancy, treasury management, pension administration, insurance, internal audit, risk management and performance.

1.15 These services are either provided directly by the Council or are commissioned from and delivered by other organisations. Most of these services are statutory, meaning the Council must provide them, as it has a duty to do so.

1.16 The vision for the Council is:

A Council that works with residents, businesses, communities and other organisations to deliver the best services possible within the available resources.

1.17 The Council will work to ensure that the Corporate Priority outcomes are achieved:

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

1.18 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:

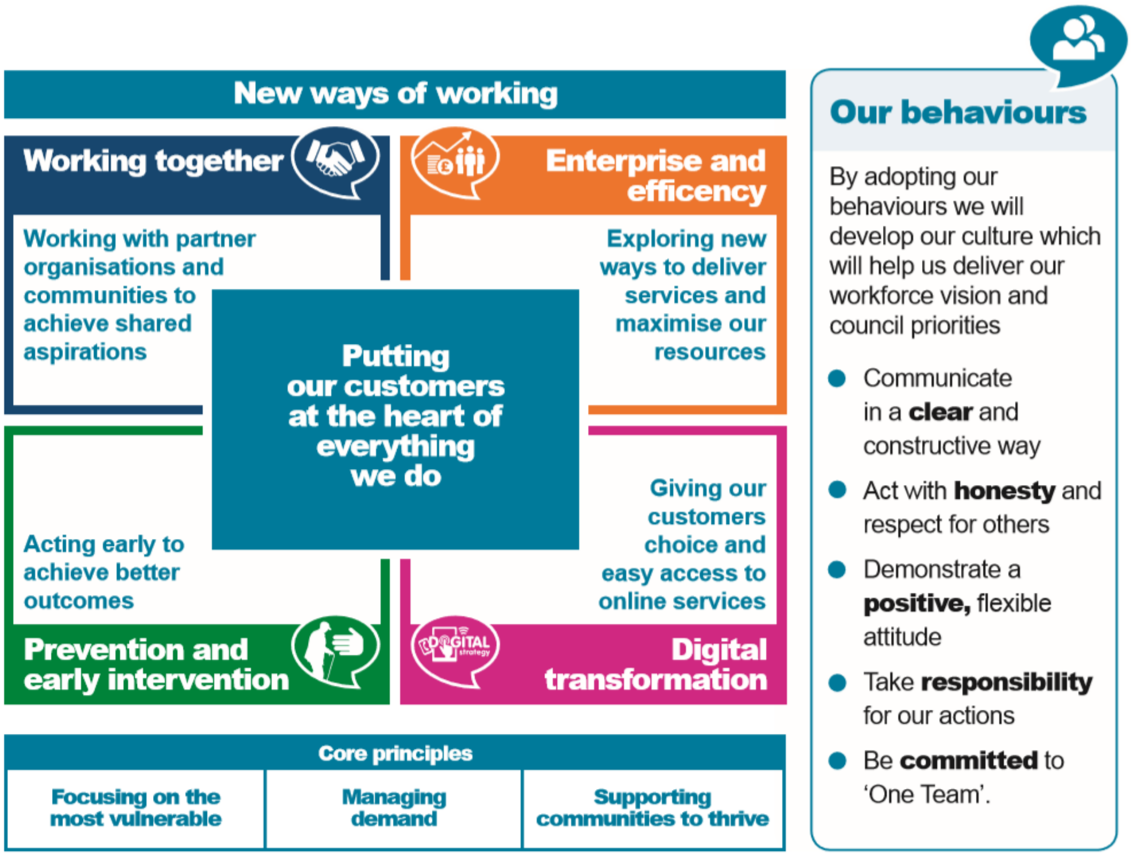
- Putting Customers at the heart of everything we do
- Supporting communities to thrive
- Focusing on the most vulnerable

- Managing Demand

This will be delivered through embedding our new ways of working

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

1.19 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.



2. Leadership and workforce

2.1. The Council's Constitution sets out the rules and procedures by which the Council operates and is available on the Council's website. The Council has 84 members (or 'councillors'), elected by the public to represent a particular local area, or 'Division'. Collectively they are responsible for the democratic structure of the council, overseeing key policies and services and setting the Council's annual budget and capital programme. More information can be found on the website.

2.2. The Leader of the Council is Cllr Stewart Young. Cllr Young appoints a Cabinet, responsible for taking key decisions to manage the Council's business. Overview and scrutiny committees hold the Cabinet to account for the decisions made on behalf of the Council.

2.3. Employees (‘officers’) support Cabinet and Council in their work and manage the Council’s services and operations. The Chief Executive is the Head of Paid Service and leads the most senior group of officers who advise councillors on policy, implement councillors’ decisions and are also responsible for Council performance.

2.4. 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. This was 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 into service delivery so that the organisation can adapt readily to the challenges which will inevitably occur over the next few years.

2.5. The “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 services, 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.

2.6. As at 31st March 2021 the Council’s staff complement stood at 4,688 FTE (full-time equivalent) posts, representing 6,163 employees. This excludes school based staff.

3. Performance

3.1. The Council's performance against the Council Plan Delivery Plan is reported on a quarterly basis to Cabinet, reports can be found on the Council's website.

3.2. The quarterly performance reports show the latest assessment of the Council's performance indicators using a Red, Amber or Green (RAG) rating, signifying whether or not progress is on track. In deciding RAG ratings consideration is given to data on current performance and an assessment of progress.

3.3. The Council's performance outturn for 2020/21 is reported in the Corporate Performance Monitoring Report – Quarter 4. This was intended to be reported to Cabinet on 22nd July 2021, however that meeting was cancelled. The report was subsequently presented to the Scrutiny Performance Working Group on 3rd August 2021. An update on the working group, together with the minutes of the meeting, are presented to Scrutiny Management Board.

3.4. The following paragraphs (3.5 to 3.14) is an extract from the Corporate Performance Monitoring Report – Quarter 4.

3.5. The Council Plan Delivery Plan 2020/22 was agreed by Cabinet in September 2020. The purpose of the Delivery Plan was to set out the key actions and measures that the Council has committed to deliver during 2020/21 and 2021/22 to support the Council's three outcomes and new ways of working set out in the Council Plan 2018-22. It was anticipated COVID-19 would be the main focus of activity but COVID-19 case numbers and impact on communities in Quarter 3 and 4 has meant response related activity has continued to be necessary and created some delays to planned activity. During Quarter 4 further evidence and detail is starting to emerge of COVID-19 impacts and into 2021/22 further work is required across partnerships including via the county Recovery Strategy to work with partners ensuring the recovery activity and other actions within the delivery plan are implemented and effective.

3.6. During the fourth quarter of 2020/21, COVID-19 has continued to impact people's lives, communities, the economy and public services across Cumbria. After the Council Plan Delivery Plan was agreed, there was a significant rise in cases which led to the second national lockdown and introduction of the tiering system across the UK. As we progressed through Quarter 4, further phases of response continued, and the council's attention across many services, and with partners, was focused on response work including Lateral Flow Testing and Control Outbreak Management. Similar to Quarter 3, in some areas there was a realignment of critical capacity to support the response activities.

3.7. The priorities moving into 2021/22 remain as agreed in Sept 2020, however the timescales for delivery in some areas have been impacted and for some actions the new timescales are in a position to be assessed. The appendix to the report contains more detailed commentary on the progress of each of the actions to 31st March 2021.

3.8. Reporting of performance is essential so that Cabinet is informed about progress that is being made, where improvements need to be made and what action is being taken to address performance challenges both on operational and strategic issues. Within Quarter 4 proactive choices have been made to respond to challenges presented by COVID-19. Several actions have reconsidered timescales for milestone delivery but continue to recognise these were agreed priorities to progress when agreed in September 2020. The covering report includes a summary table (Table 1) for each outcome, listing the actions and measures with their RAG rating at Quarter 4 2021/22.

3.9. Cabinet are keen to see a more integrated and streamlined approach to the reporting of service performance (the actions and measures), management of strategic risks and the management of budget resources in the delivery of the Council Plan. Taken together, these provide an overview of the resource and management of the Council in delivering the Council Plan, responding and recovering from COVID-19 and fulfilling its statutory duties.

3.10. The Council Plan Delivery Plan 2020/22 includes both a description of 50 actions that the Council undertook with delivery or milestones, and 41 performance measures which provide an indication of how well the Council is performing. A summary of the position of these actions and measures as at end of Quarter 4 2020/21 is provided in Figures 1 and 2.

Figure 1 - CPDP Summary Position of Actions at end of Quarter 4 2020/21

3.11. The overall position by the end of Quarter 4 2020/21 was that 30 of the 50 (60%) Council Plan Delivery Plan actions had delivered, met or were on track to meet the planned milestone and rated green, nineteen (38%) were in progress and at risk of missing the milestone and rated amber. For the same period one action was expected to miss a key milestone or not fully deliver as intended and therefore rated red.

Figure 2 - CPDP Summary Position of Measures at end of Quarter 4 2020/21

3.12. In terms of the measures used to track performance, the overall position for Quarter 4 was that 21 of 41 measures (51%) demonstrated positive, exceeding the target or within 5% of the target which results in a green rating. Nine measures (22%) were within 10% of the target and rated amber. Eleven measures (27%) were more than 10% off the target and therefore rated red.

3.13. Where performance is flagged red, amber or deteriorating in performance direction of travel, service managers will consider options to ensure performance is back on track, within target, or to increase the pace of improvement.

3.14. Where performance is flagged green, Service Managers will consider the options for delivering further improvement, setting more ambitious targets, or reducing performance in some areas to an acceptable level to invest in other lower performing services.

4. Risk Management

4.1. In June 2018, the refreshed performance and Risk Management Framework was agreed by Cabinet following a significant refresh of all Corporate Risks. This helped to ensure that the Council continued to identify and address any uncertainties relating to the achievement of priorities.

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

4.3. At the end of Quarter 4 2020/21, there are 12 risks on the corporate risk register, 8 high risks and 4 medium risks. A summary of the high rated risks are listed in the table below.

Q4 Council High Rated Risks

1. Deliver a Financially Sustainable Authority
2. Workforce Capacity, Skills, Relationships, Safety & Wellbeing
3. Resilience of the Care Sector and impact on meeting care needs
4. Health and Social Care Demand and System Failure
5. Increasing Demand on Children's Services
6. The impact of COVID-19 on the provision of Council Services
7. Cumbria COVID-19 Local Outbreak Control Plan fails to prevent or reduce the extent and severity of COVID-19 outbreaks
8. Information Security Arrangements

4.4. There is an emerging risk included in the Quarter 3 risk report relating to climate change.

4.5. The Quarter 4 report containing more detailed information on the aforementioned items can be found on the 14th June 2021 Audit and Assurance Committee Agenda on the Council's website.

Financial Operating Model

4.6. The Council sets a revenue budget, medium-term financial plan (MTFP) and capital programme every February preceding the start of the financial year.

4.7. These are underpinned by a Capital Strategy, Treasury Management Strategy, Pay Policy Statement and a risk assessment of the level of balances required.

4.8. Construction of the budget and budget proposals are subject to challenge by the Council's Leadership Team and the Director of Finance. Councillors have the opportunity to question and challenge the proposals through engagement sessions and member presentations. Members of Scrutiny Management Board scrutinise budget proposals at a meeting in November before Cabinet propose the budget, MTFP and capital programme in January. Throughout the year, regular financial monitoring reports are presented to Cabinet.

5. Revenue Spending Plans for 2020/21

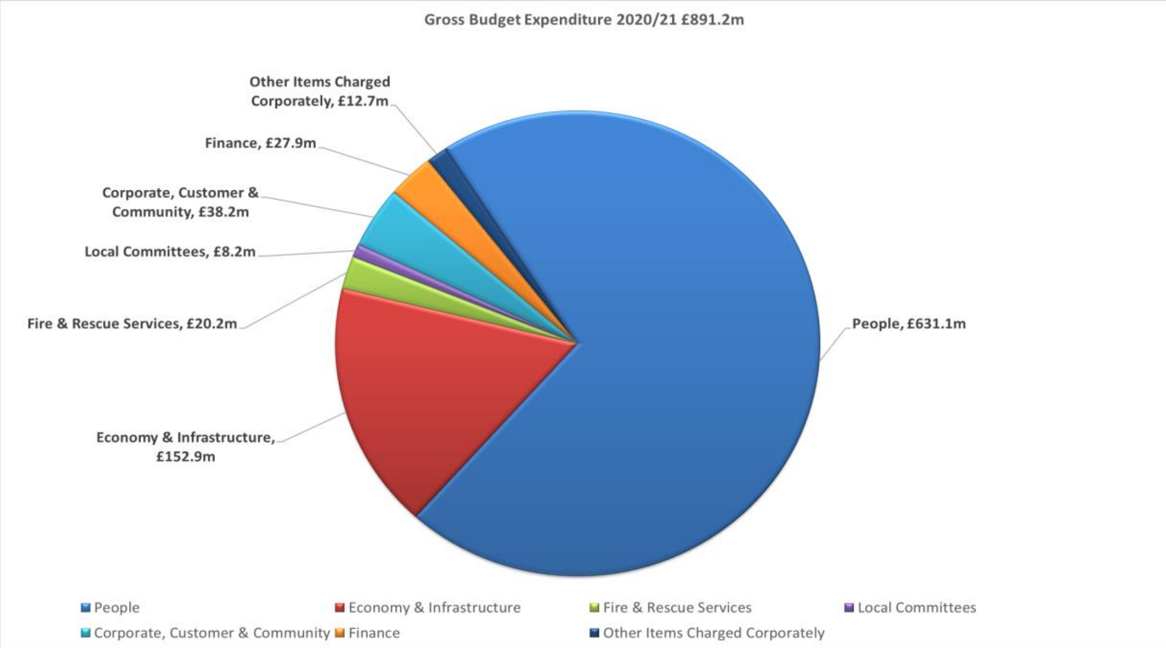
5.1. The Council's budget for the provision of services in 2020/21 and Medium Term Financial Plan (MTFP) to 2024/25 was agreed by Council in February 2020. The budget included funding to address demand pressures for statutory services, particularly Children Looked After and Younger Adults which were expected to continue to rise.

5.2. The most significant risk to the 2020/21 budget was in relation to the impact of COVID-19 on the Council's services and operations. There have been significant and unprecedented financial consequences for the Council, as with other Local Authorities. The demands upon Council services and the consequent financial impacts of the COVID-19 have been significant; they continue to evolve and will be ongoing into 2021/22 and beyond.

5.3. The impacts upon 2020/21 include one-off costs, changes and increases in demand for social care, re-prioritisation of resources, additional staffing capacity, delays to transformation activity and delivery of savings and lost income in sales, fees and charges.

5.4. To help mitigate these risks, general and specific grant funding has been received from a number of Government Departments, which have been vital in delivering services, however they have not fully offset financial pressures caused by the pandemic. Reserve balances have been increased to provide robustness to the financial sustainability of the Council, as a result of delays to budgeted expenditure across the Council. Savings are an important element in setting a balanced budget and the MTFP to 2020 - 2025 included identified new savings of £5.646m.

5.5. In total, the Council planned to spend £891.176m on delivering services in 2020/21:



5.6. The Council intended to finance £482.951m of spending from specific government grants, contributions from other bodies, charging and interest income and a contribution from reserves and balances. Therefore, the net budget totalled £408.225m.

5.7. The net budget was financed from: Business Rates (£91.362m); General Grants (£68.605m); Deficit on the Collection Fund £0.089m and Council Tax (£248.347m). Council tax for a Band D property was set at £1,440.56. This was a 3.99% increase from 2019/20.

6. Revenue Financial outturn position

6.1. The Council's 2020/21 draft outturn position was considered at Cabinet Briefing on 27th May 2021, the Leader subsequently approved the report recommendations on 11th June 2021 as a Leader Decision. A copy of the Leader Decision Record and the report - 2020/21 Revenue and Capital Budget Monitoring Report Provisional Year End Results can be found on the Council's website.

6.2. As set out in the table overleaf the 2020/21 outturn was to budget. However, there were variances in Directorate outturns at year-end, primarily as a result of the impact of COVID-19. Significant resources were diverted to focus on the response to, and recovery from, the COVID-19 pandemic. As a result the Council has incurred unbudgeted expenditure, lost income and suffered delays to delivering transformation programmes and savings. The outturn position includes significant pressures caused as a result of the COVID-19 pandemic of £64.944m which have been partly, but not fully, off-set through the receipt of specific grant funding and other contributions of (£28.412m) and COVID-19 emergency funding received from Government, applicable to the current financial year, of (£30.683m). This has resulted in a forecast unfunded COVID-19 related pressure of £5.849m for the current year.

6.3. As a result of resources being diverted to the COVID-19 response and recovery, there are one-off delays to expenditure in some Directorate budgets which have led to temporary underspending of (£35.228m), and permanent underspending of (£9.707m). This underspend has been offset by the unfunded COVID-19 pressure of £5.849m referred to in 6.2 above, £10.066m of other pressures and the transfers of: £15.960m to the Financial Volatility reserve, £10.000m to the General Fund Balance and £3.060m to the Strengthening short-term capacity reserve.

6.4. The Financial Volatility reserve has been created to provide robustness to the financial sustainability of the Council, given the uncertainty relating to the ongoing financial impact of COVID-19 beyond this year. The Strengthening short-term capacity reserve was created to provide short term dedicated and targeted additional resource across a number of services for, in most cases, a 12 month period, recognising the impact of COVID-19 in particular. The additional capacity has been requested to enable the delivery of key services, transformation activities and Council Plan priorities in 2021/22.

6.5. The Council budget set in February 2020 included £5.646m of new savings. Overall 74.1% of the savings were delivered in year giving a shortfall of £1.460m.

Table 1 – Summary of Final Outturn Position 2020/21 as at 31st March 2021

	Original Budget £m	**Final Budget £m**	**Actual £m**	**Variance Overspend / (Underspend) £m**
People	187.316	170.658	162.554	(8.104)
Economy & Infrastructure	130.013	135.447	123.779	(11.668)
Fire and Rescue Service	19.788	20.251	20.050	(0.201)
Local Committees	8.158	8.028	8.028	0.000
Corporate, Customer & Community Services	33.828	38.001	37.314	(0.687)
Finance	26.090	27.850	25.141	(2.709)
Other Corporate Items	(0.023)	(20.941)	2.428	23.369
	405.170	**379.294**	**379.294**	**0.000**

	Original Budget £m	**Final Budget £m**	**Actual £m**	**Variance Overspend / (Underspend) £m**
Financed by:				
Government Grants	140.785	167.934	167.934	0.000
Retained Business Rates	19.093	19.297	19.297	0.000
Council Tax	248.347	248.258	248.258	0.000
Transfer (to)/from Reserves – Earmarked Reserves	(3.055)	(46.195)	(46.195)	0.000
Transfer (to)General Reserves	0.000	(10.000)	(10.000)	0.000
Total Financing	**405.170**	**379.294**	**379.294**	**0.000**

6.6. 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 budgetary pressures and uncertainties caused by the COVID-19 pandemic.

6.7. 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 £400.316m compared to the £379.294m outturn position.

6.8. 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 CIES when they are earned by employees rather than when the benefits are eventually paid as pensions.

6.9. 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 surplus position of £34.281m is reported as the (Surplus)/Deficit on Provision of Services. This compares to a balanced position reported as the outturn position.

6.10. After other adjustments including the re-measurement of the net defined benefit (pension) liability which is £104.255m in 2020/21, the final position on the CIES is a total deficit of £68.256m. This is compared to a surplus for 2019/20 of (£59.546m). The main reason for the change is the change in the re-measurement of the net pension liability of £169.924m.

6.11. When the management accounts are converted into the annual financial statements the Council continues to shows that it is in a robust position. Although the Balance Sheet has remained in a negative position in 2020/21 this is due to the accounting required by International Accounting Standards IAS19 for its long term pension liabilities. A negative Balance Sheet has been reported since 2016/17 due to the net pension liabilities.

6.12. 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.

6.13. The method of calculation of the liability for the Council is different to that applied in respect of the Triennial Valuation for the Cumbria Pension Fund, of which the Council is one of the 124 employers. The assumptions used by the Actuary for The Council's accounting liability are prescribed in the International Accounting Standards, whereas for the valuation there is a degree of flexibility that employers can employ. However, the calculations for both individual employers and the Pension Fund are undertaken by the Fund Actuary.

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

6.15. The Council is addressing the pension liability position set out in the Triennial Valuation in 2019 in accordance with external requirements and its accounting policies, over both the medium and longer term. As part of the 2019 Triennial Valuation the Council agreed a 12 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 2019. The next triennial valuation is due for the 1st April 2022.

7. Reserves

7.1. 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).

7.2. Usable Reserves are separated into the Statutory General Fund (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.

7.3. 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 for within the Statement of Accounts and act as a holding account for changes from one year to the next.

7.4. Overall Earmarked Reserves for the Council have increased by (£55.835m) during 2020/21. This includes the transfer of the DSG Reserve (£6.991m) as at 1st April 2020 to unusable reserves as required by regulation (para 7.5 - 7.6). The remaining increase is largely as a result of the receipt of the COVID-19 related grants.. The most significant movements in earmarked revenue reserves are explained in Note 31.

7.5. There has been a change to the earmarked reserves brought forward as a result of a change of Regulations that require Schools Budget deficit to be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1st April 2020 have been transferred into that account.

7.6. The deficit brought forward at 1st April 2020 was £6.991m which has been transferred to the DSG Adjustment Account with effect from 1st April 2020. The DSG Adjustment Account is detailed in Note 32 Unusable Reserves.

7.7. 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 £136.316m from £855.572m in 2019/20 to £991.888m in 2020/21. Note 32 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.

7.8. Statutory provisions will ensure that funding will have been set aside by the time the benefits come to be paid.

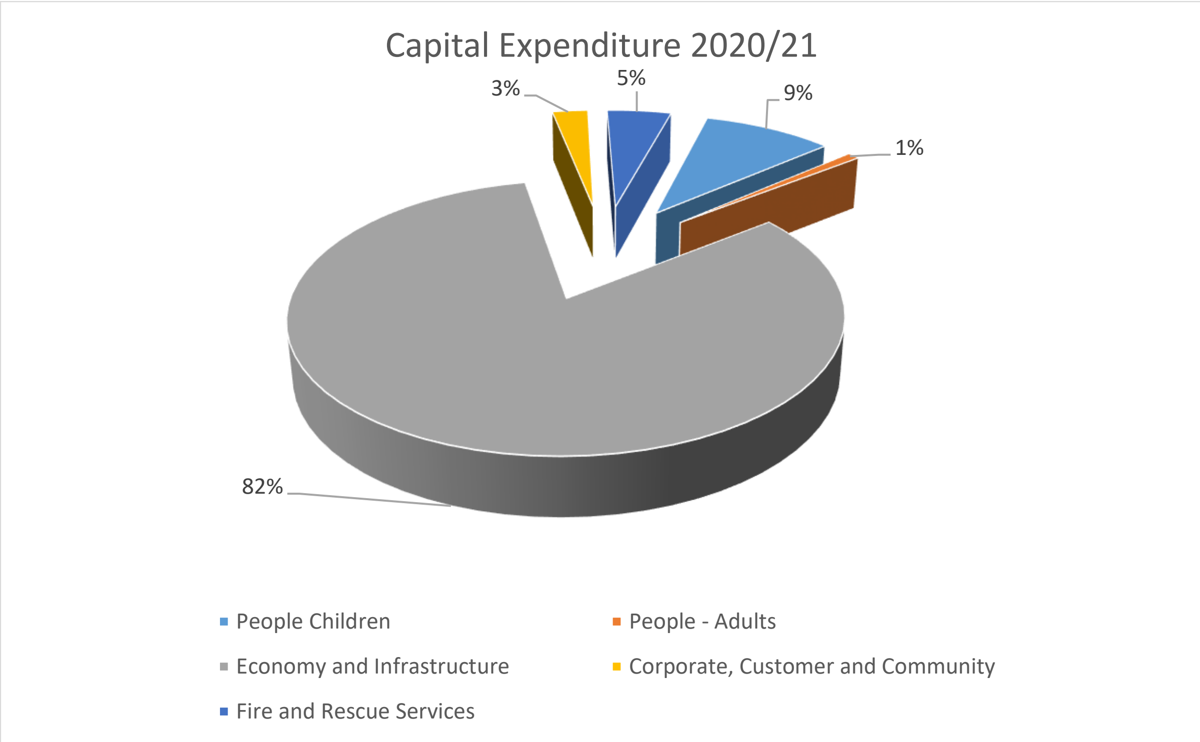
8. Capital

8.1. Covid-19 has continued to have an impact on the construction industry and capital scheme delivery throughout the 2020/21 financial year. In meeting the new Site Operating Procedures developed by the Construction Leadership, Council site alterations have been required to meet government guidelines, with additional plant, Personal Protective Equipment, welfare facilities and vehicles all being required. It has also resulted in less construction staff being on site and having to change the sequence of delivery workstreams in order to manage the different sub-contractors and trades on site. Implementing these additional procedures and requirements has taken some time for contractors to work through. However, all construction sites are open and expected to remain so, though a number of sites have experienced delay due to contractor, sub-contractor and suppliers furloughing staff due to uncertainty around whether the construction industry could remain open, having staff self-isolate or receiving a positive test for the virus. In addition, some sites are experiencing problems with deliveries from Europe which has also caused delays.

8.2. The Capital Programme sets out the Council's investment plans over the next five years to achieve the Council's priorities and vision. The Council approved a Capital Programme for 2020/21 to 2024/25 in February 2020. This included a budget for 2020/21 of £90.894m for Council delivered schemes and £1.924m for schemes where the Council is Accountable Body. The Council has worked to secure investment for a wide range of capital projects that look to the future and will provide real and long-term benefits to Cumbria. Since February 2020, as a result of subsequent changes reported to Council and Cabinet, the Capital Budget for 2020/21 increased to £117.926m for Council delivered schemes.

8.3. The Provisional outturn expenditure for the 2020/21 Cumbria County Council Capital Programme is £90.728m, this compares to the revised budget of £117.926m. Overall there is a variance against the Council capital budget of (£27.198m). This variance is made up of an underspend of (£0.201m), slippage of (£27.917m) and accelerated spend of £0.920m.

8.4. The following chart shows the split of the £90.726m spend across the Council's Directorates with additional information available on the website.



The capital spend represents 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:

- County Hall Car Park
- Kendal Infrastructure schemes
- Orgill School Nursery
- Rockcliffe Special Education Needs (SEN) block (additional class space)
- Penrith Road, Keswick Flood Alleviation Scheme
- Minor Bridges schemes
- A6 Levens Flood work
- Milnthorpe Flood work
- Wath Sutton Bridge Flood work

- Live Labs – Lowther Street
- Kendal Fire Stores
- Pooley Bridge open to traffic
- Ormsgill Family Centre
- Siddick Bridge – started works on site
- £4m surface dressing programme
- Blue Light Hub, Ulverston
- Penrith Childrens Home
- Sewells Lonning junction
- West Cumbria House refurbishment

8.5. 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 2020/21 capital investment of £90.726m was financed as shown in the table below.

Table 2 - Capital Financing 2020/21

	£m
Capital Receipts	2.556
Government Grants and contributions	73.828
Revenue Contributions	4.140
Prudential Borrowing	10.202
Total Capital Financing	**90.726**

8.6. 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.

9. Basis of Preparation and Presentation

9.1. The Council produces a Statement of Accounts to provide transparency about the Council's finances, to give assurance to stakeholders that public money has been properly accounted for and that the financial standing of the council is on a secure basis.

9.2. The primary statements for 2020/21 are set out on pages 32 to 36 and bring together all the Council's financial statements for the year 2020/21 showing the financial position as at 31st March 2021. The statements reflect both revenue and capital elements for the General Fund, including transactions relating to joint operations with other local authorities and health bodies.

9.3. The County Council is the administering authority for the Cumbria Local Government Pension Fund. As such, the Fund accounts are included as a disclosure within the Council's accounts.

9.4. The Statement of Accounts must provide a 'true and fair' view of the Council's financial position at 31st March 2021 and of its income and expenditure for the 2020/21 financial year. When preparing the accounts consideration is given to the materiality of information. Disclosure of information is made where omitting it could be misleading or inhibit the true and fair view.

9.5. The level of usable cash reserves (£149.835m) are sufficient to ensure that the Council is able to continue to meet the cost of the provision of services over the medium term. The services that the Council delivers will continue to be delivered by the public sector going forward, therefore the accounts are prepared on a 'going-concern' basis.

9.6. 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 in the region of £13m and hence 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.

10. Financial Outlook and the COVID-19 pandemic

10.1. The Covid-19 pandemic has had an unprecedented impact on lives, communities, the economy and public services across Cumbria. While the pandemic has not gone away, it has subsided with fewer cases and fewer deaths being reported across the county, with the vaccination programme proving successful. As a consequence the Council has begun its work with partners to implement recovery arrangements. During 2020/21 the Council has led work, working with a wide range of partners, to develop a Recovery Strategy for Cumbria and this is due to go to Cabinet in July 2021. Delivery will be through our strategic and locality partnerships.

10.2. There are still some areas of response ongoing, yet at the same time there are clear areas of recovery being carried out as lockdown restrictions ease, with a particular focusing on "restarting" – as sectors of the economy open up, and services restart.

10.3. Recovery from any Major Incident can be challenging and complex. Considering the impact and societal disruption caused by the Covid-19 pandemic the recovery from this incident is of highly significant scale and complexity. However, it should also be noted Cumbria has extensive experience of recovery from major incidents including weather related, transport and mass casualty events. The lessons and experience of these previous recovery programmes provide invaluable insight and learning upon which to build.

10.4. The Covid-19 pandemic has had a very significant impact on the way the Council delivers its services. These impacts have not been uniform across the organisation. Some Council services have been in the front-line of the response to the pandemic, others have been impacted by the lock-down restrictions and have found new and innovative ways of continuing to deliver to the public and other services were temporarily reduced or suspended to comply with national guidance. As a consequence the term recovery means very different things across different areas of the Council. During 2020/21 the Council has embarked on a major New Ways of Working programme to facilitate transition of the organisation as we emerge from restrictions, and build on the learning from the COVID pandemic to support the workforce to operate in new ways and embed new working styles.

10.5. The impact of Covid-19 and the associated lockdown measures required the Council to undergo radical shifts in the way it delivers services to the residents of Cumbria. Significant shifts to digital interaction with customers and between staff have been supported alongside a major shift to home-based working. The Council is reviewing these 'New Ways of Working' to ensure future service provision provides excellent customer service, is effective and provides a financially sustainable future.

10.6. Local Authorities have been required to submit monthly data returns on actual and forecast costs, lost income and undelivered savings relating to Covid-19 to the Ministry of Housing, Communities and Local Government (MHCLG) since 15th April 2020 with the latest return being due on 24th September 2021. The information required by MHCLG is to estimate the impact for the 2020/21 financial year. The financial impact of COVID-19 has been reported to Cabinet throughout the year. The impact on the Council's outturn position of the pandemic was explained in paragraph 6.2 and 6.3.

10.7. The impact is expected to continue into 2021/22 due to reduced income from council tax and business rates as well as an on-going increase in demand in adults and children's social care, other lost income and additional expenditure across the Council, and the ongoing impact of savings planned for 2020/21 which were not delivered. Scenarios have been modelled to provide assumptions which have been included in the MTFP 2021-2026 report which was agreed by Council in February 2021.

10.8. The Government has also confirmed that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021/22. The announcement on 28th April said that "the Government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement". On 21st October 2020, the Chancellor announced that there will be a one-year Spending Review for 2021/22 only which was announced on the 25th November 2020.

10.9. On 7th September 2021 the Chancellor announced the launch of Spending Review 2021. The three year review will set UK government departments' resource and capital budgets for 2022-23 to 2024-25 and the devolved administrations' block grants for the same period. The deadline for submissions to the Spending Review is 30th September. The outcome of the Spending Review will set out the government's spending priorities for the Parliament and be published alongside the Autumn Budget on 27th October 2021.

11. Financial Statements

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. Authorities raise taxation to cover expenditure in accordance with statutory requirements; 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.
Movement in Reserves Statement	Shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves' (for example the Revaluation Reserve which holds unrealised gains and losses or the Capital Adjustment Account which holds adjustments between the accounting basis and funding basis under regulations). This statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance in the year following those adjustments.
Balance Sheet	The Balance Sheet shows the values as at 31st March 2021 of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority, analysed between 'usable' and 'unusable' reserves.
Cash Flow Statement	This summarises the changes in cash and cash equivalents during 2020/21. The statement shows how the authority 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 authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the authority'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 authority.

12. Expenditure and Funding Analysis

12.1. The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the authority (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 authorities in accordance with generally accepted accounting practices.

12.2. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

13. Annual Governance Statement

13.1. The Audit & Assurance Committee approved the Council's Annual Governance Statement (AGS) at its meeting on 14th June 2021. The AGS summarises the governance framework that has been in place in the Council during 2020/21. The Statement demonstrates that the Council has effective arrangements for the governance of the Council and is satisfied that there is a robust system of internal control. The Council has maintained these standards throughout the Covid pandemic. There are no significant governance matters reported for 2020/21.

14. Pension Fund

14.1. The Council is the administering body for the Cumbria Local Government Pension Scheme (LGPS) which is managed by the Council on behalf of 124 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

14.2. During the year to 31st March 2021 the value of the Cumbria LGPS increased by £493m from £2.574m (31/03/2020) to £3.067m (31/03/2021). The Fund returned +18.7% (net of fees) for the year as it recovered from losses arising in Q4 of 2019/20 due to the impact on global financial markets caused by the COVID pandemic. This in year performance compared to the Fund's bespoke index performance benchmark for the year of +15.8%.

14.3. As a long term investor, the Fund is primarily focused on longer-term performance and the Fund again outperformed its 5 and 10 year benchmarks with average annual investment returns of 8.7% (net of fees) over the past 5 years (compared to a benchmark of 8.4%) and 8.6% (net of fees) per annum over the past 10 years (compared to a benchmark of 8.0%).

14.4. During the year the Fund continued with transitioning assets towards its newly agreed interim strategic asset allocation. This included the exit from the corporate bonds portfolio (7% of the Fund), investing in multi-asset credit (equating to 16% of the Fund's total portfolio), funding private market investment commitments and reducing cash balances.

15. Group Accounts

15.1. The Group Accounting Statements are set out in section 7 and show an increase of £68.562m in the total value of the Group Net Liabilities from a Net Liabilities position of (£21.938m) at 31st March 2020 to a Net Liabilities position of (£90.500m) at 31st March 2021. The change relates mainly to the increase in current liabilities of £45.962m and the increase in the pension liability of £132.000m (which reflects the Council's increased net pension liability of £131.274m and the increased net pension liability of Cumbria County Holdings Ltd of £0.726m). These are offset by a £87.732m increase in Current Assets.

16. Events After The Reporting Period

16.1. 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 30th September 2021 in respect of the audited Statement of Accounts for 2020/21. This complies with the Accounts and Audit (Amendment) Regulations 2021 which revised the statutory date for issue to 30th September 2021.

16.2. Where events taking place before 30th September 2021 provided information about conditions existing at 31st March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. The impact of the on-going COVID-19 pandemic will continue to be assessed up until the publication of the audited accounts.

16.3. It was announced on 19th March 2021 that:

- the Chief Executive, Katherine Fairclough would be leaving her post in summer 2021 to take up a new post as Chief Executive of Liverpool City Region Combined Authority.
- the Director of Finance (s151 Officer), Julie Crellin, would be leaving her post in June 2021 to take up a new post as City & Guilds Major Projects programme Lead.

16.4. Following a recruitment process Gill Steward was appointed as Chief Executive with effect from 2nd August 2021, this was confirmed by Council at its meeting on 24th June 2021 and Pam Duke was appointed as Director of Finance (s151 Officer) with effect from 1st July 2021.

16.5. On 21st July 2021 the Secretary of State announced the outcome of the consultation for Local Government Reorganisation in Cumbria. Subject to Parliamentary approval he is proposing two unitary councils - an East unitary council covering the existing areas of Barrow, Eden and South Lakeland and a West unitary council covering the existing areas of Allerdale, Carlisle and Copeland.

16.6. The Secretary of State will be seeking Parliamentary approval to implement the above proposal and start a process to draft a Structural Change Order. He has indicated that the structural change order would be laid before Parliament before the end of the year. The Structural Change Order provides the legal basis on which to implement the change to local government structures, creating the new authorities from the Vesting Day of 1st April 2023.

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 2021 and its expenditure and income for the year ended the 31st March 2021.

Signed:

Pam Duke
Director of Finance (S151 Officer),
30th September 2021

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 meetings held on 27th September 2021 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

30th September 2021

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries and joint ventures (the 'group') for the year ended 31 March 2021, 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 Accounting Statements, including a summary of significant accounting policies, and include the Firefighters' Pension Fund Financial Statements comprising the Fund Account, the Net Assets Statement and Notes to the Firefighters' Pension Scheme Financial statements. The notes to the Accounting Statements include the Accounting Policies, 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 2020/21.

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 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

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 financial statements, and our auditor's report thereon and our auditor's report on the pension fund 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 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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 in the Statement of Responsibilities for the Statement of Accounts as set out on page 24, 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 2020/21, 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 Authority's and the group'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 and the group 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards) as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, Fire and Rescue Services Act 2004 and Local Government Act 1972. We also identified the following additional regulatory frameworks in respect of the firefighters' pension scheme accounts, Public Service Pensions Act 2013, The Firefighters' Pension Scheme (England) Regulations 2014 and The Firefighters' Pension Scheme (England) Order 2006.
- We enquired of senior officers and the Audit and Assurance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and

  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, improper expenditure recognition and improper revenue recognition. We determined that the principal risks were in relation to:
  - unusual journals with specific risk characteristics and large value journals; and
  - significant accounting estimates and critical judgements made by management.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of pension liability, valuation of PFI liability, valuation of land and buildings, provisions, year-end income and expenditure accruals, depreciation and fair value disclosures; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of pension liability, valuation of PFI liability, valuation of land and buildings, provisions, year-end income and expenditure accruals, depreciation and fair value disclosures.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the local government sector;
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Cumbria County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

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 September 2021

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

In our auditor's report issued on 10 December 2021, we explained that we could not formally conclude the audit and issue an audit certificate for Cumbria County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice, until we had completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2021. We have now completed this work.

Opinion on the financial statements

In our auditor's report for the year ended 31 March 2021 issued on 30 September 2021 we reported that, 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 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;

have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave this opinion.

Opinion on the pension fund financial statements

In our auditor's report for the year ended 31 March 2021 issued on 30 September 2021 we reported that, in our opinion the pension scheme financial statements of Cumbria Local Government Pension Scheme:

- give a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2021 and of the amount and disposition at that date of the scheme's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave this opinion.

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

In our auditor's report for the year ended 31 March 2021 issued on 10 December 2021 we reported that we have nothing to report in respect of whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

No matters have come to our attention since that date that would have resulted in any additional exception reporting on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Cumbria County Council for the year ended 31 March 2021 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

21 March 2023

Accounting Statements

Comprehensive Income and Expenditure Statement

2019/20 Expenditure £000	2019/20 Income £000	2019/20 Net £000		Note Ref	2020/21 Expenditure £000	2020/21 Income £000	2020/21 Net £000
630,837	(401,688)	229,149	People		617,724	(443,948)	173,776
134,819	(16,440)	118,379	Economy & Infrastructure		127,711	(16,652)	111,059
16,742	(1,004)	15,738	Fire and Rescue Service		18,602	(781)	17,821
8,234	(187)	8,047	Local Committees		8,177	(145)	8,032
42,623	(6,316)	36,307	Corporate, Customer & Community Services		52,308	(11,378)	40,930
5,419	(1,011)	4,408	Finance		6,473	(1,355)	5,118
17,073	(5,098)	11,975	Other Corporate Items		45,898	(2,318)	43,580
855,747	**(431,744)**	**424,003**	**Cost of Services**	**4**	**876,893**	**(476,577)**	**400,316**
10,284	0	10,284	Other Operating Expenditure	6	2,572	0	2,572
93,453	(38,708)	54,745	Financing and Investment Income and Expenditure	7	89,558	(36,482)	53,076
0	(466,973)	(466,973)	Taxation and Non Specific Grant Income	8	0	(490,245)	(490,245)
959,484	**(937,425)**	**22,059**	**(Surplus) or Deficit on Provision of Services**	**4.3**	**969,023**	**(1,003,304)**	**(34,281)**
		(15,936)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	32			(1,718)
		(65,669)	Re-measurement of the net defined benefit liability / (asset)	34			104,255
		(81,605)	**Other Comprehensive Income and Expenditure**				**102,537**
		(59,546)	**Total Comprehensive Income and Expenditure**				**68,256**

Movement in Reserves Statement

2020/21	Note Ref	General Fund Balance £000	Earmarked Reserves £000	Total Statutory General Fund £000	Capital Receipts Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2020	30/31/32	**(15,056)**	**(60,594)**	**(75,650)**	**(5,826)**	**(2,076)**	**(83,552)**	**117,600**	**34,048**
Adjustment to opening Balance									
Reporting of DSG Deficit to new adjustment account at 1st April 2020		0	(6,991)	(6,991)	0	0	(6,991)	6,991	0
		(15,056)	**(67,585)**	**(82,641)**	**(5,826)**	**(2,076)**	**(90,543)**	**124,591**	**34,048**
Movement in reserves during 2020/21									
(Surplus) or deficit on the provision of services		(34,281)	0	(34,281)	0	0	**(34,281)**	0	**(34,281)**
Other Comprehensive Income / Expenditure		0	0	0	0	0	**0**	102,537	**102,537**
Total Comprehensive Income and Expenditure		**(34,281)**	**0**	**(34,281)**	**0**	**0**	**(34,281)**	**102,537**	**68,256**
Adjustments between accounting basis and funding basis under regulations	9	(24,561)	0	(24,561)	647	(1,097)	**(25,011)**	25,011	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**(58,842)**	**0**	**(58,842)**	**647**	**(1,097)**	**(59,292)**	**127,548**	**68,256**
Transfers (to) / from Earmarked Reserves	31	48,842	(48,842)	0	0	0	**0**	0	**0**
(Increase) or Decrease in 2020/21		**(10,000)**	**(48,842)**	**(58,842)**	**647**	**(1,097)**	**(59,292)**	**127,548**	**68,256**
Balance at 31 March 2021	30/31/32	**(25,056)**	**(116,427)**	**(141,483)**	**(5,179)**	**(3,173)**	**(149,835)**	**252,138**	**102,303**

2019/20	Note Ref	General Fund Balance £000	Earmarked Reserves £000	Total Statutory General Fund £000	Capital Receipts Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2019	30/31/32	**(15,056)**	**(53,813)**	**(68,869)**	**(6,719)**	**0**	**(75,588)**	**169,182**	**93,594**
Movement in reserves during 2019/20									
(Surplus) or deficit on the provision of services		22,059	0	22,059	0	0	**22,059**	0	**22,059**
Other Comprehensive Income / Expenditure		0	0	0	0	0	**0**	(81,605)	**(81,605)**
Total Comprehensive Income and Expenditure		**22,059**	**0**	**22,059**	**0**	**0**	**22,059**	**(81,605)**	**(59,546)**
Adjustments between accounting basis and funding basis under regulations	9	(28,840)	0	(28,840)	893	(2,076)	**(30,023)**	30,023	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**(6,779)**	**0**	**(6,779)**	**893**	**(2,076)**	**(7,962)**	**(51,582)**	**(59,546)**
Transfers (to) / from Earmarked Reserves	31	6,779	(6,779)	0	0	0	**0**	0	**0**
(Increase) or Decrease in 2019/20		**0**	**(6,779)**	**(6,779)**	**893**	**(2,076)**	**(7,962)**	**(51,582)**	**(59,546)**
Balance at 31 March 2020	30/31/32	**(15,056)**	**(60,592)**	**(75,650)**	**(5,826)**	**(2,076)**	**(83,551)**	**117,600**	**34,048**

Balance Sheet

31 March 2020 £000	Notes		31 March 2021 £000
1,293,773	21	Property, Plant and Equipment	1,325,113
563		Heritage Assets	563
6,820		Investment Property	5,585
128		Intangible Assets	80
3,183	24	Long-Term Investments	3,183
2,758	24	Long-Term Debtors	2,430
1,307,225		**Long Term Assets**	**1,336,954**
15,076	24/25/26	Short-Term Investments	73,052
2,000		Assets Held for Sale	2,410
1,763		Inventories	1,735
74,112	23/24	Short-Term Debtors	87,077
104,213	24/27	Cash and Cash Equivalents	118,182
197,164		**Current Assets**	**282,456**
(12,208)	24/25/26	Short-Term Borrowing	(4,629)
(90,120)	24/28	Short-Term Creditors	(124,908)
(3,361)	29	Provisions	(4,230)
(24,953)	17	Grants Receipts in Advance - Revenue	(24,790)
(19,421)	17	Grants Receipts in Advance - Capital	(36,856)
(150,063)		**Current Liabilities**	**(195,413)**
(5,326)	24	Long-Term Creditors	(5,271)
(9,401)	29	Provisions	(10,325)
(386,754)	24/25/26	Long-Term Borrowing	(386,725)
(10,045)		Deferred Income	(9,517)
(112,248)	20/24	Long Term PFI Liabilities	(110,706)
(855,572)	24/34.2	Net Pension Liabilities	(986,847)
(9,028)	17	Grants Receipts in Advance - Capital	(16,909)
(1,388,374)		**Long Term Liabilities**	**(1,526,300)**
(34,048)		**Net (Liabilities)**	**(102,303)**
(83,551)	30/31	Usable Reserves	(149,835)
117,600	32	Unusable Reserves	252,138
34,048		**Total Reserves**	**102,303**

Cash Flow Statement

2019/20 £000		**Note Ref**	**2020/21 £000**
22,059	Net (surplus) or deficit on the provision of services		(34,281)
(109,807)	Adjustment to surplus or deficit on the provision of services for noncash movements		(110,615)
68,223	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities		76,833
(19,525)	**Net cash flows from operating activities**	**35**	**(68,063)**
(12,041)	Net cash flows from investing activities	36	43,964
(21,802)	Net cash flows from financing activities	37	10,130
(53,368)	**Net (increase) or decrease in cash and cash equivalents**		**(13,969)**
50,845	Cash and cash equivalents at the beginning of the reporting period		104,213
104,213	**Cash and cash equivalents at the end of the reporting period**	**27**	**118,182**

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its overall financial position as at 31st March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (Amendment) Regulations 2021 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 2020/21 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

<u>Accruals of Income and Expenditure</u>

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. This is in accordance with IFRS15

- 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.

- 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.

ii. Accounting Concepts continued

- 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.

Fair presentation

Accounting standards require the Statement of Accounts to present information in a way which is:

- 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 judgement, 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 until 31st March 2023 as a result of the recent announcement regarding Local Government Reorganisation in Cumbria. The services the Council currently delivers will continue to be delivered by the public sector after 31st March 2023.

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 noncurrent 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 scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs be making contributions based on percentages of members' pensionable salaries, as set by DfE. 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. The council is, however, responsible for paying some additional pensions to retired teachers which were awarded at the point of retirement, and are included in the Council's balance sheet as a liability (Note 33 provides further details).

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 (despite providing defined benefits to members) – 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 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.
- **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.

ix. Leases continued

The Council as Lessee (Leased In)

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.

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.

ix. Leases continued

Finance Leases continued

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.

<u>The Council as Lessor (Leased out)</u>

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.

ix. Leases continued

Finance Leases continued

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.

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 (e.g. by scheduling).

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.

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.

xi. Property, Plant and Equipment continued

Measurement continued

Donated assets are measured initially at current value. The difference between current 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).

Where there is no market based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

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

Assets included in the Balance Sheet at current 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 current 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.

Revaluation losses

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 below), 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.

xi. Property, Plant and Equipment continued

Impairment

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.

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.

xi. Property, Plant and Equipment continued

Disposals and Non-Current Assets Held for Sale continued

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.

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 de-recognition in year. The assets are treated as a disposal with nil sale proceeds to be recognised.

xi. Property, Plant and Equipment continued

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.

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.

xi. Property, Plant and Equipment continued

Non-Current Assets - Schools

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.

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.

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).

xv. Financial Assets continued

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 de-recognition 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 (impairments) on all of its financial assets held at amortised cost, 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.

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 de-recognition 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.

xvii. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation, which 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

As part of the statutory General Fund the Council maintains an unearmarked General Fund Balance 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 statutory General Fund is made up of :

- The unearmarked 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 or significant influence over the entity.

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

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 that significantly affect returns require the unanimous consent of the parties sharing control, and joint venturers have rights to the net assets of the arrangement

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 Reporting Period

Events after the reporting period 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.

xxvi. Fair Value Measurement continued

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.

xxviii. Schools

The Code confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

Accounting for Schools - Transfers to Academy status

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.

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 2020/21 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 2021/22 code are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations:
  This standard will require local authorities to disclose in its financial statements that a transfer of functions has taken place (including a brief description of the transferred function) giving the date of the transfer, the name of the transferring body and the effect on the financial statements. An authority that transfers functions to another authority or public sector entity shall also provide the same information in its financial statements. Where accounted for as a transfer by absorption, the authority should apply judgement as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
- Interest Rate Benchmark Reform incl Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7:
  These standards (as adapted by the Code) govern the recognition, measurement, presentation and disclosure of financial instruments as specified in the Code (although many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss.

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

IFRS 16 Leases will lead to a substantial change in accounting practice for lessees, the current distinction between finance and operating leases will be removed. Instead, lessees are required to recognise assets and liabilities for all leases i.e. the lessee will recognise a right-of-use asset representing its right to use the leased asset; and a lease liability representing the lessee's obligation to make lease payments for the asset. Lessees will have a single accounting model for all leases with two exemptions:
• Low-value assets
• Short term leases (lease term of 12 months or less)

The implementation of IFRS 16 Leases for local government has been deferred until 1st April 2022 i.e. financial year 2022/23.

The Council's preparations for implementation on the original date of 1st April 2020 were already underway. IFRS16 requires local authorities that are lessees to recognise most leases on their Balance Sheets as right-of-use assets with a corresponding lease liability. There is still some uncertainty about the extent of the impact of IFRS16 as CIPFA/LASAAC are still deliberating on the treatment of Voluntary Aided and Voluntary Controlled Schools. For the Council this affects 125 schools which are not currently included in the Council’s Balance Sheet, but depending on the outcome of CIPFA/LASAAC discussions these may be brought back on.

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.

<u>Future funding for local government</u>

There continues to be a high degree of uncertainty around future levels of funding for local government. The consequences of COVID-19 will add to the challenges for 2021/22 onwards. The Council's Medium Term Financial Plan assesses the on-going pressures from reduced funding and increased demand for services, which are mitigated by further savings and use of reserves. The Council is of the view that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to dispose of assets at less than their current value.

<u>Private Finance Initiatives (PFI) and Public Private Partnership (PPP) Arrangements</u>

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.

<u>Property, Plant and Equipment</u>

The Council owns a large and diverse range of property assets. The Council has to use judgement to determine whether property, plant and equipment owned by the Council are operational assets, investment properties, surplus assets or assets held for sale. The Council’s Valuers, in consultation with the finance team, make judgements in accordance with IAS 16 Property, Plant and Equipment, IAS 40 Investment Property and IFRS13 Fair Value Measurement to classify these assets. Assets classified as surplus or investment properties are revalued on an annual basis at fair value.

Land and buildings included in the Balance Sheet at current value are revalued at least once every five years, or once every four years for school assets. The assets are then carried at this value in the Balance Sheet and depreciated until the next revaluation is undertaken. The carrying value of land and buildings is reviewed annually by the Council’s valuation team to ensure that it is not materially different to the current value.

The Council's Valuers use their judgement to determine the significant assumptions applied in estimating the carrying values, these are:

- Determine what the Modern Equivalent Asset would comprise using the latest Government design guidance and/or service input.
- Estimate the number of pupils it would be built for using the council's pupil number records.
- Estimate the amount a school of the required size would cost to build using RICS BCIS and council build cost records.
- Using existing buildings records make an allowance for age and obsolescence for the existing buildings on site from a functional, economic and physical perspective.
- Land value based on comparables costs to purchase or compulsory purchase land in the given location.
- 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.

Judgement is also 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 finance team work 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. Further details of the componentisation policy are provided in Accounting Policy xi.

<u>Group Accounts</u>
The Council has to decide whether there is a group relationship between the Council and other entities, and whether these relationships are material on a quantitative or qualitative basis. 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, based on International Financial Reporting Standards (IFRS10, 11 & 12). The following judgements have been made:

- The Council has an investment valued at £3.183m representing a 100% shareholding in Cumbria County Holdings Ltd (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, which requires the production of Group Accounts. Further details of the Group Accounts are in Section 7.

- NW Firecontrol Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. 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.

- The Council holds a 49% stake in Traveline Cumbria Ltd which provides travel enquiry call centre services. This investment has not been consolidated into the group accounts on the basis of materiality. Further details are provided in note 38.

- The Council are partners in a number of Pooled Budgets, including the ‘Better Care Fund’, ‘Youth Offending Service’ and ‘Specialised Commissioning’. Pooled budgets occur where a number of partners agree to set aside funds for a specific purpose that they will pursue jointly, to address common objectives or realise benefits from working together. Whilst partners collectively agree the services to be provided, the agreed services are commissioned by the respective partners via their own contracts with end providers, with the commissioning entity holding end providers to account for the services they provide. On this basis, the Council has determined that the transactions of these pools are not reflected in the Council’s financial statements, except for expenditure incurred on agreed services commissioned by the Council via its own contracts with end providers, and the income it receives from the Pools to pay for these services. Further details on Pooled Budgets are provided in note 11.

<u>Provisions and Contingent Liabilities</u>
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. Specific judgements made in relation to this are set out below.

Closed Landfill Sites
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 that they are not engineered sites.

The Council has considered this issue again in 2020/21 and has concluded that no provision is required for the 2020/21 accounts but will continue to make disclosure in contingent liabilities (note 39).

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.

The Council has determined that the conditions have not been met for grants totalling £24.790m, these are included as grants receipts in advance on the Council's Balance Sheet.

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.

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 2021.

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	103	8	5	3	3	122	122	0
Voluntary Controlled (VC)	46	1	0	0	0	47	0	47
Voluntary Aided (VA)	69	4	0	0	0	73	0	73
Foundation	12	2	0	0	0	14	10	4
Total Maintained Schools	**230**	**15**	**5**	**3**	**3**	**256**	**132**	**124**
Academies	38	21	0	3	0	62	0	62
Total	**268**	**36**	**5**	**6**	**3**	**318**	**132**	**186**

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.

Leases

The Council has examined its leases, and arrangements that have the substance of a lease, and classified them as either operating or finance leases, in line with IAS17. In some cases, the lease transaction is not always conclusive, and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. Note 19 contains the details of the Council's finance and operating leases. Finance leases are on the Balance Sheet and have a net book value at 31st March 2021 of £15.9m. The future minimum lease payments for operating leases which are not on the Balance Sheet total £6.296m.

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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Uncertainty	**Consequences if actual results differ from assumption**
Asset Valuation Land and buildings are valued at 'current value' based on existing use or on a depreciated replacement cost (DRC) basis. DRC is used when there is no established property market (excluding sales for alternative use) which would enable a reliable valuation by any other method. The valuations are undertaken by qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. The valuer has provided valuations as at 31st March 2021 for all of the Council's investment portfolio and approximately 35% of its operational land and buildings portfolio. The remaining balance of operational land and buildings not revalued in year are reviewed by applying local movement in prices and appropriate cost indices to ensure that the value of the council's assets are not materially misstated at the Balance Sheet date. This assessment has confirmed that the Balance Sheet is materially correct.	The gross book value of the operational land and buildings valued on a DRC basis was £526m at 31st March 2021 (equivalent to 95.1% of the total gross book value of operational land and buildings at this date). 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 £53m. 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. Further detail on asset valuations is provided in note 21.
Fair Value Measurement When the fair values of financial assets (including Investment Properties, Surplus Assets and Assets Held for Sale) and financial liabilities 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; For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.	Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible; judgement is required in establishing fair values. The Council employs experts to identify the most appropriate valuation techniques to determine fair value. These judgements typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities. The carrying value of Investment Properties is £5.585m and Assets Held for Sale is £2.410m. a 10% increase or decrease in either of these would not have a material impact on the Accounts. The carrying value of Surplus Assets is £21.881m. A 10% change in value would be £2.188m, which would not have a material impact on the Accounts. Further details on fair value measurement is provided in note 21 Property, Plant & Equipment and note 24 Financial Instruments.

Uncertainty	Consequences if actual results differ from assumption
Pensions Liability 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 34 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 £47.944m and vice versa. 0.1% increase in inflation would result in an increase of £48.774m in the net pension liabilities. 1 year increase in life expectancy would increase net liabilities by £84.703m. For the LGPS (the only scheme with assets) a 1% increase in the 2020/21 investment returns would increase the assets by £17.719m. Further detail is provided in note 34.

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.

Regulations effective from 1st April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1st April 2020 have been transferred into that account. As at 1st April 2020 the Dedicated Schools Grant (DSG) had an accumulated deficit of £6.991m excluding balances held within individual schools.

Note 4 -Expenditure and Funding Analysis continued

2019/20				2020/21				
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	Adjustment for DSG Reserve transfer to Unusable Reserves	Net Expenditure reported to Members	Adjustments Between Funding and Accounting Basis	Net Expenditure in the Compre-hensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000	£000	£000
207,016	22,133	229,149	People	162,554	0	162,554	11,222	173,776
131,919	(13,540)	118,379	Economy & Infrastructure	121,129	2,650	123,779	(12,720)	111,059
18,767	(3,029)	15,738	Fire and Rescue Service	20,050	0	20,050	(2,229)	17,821
8,069	(22)	8,047	Local Committees	8,028	0	8,028	4	8,032
33,622	2,685	36,307	Corporate, Customer & Community Services	37,314	0	37,314	3,616	40,930
19,833	(15,425)	4,408	Finance	25,141	0	25,141	(20,023)	5,118
(24,774)	36,749	11,975	Other Corporate Items	2,430	0	2,430	41,150	43,580
394,452	**29,551**	**424,003**	**Net Cost of Services**	**376,645**	**2,650**	**379,296**	**21,020**	**400,316**
(401,230)	(714)	(401,944)	Other Income and Expenditure	(435,489)	0	(435,489)	893	(434,597)
(6,778)	**28,837**	**22,059**	**(Surplus) or Deficit on Provision of Services**	**(58,844)**	**2,650**	**(56,194)**	**21,913**	**(34,281)**
(68,870)			Opening Statutory General Fund	(75,650)				
0			Adjustment for DSG Reserve to Unusable Reserves	(6,991)				
(6,778)			Plus (Surplus) on the Statutory General Fund for the Year	(58,844)				
(75,650)			**Closing Statutory General Fund**	**(141,485)**				

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 IAS 19 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 Statutory 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 statutory adjustments column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

For services, this represents the minimum revenue provision, interest payable and receivable that are reported as part of service net expenditure during the year but for statutory accounting purposes they are part of Financing and Investment Income and Expenditure.

- **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.

	2020/21			
	Adjustments for Capital Purposes	**Net Change for Pensions Adjustments**	**Other Statutory Adjustments**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
People	186	9,160	1,876	11,222
Economy & Infrastructure	326	1,540	(14,585)	(12,720)
Fire and Rescue Service	149	(2,427)	49	(2,229)
Local Committees	0	4	0	4
Corporate, Customer & Community Services	1,654	1,611	351	3,616
Finance	(5,848)	261	(14,436)	(20,023)
Other Corporate Items	41,248	707	(805)	41,150
Net Cost of Services	**37,714**	**10,856**	**(27,550)**	**21,020**
Other Income and Expenditure from the Expenditure and Funding Analysis	(64,647)	21,206	44,334	893
Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement	**(26,933)**	**32,062**	**16,784**	**21,913**

	2019/20			
	Adjustments for Capital Purposes	**Net Change for Pensions Adjustments**	**Other Statutory Adjustments**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
People	5,836	19,244	(2,946)	22,134
Economy & Infrastructure	(1,354)	2,870	(15,055)	(13,541)
Fire and Rescue Service	12	(3,126)	84	(3,029)
Local Committees	(29)	7	0	(22)
Corporate, Customer & Community Services	181	2,501	2	2,685
Finance	(1,647)	391	(14,170)	(15,425)
Other Corporate Items	37,232	375	(858)	36,749
Net Cost of Services	**40,232**	**22,263**	**(32,943)**	**29,551**
Other Income and Expenditure from the Expenditure and Funding Analysis	(53,156)	21,801	30,640	(714)
Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement	**(12,923)**	**44,064**	**(2,303)**	**28,837**

Note 4.2 - Segmental Analysis of Income and Expenditure

2020/21	Revenues from External Customers £000	Adult Social Care Income £000	Depreciation and Amortisation £000	Interest Expense £000
People	(8,485)	(32,514)	10,050	0
Economy & Infrastructure	(9,392)	0	27,198	15,478
Fire and Rescue Service	(57)	0	1,806	0
Local Committees	(79)	0	13	0
Corporate, Customer & Community Services	(1,507)	0	906	0
Finance	(660)	0	0	14,859
Other Corporate Items	(1,154)	0	37	0
Total Managed by Segments	**(21,335)**	**(32,514)**	**40,010**	**30,337**

2019/20	Revenues from External Customers £000	Adult Social Care Income £000	Depreciation and Amortisation £000	Interest Expense £000
People	(16,966)	(36,003)	8,807	0
Economy & Infrastructure	(9,945)	0	25,517	15,393
Fire and Rescue Service	(131)	0	1,745	0
Local Committees	(169)	0	14	0
Corporate, Customer & Community Services	(2,260)	0	875	0
Finance	(112)	0	0	15,126
Other Corporate Items	(793)	0	21	0
Total Managed by Segments	**(30,376)**	**(36,003)**	**36,979**	**30,519**

There has been a significant reduction (50%) in income from external customers for the People directorate, this was predominantly in Schools where there has been a reduction of £3.5m in sale of meals during the year and £3.6m reduction in other income such as lettings and transport contributions from parents.

Note 4.3 - Expenditure and Income Analysed by Nature

2019/20 £000	Nature of Expenditure or Income	2020/21 £000
(30,376)	Fees and charges	(21,335)
(36,003)	Adult Social Care service income	(32,514)
(2,000)	Interest and investment income	(300)
(315,947)	Income from local taxation	(315,978)
(483,005)	Government grants and contributions	(563,861)
(29,282)	Other income	(33,134)
383,115	Employee benefits expenses (See note below)	410,936
428,232	Other service expenses	420,697
41,682	Depreciation, amortisation, impairments and (gains)/losses on revaluation of non-current assets	46,692
50,916	Interest payments	50,095
857	Precepts and levies	873
653	Changes in impairment loss allowance of financial instruments	810
13,215	(Gain) or loss on disposal of non-current assets	2,739
22,059	**(Surplus) or Deficit for Year**	**(34,281)**

Employee benefits expenses in the table above include Voluntary Aided and Foundation Schools employee expenditure of £71.363m (2019/20 £67.231m).

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 £13m.

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 of £30.623m which comprises of £24.131m unitary charge and £6.492m for other services (2019/20 total £29.769m, £23.633m unitary charge and £6.136m for services) in respect of the Public Private Partnership for Waste Management.
- Connect CNDR Ltd of £14.972m which comprises solely of unitary charge in respect of the Carlisle Northern Development Route PFI scheme (2019/20 total £14.396m solely unitary charge).

Covid-19 has had a significant financial impact in 2020/21, the Council received £28.260m of general Covid-19 grants and £33.106m of specific grants which are detailed in the Grants credited to Taxation and Non Specific Grant Income and Grants credited to Services tables respectively in Note 17. In addition there was £15.041m of Covid-19 Emergency Funding received in 2019/20 that had been transferred to an earmarked reserve last year.

Note 6 - Other Operating Expenditure

Other operating expenditure included in Comprehensive Income and Expenditure Statement.

2019/20 £000		2020/21 £000
857	Levies	873
8,040	(Gains)/losses on the Disposal of Non-Current Assets	267
1,387	Other	1,432
10,284	**Total Other Operating Expenditure**	**2,572**

Note 7 - Financing and Investment Income and Expenditure

Financing and investment income and expenditure included in the Comprehensive Income and Expenditure Statement is set out below:

2019/20 £000		2020/21 £000
30,502	Interest payable and similar charges	30,321
56,989	Net interest on the net defined benefit liability	55,614
(36,575)	Net interest on the net defined benefit (asset)	(35,840)
(987)	Interest receivable and similar income	(477)
(477)	Income in relation to investment properties	(165)
133	Expenditure in relation to investment properties	62
(669)	Investment properties changes in fair value	279
653	Changes in impairment loss allowance of financial instruments	810
5,176	Loss on Disposal of Academies	2,472
54,745	**Total Financing and Investment Income and Expenditure**	**53,076**

Further details on the Pension interest cost and return on pension assets can be found in note 34. 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 Consolidated 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, Business Rates and receives 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 were:

2019/20 £000		2020/21 £000
(236,602)	Council tax income	(244,756)
(79,345)	Non-domestic rates income and expenditure	(71,222)
(315,947)	**Income from Local Taxation**	**(315,978)**
(85,324)	Non-ringfenced government grants	(106,602)
(65,703)	Capital grants and contributions	(67,665)
(151,027)	**Income from Non Specific Grants**	**(174,267)**
(466,973)	**Total Taxation and Non-Specific Grant Income**	**(490,245)**

Further details of the non ring fenced government grants received are set out in note 17 Grant Income.

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 authority 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 authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

2020/2021	**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)	(32,061)	0	0	32,061
Financial Instruments (transferred to (or from) the Financial Instruments Adjustments Account)	17	0	0	(17)
Council tax and NDR (transfers to (or from) the Collection Fund Adjustment Account)	(12,909)	0	0	12,909
Holiday pay (transferred to (or from) the Accumulated Absences reserve)	(3,891)	0	0	3,891
In year deficit on DSG Reserve (transferred to (or from) DSG Adjustment Account)	(2,650)	0	0	2,650
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):				
Charges for depreciation of non-current assets	(39,943)	0	0	39,943
Amortisation of Intangible Assets	(67)	0	0	67
Net Revaluation Gains / (Losses) on Property, Plant & Equipment	(6,682)	0	0	6,682
Net Revaluation Gains / (Losses) on Investment Properties	(279)	0	0	279
Net Gains / (Losses) on Disposal of Property, Plant & Equipment	(4,648)	0	0	4,648
Revenue Expenditure Funded from Capital Under Statute	(10,360)	0	0	10,360
Grants on Revenue Expenditure Funded from Capital Under Statute	7,259	0	0	(7,259)
Capital Grants and Contributions credited to Comprehensive Income & Expenditure Statement	66,010	0	558	(66,568)
Total Adjustments to Revenue Resources	**(40,204)**	**0**	**558**	**39,646**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,909	(1,909)	0	0
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	7,939	0	0	(7,939)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,140	0	0	(4,140)
Total Adjustments between Revenue and Capital Resources	**13,988**	**(1,909)**	**0**	**(12,079)**
Adjustments to Capital Resources				
Application of capital grants to finance capital expenditure	1,655	0	(1,655)	0
Use of the Capital Receipts Reserve to finance capital expenditure	0	2,556	0	(2,556)
Total Adjustments to Capital Resources	**1,655**	**2,556**	**(1,655)**	**(2,556)**
Total Adjustments	**(24,561)**	**647**	**(1,097)**	**25,011**

2019/2020	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)	(44,065)	0	0	44,065
Financial Instruments (transferred to (or from) the Financial Instruments Adjustments Account)	16	0	0	(16)
Council tax and NDR (transfers to or from the Collection Fund Adjustment Account)	40	0	0	(40)
Holiday pay (transferred to (or from) the Accumulated Absences reserve)	2,244	0	0	(2,244)
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):				
Charges for depreciation of non-current assets	(36,874)	0	0	36,874
Amortisation of Intangible Assets	(104)	0	0	104
Net Revaluation Gains / (Losses) on Property, Plant & Equipment	(4,704)	0	0	4,704
Net Revaluation Gains / (Losses) on Investment Properties	669	0	0	(669)
Net Gains / (Losses) on Disposal of Property, Plant & Equipment	(14,806)	0	0	14,806
Revenue Expenditure Funded from Capital Under Statute	(9,068)	0	0	9,068
Grants on Revenue Expenditure Funded from Capital Under Statute	3,114	0	0	(3,114)
Capital Grants and Contributions credited to Comprehensive Income & Expenditure Statement	65,702	0	(2,076)	(63,626)
Total Adjustments to Revenue Resources	**(37,836)**	**0**	**(2,076)**	**39,912**
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,591	(1,591)	0	0
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	3,304	0	0	(3,304)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,101	0	0	(4,101)
Total Adjustments between Revenue and Capital Resources	**8,996**	**(1,591)**	**0**	**(7,405)**
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	2,484	0	(2,484)
Total Adjustments to Capital Resources	**0**	**2,484**	**0**	**(2,484)**
Total Adjustments	**(28,840)**	**893**	**(2,076)**	**30,023**

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 two schools: Newtown and Lamplugh (5 in 2019/20) converting during the year, this resulted in a reduction in gross income of £0.362m (2019/20 £1.995m) and expenditure of £0.441m (2019/20 £1.797m). This transfer of responsibility also resulted in a reduction of £2.200m (2019/20 £5.176m) 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 Health, Care and Community Services and Children and Families Services. 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.

2019/20 £000	Youth Offending Service	2020/21 £000
(539)	Authority Funding	(598)
(1,067)	Partner Funding	(1,142)
(1,606)	Total Pooled Funding	(1,740)
576	Authority Expenditure	468
1,067	Partner Expenditure	1,142
1,643	Expenditure	1,610
37	**Net (Surplus)/Deficit on the Pooled Budget**	**(130)**
37	**Authority Share of the Net (Surplus) / Deficit**	**(130)**

Better Care Fund
Cumbria County Council hosts the Better Care Fund in partnership with North Cumbria Clinical Commissioning Group and Morecambe Bay Clinical Commissioning Group under section 75 of the Health Act 2006.

The pooled fund combines funding through the Better Care Fund, the Improved Better Care Fund and Winter Pressures Grant. It 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. The partners each account for their own share of the income and expenditure. 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.

The Improved Better Care Fund can be spent on:

- Meeting adult social care needs
- Reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready
- Ensuring that the local social care provider market is supported

2019/20 £000	Better Care Fund	2020/21 £000
(29,501)	Authority Funding	(30,347)
(38,234)	Partner Funding	(40,054)
(67,735)	Total Pooled Funding	(70,401)
67,735	Authority Expenditure	70,401
0	**Net (Surplus)/Deficit on the Pooled Budget**	**0**
0	**Authority Share of the Net (Surplus) / Deficit**	**0**

Note 12 - Members' Allowances

Allowances and expenses paid to elected Members (Councillors) were:

31 March 2020 £000		31 March 2021 £000
966	Allowances	969
86	Expenses	6
1,052	**Total Members' Allowances**	975

The allowances and expenses are published annually, in full, on the Council's website.

Note 13 - Officers' Remuneration

The Accounts and Audit Regulations 2020 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 Chief Legal Officer (Monitoring Officer), the Chief Fire Officer and the Director of Public Health.

Senior Officer Remuneration		Salary, Fees and Allowances	Employer's Pension Contribution	Total
		£	£	£
Katherine Fairclough - Chief Executive	**2020/21**	152,670	28,091	**180,761**
	2019/20	148,584	22,139	**170,723**
John Macilwraith, Executive Director – People and Deputy Chief Executive (to 26/8/19)	**2020/21**	0	0	**0**
	2019/20	61,201	8,376	**69,577**
John Readman, Executive Director - People and Deputy Chief Executive (from 9/2/20)	**2020/21**	143,248	26,358	**169,606**
	2019/20	19,230	2,865	**22,095**
Dawn Roberts, Executive Director – Corporate, Customer & Community Services	**2020/21**	136,313	25,082	**161,395**
	2019/20	132,665	19,767	**152,432**
Angela Jones, Executive Director - Economy & Infrastructure Services (Acting Executive Director from 1/12/18 to 21/11/19)	**2020/21**	136,313	25,082	**161,395**
	2019/20	132,665	19,767	**152,432**
Julie Crellin, Director of Finance	**2020/21**	105,669	19,443	**125,112**
	2019/20	102,841	15,323	**118,164**
Iolanda Puzio, Chief Legal Officer (Monitoring Officer)	**2020/21**	105,669	19,443	**125,112**
	2019/20	102,841	15,323	**118,164**
Steve Healey, Chief Fire Officer (to 31/12/20)	**2020/21**	89,524	25,783	**115,307**
	2019/20	111,931	32,157	**144,088**
John Beard, Chief Fire Officer (from 1/1/21)	**2020/21**	30,658	8,829	**39,487**
	2019/20	0	0	**0**
Colin Cox, Director of Public Health	**2020/21**	105,669	17,801	**123,470**
	2019/20	102,841	16,123	**118,964**
Total	**2020/21**	**1,005,733**	**195,912**	**1,201,645**
	2019/20	**914,799**	**151,841**	**1,066,640**

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 2020/21 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 2020/21.

- **Employer's Current Service Pension Contribution** - LGPS 18.4%, NHS Pension Scheme 15.68%, and Firefighters' Pension Scheme 28.8% - 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.

It was announced on 19th March 2021 that:

- the Chief Executive, Katherine Fairclough would be leaving her post in summer 2021 to take up a new post as Chief Executive of Liverpool City Region Combined Authority.
- the Director of Finance (s151 Officer), Julie Crellin, would be leaving her post in June 2021 to take up a new post as City & Guilds Major Projects programme Lead.

Following a recruitment process Gill Steward has been appointed as Chief Executive, this was confirmed by Council at its meeting on 24th June 2021 and Pam Duke has been appointed as Director of Finance (s151 Officer).

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 (4 for 2019/20) 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

2019/20 Number of Employees				2020/21 Number of Employees		
School Staff	Other Staff	Total		School Staff	Other Staff	Total
105	52	**157**	£50,001 to £55,000	132	108	240
48	59	**107**	£55,001 to £60,000	68	56	124
44	26	**70**	£60,001 to £65,000	58	28	86
24	8	**32**	£65,001 to £70,000	34	9	43
9	35	**44**	£70,001 to £75,000	21	29	50
6	3	**9**	£75,001 to £80,000	9	11	20
0	5	**5**	£80,001 to £85,000	5	3	8
1	2	**3**	£85,001 to £90,000	2	5	7
3	1	**4**	£90,001 to £95,000	2	0	2
1	4	**5**	£95,001 to £100,000	3	1	3
0	8	**8**	£100,001 to £105,000	1	5	6
1	0	**1**	£105,001 to £110,000	1	7	8
0	0	**0**	£110,001 to £120,000	0	0	0
0	0	**0**	£120,001 to £125,000	1	0	1
0	1	**1**	£130,001 to £135,000	0	0	0
0	0	**0**	£135,001 to £140,000	0	1	1
242	**204**	**446**	**Total**	**337**	**263**	**600**

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 2020/21 was £2.514m for 90 employees, an average of £28k (£2.402m for 101 employees in 2019/20, an average of £24k). The value of exit packages related to schools in 2020/21 was £0.603m for 35 employees, an average of £17k (£0.509m for 48 employees in 2019/20, an average of £11k).

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 (£)	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
£0-£20,000	0	7	71	49	71	56	513,990	371,048
£20,001 - £40,000	0	1	17	15	17	15	471,565	387,043
£40,001 - £60,000	0	0	4	6	4	6	196,326	297,522
£60,001 - £80,000	0	0	3	4	3	4	214,756	278,815
£80,001 - £100,000	0	0	2	3	2	3	176,807	273,895
£100,001 - £150,000	0	0	1	4	1	4	145,427	457,314
£150,001 - £300,000	0	0	3	2	3	2	682,911	448,728
Total	**0**	**8**	**101**	**83**	**101**	**90**	**2,401,781**	**2,514,365**

Note 14 - 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 2020/21 the termination payments made to employees totalled £1.163m and related to 90 staff. In 2019/20 the termination payments made to employees totalled £1.286m and related to 98 staff.

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:

2019/20 £000		2020/21 £000
88	External Audit Fee	88
5	Additional Audit Fees 2018/19 Statement of Accounts	0
	Additional Audit Fees 2019/20 Statement of Accounts	26
(11)	Refund from PSAA Ltd	0
82	**Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year**	**114**
1	Audit related – Harbour Authority Accounts Specified Procedures	1
5	Audit related – Certification of Teachers Pension Claim	13
3	Additional fee re 2018/19 Grant Claim	0
25	Additional Audit Fee re objection to 2016/17 Accounts	0
13	CFO Insights software licence	13
51	Procurement/contracts review	0
98	**Fees payable in respect of other services provided by external auditors during the year**	**27**
180	**Total**	**141**

Note: Certification of Teachers Pension Claim fee of £13k relates to the Teachers grant claim audit for 2019/20 and 2020/21.

The external audit fee for the 2020/21 Statement of Accounts is expected to be £145,379, this is made up of £88,254 basic fee plus additional fees of £57,125, this is an increase of £31k on the £114k audit fees for 2019/20.

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). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Finance Regulations 2020. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2020/21 are as follows:

DSG Receivable for 2020/21	**Central Expenditure £000**	**Individual Schools Budget £000**	**Total £000**	**Total Deficit Carry Forward £000**
Final DSG for 2020/21 before Academies and High Needs recoupment			383,321	
Academy and High Needs figure recouped for 2020/21			(118,904)	
Total DSG after academy recoupment for 2020/21			**264,417**	
Less: Deficit Brought forward from 2019/20			(6,991)	
Plus: Deficit Carry forward to 2021/22 (agreed in advance)			7,310	7,310
Agreed initial budgeted distribution in 2020/21	**47,842**	**216,894**	**264,736**	
In year adjustments	0	0	0	
Final budget distribution for 2020/21	**47,842**	**216,894**	**264,736**	
Less: Actual central expenditure	(51,184)		(51,184)	
Less: Actual ISB deployed to schools		(215,883)	(215,883)	
Plus: Local Authority contribution for 2020/21	0	0	0	
In Year Carry forward to 2021/22	**(3,342)**	**1,011**	**(2,331)**	2,331
Total Deficit Carry Forward to 2021/22				**9,641**

DSG Receivable for 2019/20	**Central Expenditure £000**	**Individual Schools Budget £000**	**Total £000**	**Total Deficit Carry Forward £000**
Final DSG for 2019/20 before Academies recoupment			360,741	
Academy figure recouped for 2019/20			(110,797)	
Total DSG after academy recoupment for 2019/20			**249,944**	
Less Brought forward from 2018/19			(3,841)	
Plus: Carry forward to 2020/21 (agreed in advance)			3,877	3,877
Agreed initial budgeted distribution in 2019/20	**37,498**	**212,482**	**249,980**	
In year adjustments	0	0	0	
Final budget distribution for 2019/20	**37,498**	**212,482**	**249,980**	
Less: Actual central expenditure	(42,043)		(42,043)	
Less: Actual ISB deployed to schools		(211,051)	(211,051)	
Plus: Local Authority contribution for 2019/20	0	0	0	
In Year Carry forward to 2020/21	**(4,545)**	**1,431**	**(3,114)**	3,114
Total Deficit Carry Forward to 2020/21				**6,991**

The main reason for the decrease in the Dedicated Schools Grant reserves from 2019/20 to 2020/21 is the pressure against the High Needs Block. The pressure being experienced by Cumbria is in line with the national picture and is due to the continued rise in demand for specialist places for children and young people with SEND. A revised High Needs Recovery Plan was submitted to the Department for Education in September 2020 which demonstrated that it is not possible to balance the deficit against the High Need Block within the required three year timeframe. Subsequent to this Cumbria has been allocated an additional £5.136m for SEND in 2021/22 which represents an increase of 11% against the 2020/21 allocation and work is ongoing to balance the budget in-year.

Note 17 - Grant Income

The Council received the following non ring-fenced Government Grants and Capital Grants and contributions 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 2020 £000		31 March 2021 £000
(17,757)	Revenue Support Grant	(18,046)
(10,485)	Top Up Grant (Central Government)	(10,656)
(13,536)	PFI Grant	(13,536)
(915)	New Homes Bonus Grant	(824)
(5,484)	NNDR Small Businesses Relief Grant	(6,164)
(1,640)	Troubled Families Grant	(1,491)
(3,241)	Independent Living Fund	(3,241)
(5,806)	Rural Services Support Grant	(5,806)
(4,283)	Social Care Grant	(14,978)
(2,507)	Winter Pressures Grant	0
(1,225)	Fire Pension Grant	(1,285)
(16,086)	COVID-19 Emergency Funding Grant	(14,398)
0	COVID-19 Business Rate Relief Grant	(9,447)
0	COVID-19 Emergency Supplies Grant	(555)
0	COVID-19 Sales, Fees and Charges Support Grant	(1,244)
0	COVID-19 Local Tax Guarantee Grant	(2,616)
(2,358)	Other Revenue Grants & Contributions < £1m	(2,315)
	Capital Grants & Contributions	
29,088	DfT Highways Block Grant	24,642
15,201	DfT Highways Flooding Grant 2015/16	7,450
4,155	DfE School Conditions Allowance Grant	2,960
1,890	Growth Deal Grant	0
1,656	National Productivity Investment Fund	0
1,537	DfT Additional Highways Grant	0
1,438	S278 contributions	0
1,167	Basic Needs Grant	0
0	DfT Additional pothole & Challenge Funding	12,648
0	Borderlands Inclusive Growth Deal	6,464
0	DfT Flood Recovery – Challenge Fund	2,803
0	Homes & Communities Agency Grant	1,737
0	Fire Transformation Grant	1,467
0	Pothole Action Fund	1,173
9,571	Other Capital Grants & Contributions < £1m	6,321
(151,026)	**Total**	**(174,267)**

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 below.

31 March 2020 £000		31 March 2021 £000
(249,944)	Dedicated Schools Grant	(264,417)
(388)	Dedicated Schools Grant - adjustment re previous year	(232)
(11,744)	Pupil Premium Grant	(11,519)
(3,813)	Primary PE & Sports Grant	(3,009)
(4,675)	Sixth Form Funding	(4,846)
(2,767)	Adult & Community Learning Grants	(2,204)
(4,537)	Universal Free School Meals Grant	(4,516)
(745)	Youth Offending Team Grant	(762)
(17,914)	Public Health Grant	(18,774)
(20,710)	Improved Better Care Fund (incl Winter Pressures)	(23,217)
(2,232)	Teachers Pay Grant	(2,588)
(4,483)	Teachers Pension Grant	(8,012)
0	COVID-19 – Infection Control Grant	(10,710)
0	COVID-19 – Contain Outbreak Management Fund	(11,335)
0	COVID-19 – Catch Up Premium	(1,894)
0	COVID-19 – Test & Trace	(1,718)
0	COVID-19 – Workforce Capacity	(1,136)
0	COVID-19 – Adult Social Care Rapid Testing	(1,137)
0	COVID-19 – Winter Grant Scheme	(1,364)
0	COVID-19 – Other service specific grants	(3,812)
(4,912)	Other Grants & Contributions < £1m	(5,133)
(3,114)	REFCUS Grants	(7,259)
(331,979)	**Total**	**(389,594)**

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

- £31,663 Police and Crime Panel Grant for the Home Office in 2020/21 (£36,711 in 2019/20). 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.

- £1.702m was received from Sellafield Limited in 2019/20 to deliver the Western Excellence in Learning & Leadership (WELL) project. £1.005m has been spent to date and the remaining balance of £0.697m will be credited in the relevant year once the appropriate conditions have been met. A further £3.998m was awarded during 2020/21 to be spent in the period to 30th September 2024. £1.423m was received in March 2021 and has been carried forward to 2021/22.

- 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 £510,181 from Sport England in 2020/21 (£467,851 in 2019/20). Further details of Active Cumbria's accounts can be found at www.activecumbria.org.

Grants Receipts in Advance (Revenue Grants) - Current Liabilities

31 March 2020 £000		31 March 2021 £000
(15,248)	Revenue Grants Receipts in Advance < £1m	(13,885)
(9,705)	Revenue Contributions Receipts in Advance < £1m	(10,905)
(24,953)	**Total**	**(24,790)**

Grants Receipts in Advance (Capital Grants) - Current Liabilities

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. Where the grant or contribution is expected to be utilised in financing the Council's capital expenditure within the next twelve months, the balance is included as a Current Liability. The balances at the year end are as follows:

31 March 2020 £000		31 March 2021 £000
0	DfT Highways Grants	(11,676)
(8,207)	Highways & Flood Recovery (2015) Grant	(6,386)
(1,561)	DfT Safer Roads	(5,108)
(1,207)	Basic Need Grant	(4,870)
(1,599)	Other Grants & Contributions <£1m	(2,969)
(2,674)	Devolved Formula Capital Grant	(2,692)
0	Additional Prioritised Maintenance	(1,352)
(1,462)	DfT Live Labs	(944)
(1,227)	Dept of Health Grant	(856)
(16)	Healthy Pupil Capital Fund	(3)
(1,468)	Fire Transformation Grant	0
(19,421)	**Total**	**(36,856)**

At 31st March 2021 there was a total of £3.173m of unused capital contributions held in the Capital Grants Unapplied Account (£2.076m at 31st March 2020).

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

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. Where the grant or contribution is not expected to be utilised in financing the Council's capital expenditure within the next twelve months, the balance is included as a Long Term Liability. The balances at the year end are as follows:

31 March 2020 £000		31 March 2021 £000
0	Getting Building Fund	(4,979)
0	Homes & Communities Agency Grant	(3,706)
0	DfT Safer Roads	(3,475)
0	DfT funded flood Recovery – Challenge Fund	(2,165)
0	Growth Deal – A595 Grizebeck	(2,009)
(5,628)	Highways & Flood Recovery (2015) Grant	0
(3,174)	Basic Need Grant	0
(226)	Other Grants & Contributions <£1m	(575)
(9,028)	**Total**	**(16,909)**

Note 18 - Capital Expenditure and Capital Financing

31 March 2020 £000	Capital Expenditure and Capital Financing	31 March 2021 £000
540,698	Opening Capital Financing Requirement	554,959
	Capital Investment:	
81,402	Property Plant and Equipment	78,592
419	Investment Property	1,756
0	Intangible Assets	18
9,068	Revenue Expenditure Funded from Capital Under Statute	10,360
90,890	**Total Capital Spending**	**90,726**
	Sources of Finance:	
(2,484)	Capital receipts	(2,556)
(66,740)	Government Grants and other contributions	(73,269)
0	Capital Grants Unapplied	(559)
	Sums set aside from revenue:	
(4,101)	- Direct revenue contributions	(4,140)
(3,304)	- Minimum revenue provision	(7,939)
(76,629)	**Total Sources of Finance**	**(88,463)**
554,959	**Closing Capital Financing Requirement**	**557,222**

31 March 2020 £000	Explanation of movements in year	31 March 2021 £000
(3,304)	Decrease in underlying need to borrow (supported by government financial assistance)	(7,939)
17,565	Increase in underlying need to borrow (unsupported by government financial assistance)	10,202
14,261	**Increase in Capital Financing Requirement**	**2,263**

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 2020/21 the MRP was £7.939m (2019/20 £3.304m).

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 minimum rentals paid (maximum annual payment £25 pa) 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 2020/21 there were no contingent rents payable by the Council (None in 2019/20).

The Council sub-lets part of one of the buildings which it leases in. Income of £0.170m was received in 2020/21 (£0.001m 2019/20).

Authority as Lessee (leased in) - Finance Leases (on balance sheet)

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

31 March 2020 £000		31 March 2021 £000
15,577	Other Land and Buildings	15,902
15,577	**Total**	**15,902**

Authority as Lessee (leased in) - Operating Leases (not on balance sheet)

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

31 March 2020 £000		31 March 2021 £000
696	Not later than one year	943
1,658	Later than one year and not later than five years	1,585
3,918	Later than five years	3,768
6,272	**Total**	**6,296**

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 2020 £000		31 March 2021 £000
1,920	Minimum lease payments	1,957
(1)	Less: Sub lease payments receivable	(170)
1,919	**Total**	**1,787**

Authority as Lessor (leased out) - Operating Leases

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

31 March 2020 £000		31 March 2021 £000
285	Not later than one year	798
750	Later than one year and not later than five years	2,362
2,172	Later than five years	4,366
3,207	**Total**	**7,526**

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 2020/21. Lease income of £0.974m (2019/20 £0.708m) was 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 material contingent rents receivable by the Council in 2020/21 or 2019/20.

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 £387m. 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 £322m. 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 in 2018/19. 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 is ring-fenced and is being released over the remaining life of the contract. At 31st March 2021 the deferred income was £9.517m.

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 £44m. 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

2020/21	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI Restated	Total Restated
	£000	£000	£000	£000
Cost or Valuation				
at 1 April 2020	43,312	57,057	17,523	117,892
Accumulated Depreciation written out to Gross Carrying Amount	(3,148)	0	0	(3,148)
Revaluation (decreases) recognised in the Revaluation Reserve	(2,961)	0	0	(2,961)
at 31 March 2021	**37,203**	**57,057**	**17,523**	**111,783**
Accumulated Depreciation and Impairment				
at 1 April 2020	(2,679)	(10,051)	(452)	(13,182)
Depreciation charge	(1,623)	(1,427)	(436)	(3,486)
Accumulated Depreciation written out to Gross Carrying Amount	3,148	0	0	3,148
at 31 March 2021	**(1,154)**	**(11,478)**	**(888)**	**(13,520)**
Net Book Value				
at 31 March 2021	**36,049**	**45,579**	**16,635**	**98,263**
at 1 April 2020	**40,633**	**47,005**	**17,071**	**104,709**

2019/20	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Cost or Valuation				
at 1 April 2019	**43,312**	**57,057**	**17,523**	**117,892**
at 31 March 2020	**43,312**	**57,057**	**17,523**	**117,892**
Accumulated Depreciation and Impairment				
at 1 April 2019	**(1,056)**	**(8,625)**	**(17)**	**(9,698)**
Depreciation charge	(1,623)	(1,426)	(435)	(3,484)
at 31 March 2020	**(2,679)**	**(10,051)**	**(452)**	**(13,182)**
Net Book Value				
at 31 March 2020	**40,633**	**47,005**	**17,071**	**104,709**
at 1 April 2019	**42,256**	**48,432**	**17,586**	**108,274**

Movement in PFI Liabilities

2020/21	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Balance outstanding at start of year	**(42,788)**	**(57,117)**	**(14,631)**	**(114,536)**
Payments during the year	95	1,639	357	2,091
Balance outstanding at year-end	**(42,693)**	**(55,478)**	**(14,274)**	**(112,445)**

2019/20	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Balance outstanding at start of year	(42,671)	(58,562)	(14,961)	(116,194)
Payments during the year	(117)	1,445	330	1,658
Balance outstanding at year-end	**(42,788)**	**(57,117)**	**(14,631)**	**(114,536)**

Payments due under PFI schemes - 2020/21

1. Reimbursement of Capital Expenditure	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Short Term PFI Liability				
Payable within one year	(518)	(835)	(387)	(1,740)
Long Term PFI Liability				
Payable within two to five years	(4,875)	(5,312)	(1,898)	(12,085)
Payable within six to ten years	(16,789)	(11,023)	(3,420)	(31,233)
Payable within eleven to fifteen years	(20,512)	(19,487)	(5,142)	(45,141)
Payable within sixteen to twenty years	0	(18,821)	(3,427)	(22,248)
Total Long Term Liability	**(42,176)**	**(54,644)**	**(13,886)**	**(110,706)**
Total	**(42,693)**	**(55,478)**	**(14,274)**	**(112,445)**

2. Interest	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Payable within one year	(5,694)	(7,962)	(1,277)	(14,933)
Payable within two to five years	(21,438)	(31,864)	(4,814)	(58,116)
Payable within six to ten years	(19,879)	(36,307)	(5,096)	(61,282)
Payable within eleven to fifteen years	(4,192)	(29,727)	(3,510)	(37,430)
Payable within sixteen to twenty years	0	(12,714)	(786)	(13,501)
Total	**(51,204)**	**(118,574)**	**(15,484)**	**(185,262)**

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	(19,102)	(6,546)	(626)	(26,274)
Payable within two to five years	(81,883)	(26,602)	(2,694)	(111,179)
Payable within six to ten years	(115,643)	(38,265)	(3,838)	(157,746)
Payable within eleven to fifteen years	(77,255)	(43,696)	(4,448)	(125,399)
Payable within sixteen to twenty years	0	(33,144)	(2,342)	(35,486)
Total	**(293,883)**	**(148,253)**	**(13,947)**	**(456,083)**

4. Total Payments Due under PFI	Waste Management PPP	Carlisle Northern Development Route PFI	Fire Station Replacement PFI	Total
	£000	£000	£000	£000
Total	**(387,780)**	**(322,306)**	**(43,705)**	**(753,790)**

Note 21 - Property, Plant and Equipment

Movements to 31 March 2021

	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 2020	**568,584**	**96,303**	**848,277**	**53**	**17,761**	**10,694**	**1,541,671**
Additions	8,664	4,504	51,380	0	6,107	7,937	**78,592**
Accumulated Depreciation written out to Gross Carrying Amount	(11,417)	0	0	0	(27)	0	**(11,444)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	1,245	0	0	0	473	0	**1,718**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,110)	0	0	0	(1,873)	(3,698)	**(6,682)**
Derecognition – disposals	(3,244)	(176)	0	0	(1,485)	0	**(4,905)**
Reclassifications and transfer	3,115	0	0	0	1,545	(4,660)	**0**
Assets reclassified (to)/from Investment Property	2,920	0	0	0	(210)	0	**2,710**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(410)	0	**(410)**
at 31 March 2021	**568,757**	**100,632**	**899,657**	**53**	**21,881**	**10,272**	**1,601,251**
Accumulated Depreciation and Impairment							
at 1 April 2020	**(13,345)**	**(55,473)**	**(178,541)**	**0**	**(539)**	**0**	**(247,898)**
Depreciation charge	(13,763)	(4,757)	(21,225)	0	(198)	0	**(39,943)**
Accumulated Depreciation written out to Gross Carrying Amount	11,417	0	0	0	27	0	**11,444**
Assets reclassified (to)/from Investment Property	0	0	0	0	3	0	**3**
Derecognition – disposals	100	156	0	0	0	0	**256**
at 31 March 2021	**(15,592)**	**(60,075)**	**(199,766)**	**0**	**(706)**	**0**	**(276,139)**
Net Book Value							
at 31 March 2021	**553,166**	**40,557**	**699,890**	**53**	**21,175**	**10,272**	**1,325,112**
at 31 March 2020	**555,239**	**40,830**	**669,735**	**53**	**17,223**	**10,694**	**1,293,773**

Movements to 31 March 2020

	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 2019	**543,201**	**90,509**	**795,305**	**53**	**17,707**	**27,611**	**1,474,387**
Additions	14,540	5,020	52,972	0	1,062	7,808	**81,402**
Accumulated Depreciation written out to Gross Carrying Amount	(7,769)	0	0	0	0	0	**(7,769)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	16,074	0	0	0	(137)	0	**15,937**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,353)	0	0	0	(576)	(1,774)	**(4,704)**
Derecognition – disposals	(13,756)	(1,546)	0	0	(96)	0	**(15,398)**
Reclassifications and transfer	18,647	2,320	0	0	1,985	(22,952)	**0**
Assets reclassified (to)/from Investment Property	0	0	0	0	(185)	0	**(185)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(2,000)	0	**(2,000)**
at 31 March 2020	**568,584**	**96,303**	**848,277**	**53**	**17,761**	**10,694**	**1,541,671**
Accumulated Depreciation and Impairment							
at 1 April 2019	**(9,461)**	**(52,491)**	**(158,641)**	**0**	**(356)**	**0**	**(220,949)**
Depreciation charge	(12,422)	(4,370)	(19,901)	0	(182)	0	**(36,875)**
Accumulated Depreciation written out to Gross Carrying Amount	7,769	0	0	0	0	0	**7,769**
Derecognition – disposals	769	1,388	0	0	0	0	**2,157**
at 31 March 2020	**(13,345)**	**(55,473)**	**(178,541)**	**0**	**(539)**	**0**	**(247,898)**
Net Book Value							
at 31 March 2020	**555,239**	**40,830**	**669,735**	**53**	**17,223**	**10,694**	**1,293,773**
at 31 March 2019	**533,740**	**38,018**	**636,664**	**53**	**17,351**	**27,611**	**1,253,438**

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	39,184	0	39,184
Valued at current value as at:				
31/03/2021	191,369	0	12,382	203,751
31/03/2020	148,416	0	2,105	150,521
31/03/2019	144,384	0	1,184	145,568
31/03/2018	36,623	0	1,921	38,544
31/03/2017	32,374	1,373	3,582	37,329
Total Net Book Value	**553,166**	**40,557**	**21,175**	**614,897**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. The officers who undertook these valuations in 2020/21 were:

- D Wiggins, BSc (Hons) MRICS
- D Kirkwood, BSc (Hons) 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 current values are:

- Determine what the Modern Equivalent Asset would comprise using the latest Government design guidance and/or service input.
- Estimate the number of pupils it would be built for using the council's pupil number records.

- Estimate the amount a school of the required size would cost to build using RICS BCIS and council build cost records.
- Using existing buildings records make an allowance for age and obsolescence for the existing buildings on site from a functional, economic and physical perspective.
- Land value based on comparables costs to purchase or compulsory purchase land in the given location.
- 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

The carrying 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)

Capital Commitments

At 31st March 2021 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years budgeted to cost £4.194m. Similar commitments at 31st March 2020 were £7.155m.

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 written out on revaluation in 2017/18 and £0.585m written out on disposal of the affected property in 2016/17. There have been no impairment losses in 2020/21 or 2019/20.

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 2021 was £21.175m (31st March 2020 £17.223m).

Note 23 – Short Term Debtors

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

31 March 2020 £000		31 March 2021 £000
11,687	Residential and non-residential care charges	11,633
3,303	Other Receivable Amounts	2,607
10,419	Central Government Bodies	27,880
9,520	Other Local Authorities	3,845
19,006	NHS Bodies	18,187
1	Public Corporations and Trading Funds	9
8,387	Local Taxation (council tax and non-domestic rates)	10,660
11,789	Other Prepayments	12,256
74,112	**Total**	**87,077**

An analysis of the age of Local Taxation Debtors (Council Tax and Non-Domestic Rates) that were past due at the Balance Sheet date is set out in the following table:

Past due status	At 31 March 2020 Council Tax £000	At 31 March 2020 Non-Domestic Rates £000	At 31 March 2020 Total - Local Taxation £000	At 31 March 2021 Council Tax £000	At 31 March 2021 Non-Domestic Rates £000	At 31 March 2021 Total - Local Taxation £000
Past due less than 12 months	5,926	419	6,345	7,954	444	8,398
Past due more than 12 months	8,733	282	9,015	10,584	365	10,949
Impairment Allowance	(6,679)	(294)	(6,973)	(8,321)	(366)	(8,687)
	7,980	**407**	**8,387**	**10,217**	**443**	**10,660**

Note 24 - Financial Instruments

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

Non-Current Financial Assets

	Investments 31 March 2020 £000	Investments 31 March 2021 £000	Debtors 31 March 2020 £000	Debtors 31 March 2021 £000	Total 31 March 2021 £000
Amortised cost	0	0	2,758	2,430	**2,430**
Measured at cost	3,183	3,183	0	0	**3,183**
Total financial assets	**3,183**	**3,183**	**2,758**	**2,430**	**5,613**

Current Financial Assets

	Investments 31 March 2020 £000	Investments 31 March 2021 £000	Debtors 31 March 2020 (Restated) £000	Debtors 31 March 2021 £000	Cash 31 March 2020 (Restated) £000	Cash 31 March 2021 £000	Total 31 March 2021 £000
Cash not falling into the following categories	0	0	0	0	52,786	64,680	**64,680**
Amortised cost	15,076	73,052	14,990	14,240	0	0	**87,292**
Fair value through profit and loss	0	0	0	0	51,427	53,502	**53,502**
Total financial assets	**15,076**	**73,052**	**14,990**	**14,240**	**104,213**	**118,182**	**205,474**
Non-financial assets	0	0	59,122	72,837	0	0	**72,837**
Total	**15,076**	**73,052**	**74,112**	**87,077**	**104,213**	**118,182**	**278,311**

In the above table of Current Financial Assets the following have been restated:

- Cash and cash equivalents as at 31st March 2020 of £51.427m re-categorised from cash not falling into the following categories to Fair Value Through Profit and Loss.
- Prepayments of £11.789m re-categorised from debtors at amortised cost to non-financial assets.

	Non-Current Financial Liabilities						
	Borrowings		**Creditors**		**Other long-term liabilities**		**Total**
	31 March 2020 (Restated) £000	**31 March 2021 £000**	**31 March 2020 £000**	**31 March 2021 £000**	**31 March 2020 £000**	**31 March 2021 £000**	**31 March 2021 £000**
Amortised cost:							
Public Works Loans Board	(362,200)	(362,200)	0	0	0	0	**(362,200)**
Market Loans	(24,433)	(24,416)	0	0	0	0	**(24,416)**
Other	0	(109)	0	0	0	0	**(109)**
Creditors	(121)	0	0	0	(112,248)	(110,706)	**(110,706)**
Total financial liabilities	**(386,754)**	**(386,725)**	**0**	**0**	**(112,248)**	**(110,706)**	**(497,431)**
Non-financial liabilities	0	0	(5,326)	(5,271)	(855,572)	(986,847)	**(992,118)**
Total	**(386,754)**	**(386,725)**	**(5,326)**	**(5,271)**	**(967,820)**	**(1,097,553)**	**(1,489,549)**

In the above table of non-current financial liabilities borrowings as at 31st March 2020 have been restated to separate them to reflect the type of borrowings.

	Current Financial Liabilities				
	Borrowings		**Creditors**		**Total**
	31 March 2020 (Restated) £000	**31 March 2021 £000**	**31 March 2020 £000**	**31 March 2021 £000**	**31 March 2021 £000**
Amortised cost					
Public Works Loans Board	(12,020)	(4,438)	0	0	**(4,438)**
Market Loans	(188)	(191)	0	0	**(191)**
Other	0	0	0	0	**0**
Creditors	0	0	(62,497)	(69,961)	**(69,961)**
Total financial liabilities	**(12,208)**	**(4,629)**	**(62,497)**	**(69,961)**	**(74,590)**
Non-financial liabilities	0	0	(27,624)	(54,947)	**(54,947)**
Total	**(12,208)**	**(4,629)**	**(90,120)**	**(124,908)**	**(129,537)**

In the above table of current financial liabilities borrowings as at 31st March 2020 have been restated to separate them to reflect the type of borrowings.

Income, Expense, Gains and Losses

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

	31 March 2020		31 March 2021	
	Surplus or Deficit on the Provision of Services (Restated) £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net losses on:				
• financial assets measured at amortised cost	653	0	810	0
Total net losses	**653**	**0**	**810**	**0**
Total interest revenue	(987)	**0**	(477)	**0**
Interest expense	30,502	**0**	30,321	**0**

The Surplus or Deficit on the Provision of Services in the above table has been erstated to include interest expense which had previously been omitted in error.

Note 25 - 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 127/21 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 new loan rate has been applied.

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 2019/20 and 2020/21 all fair value measurements were based on level 2 inputs, with no Level 1 or 3 for either year.

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

	Financial Liabilities			
	31 March 2020		31 March 2021	
	Carrying Amount (Restated)	Fair Value (Level 2) Restated	Carrying Amount	Fair Value (Level 2)
	£000	£000	£000	£000
Financial Liabilities held at Amortised Cost:				
Public Works Loans Board	(374,220)	(410,373)	(366,638)	(461,590)
Market Loans	(24,621)	(32,229)	(24,607)	(34,215)
Other	(121)	(121)	(109)	(109)
Total Loans & Borrowings	**(398,962)**	**(472,723)**	**(391,354)**	**(495,914)**
PFI and finance lease liabilities	(114,536)	(189,821)	(112,445)	(189,495)
Total	**(513,498)**	**(662,544)**	**(503,799)**	**(685,409)**

The above table has been amended for Financial Liabilities as at 31st March 2020 to separate them to reflect the type of borrowing. The fair value of the PFI liabilities has been restated to show the fair value using the PWLB new loan rate in calculating the Fair Value rather than the premature redemption rate that had previously been used.

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 2020		31 March 2021	
	Carrying Amount (Restated)	Fair Value (Level 2) (Restated)	Carrying Amount	Fair Value (Level 2)
	£000	£000	£000	£000
Amortised Cost (Investments)	15,076	15,076	73,052	73,052
Cash and Cash Equivalent: Other	52,786	52,786	64,680	64,680
Cash and Cash Equivalent: Fair value through profit and loss	51,427	51,427	53,502	53,502
Long-Term Debtors	2,758	2,758	2,430	2,430
Total	**122,047**	**122,047**	**193,664**	**193,664**

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 2019 and 31st March 2020 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.

Note 26 - 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 2021 are detailed below:

Deposits with Banks and Financial Institutions	Fitch Rating	Amount at 31 March 2021 £000
Cash and Cash Equivalents		
BNP PARIBAS MMF - INSTICASH	AAA	20,000
FEDERATED ST PRIME MMF	AAA	15,600
ABERDEEN STANDARD MMF	AAA	17,900
NATWEST - instant liquidity account	A+	14,100
AUSTRALIA AND NEW ZEALAND	A+	10,000
FLINTSHIRE COUNTY COUNCIL	AA-	5,000
SURREY COUNTY COUNCIL	AA-	10,000
ABERDEENSHIRE COUNCIL	AA-	10,000
	Sub Total	**102,600**
Short Term Investments		
NATWEST - 95 day account	A+	5,000
PLYMOUTH CITY COUNCIL	AA-	10,000
MERSEYSIDE PCC	AA-	10,000
WEST DUNBARTONSHIRE COUNCIL	AA-	10,000
WOKING BOROUGH COUNCIL	AA-	10,000
FIFE COUNCIL	AA-	5,000
NORTH LANARKSHIRE COUNCIL	AA-	5,000
WOKINGHAM TOWN COUNCIL	AA-	8,000
LEEDS BUILDING SOCIETY	A-	10,000
	Sub Total	**73,000**
	Total	**175,600**

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 2021 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, £1.651m (£1.281m 2019/20) of the £3.088m (£2.335m 2019/20) balance is past its due date for payment.

This analysis does not include all contractual debtors. The Council also has £13.104m owed by individuals in respect of outstanding residential and non-residential care charges (£13.434m in 2019/20). Of this debt £1.471m (2019/20 £1.747m) 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 2020 £000	31 March 2021 £000
Less than three months	1,459	496
Three to six months	187	208
Six months to one year	134	210
More than one year	556	737
	2,335	**1,651**

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 2020/21 the impairment losses of £0.810m (£0.653m for 2019/20) recognised related only to receivables (debtors) and was calculated on a lifetime basis.

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 2021, 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 £1.354m. The impact of a 1% fall in interest rates would be a net decrease in income of £0.298m, 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.

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 (£73.052m) 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 2020 £000	31 March 2021 £000
Less than one year	7,500	0
Between one and two years	0	5,000
Between two and five years	30,200	33,200
More Than 5 Years	32,000	31,500
More Than 10 years	324,554	317,025
	394,254	**386,725**

Balance Sheet	**31 March 2020 £000**	**31 March 2021 £000**
Short Term Borrowings	7,500	0
Long term Borrowings	386,754	386,725
	394,254	**386,725**

Lender	**31 March 2020 £000**	**31 March 2021 £000**
Public Works Loans Board	369,700	362,200
Market Debt	24,433	24,416
Other	121	109
	394,254	**386,725**

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.

Note 27 - 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 £15.578m (2019/20 £6.620m) in hand and are included as cash and cash equivalents in Current Assets. Short term deposits totalling £102.604m (2019/20 £97.593m) 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 2020 £000		**31 March 2021 £000**
6,620	Cash and Bank balances	15,578
97,593	Short Term Investments	102,604
104,213	**Total Cash and Cash Equivalents**	**118,182**

Note 28 – Short Term Creditors

An analysis of sums owed by the Council as at 31st March is:

31 March 2020 £000		31 March 2021 £000
10,433	Employee Leave Accrual	14,207
2,288	Short term PFI Loans	1,740
13,207	Owed to Accountable Bodies	12,724
5,515	Accounts Payable Control	14,257
6,055	Accruals	7,401
9,465	Capital Payables	10,850
20,971	Other Payables	22,988
(67,934)	Other payables	(84,167)
(9,710)	Central Government Bodies	(14,756)
(5,861)	Other Local Authorities	(18,420)
(1,619)	NHS Bodies	(1,698)
(1)	Public Corporations and Trading Funds	(11)
(4,995)	Local Taxation (council tax and non-domestic rates)	(5,855)
(90,120)	**Total Creditors**	**(124,908)**

Note 29 - Provisions

Current Provisions

2020/21	Insurance - Motor and Fire £000	MMI Provision £000	Voluntary Redundancies £000	Other Provisions £000	Total £000
Opening Balance	(284)	(54)	(164)	(2,860)	(3,361)
Increase in provision during year	(18)	0	(304)	(1,180)	(1,502)
Utilised during year	0	36	164	433	633
Closing Balance	**(302)**	**(18)**	**(304)**	**(3,606)**	**(4,230)**

2019/20	Insurance - Motor and Fire £000	MMI Provision £000	Voluntary Redundancies & Ill Health Provisions £000	Other Provisions £000	Total £000
Opening Balance	(227)	(1)	(1,979)	(3,102)	(5,309)
Increase in provision during year	(57)	(52)	(163)	(2,724)	(2,996)
Utilised during year	0	0	1,978	2,966	4,944
Closing Balance	**(284)**	**(54)**	**(164)**	**(2,860)**	**(3,361)**

Long Term Provisions

2020/21	Insurance - employers and public liability	Business Rates Appeals	Total
	£000	£000	£000
Opening Balance	**(7,457)**	**(1,945)**	**(9,401)**
Increase in provision during year	(999)	(1,870)	(2,869)
Utilised during year	0	1,945	1,945
Closing Balance	**(8,455)**	**(1,870)**	**(10,325)**

2019/20	Insurance - employers and public liability	Business Rates Appeals	Total
	£000	£000	£000
Opening Balance	(6,694)	(1,386)	(8,080)
Increase in provision during year	(763)	(1,945)	(2,708)
Utilised during year	0	1,386	1,386
Closing Balance	**(7,457)**	**(1,945)**	**(9,401)**

2019/20	Total Provisions	2020/21
£000		£000
(13,389)	Opening Balance	(12,762)
(5,704)	Increase in provision during year	(4,371)
6,330	Utilised during year	2,578
(12,762)	**Closing Balance**	**(14,555)**

Insurance Provision

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 (£7.457m for employers and public liability and £0.302m for motor and fire) represents the sum estimated to meet claims identified and also claims incurred but not reported at 31st March 2021. The estimate is based on the advice of consulting actuaries 'Marsh Risk Consulting'. The balance of funding is held in an insurance reserve (£9.851m note 31) to support the ongoing self insurance programme for the period to 31st March 2021.

Municipal Mutual Insurance (MMI)

Municipal Mutual Insurance Ltd (MMI) were the Council's insurer from 1974 until the early 1990's. MMI became insolvent in 1992 and entered into administration due to insufficient reserves to cover all its potential liabilities. A scheme of arrangement was agreed upon with policyholders, including the Council. Under the scheme of arrangement, the Council currently has financial liability for 25% of all claims lodged against its former policy with MMI. This figure has increased in previous years as new claims have been lodged and existing claims have been settled. There is a risk that the Council could be liable for more than 25% of claims and the Council has previously accounted in its reserves based on 85%.

In January 2020, the Council received a report from Gallagher Insurance Brokers Ltd (the administrators for MMI) noting that they do not expect the Council's liability to be any more than 50% of all claims. The provision at 31st March 2020 was £0.054m.

No further updates have been provided as to the potential liabilities arising from MMI. Consequently, the Council has retained the provision of 25% for expected claims, the contingent reserve added in 2019/20 of £0.137m has also been retained in 2020/21 to give additional capacity should the final liabilities exceed 50%.

Other Provisions
The Council is required to make provisions for any contractual issues that it is aware of at the Balance Sheet date that may result in additional costs being incurred. However, at this there are still uncertainties about the timing and or the amount. The other provisions relate mainly to these areas of contractual issues.

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. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31st March 2021. The provision is based on lodged appeals only. 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 2021 is £1.870m (31st March 2020 £1.945m).

Note 30 - Usable Reserves

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

31 March 2020 £000	Usable Reserves	31 March 2021 £000
(15,056)	General Fund Balance	(25,056)
(60,592)	Earmarked Reserves	(116,427)
(75,650)	**Total Statutory General Fund**	**(141,483)**
(5,826)	Capital Receipts Reserve	(5,179)
(2,076)	Capital Grants Unapplied	(3,173)
(83,551)	**Total Usable Reserves**	**(149,835)**

General Fund Balance
The General Fund Balance at the 1st April 2020 was £15.056m. Given the continuing levels of uncertainty regarding the 2020/21 outturn position and the ongoing financial impact of the COVID-19 pandemic, General Fund Reserves need to be robust. It is prudent and appropriate to build up General Reserves where possible, to be able to effectively respond to unanticipated pressures and this period of sustained uncertainty.

During Q3 there was a further reduction in forecast unfunded COVID-19 pressures, an increase of specific grant funding received offsetting pressures, and an increase in temporary directorate underspends. This provided further opportunity to transfer underspends to reserve. At its meeting on 18th March 2021 Cabinet approved a (£10.000m) transfer to the General Fund Balance, resulting in a forecast balance at 31st March of £25.056m, consistent with the Budget agreed at Council in February 2021.

Earmarked Reserves

The details of earmarked reserves and the movements thereon are set out in Note 31 Transfers to / from Earmarked Reserves.

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 2020 £000	Capital Receipts Reserve	31 March 2021 £000
(6,719)	**Balance 1 April**	**(5,826)**
(1,591)	Capital Receipts in year	(1,909)
2,484	Capital Receipts used for financing	2,556
(5,826)	**Balance 31 March**	**(5,179)**

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 2020 £000	Capital Grants Unapplied	31 March 2021 £000
0	Balance 1 April	(2,076)
(2,076)	Capital grants recognised in year	(1,655)
0	Capital grants utilised in financing	558
(2,076)	**Balance 31 March**	**(3,173)**

Note 31 - 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 2019	Tfrs Between Reserves 19/20	Tfr In 19/20	Tfr Out 19/20	Balance at 31 March 2020	Tfr to Unusable Reserves 20/21	Tfr In 20/21	Tfr Out 20/21	Balance at 31 March 2021
	£000		£000	£000	£000		£000	£000	£000
DSG Funded Reserves									
Schools ring fenced Reserves	**(2,356)**	(4)	(1,939)	4,444	**145**	0	(9,907)	1,286	**(8,476)**
DSG Reserve	**3,841**	0	(626)	3,776	**6,991**	(6,991)	0	0	**0**
Sub Total DSG Funded Reserves	**1,485**	**(4)**	**(2,565)**	**8,220**	**7,136**	**(6,991)**	**(9,907)**	**1,286**	**(8,476)**
Ring Fenced Earmarked Reserves:									
Revenue Grants Reserves	**(23,303)**	9	(20,931)	3,984	**(40,241)**	0	(46,017)	33,437	**(52,821)**
Revenue Reserve for Capital Purposes	**(1,534)**	0	(51)	0	**(1,586)**	0	(15)	55	**(1,546)**
Long Term Investment Reserve	**(2,813)**	0	0	0	**(2,813)**	0	0	0	**(2,813)**
Insurance Reserve	**(11,280)**	0	(377)	1,806	**(9,851)**	0	0	0	**(9,851)**
Sub Total Ring Fenced Earmarked Reserves	**(38,930)**	**9**	**(21,359)**	**5,790**	**(54,491)**	**0**	**(46,032)**	**33,492**	**(67,031)**
Elections Reserve	**(341)**	0	(230)	11	**(560)**	0	(230)	0	**(790)**
Innovation & Transformation Fund	**(2,075)**	0	(327)	1,370	**(1,032)**	0	(5,807)	1,165	**(5,674)**
Financial Volatility Reserve	**0**	0	0	0	**0**	0	(15,960)	0	**(15,960)**
Strengthening Short Term Capacity Reserve	**0**	0	0	0	**0**	0	(3,060)	0	**(3,060)**
Business Rates Pool Volatility Reserve	**(380)**	0	0	380	**0**	0	0	0	**0**
Other Services	**(4,335)**	(9)	(5,047)	6,159	**(3,233)**	0	(2,571)	1,712	**(4,092)**
Sub Total Centrally Held Earmarked Reserves	**(7,131)**	**(9)**	**(5,604)**	**7,920**	**(4,825)**	**0**	**(27,628)**	**2,877**	**(29,576)**
Modernisation (Cost of Change) Reserve	**(4,867)**	0	0	0	**(4,867)**	0	0	0	**(4,867)**
Directorate Reserves									
People	**(757)**	4	(54)	414	**(393)**	0	(502)	0	**(895)**
Corporate, Customer & Community	**(699)**	0	(232)	404	**(527)**	0	(1,151)	0	**(1,678)**
Economy & Infrastructure	**(1,999)**	0	(176)	333	**(1,842)**	0	(1,517)	368	**(2,991)**
Local Committees	**(914)**	0	(783)	914	**(783)**	0	(913)	783	**(913)**
Sub Total Directorate Earmarked Reserves	**(4,369)**	**4**	**(1,245)**	**2,065**	**(3,545)**	**0**	**(4,083)**	**1,151**	**(6,477)**
Sub Total Council Reserves	**(55,298)**	**4**	**(28,208)**	**15,775**	**(67,728)**	**0**	**(77,743)**	**37,520**	**(107,951)**
Total General Fund Earmarked Reserves	**(53,813)**	**0**	**(30,773)**	**23,995**	**(60,592)**	**(6,991)**	**(87,650)**	**38,806**	**(116,427)**

The increase in earmarked reserves provide some additional resilience for the Council in addressing the continuing impacts of COVID-19 and the recovery effort which will be required in 2021/22. The Council is the strategic lead for Cumbria's recovery from the pandemic, working with partners across the county and sectors.

DSG Funded Reserves
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.

There has been a decrease of three in the overall number of schools as a result of the following:

- two Schools converted to Academy status during the year, further details are in Note 10.
- one nursery school closed.

As at 31st March 2020 the net deficit balances on maintained schools was £0.145m. The net deficit balance position represented a decrease of £2.501m (106%) from the position as at 31st March 2019 of (£2.356m).

As at 31st March 2021 the net surplus balance on maintained schools is (£8.476m), an increase in net balances of (£8.621m) since 2019/20 and an increase of (£6.979m) compared to schools' own forecasts as at their October budget submissions of (£1.497m) which were set before it was known that there would be a second and third COVID-19 lockdown. The table below shows a breakdown of these figures separately by surpluses and deficits excluding academies irrespective of whether the asset is on the Council's Balance Sheet or not.

	31 March 2020		**31 March 2021**	
Schools Earmarked Reserves	**No.**	**£000**	**No.**	**£000**
Schools in surplus	187	(7,796)	214	(14,808)
Schools in deficit	72	7,941	42	6,332
	259	**145**	**256**	**(8,476)**

The increase in school balances is partly explained by reduced activity due to school closures to all pupils except for vulnerable children and children of key workers during the COVID-19 lockdowns and therefore reduced expenditure compared to pre-COVID-19 levels. Whilst schools have incurred additional costs in respect of operating under COVID19 restrictions, much of this additional expenditure has been covered by schools claiming COVID19 exceptional funds of which £0.778m was received in 2020/21. Schools own-generated income is significantly lower than pre-COVID-19 levels, however, due to reduced activity this loss has been offset by significantly reduced delivery costs against supply teaching and agency staff, staff training, energy, learning resources, catering and professional curriculum services.

There was also an increase in the amount of funding available to schools in 2020/21 compared to 2019/20. In total schools received an additional £17.663m in delegated funding. This mainly related to an increase in S251 Schools Block funding following additional funding allocated through the national funding formula of £10.828m, Teacher Pay and Pension grants £4.550m and other net increases totalling £2.285m.

In addition to the increase in delegated funding COVID19 grants totalling £2.664m were also received. Of this, £1.866m was for Catch-Up Premium funding to support pupils during the academic year 2020/21, however, due to children having only recently returned to school the spend against this grant is expected to be incurred during 2021/22.

Dedicated Schools Grant (DSG) Reserve
Regulations effective from 1st April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1st April 2020 have been transferred into that account.

The deficit brought forward at 1st April 2020 was £6.991m which has been transferred to the DSG Adjustment Account with effect from 1st April 2020. The DSG Adjustment Account is detailed in Note 32 Unusable Reserves.

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 balance on the Revenue Grants Reserves at 31st March 2021 is £52.821m (£40.241m 2019/20), which includes £22.342m of PFI grant and contributions to support the Carlisle Northern Development Route and replacement fire stations project and £24.849m remaining on the various COVID 19 Grants received during the year.

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 £8.757m (long term £8.455m and short term £0.302m note 29) represents the sum estimated to meet claims identified at 31st March 2021. 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 2021 the reserve was £9.851m.

Financial Volatility Reserve
During Q2 2020/21 a number of revisions to the forecast outturn position occurred which allowed the Financial Volatility reserve to be created. There was a reduction in forecast COVID-19 pressures, an increase of specific grant funding received offsetting pressures, and an increase in directorate underspends. The resultant transfer of (£13.687m) underspend to the ‘Financial Volatility Reserve’ was approved by Cabinet, in December 2020. This reserve has been created to provide robustness to the financial sustainability of the Council, given the uncertainty relating to the ongoing financial impact of COVID-19 beyond this year.

During Q4 there was a further increase in directorate temporary underspend and a reduction in the COVID-19 unfunded pressure which has offset the increase in non-COVID-19 related pressures. This exceptional position provides a further opportunity to earmark resources to provide robustness to the financial sustainability of the Council given the significant uncertainty relating to both the financial impact of COVID-19 in 2020/21 and beyond, and with regards to the future funding for local government. Therefore, a further transfer of £2.273m has been made to the Financial Volatility reserve, taking the total value of the reserve to £15.960m.

Strengthening Short Term Capacity Reserve
A transfer of (£1.780m) to the ‘strengthening short-term capacity’ reserve was also agreed by Cabinet at the March meeting. Cabinet also agreed to transfer the balance remaining on the contingency budget to this reserve at year-end. £0.220m of the contingency budget was utilised to fund short-term capacity in 2020/21 and therefore a further (£1.280m) has been transferred to the ‘strengthening short-term capacity’ reserve. This reserve was created to provide short term dedicated and targeted additional resource across a number of services for, in most cases, a 12 month period, recognising the impact of COVID-19 in particular, support service functions. The additional capacity has been requested to enable the delivery of key services, transformation activities and Council Plan priorities in 2021/22.

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 2020 the balance on this reserve was £4.867m.

The Council has not utilised the Reserve in 2020/21 to meet the cost of restructuring through service reviews and voluntary redundancy. The cost of redundancies has been funded by the flexible use of capital receipts. The balance on the reserve at 31st March 2021 remains £4.867m.

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.

Note 32 - 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 2020 £000		31 March 2021 £000
(149,847)	Revaluation Reserve	(146,744)
(598,851)	Capital Adjustment Account	(630,156)
433	Financial Instruments Adjustment Account	416
855,572	Pension Reserve	991,888
0	DSG Adjustment account	9,641
64	Collection Fund Adjustment Account	12,974
10,228	Accumulated Absences Account	14,119
117,600	**Total**	**252,138**

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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 2020 £000	Revaluation Reserve	31 March 2021 £000
(140,076)	**Balance 1 April**	**(149,847)**
(25,438)	Upward revaluation of assets	(12,972)
9,501	Downward revaluation of assets and impairment losses not charged to the (Surplus) or Deficit on the Provision of Services	11,254
(15,937)	**(Surplus) or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services**	**(1,718)**
3,135	Difference between fair value depreciation and historical cost depreciation	3,482
3,031	Accumulated gains on assets sold or scrapped	1,340
6,166	**Amount written off to the Capital Adjustment Account**	**4,821**
(149,847)	**Balance 31 March**	**(146,744)**

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 2020 £000	Capital Adjustment Account	31 March 2021 £000
(580,944)	**Balance 1 April**	**(598,851)**
36,875	Charges for depreciation and impairment of non-current assets	39,943
4,704	Revaluation losses on non-current assets	6,682
104	Amortisation of intangible assets	67
9,068	Revenue expenditure funded from capital under statute	10,360
14,806	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	4,648
65,556	**Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement**	**61,700**
(6,166)	Adjusting Amounts written out of the Revaluation Reserve	(4,821)
59,391	**Net written out amount of the cost of non-current assets consumed in the year**	**56,879**
(2,484)	Use of Capital Receipts Reserve to finance new capital expenditure	(2,556)
(66,740)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(73,269)
0	Application of Capital Grants and Contributions from the Capital Grants Unapplied Account	(558)
(3,304)	Statutory provision for the financing of capital investment charged against the General Fund	(7,939)
(4,101)	Capital expenditure charged against the General Fund	(4,140)
(76,629)	**Capital financing applied in year:**	**(88,462)**
(669)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	279
(598,851)	**Balance 31 March**	**(630,156)**

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 2020 £000	Financial Instruments Adjustment Account	31 March 2021 £000
449	**Balance 1 April**	**433**
(16)	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(17)
(16)	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	(17)
433	**Balance 31 March**	**416**

Pensions 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 2020 £000	Pension Reserve	31 March 2021 £000
877,176	**Balance at 1 April**	**855,572**
(65,669)	Remeasurements of the net defined benefit (liability)/asset	104,255
95,020	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	87,539
(50,955)	Employer's pensions contributions and direct payments to pensioners payable in the year	(55,478)
855,572	**Balance 31 March**	**991,888**

The Council has made a lump sum prepayment of £7.609m for three years from 1st April 2020. This prepayment must be accounted for in the relevant financial year as per the actuarial certificate and not in the year the cash is paid. When the cash is paid, in this case 2020/21, the prepayment is charged against the Net Pension Liability to reflect that it is paying down that liability. The amount due for that financial year is recognised in the Comprehensive Income and Expenditure Account. This leads to an imbalance between the Net Pension Liability and the Pension Reserve in years one and two of the prepayment, in year three they are then in balance again. For the Council in 2020/21, £2.568m was recognised in the Comprehensive Income and Expenditure Statement and £5.041m (years 2 and 3) is charged to the net pension liabilities.

Dedicated Schools Grant Adjustment Account

Regulations effective from 1st April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1st April 2020 have been transferred into that account.

As at 1st April 2020 the Dedicated Schools Grant (DSG) had an accumulated deficit of £6.991m excluding balances held within individual schools. As at 31 March 2021 the deficit is £9.641m, an increase of £2.650m since 2019/20 but a decrease of (£1.360m) compared to the Q3 forecast and comprises of a reduced pressure on the High Needs Block of (£0.452m) and a decrease in expenditure against central DSG of (£0.908m).

An updated High Needs Recovery plan, which was discussed with the DfE on 23 September 2020, sets out the Authority's plans to reduce the deficit on the High Needs Block through a number of savings and Invest to Save initiatives. Progress on delivery is monitored and reported to School Forum. As at 31 March 2021, the High Needs Block deficit of £14.550m is (£0.640m) lower than forecast in the High Needs Recovery Plan. The table below shows the deficit position on both the central DSG and High Needs Block (this excludes individual school balances):

31 March 2020 £000	DSG Adjustment account	31 March 2021 £000
0	**Balance 1 April**	**0**
0	Adjustment to Opening Balance	6,991
0	**Adjusted Balance at 1 April**	**6,991**
0	In Year Deficit on DSG	2,650
0	**Balance 31 March**	**9,641**

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.

The amounts paid to the General Fund are fixed on the basis of forecast income as at the start of the financial year. Neither the timing nor the amount of these payments can be revised within the year. If there is under- or over-collection of local taxes in a given year against the forecast income, this difference is realised in councils' general funds in the following financial year as a surplus/deficit on the Collection Fund. Until then it is held in the Collection Fund Adjustment Account.

The balance of £12.974m comprises £3.592m deficit from Council Tax and £9.382m from Business Rates. This deficit is larger than normal as a result of the COVID-19 pandemic. The majority of this larger deficit has resulted from the granting of Business Rates extended retail and nursery relief during 2020/21 by the District Councils. Government granted 100% rating relief to businesses in these categories and compensated the Council for the loss of business rates collected with a Section 31 grant. The Council's share of the deficit which is shown in the Collection Fund Adjustment Account is offset by additional income in General Fund, where Section 31 grants are accounted for. This additional income has been set aside in an earmarked reserve and will be released to offset the recovery of the deficit in 2021/22.

The remaining deficit not covered by the Business Rate Section 31 grant compensation noted above, such as those relating to Council Tax, would normally be released in one financial year, but new legislation was introduced to protect Council tax payers from the impact of these exceptional deficits, this is done by allowing the deficit to be released over three years. Government have also introduced local tax income guarantee funding for 2020/21, which provides compensation for some of this deficit. This additional income has been accounted for within the General Fund and has been set aside in an earmarked reserve and will be released to offset the recovery of the deficit over the next three years.

31 March 2020 £000	Collection Fund Adjustment Account	31 March 2021 £000
105	**Balance 1 April**	**64**
(41)	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	12,909
64	**Balance 31 March**	**12,974**

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 2020 £000	Accumulated Absences Account	31 March 2021 £000
12,472	**Balance 1 April**	**10,228**
(12,472)	Settlement or cancellation of accrual made at the end of the preceding year	(10,228)
10,228	Amounts accrued at the end of the current year	14,119
(2,244)	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	3,891
10,228	**Balance 31 March**	**14,119**

Note 33 - 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 2020/21, the Council paid £24.308m (2019/20 £20.524m) to Teachers' Pensions Scheme in respect of teachers' retirement benefits. The employer contribution rate increased to 23.68% with effect from 1st September 2019, prior to that it was 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 2020/21, the Council paid £0.054m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 15.68% of pensionable pay. The figures for 2018/19 were £0.063m and 15.68%.

<u>Nature of Funds</u>

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.

<u>Governance</u>

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

<u>Funding the liabilities</u>

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 7 years, measured on the actuarial assumptions used for IAS19 purposes.

<u>Investment Risks</u>

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 on page 141/142 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 34. Additional and discretionary pensions paid to retired teachers by the Council totalled £2.810m in 2020/21 and £2.919m 2019/20.

Note 34 - 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.

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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Contributions Receivable										
Employers Contributions	(565)	(373)	(32)	(20)	(92)	(73)	(2,153)	(2,501)	(2,841)	(2,967)
Employees Contributions	(224)	(150)	(12)	(8)	(92)	(90)	(950)	(1,100)	(1,278)	(1,348)
Total Income	**(789)**	**(523)**	**(44)**	**(28)**	**(183)**	**(162)**	**(3,104)**	**(3,601)**	**(4,120)**	**(4,315)**
Benefits Payable										
Pensions Paid	5,078	5,408	29	31	88	105	0	0	5,195	5,544
Ill Health and Injury	1,247	1,260	8	8	2	3	12	15	1,269	1,287
Lump Sums	2,411	1,258	0	2	19	77	0	27	2,430	1,364
Lump Sum Death Benefits & Widows Pensions	543	528	0	1	3	3	24	5	570	537
Total Expenditure	**9,279**	**8,454**	**37**	**42**	**112**	**188**	**36**	**47**	**9,464**	**8,732**
Contribution Rates										
Employers	37.3%	37.3%	27.4%	27.4%	37.3%	37.3%	28.8%	28.8%		
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%	11.0% - 14.5%	11.0% - 14.5%		

<u>Nature of Funds</u>
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.

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

<u>Funding the liabilities</u>
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.

<u>Investment Risks</u>
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.

<u>Other risks</u>
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.

<u>Employment Tribunal - McCloud / Sargeant</u>
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. In response to this, on 16th July 2020, HM Treasury issued a consultation to address the discrimination in the unfunded public service pension schemes, including the Teachers and Firefighters' pension 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 judgement will be measured through the pension valuation process, which determines employer and employee contribution rates. The Firefighters Pension valuation took 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.

Local Government Pension Scheme (LGPS)

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 2019 valuation) at a level intended to balance the pensions liabilities with investment assets by 2032. 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 2020

Every three years the pension scheme undertakes a valuation process which establishes each employer’s funding position, i.e. the assets and liabilities within the Fund attributable to each employer. Where an employer is calculated to be in deficit (i.e. fund liabilities exceed assets) the Fund’s actuary calculates the period over which this should be repaid and the amount deficit that is payable over the next three years (until the next valuation). At the time of calculating the deficit lump sum amounts (as part of the 2019 valuation) the Council had a total deficit value of £30.3m (£126.3m at the 2016 valuation), with a plan to recover the deficit by 2032. Paying the deficit recovery lump sum for the period 2020-2023 in full in April 2020 has enabled the Council to use its cash balances to avoid compensating the Fund for lost investment opportunities. 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 2019 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 eliminate the deficit by 2032.

- Current service cost – 18.4% of pensionable pay.
- Past service cost – a lump sum prepayment of £7.609m for the three years from 1st April 2020 to 31st March 2023.

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

2019/20 £000	Employers Pension Contributions	2020/21 £000
25,837	18.4% of pensionable pay (2019/20 14.9%)	32,928
9,014	Annual element of 3 year lump sum prepayment	2,567
2,771	Actuarial strain costs	2,459
1,968	Benefits recharged	1,905
39,590		**39,859**

Nature of LGPS Scheme

The LGPS is a funded defined benefit final salary scheme. The value of an individual's pension benefits depends on how long they are an active member 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 Pensions Committee (comprised of 8 County Councillors, 1 District Councillor and two non-voting employee representatives) to manage the Scheme.

Additionally, the Cumbria Local Pension Board is responsible for assisting the County Council is securing compliance with regulations, legislation and the requirements of the Pensions Regulator to ensure the effective and efficient governance and administration of the Cumbria LGPS. The Board is comprised of 3 employer representatives (1 for the County Council, 1 for District Councils and 1 for other employers in the Fund) and 3 scheme member representatives (representing active, deferred and pensioner members of the Fund).

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 2019 with the resultant contribution rates for employers being effective from 1st April 2020 to 31st March 2023. This has valued the shortfall of assets against liabilities for the Fund as being £30.3m as at 31st March 2019, equivalent to a funding level of 98%. The Council's Pensions Committee set the parameters for this valuation in September 2019 which included eliminating the deficit by 2032.

The next triennial valuation of the Fund is due on the 1st April 2022.

The weighted average duration of the authority's defined benefit obligation is 17 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. The sensitivity to changes in these assumptions is set out on pages 138/139 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. In response to this, on 16th July 2020, the Ministry for Housing, Communities and Local Government issued a consultation outlining proposed changes to the LGPS statutory underpin protections to remove the unlawful discrimination. On the same date, HM Treasury issued a

consultation to address the discrimination in the unfunded public service pension schemes, including the Teachers and Firefighters' pension schemes.

LGPS: The consultation proposes the removal of the condition that required a member to have been within ten years of their normal pension age on 1st April 2012 to be eligible for underpin protection. It also proposes a number of supplementary changes to ensure the revised underpin works effectively and consistently for all members.

The Council's Actuary, Mercer Ltd, have calculated some approximate effects of the costs of extending the transitional protections to younger members. The costings of the potential effect of McCloud at 31st March 2021, based on individual member data as at 2019 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 12th April 2012 and who would not otherwise have benefited from the underpin.

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.

34.1 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:

2019/20					2020/21			
LGPS	Firefighters Pension Schemes	Teachers Pension Schemes	Total		LGPS	Firefighters Pension Schemes	Teachers Pension Schemes	Total
£000	£000	£000	£000		£000	£000	£000	£000
Comprehensive Income and Expenditure Statement								
				Service cost comprising:				
59,063	5,153	0	64,216	Current service cost	56,179	5,199	0	61,378
6,173	1,352	0	7,525	Past service cost	1,977	1,267	0	3,244
2,948	0	0	2,948	Loss from curtailments	2,055	0	0	2,055
(1,470)	0	0	(1,470)	Loss from settlements and / or transfers	(344)	0	0	(344)
				Other Operating Expenditure:				
1,387	0	0	1,387	Administration expenses	1,432	0	0	1,432
				Financing and Investment Income and Expenditure				
13,058	6,506	850	20,414	Net interest expense	12,731	6,388	655	19,774
81,159	**13,011**	**850**	**95,020**	**Total charged to (Surplus) and Deficit on Provision of Services**	**74,030**	**12,854**	**655**	**87,539**
Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement								
LGPS	Firefighters Pension Schemes	Teachers Pension Schemes	Total		LGPS	Firefighters Pension Schemes	Teachers Pension Schemes	Total
£000	£000	£000	£000		£000	£000	£000	£000
				Re-measurement of the net defined benefit liability comprising:				
60,618	0	0	60,618	Return on plan assets (excluding the amount included in the net interest expense)	(256,254)	0	0	(256,254)
3,731	0	(867)	2,864	Actuarial (gains) and losses - experience	(44,783)	(2,884)	(441)	(48,108)
(82,529)	(4,946)	(1,551)	(89,026)	Actuarial (gains) and losses arising on changes in demographic assumptions	0	0	0	0
(35,468)	(4,882)	225	(40,125)	Actuarial (gains) and losses arising on changes in financial assumptions	358,499	48,399	1,719	408,617
(53,648)	**(9,828)**	**(2,193)**	**(65,669)**	**Total charged to Other Comprehensive Income and Expenditure Statement**	**57,462**	**45,515**	**1,278**	**104,255**
27,511	**3,183**	**(1,343)**	**29,351**	**Total charged to the Comprehensive Income and Expenditure Statement**	**131,492**	**58,369**	**1,933**	**191,794**

Movement in Reserves Statement

2019/20 LGPS	2019/20 Firefighters Pension Schemes	2019/20 Teachers Pension Schemes	2019/20 Total		2020/21 LGPS	2020/21 Firefighters Pension Schemes	2020/21 Teachers Pension Schemes	2020/21 Total
£000	£000	£000	£000		£000	£000	£000	£000
(81,159)	(13,011)	(850)	(95,020)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services	(74,030)	(12,854)	(655)	(87,539)
				Actual amount charged against the general fund balance for pensions in the year:				
39,590	8,419	0	48,009	Employers' contributions payable to scheme	44,901	7,775	0	52,676
0	0	2,946	2,946	Retirement Benefits Payable to Pensioners	0	0	2,802	2,802
39,590	**8,419**	**2,946**	**50,955**	**Total Employers Contributions and Retirement Benefits Payable**	**44,901**	**7,775**	**2,802**	**55,478**

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 2019/20 and 2020/21 arise in the Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement. In 2019/20 the total re-measurement recognised in Other Comprehensive Income and Expenditure in the CIES was a net gain of £65.669m and in 2020/21 it is a net charge of £104.255m. This is a change of £169.924m.

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 2.4% and it had decreased to 2.1% at the end of the year. A 0.1% increase in the discount rate results in a £47.944m decrease in the pension liability and vice versa. Further sensitivity analysis provided by the Actuary is in notes 34.4a, 34.4b and 34.4c.

34.2 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:

2019/20 LGPS £000	2019/20 Firefighters Pension Schemes £000	2019/20 Teachers Pension Schemes £000	2019/20 Total £000		2020/21 LGPS £000	2020/21 Firefighters Pension Schemes £000	2020/21 Teachers Pension Schemes £000	2020/21 Total £000
(2,046,709)	(270,026)	(28,683)	(2,345,418)	Present value of the defined obligation	(2,418,204)	(320,620)	(27,814)	(2,766,638)
1,489,846	0	0	1,489,846	Fair value of plan assets	1,779,792	0	0	1,779,792
(556,863)	**(270,026)**	**(28,683)**	**(855,572)**	**Net (liability) arising from the defined benefit obligation**	**(638,412)**	**(320,620)**	**(27,814)**	**(986,846)**

34.2a Movement in the Value of Scheme Assets

2019/20 LGPS £000	2019/20 Firefighters Pension Schemes £000	2019/20 Teachers Pension Schemes £000	2019/20 Total £000		2020/21 LGPS £000	2020/21 Firefighters Pension Schemes £000	2020/21 Teachers Pension Schemes £000	2020/21 Total £000
1,523,028	0	0	1,523,028	Opening fair value of scheme assets	1,489,846	0	0	1,489,846
36,575	0	0	36,575	Interest income	35,840	0	0	35,840
				Re-measurement gain / (loss):				
(60,618)	0	0	(60,618)	- The return on plan assets, excluding the amount included in the net interest expense	256,254	0	0	256,254
39,590	8,419	2,946	50,955	Contributions from employer	44,901	7,775	2,802	55,478
10,798	1,286	0	12,084	Contributions from employees into the scheme	11,637	1,342	0	12,979
(55,506)	(9,705)	(2,946)	(68,157)	Benefits / transfers paid	(56,863)	(9,117)	(2,802)	(68,782)
(1,387)	0	0	(1,387)	Administration expenses	(1,432)	0	0	(1,432)
(2,634)	0	0	(2,634)	Assets Extinguished on Settlement	(391)	0	0	(391)
1,489,846	**0**	**0**	**1,489,846**	**Closing value of scheme assets**	**1,779,792**	**0**	**0**	**1,779,792**

34.2b Movements in the Fair Value of Scheme Liabilities

2019/20 LGPS	2019/20 Firefighters Pension Schemes	2019/20 Teachers Pension Schemes	2019/20 Total		2020/21 LGPS	2020/21 Firefighters Pension Schemes	2020/21 Teachers Pension Schemes	2020/21 Total
£000	£000	£000	£000		£000	£000	£000	£000
(2,082,956)	(275,262)	(32,972)	(2,391,190)	Opening balance at 1 April	(2,046,709)	(270,026)	(28,683)	(2,345,418)
(59,063)	(5,153)	0	(64,216)	Current service cost	(56,179)	(5,199)	0	(61,378)
(49,633)	(6,506)	(850)	(56,989)	Interest cost	(48,571)	(6,388)	(655)	(55,614)
(10,798)	(1,286)	0	(12,084)	Contributions from scheme participants	(11,637)	(1,342)	0	(12,979)
				Re-measurement gains and losses:				
(3,731)	0	867	(2,864)	- Actuarial gains / (losses) - experience	44,783	2,884	441	48,108
82,529	4,946	1,551	89,026	- Actuarial gains from changes in demographic assumptions	0	0	0	0
35,468	4,882	(225)	40,125	- Actuarial gains / (losses) from changes in financial assumptions	(358,499)	(48,399)	(1,719)	(408,617)
(6,173)	(1,352)	0	(7,525)	Past service cost	(1,977)	(1,267)	0	(3,244)
(2,948)	0	0	(2,948)	(Losses) on curtailments	(2,055)	0	0	(2,055)
55,506	9,705	2,946	68,157	Benefits / transfers paid	56,863	9,117	2,802	68,782
4,104	0	0	4,104	Liabilities extinguished on settlements	735	0	0	735
(9,014)	0	0	(9,014)	Lump Sum Deficit Repayment	5,042	0	0	5,042
(2,046,709)	**(270,026)**	**(28,683)**	**(2,345,418)**	**Closing Value of Scheme Liabilities**	**(2,418,204)**	**(320,620)**	**(27,814)**	**(2,766,638)**

34.3 LGPS - Pension Scheme - Assets comprised of:

Fair value of scheme assets

2019/20				2020/21		
Quoted	**Unquoted**	**Total**		**Quoted**	**Unquoted**	**Total**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
56,614	0	56,614	Cash and Cash Equivalents	60,513	0	60,513
0	1,490	1,490	Net Current Assets	0	1,780	1,780
56,614	**1,490**	**58,104**	**Cash and cash equivalents**	**60,513**	**1,780**	**62,293**
			Equity Instruments			
148,984	0	148,984	UK Quoted	0	0	0
0	0	0	UK Equity Pooled	163,741	0	163,741
297,969	0	297,969	Global Quoted	0	0	0
0	0	0	Global Equity Pooled	519,698	0	519,698
0	104,289	104,289	Overseas Equity Pooled	0	0	0
446,953	**104,289**	**551,242**	**Subtotal Equity Instruments**	**683,439**	**0**	**683,439**
			Bonds			
0	342,665	342,665	UK Government Indexed Pool	0	307,904	307,904
0	**342,665**	**342,665**	**Subtotal Bonds**	**0**	**307,904**	**307,904**
			Property			
0	87,901	87,901	UK Property	0	103,228	103,228
0	41,716	41,716	Property Funds	0	46,275	46,275
0	**129,617**	**129,617**	**Subtotal Property**	**0**	**149,503**	**149,503**
			Other Investment Funds			
0	47,675	47,675	Private Debt Funds	0	69,412	69,412
0	55,124	55,124	Private Equity Funds	0	94,329	94,329
0	110,249	110,249	Infrastructure Funds	0	126,365	126,365
0	5,959	5,959	Real Estate Debt Funds	0	1,780	1,780
0	10,429	10,429	Healthcare Royalties	0	17,798	17,798
0	178,782	178,782	Multi Asset Credit	0	266,969	266,969
0	**408,218**	**408,218**	**Subtotal Other Investment Funds**	**0**	**576,653**	**576,653**
503,567	**986,279**	**1,489,846**	**Total Assets**	**743,952**	**1,035,840**	**1,779,792**

34.4 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 2021.

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.

34.4a LGPS

The significant assumptions used by the actuary have been:

2019/20		2020/21
Mortality assumptions		
Longevity at retirement for current pensioners		
22.6	Men	22.7
25.2	Women	25.3
Longevity at retirement for future pensioners		
24.2	Men	24.3
27.1	Women	27.2
Other assumptions		
2.1%	Rate of inflation	2.7%
3.6%	Rate of increase in salaries	4.2%
2.2%	Rate of increase in pensions	2.8%
2.4%	Rate for discounting scheme liabilities	2.1%

Impact of assumptions on the LGPS obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(72,789)	Longevity change by 1 year	72,789
(42,692)	Rate of inflation change by 0.1%	42,692
(4,219)	Rate of increase in salaries change by 0.1%	4,219
41,954	Rate for discounting scheme liabilities change by 0.1%	(41,954)
17,834	Investment returns change by 1%	(17,834)

34.4b Firefighters Pension Scheme

The significant assumptions used by the actuary have been:

2019/20	Firefighters Pension Schemes	2020/21
Mortality assumptions		
Longevity at retirement for current pensioners		
26.2	Men	26.3
28.3	Women	28.4
Longevity at retirement for future pensioners		
28.5	Men	28.6
30.5	Women	30.7
Other assumptions		
2.1%	Rate of inflation	2.7%
3.6%	Rate of increase in salaries	4.2%
2.2%	Rate of increase in pensions	2.8%
2.4%	Rate for discounting scheme liabilities	2.1%

Impact of assumptions on the Firefighters Pension Scheme obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(10,532)	Longevity change by 1 year	10,532
(5,884)	Rate of inflation change by 0.1%	5,884
(1,055)	Rate of increase in salaries change by 0.1%	1,055
5,794	Rate for discounting scheme liabilities change by 0.1%	(5,794)

34.4c Teachers Pension Scheme

The significant assumptions used by the actuary have been*:*

2019/20	Teachers Pension Schemes	2020/21
Mortality assumptions		
Longevity at retirement for current pensioners		
13.9	Men	13.9
16.0	Women	16.1
Other assumptions		
2.1%	Rate of inflation	2.7%
2.2%	Rate of increase in pensions	2.8%
2.4%	Rate for discounting scheme liabilities	2.1%

Impact of assumptions on the Teachers Pension obligation:

Increase in Assumption £000	Assumption	Decrease in Assumption £000
(1,382)	Longevity change by 1 year	1,382
(198)	Rate of inflation change by 0.1%	198
196	Rate for discounting scheme liabilities change by 0.1%	(196)

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 2019 valuation the Fund agreed a strategy with the Fund's Actuary to achieve a funding level of 100% by adopting an average recovery period of 12 years from 1st April 2020. The resultant contribution rates from this valuation are effective from 1st April 2020 to 31st March 2023. Funding levels are monitored on an annual basis.

The pension contributions expected to be made by the Council in the year to 31st March 2022 are:

- Local Government Pension Scheme £34.833m.
- Teachers Discretionary Benefits Scheme £2.802m.
- Firefighters Pension Scheme £7.775m.

Note 35 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2020 £000		31 March 2021 £000
(1,123)	Interest received	(501)
30,402	Interest paid	30,417
29,279	**Total**	**29,916**

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

31 March 2020 £000		31 March 2021 £000
(36,874)	Depreciation	(39,943)
(4,704)	Impairment and downward valuations	(6,682)
(104)	Amortisation	(67)
(6,283)	(Increase) in creditors	(44,504)
4,555	Increase in debtors	14,331
176	Increase/(decrease) in inventories	(28)
(53,079)	Movement in pension liability	(27,019)
(14,806)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(4,648)
1,312	Other non-cash movements charged to the surplus or deficit on provision of services	(2,055)
(109,807)	**Total**	**(110,615)**

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

31 March 2020 £000		31 March 2021 £000
1,591	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,909
66,632	Capital Grants	74,924
68,223	**Total**	**76,833**

Note 36 - Cash Flow from Investing Activities

31 March 2020 £000		31 March 2021 £000
85,625	Purchase of property, plant and equipment, investment property and intangible assets	89,831
91,500	Purchase of short-term and long-term investments	108,000
(1,591)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,909)
(143,580)	Proceeds from short-term and long-term investments	(50,000)
(43,995)	Capital Grants	(101,958)
(12,041)	**Net cash flows from investing activities**	**43,964**

Note 37 - Cash Flow from Financing Activities

31 March 2020 £000		31 March 2021 £000
(40,000)	Cash receipts of short-term and long-term borrowing	0
0	Other receipts from financing activities	0
1,657	Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts	2,090
16,541	Repayments of short-term and long-term borrowing	8,040
(21,802)	**Net cash flows from financing activities**	**10,130**

Note 38 - 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.

<u>Government</u>
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 2021 are shown in Note 17.

<u>Members</u>
Members of the Council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2020/21 is shown in Note 12. 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 2020/21 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.

<u>Officers</u>
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. There were no material transactions during the year with companies that officers have an interest in and there were no balances 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 twelve £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 one £1 ‘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 Firecontrol Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. The company registration number is 06314891. 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 FirecontrolLimited. 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 2020/21 in respect of NW FirecontrolLimited. 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 and as such group accounts are not required.

The table below shows key Information for NW Firecontrol Limited:

Accounts Information	Year-Ended 2019/20 £000	Year-Ended 2020/21 £000
Total Assets Less Current Liabilities	311	317
Net Liabilities	(2,349)	(6,722)
Deficit Before Taxation	(594)	(262)
Deficit After Taxation	(594)	(262)
Balance owed to CCC	0	0
Balance owed by CCC	0	0
Invoices Raised By NW Firecontrol Limited to CCC	372	382
Invoices Raised by CCC to NW Firecontrol Limited	0	0

The Companies Financial Statements can be obtained from Companies House with the deadline for submission as 31st December 2021 for the final audited 2020/21 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 companies.

The Council has an investment valued at £3.183m representing a 100% shareholding in Cumbria County Holdings Ltd, 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, which requires the production of Group Accounts. Further details of the Group Accounts are in Section 7. Copies of the accounts can be obtained from The Company Secretary, Unit 5A, Wavell Drive, Rosehill Estate, Carlisle, CA1 2ST.

Cumbria County Holdings Ltd has two subsidiaries, Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd (Orian). These companies, in turn, have the following subsidiaries:

- CWM - Cumbria Waste Recycling Ltd, Trotters Dry Waste Ltd and Lakeland Waste Management Ltd.
- Orian - SLS (Cumbria) Ltd.

The results of each company are set out in the table below.

			2019/20 (Audited Accounts)		2020/21 (Unaudited Accounts)	
Company Name	**Nature of Business**	**Shareholding %**	**Retained Profit / (Loss) for the year £000**	**Net Assets / £000**	**Retained Profit / (Loss) for the year £000**	**Net Assets / £000**
Cumbria County Holdings Ltd (08259197)	Holding Co	100% owned by CCC	(3)	3,673	(2)	3,671
Cumbria Waste Management Ltd (02665973)	Waste disposal service	100% owned by CCHL	(1,164)	5,657	253	5,910
Cumbria Waste Recycling Ltd (03162439)	Waste disposal service	100% owned by CWM	846	5,077	532	5,609
Trotters Dry Waste Ltd (07614721)	Waste disposal service	100% owned by CWM	0	20	0	20
Lakeland Waste Management Ltd (02728867)	Waste disposal service	100% owned by CWM	(397)	1,915	(821)	1,094
Lakeland Minerals Ltd (04753755)	Waste disposal service	50% owned by LWM, joint venture	85	798	85	883
Orian Solutions Ltd (08237164)	Catering / Cleaning Services	100% owned by CCHL	666	2,563	292	2,855
SLS (Cumbria) Ltd (09957315)	Cleaning	100% owned by Orian	12	201	(602)	297

In 2020/21 Cumbria County Holdings Ltd has paid no dividend to the Council (2019/20 nil) due to difficult trading circumstances across the business as a direct result of COVID 19 and consequential impact on expected operating conditions in the first half of 2020/21.

The results in the previous table are then consolidated into the Cumbria County Holdings Ltd Group Accounts with all intra company transactions being eliminated on consolidation. The Cumbria County Holdings Group results are:

	2019/20 (Audited Accounts)		2020/21 (Unaudited Accounts)	
	Retained (Loss) after Tax £000	**Net Assets / £000**	**Retained (Loss) after Tax £000**	**Net Assets / £000**
Cumbria County Holdings Ltd Group	(2)	15,293	(307)	14,986

It is these group results that are consolidated with the Council's single entity Accounts with the outcome is reported in Section 7.

The Council also has direct investments in other 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.

				2019/20		2020/21	
Company Name	**Nature of Business**		**Share holding %**	**Profit after Tax £000**	**Net Assets £000**	**Profitafter Tax £000**	**Net Assets £000**
Traveline Cumbria Ltd (Note 1)	Travel enquiry call centre	Company limited by guarantee	49%	4	64	6	70

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

In addition to direct shareholdings in 2020/21 the Council was also a member of, and had 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 member
Cumbria County Council	1 nominated member
Copeland Borough Council	1 nominated member
Allerdale Borough Council	1 nominated member

At its meeting on 24th September 2020 Cabinet agreed that the Council should resign its membership of ECWC.

During 2020/21 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
Traveline Cumbria Ltd	1	0	0	0
Cumbria Waste Management Ltd	1,224	30	16	187
Lakeland Waste Management Ltd	75	19	0	0
Cumbria Waste Recycling Ltd	189	22	2	0
Orian Solutions Ltd	6,154	1,093	0	0
SLS (Cumbria) Ltd	153	22	0	0
	7,796	**1,186**	**18**	**187**

Note 39 - 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 124 at 31st March 2021) 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. The Cumbria County Holdings Ltd group has a provision for aftercare costs post closure of their own landfill sites, this currently stands at £13.205m (2019/20 £11.893m).

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, an interim report is expected in 2021/22.

Municipal Mutual Insurance Ltd

Municipal Mutual Insurance Ltd (MMI) were the Council's insurer from 1974 until the early 1990's. MMI became insolvent in 1992 and entered into administration due to insufficient reserves to cover all its potential liabilities. A scheme of arrangement was agreed upon with policyholders, including the Council. Under the scheme of arrangement, the Council currently has financial liability for 25% of all claims lodged against its former policy with MMI. This figure has increased in previous years as new claims have been lodged and existing claims have been settled. There is a risk that the Council could be liable for more than 25% of claims and the Council has previously accounted in its reserves based on 85%.

In January 2020, the Council received a report from Gallagher Insurance Brokers Ltd (the administrators for MMI) noting that they do not expect the Council's liability to be any more than 50% of all claims. The provision at 31st March 2020 was £0.054m.

No further updates have been provided as to the potential liabilities arising from MMI. Consequently, the Council has retained the provision of 25% for expected claims, the contingent reserve added in 2019/20 of £0.137m has also been retained in 2020/21 to give additional capacity should the final liabilities exceed 50%.

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 2021 has been assessed as £18.700m (2019/20 £19.450m), of which the Council share is £1.870m (2019/20 £1.945m). 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 40 - 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 Council also acts as the Accountable Body for a number of projects. The Trust Funds and Accountable Bodies 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:

2020/21

Fund	Income £000	Expenditure £000	Assets £000	Liabilities £000
Holehird Trust	(187)	(178)	3,681	0
Archives Trusts	(32)	23	565	0
Education Trusts	(22)	13	523	0
Social Services Trusts	0	0	0	0
Total	**(241)**	**(142)**	**4,769**	**0**

2019/20

Fund	Income £000	Expenditure £000	Assets £000	Liabilities £000
Holehird Trust	(20)	228	3,672	0
Archives Trusts	(3)	44	556	0
Education Trusts	(126)	28	513	0
Social Services Trusts	0	1	0	0
Total	**(150)**	**301**	**4,741**	**0**

Note 41 - 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 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.

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 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 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 Impact Strategy including employment, education and skills and economic and social infrastructure.

The cash balance of the fund at 31st March 2021 is £7.996m. 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 2019 £000	2019/20 Receipts £000	2019/20 Payments £000	Balance at 31 March 2020 £000	2020/21 Receipts £000	2020/21 Payments £000	Balance at 31 March 2021 £000
(8,076)	(1,654)	1,465	(8,265)	(1,619)	1,888	(7,996)

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 £6.668m split between Capital £6.163m and Revenue £0.505m.

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 3 ‘live’ CIF projects in the delivery or repayment phases. Income in 2020/21 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 2019/20 was £0.003m. In 2020/21 there was income of £0.003m and no expenditure, leaving a balance of £0.006m to be carried forward into 2021/22. The capital balance brought forward was £4.327m, with loan repayments of £0.030m and expenditure of £0.078m this leaves a balance of £4.279m to carry forward to 2021/22. The £0.078m capital expenditure was utilised to cover over-commitments in the CLEP Growth Deal programme for 2020/21.

	Balance at 1 April 2019 £000	**2019/20 Receipts £000**	**2019/20 Payments £000**	**Balance at 31 March 2020 £000**	**2020/21 Receipts £000**	**2020/21 Payments £000**	**Balance at 31 March 2021 £000**
Revenue	(332)	(3)	332	(3)	(3)	0	(6)
Capital	(4,331)	(44)	48	(4,327)	(30)	78	(4,279)
Total	**(4,663)**	**(47)**	**380**	**(4,330)**	**(33)**	**78**	**(4,285)**

<u>Cumbria Local Enterprise Partnership</u>
The Council is also Accountable Body for the Cumbria Local Enterprise Partnership (CLEP). With effect from 1st April 2019 CLEP transferred from being an unincorporated body to an incorporated organisation which has the capacity, capability and commitment to effectively meet the requirements of the Accountable Body. Funds are received by the County Council and then paid to CLEP for them to pay for any expenditure.

In 2020/21 the County Council received £0.500m from BEIS for the CLEP function along with £0.075m for the Skills Advisory Council and £0.040m for managing the Getting Building Fund. These amounts were paid to the CLEP along with interest earned from the County Council. Funds were withheld to cover expenditure that the LEP have commissioned from the County Council such as Research & Intelligence work, IT costs and CCC staff time, this amounted to £0.210m.

<u>Business Growth Hub</u>
Income is in the form of a grant from BEIS to fund the co-ordination and running of the business support activities on behalf of the CLEP and known as the Cumbria Growth Catalyst. The provider of this service is the Chamber of Commerce who have worked well to deliver contracted outputs in previous years. The grant for 2020/21 amounts to £0.246m, and from which both CLEP and CCC recover operational expenses. The contract value for 2020/21 is £0.207m and payment is to the Chamber of Commerce.

In addition to the traditional Growth Hub funding, government has made available to CLEPs three additional tranches of support:

- Supplementary Funding – in part to cover COVID related advice and additional business support, £0.216m
- Peer Networks – to support “action learning” between 12 cohorts of up to 10 local businesses, to share experience, analyse common issues and co-develop solutions £0.165m
- EU Transition Funding – to provide direct advice to businesses regarding UK exit from EU, new trading arrangements and subsidy regime £0.136m.

The additional funding of £0.517m brings Cumbria LEP’s business support allocation for 2020/21 to a total of £0.763m. As with the traditional Growth Hub funding all three of the above are time limited and all expenditure must be defrayed by 31st March 2021 and cannot be carried forward into 2021/22.

Note 42 - Events After the Reporting Period

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 30th September 2021 in respect of the audited Statement of Accounts for 2020/21.

Where events taking place before 30th September 2021 provided information about conditions existing at 31st March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The impact of the on-going COVID-19 pandemic will continue to be assessed up until the publication of the audited accounts.

It was announced on 19th March 2021 that:

- the Chief Executive, Katherine Fairclough would be leaving her post in summer 2021 to take up a new post as Chief Executive of Liverpool City Region Combined Authority.
- the Director of Finance (s151 Officer), Julie Crellin, would be leaving her post in June 2021 to take up a new post as City & Guilds Major Projects programme Lead.

Following a recruitment process Gill Steward has been appointed as Chief Executive, this was confirmed by Council at its meeting on 24th June 2021 and Pam Duke has been appointed as Director of Finance (s151 Officer) with effect from 1st July 2021.

On 21st July 2021 the Secretary of State, Robert Jenrick MP, announced the outcome of the consultation for Local Government Reorganisation in Cumbria. Subject to Parliamentary approval he is proposing two unitary councils - an East unitary council covering the existing areas of Barrow, Eden and South Lakeland and a West unitary council covering the existing areas of Allerdale, Carlisle and Copeland. The Secretary of State will be seeking Parliamentary approval to implement the above proposal and start a process to draft a Structural Change Order. He has indicated that the structural change order would be laid before Parliament before the end of the year. The Structural Change Order provides the legal basis on which to implement the change to local government structures, creating the new authorities from the Vesting Day of 1st April 2023.

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 2021. Cumbria County Holdings Ltd have then produced their own consolidated group accounts for 2020/21 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.

7.2 Group Boundary

During 2020/21 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 2020/21 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), Trotters Dry Waste Ltd and Lakeland Waste Management Ltd which are wholly owned. In addition there Lakeland Waste Management Ltd has a subsidiary, Lakeland Minerals Ltd, which is 50% owned and is run as a joint venture with Norman Harrison. Orian Solutions Ltd has a wholly owned subsidiary SLS (Cumbria) Ltd (SLS).

The results of the companies are summarised in Note 38.

The Council also has an interest in the following companies - Traveline Ltd and NW Firecontrol Limited. 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 38).

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. Their non-current assets are held at cost with depreciation charged over their estimated useful lives. The Council has engaged a specialist valuer in 2020/21 to value the landfill sites for accounting purposes. The valuer has provided assurance that the current value of the landfill sites and associated land and buildings is not materially different to the net book value included in the Group Balance Sheet.

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 2020/21 is £13.205m (2019/20 £11.893m).

Trades between the Council and its subsidiaries are eliminated on consolidation.

Group Comprehensive Income and Expenditure Statement

2019/20 Expenditure £000	2019/20 Income £000	2019/20 Net £000		2020/21 Expenditure £000	2020/21 Income £000	2020/21 Net £000
			Services:			
623,734	(401,688)	222,046	People	612,353	(443,948)	168,405
133,027	(16,328)	116,699	Economy & Infrastructure	125,687	(16,634)	109,053
16,593	(1,004)	15,589	Fire & Rescue Service	18,451	(781)	17,670
8,234	(187)	8,047	Local Committees	8,176	(145)	8,032
42,401	(6,316)	36,085	Corporate, Customer & Community Services	52,059	(11,378)	40,681
5,419	(1,011)	4,408	Finance	6,473	(1,355)	5,118
17,073	(5,098)	11,975	Other Corporate Items	45,897	(2,318)	43,580
51,337	(42,322)	9,015	Cumbria County Holdings Group	46,808	(39,809)	6,999
897,818	(473,954)	423,864	**Cost of Services**	915,905	(516,368)	399,538
10,284	0	10,284	Other Operating Expenditure	2,572	0	2,572
93,850	(38,857)	54,993	Financing and Investment Income and Expenditure	90,180	(36,562)	53,618
0	(466,973)	(466,973)	Taxation and Non Specific Grant Income	0	(490,245)	(490,245)
1,001,952	**(979,784)**	**22,168**	**(Surplus) or Deficit on Provision of Services**	**1,008,657**	**(1,043,175)**	**(34,517)**
8	0	8	Associates and Joint Ventures (Equity Basis)	17	0	17
138	0	138	Tax Expenses of Subsidiaries	283	0	283
1,002,098	**(979,784)**	**22,314**	**Group (Surplus) or Deficit**	**1,008,957**	**(1,043,175)**	**(34,217)**
		(15,936)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(1,718)
		(65,922)	Remeasurement of the net defined benefit liability / (asset)			104,498
		(81,858)	**Other Comprehensive Income and Expenditure**			**102,780**
		(59,544)	**Total Comprehensive Income and Expenditure**			**68,563**

Group Movement in Reserves Statement

2020/21	Note Ref	General Fund Balance £000	Earmarked Reserves £000	Total Statutory General Fund £000	Capital Receipts Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority Share of Subsidiary, Joint Venture and Asociate Reserves £000	Total Reserves £000
Balance at 31 March 2020	30/31/32	**(15,056)**	**(60,594)**	**(75,650)**	**(5,826)**	**(2,076)**	**(83,552)**	**117,600**	**34,048**	**(12,110)**	**21,938**
Adjustment to opening Balance											
Reporting of DSG Deficit to new adjustment account at 1st April 2020		0	(6,991)	(6,991)	0	0	(6,991)	6,991	0	0	0
		(15,056)	**(67,585)**	**(82,641)**	**(5,826)**	**(2,076)**	**(90,543)**	**124,591**	**34,048**	**(12,110)**	**21,938**
Movement in reserves during 2020/21											
(Surplus) or deficit on the provision of services		(42,058)	0	(42,058)	0	0	**(42,058)**	102,537	**60,479**	**8,084**	**68,563**
Adjustment Between Group Accounts and Authority Accounts		7,777	0	7,777	0	0	**7,777**	0	**7,777**	**(7,777)**	**0**
Total Comprehensive Income and Expenditure		**(34,281)**	**0**	**(34,281)**	**0**	**0**	**(34,281)**	**102,537**	**68,256**	**307**	**68,563**
Adjustments between accounting basis and funding basis under regulations	9	(24,561)	0	(24,561)	647	(1,097)	**(25,011)**	25,011	**0**	**0**	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**(58,842)**	**0**	**(58,842)**	**647**	**(1,097)**	**(59,292)**	**127,548**	**68,256**	**307**	**68,563**
Transfers (to) / from Earmarked Reserves	31	48,842	(48,842)	0	0	0	**0**	0	**0**	**0**	**0**
(Increase) or Decrease in 2020/21		**(10,000)**	**(48,842)**	**(58,842)**	**647**	**(1,097)**	**(59,292)**	**127,548**	**68,256**	**307**	**68,563**
Balance at 31 March 2021	30/31/32	**(25,056)**	**(116,427)**	**(141,483)**	**(5,179)**	**(3,173)**	**(149,835)**	**252,138**	**102,303**	**(11,803)**	**90,500**

2019/20	Note Ref	General Fund Balance £000	Earmarked Reserves £000	Total Statutory General Fund £000	Capital Receipts Reserve £000	Capital Grants Un-applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority Share of Subsidiary, Joint Venture and Asociate Reserves £000	Total Reserves £000
Balance at 31 March 2019	30/31/32	**(15,056)**	**(53,813)**	**(68,869)**	**(6,719)**	**0**	**(75,588)**	**169,182**	**93,594**	**(12,112)**	**81,482**
Movement in reserves during 2019/20											
(Surplus) or deficit on the provision of services		12,905	0	12,905	0	0	**12,905**	(81,605)	**(68,700)**	**9,156**	**(59,544)**
Adjustment Between Group Accounts and Authority Accounts		9,154	0	9,154	0	0	**9,154**	0	**9,154**	**(9,154)**	**0**
Total Comprehensive Income and Expenditure		**22,059**	**0**	**22,059**	**0**	**0**	**22,059**	**(81,605)**	**(59,546)**	**2**	**(59,544)**
Adjustments between accounting basis and funding basis under regulations	9	(28,840)	0	(28,840)	893	(2,076)	**(30,023)**	30,023	**0**	**0**	**0**
Net (Increase) or Decrease before Transfers to Earmarked Reserves		**(6,779)**	**0**	**(6,779)**	**893**	**(2,076)**	**(7,964)**	**(51,582)**	**(59,546)**	**2**	**(59,544)**
Transfers (to) / from Earmarked Reserves	31	6,779	(6,779)	0	0	0	**0**	0	**0**	**0**	**0**
(Increase) or Decrease in 2019/20		**0**	**(6,779)**	**(6,779)**	**893**	**(2,076)**	**(7,964)**	**(51,582)**	**(59,546)**	**2**	**(59,544)**
Balance at 31 March 2020	30/31/32	**(15,056)**	**(60,592)**	**(75,650)**	**(5,826)**	**(2,076)**	**(83,552)**	**117,600**	**34,048**	**(12,110)**	**21,938**

Group Balance Sheet

Note Ref	31 March 2020 £000		31 March 2021 £000
G1	1,303,227	Property, Plant and Equipment	1,334,336
	563	Heritage Assets	563
	6,820	Investment Property	5,585
	97	Intangible Assets	(134)
	716	Investments in Joint Ventures	699
	3,347	Long Term Debtors	3,159
	1,314,770	**Long Term Assets**	**1,344,208**
	21,576	Short-term Investments	78,802
	2,000	Assets Held for Sale	2,410
	1,822	Inventories	1,819
G3	84,694	Short Term Debtors	97,120
G2	114,106	Cash and Cash Equivalents	131,779
	224,198	**Current Assets**	**311,930**
	(12,208)	Short-Term Borrowing	(4,629)
G4	(97,403)	Short-Term Creditors	(132,790)
G5	(3,521)	Provisions	(4,403)
	(24,953)	Grants Receipts in Advance - Revenue	(24,790)
	(19,421)	Grants Receipts in Advance - Capital	(36,856)
	(157,506)	**Current Liabilities**	**(203,468)**
	(5,582)	Long-Term Creditors	(5,347)
G5	(21,135)	Provisions	(23,358)
	(386,754)	Long Term Borrowing	(386,725)
	(112,248)	Long Term PFI Liabilities	(110,706)
	(858,608)	Net Pension Liabilities	(990,608)
	(10,045)	Deferred Income	(9,517)
	(9,028)	Grants Receipts in Advance - Capital	(16,909)
	(1,403,400)	**Long Term Liabilities**	**(1,543,170)**
	(21,938)	**Net (Liabilities)**	**(90,500)**
	(95,662)	Usable Reserves	(161,638)
	117,600	Unusable Reserves	252,138
G6	**21,938**	**Total Reserves**	**90,500**

Group Cash Flow Statement

2019/20 £000		2020/21 £000
22,341	Net deficit on the provision of services	**34,217**
(113,334)	Adjustment to (surplus) or deficit on the provision of services for noncash movements	116,342
68,277	Adjustment for items included in the net (surplus) or deficit on the provision of services that are investing or financing activities	(76,924)
(22,716)	**Net cash flows from operating activities**	**73,635**
(3,946)	Net cash flows from investing activities	(45,652)
(21,474)	Net cash flows from financing activities	(10,310)
(48,136)	**Net (increase) or decrease in cash and cash equivalents**	**17,673**
65,970	Cash and cash equivalents at the beginning of the reporting period	114,106
114,106	**Cash and cash equivalents at the end of the reporting period**	**131,779**

NOTES TO THE GROUP ACCOUNTING STATEMENTS

G1 - Property, Plant and Equipment

Movements to 31 March 2021

	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 2020	**597,067**	**111,600**	**848,277**	**53**	**17,761**	**10,693**	**1,585,452**
Additions	10,247	5,450	51,380	0	6,107	7,937	**81,121**
Accumulated Depreciation written out to Gross Carrying Amount	(11,417)	0	0	0	(27)	0	**(11,444)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	1,245	0	0	0	473	0	**1,718**
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(1,110)	0	0	0	(1,873)	(3,698)	**(6,681)**
Derecognition – disposals	(3,244)	(715)	0	0	(1,485)	0	**(5,444)**
Assets reclassified (to)/from Investment Properties	2,920	0	0	0	(210)	0	**2,710**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(410)	0	**(410)**
Other Movements	3,115	0	0	0	1,545	(4,660)	**0**
at 31 March 2021	**598,823**	**116,335**	**899,657**	**53**	**21,881**	**10,273**	**1,647,022**
Accumulated Depreciation and Impairment							
at 1 April 2020	(35,892)	(67,252)	(178,542)	0	(536)	0	**(282,225)**
Depreciation charge	(14,175)	(6,223)	(21,225)	0	(198)	0	**(41,821)**
Accumulated Depreciation written out to Gross Carrying Amount	11,417	0	0	0	27	0	**11,444**
Impairment Losses/(Reversals) to (Surplus)/Deficit on Provision of Services	(833)	0	0	0	0	0	**(833)**
Assets reclassified (to)/from Investment Property	0	0	0	0	3	0	**3**
Derecognition – disposals	100	646	0	0	0	0	**746**
at 31 March 2021	**(39,384)**	**(72,829)**	**(199,766)**	**0**	**(707)**	**0**	**(312,686)**
Net Book Value							
at 31 March 2021	**559,439**	**43,506**	**699,891**	**53**	**21,174**	**10,273**	**1,334,336**
at 31 March 2020	**561,175**	**44,348**	**669,735**	**53**	**17,225**	**10,693**	**1,303,227**

Movements to 31 March 2020

	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 2019	**571,074**	**105,202**	**795,305**	**53**	**17,708**	**27,611**	**1,516,953**
Additions	15,247	5,924	52,972	0	1,062	7,808	**83,013**
Accumulated Depreciation written out to Gross Carrying Amount	(7,769)	0	0	0	0	0	**(7,769)**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	16,074	0	0	0	(137)	0	**15,937**
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(2,353)	0	0	0	(576)	(1,774)	**(4,704)**
Derecognition – disposals	(13,852)	(1,846)	0	0	(96)	0	**(15,794)**
Assets reclassified (to)/from Investment Properties	0	0	0	0	(2,000)	0	**(2,000)**
Assets reclassified (to)/from Held for Sale	0	0	0	0	(185)	0	**(185)**
Other Movements	18,647	2,320	0	0	1,985	(22,952)	**0**
at 31 March 2020	**597,067**	**111,600**	**848,277**	**53**	**17,761**	**10,693**	**1,585,452**
Accumulated Depreciation and Impairment							
at 1 April 2019	**(30,846)**	**(62,891)**	**(158,641)**	**0**	**(357)**	**0**	**(252,735)**
Depreciation charge	(13,067)	(6,009)	(19,901)	0	(181)	0	**(39,159)**
Accumulated Depreciation written out to Gross Carrying Amount	7,769	0	0	0	0	0	**7,769**
Impairment recognised in Surplus/Deficit on the Provision of Services	(518)	0	0	0	0	0	**(518)**
Derecognition – disposals	770	1,648	0	0	0	0	**2,418**
at 31 March 2020	**(35,892)**	**(67,252)**	**(178,542)**	**0**	**(536)**	**0**	**(282,225)**
Net Book Value							
at 31 March 2020	**561,175**	**44,348**	**669,735**	**53**	**17,225**	**10,693**	**1,303,227**
at 31 March 2019	**540,227**	**42,311**	**636,664**	**53**	**17,351**	**27,611**	**1,264,218**

G2 - Cash and Cash Equivalents

31 March 2020			31 March 2021	
Council £000	Group £000		Council £000	Group £000
6,620	12,813	Cash and Bank balances	15,578	29,175
97,593	101,293	Short Term Deposits	102,604	102,604
104,213	**114,106**	**Total Cash and Cash Equivalents**	**118,182**	**131,779**

G3 – Short Term Debtors

An analysis of sums due to the Council as at 31st March 2021 is as follows:

31 March 2020			31 March 2021	
Council £000	Group £000		Council £000	Group £000
11,687	11,687	Residential and non-residential care charges	11,633	11,633
11,789	14,176	Prepayments	12,256	14,665
3,303	8,929	Other Receivable Amounts	2,607	6,040
10,419	11,498	Central Government Bodies	27,880	28,896
9,520	10,213	Other Local Authorities	3,845	5,658
19,006	19,803	Trade Debtors with NHS Bodies	18,187	19,559
1	1	Trade Debtors with Public Corporations and Trading Funds	9	9
8,387	8,387	Local Taxation	10,660	10,660
74,112	**84,694**	**Total Short Term Debtors**	**87,077**	**97,120**

G4 – Short Term Creditors

An analysis of amounts owed by the Council at 31st March 2021 is:

31 March 2020			31 March 2021	
Council £000	**Group £000**		**Council £000**	**Group £000**
10,433	10,433	Employee Leave Accrual	14,207	14,207
2,288	2,288	Short term PFI Loans	1,740	1,740
13,207	13,207	Owed to Accountable Bodies	12,724	12,724
5,515	5,515	Accounts Payable Control	14,257	14,257
6,055	6,055	Accruals	7,401	7,401
9,465	9,465	Capital Payables	10,850	10,850
20,971	23,419	Other Payables	22,988	27,809
(67,934)	(70,382)	Total Other payables	(84,168)	(88,989)
(9,710)	(13,175)	Central Government Bodies	(14,756)	(17,339)
(5,861)	(7,231)	Other Local Authorities	(18,420)	(18,898)
(1,619)	(1,619)	NHS Bodies	(1,698)	(1,698)
(1)	(1)	Public Corporations and Trading Funds	(11)	(11)
(4,995)	(4,995)	Local Taxation (council tax and non-domestic rates)	(5,855)	(5,855)
(90,120)	**(97,403)**	**Total Short Term Creditors**	**(124,908)**	**(132,790)**

G5 - Provisions

Current Provisions

2020/21	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	(284)	(53)	0	(164)	(2,860)	0	(160)	(3,521)
Increase in provision during year	(18)	0	0	(303)	(1,180)	0	(173)	(1,674)
Utilised during year	0	36	0	163	433	0	160	792
Closing Balance	**(302)**	**(17)**	**0**	**(304)**	**(3,607)**	**0**	**(173)**	**(4,403)**

2019/20	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	(227)	(1)	0	(1,979)	(3,102)	0	(14)	(5,323)
Increase in provision during year	(57)	(52)	0	(163)	(2,724)	0	(160)	(3,156)
Utilised during year	0	0	0	1,978	2,966	0	14	4,958
Closing Balance	**(284)**	**(53)**	**0**	**(164)**	**(2,860)**	**0**	**(160)**	**(3,521)**

Long Term Provisions

2020/21	**Insurance - employers and public liability**	**Business Rates Appeals**	**Restoration and aftercare of landfill sites**	**Total**
	£000	**£000**	**£000**	**£000**
Opening Balance	(7,457)	(1,945)	(11,733)	(21,135)
Increase in provision during year	(999)	(1,870)	(1,108)	(3,977)
Utilised during year	0	1,945	337	2,282
Unwinding of discounting	0	0	(528)	(528)
Closing Balance	**(8,456)**	**(1,870)**	**(13,032)**	**(23,358)**

2019/20	**Insurance - employers and public liability**	**Business Rates Appeals**	**Restoration and aftercare of landfill sites**	**Total**
	£000	**£000**	**£000**	**£000**
Opening Balance	(6,694)	(1,386)	(10,539)	(18,619)
Increase in provision during year	(763)	(1,945)	(1,113)	(3,821)
Utilised during year	0	1,386	127	1,513
Unwinding of discounting	0	0	(208)	(208)
Closing Balance	**(7,457)**	**(1,945)**	**(11,733)**	**(21,135)**

Total Provisions

2019/20		**2020/21**
£000		**£000**
(23,942)	Opening Balance	(24,656)
(6,977)	Increase in provision during year	(5,651)
6,471	Utilised during year	3,074
(208)	Unwinding of discounting	(528)
(24,656)	**Closing Balance**	**(27,761)**

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	(3,173)	0	0	(3,173)
Usable Capital Receipts Reserve	(5,179)	0	0	(5,179)
Revenue - Earmarked	(116,427)	0	0	(116,427)
Revenue - General	(25,056)	(11,803)	0	(36,859)
	(149,835)	**(11,803)**	**0**	**(161,638)**
Unusable Reserves				
Share Capital	0	(3,183)	3,183	0
Revaluation Reserve	(146,744)	0	0	(146,744)
Capital Adjustment Account	(630,156)	0	0	(630,156)
Financial Instruments Adjustment Account	416	0	0	416
Pensions	991,888	0	0	991,888
Dedicated Schools Grant Adjustment Account	9,641	0	0	9,641
Collection Fund Adjustment Account	12,974	0	0	12,974
Accumulated Absences Account	14,119	0	0	14,119
	252,138	**(3,183)**	**3,183**	**252,138**
TOTAL FUNDS	**102,303**	**(14,986)**	**3,183**	**90,500**

The Firefighters' Pension Scheme Financial Statement 2020/21

2019/20 £000	2019/20 £000		2020/21 £000	2020/21 £000
		FUND ACCOUNT		
		Contributions Receivable		
(2,841)		From Employer	(2,967)	
(1,278)		From Members	(1,348)	
	(4,120)			(4,314)
		Transfers In		
0		Individual transfers from other Schemes	(51)	
	0			(51)
	(4,120)	**Total income**		(4,366)
		Benefits Payable		
5,194		Pensions	5,544	
1,269		Ill Health and Injury	1,287	
2,430		Lump Sums	1,364	
571		Lump Sum Death Benefits & Widows Pensions	537	
	9,464			8,732
		Payments to and on account of leavers		
37		Other	38	
	37			38
	9,501	**Total Expenditure**		**8,770**
	5,381	**Net amount receivable before top-up from Government**		**4,404**
	5,382	**Top-up receivable from Government**		**4,404**
	0	**Net amount receivable for the year**		**0**
		NET ASSETS STATEMENT		
		Current Assets		
2,556		Pension top-up receivable from Government	750	
500		Prepaid Pensions	518	
	3,056			1,267
		Current Liabilities		
(3,056)		Other current assets and liabilities	(1,267)	
	(3,056)			(1,267)
	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:

Contributions

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 37.3% for the 1992 Firefighters' Pension Scheme and for the Modified Scheme, 27.4% for the 2006 Scheme, and 28.8% for the 2015 Scheme. In prior years the rates were 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.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer Values

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 2021 was £320.620m (31st March 2020 £270.026m). Further details can be found in note 34 to the Council's Statement of Accounts.

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. In response to this, on 16th July 2020, HM Treasury issued a consultation to address the discrimination in the unfunded public service pension schemes, including the Teachers and Firefighters' pension 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 judgement will be measured through the pension valuation process, which determines employer and employee contribution rates. The Firefighters Pension valuation took 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.

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 REPORTING PERIOD

Events after the reporting period 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.

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.
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.

10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

10.1 THE FINANCIAL STATEMENTS

CONTENTS

10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

10.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

		2019/20		2020/21	
	Notes	£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		68,709		87,726
Transfers in from other pension funds	4		6,160		4,129
			74,869		**91,855**
Benefits	5		(91,117)		(91,909)
Payments to and on account of leavers / employer exit	6		(7,017)		(6,138)
Net additions / (deductions) from dealings with members			**(23,265)**		**(6,192)**
Management expenses	7 & 8		(12,727)		(18,714)
Net additions / (deductions) including fund management expenses			**(35,992)**		**(24,906)**
Returns on investments					
Investment Income		47,623		48,501	
Taxes on Income		(206)		-	
Net investment income	9	47,417		48,501	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	(140,307)		469,734	
Net return on investments			**(92,890)**		**518,235**
Net increase (decrease) in the net assets available for benefits during the year			**(128,882)**		**493,329**
Net assets at the start of the year			**2,702,760**		**2,573,878**
Net assets at the end of the year			**2,573,878**		**3,067,207**

NET ASSETS STATEMENT AS AT 31 MARCH 2021

	Notes	31 March 2020 £'000	31 March 2021 £'000
Long-term Investments	10	833	1,182
Investment assets	10	2,567,570	3,068,317
Investment liabilities	10	(5,397)	(6,260)
Total net investment assets		**2,563,006**	**3,063,239**
Long term assets		-	-
Current assets	12	12,586	6,003
Long term liabilities		-	-
Current liabilities	13	(1,714)	(2,035)
Net assets of the Fund available to fund benefits at the period end		**2,573,878**	**3,067,207**

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, "the Fund") is a contributory defined benefit scheme administered by Cumbria County Council to provide pensions and other benefits for all members of the Fund.

The Purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and

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

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

- ensure that sufficient resources are available to meet all liabilities as they fall due;

- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;

- achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; and

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

Membership to the Cumbria LGPS is open to:

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers); and

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

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

As at 31 March 2021 the total membership of the Fund was 58,411 (2019/20: 58,396) and consisted of 17,370 contributors/actives (2019/20: 16,989), 23,535 deferred members (2019/20: 24,420) and 17,506 pensioners (2019/20: 16,987).

At 31 March 2021 there were 124 (31 March 2020: 126) employer bodies in the Cumbria LGPS (for the full list see Note 25). The number of employers reduced by two during the year, this was as a result of one new employer joining the Fund and three Academy employers joining Multi Academy Trusts that were already employers within the Fund.

Basis of Preparation:

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

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2020/21 and the position at the year-end date, 31 March 2021. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

Amendments to IAS 19 (Employee Benefits) related to Plan Amendment, Curtailment or Settlement were issued by the International Accounting Standards Board (IASB) in February 2018 and are effective for the LGPS from 2020/21.

In accordance with the CIPFA guidance pertaining to section 6.5 of the Code, the presentational changes for the 2020/21 Accounts are:

- the removal of the requirements to analyse assets between quoted/unquoted and UK/overseas – this has led to presentational changes in section 10 of the accounts relating to investment assets;
- the revised analysis requirement for pooled investment holdings – this has led to presentational changes throughout the accounts where pooled investment are detailed; and
- more detailed disclosure requirements in respect of investment management fees – this has led to presentational changes in section 8 of the accounts relating to investment management expenses.

This is the first year that these disclosure note amendments have been included in the Fund's accounts; they amount to presentational amendments only but do include the restatement of prior years' figures in the revised formats. These changes do not represent a change to existing accounting policies.

The accounts have been prepared on a going concern basis.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2020/21

The financial year 2020/21 will be remembered as being the year of the COVID-19 pandemic. In financial markets, valuations have rebounded since the COVID-induced slump of March 2020; one-year returns reflect the recovery period since the low point of 31 March 2020, and longer term returns show a recovery to closer to pre-COVID levels. The rebound was particularly apparent in listed equities where the MSCI AC World Index recorded a positive return of 38.9% for the twelve months, and the UK FTSE All Share recorded a positive return of 26.7%.

Central government support has underpinned the recovery providing liquidity to markets and the roll-out of vaccination programmes has allowed the gradual lifting of restrictions. The majority of markets in which the Fund holds investments showed positive returns amid improving economic data and rising growth expectations.

The impact of the pandemic on other asset classes was varied. Government bond yields rose as investors moved away from the perceived safe-haven assets and sought out higher risk assets supported by rising growth expectations with index-linked gilts showing a positive 2.6% return for the year. Credit markets outperformed government bonds with returns of 7.0%.

NOTE 1 (c): FUND PERFORMANCE 2020/21

As at 31 March 2021 the unaudited value of the Fund's net assets was £3,067.207m (an increase of £493.329m from £2,573.878m as at 31 March 2020). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 106% funded as at 31 March 2021, (based on assumptions per the full actuarial valuation as at 31 March 2019).

In order to protect Fund solvency and the affordability of employer contribution rates, the Fund seeks to dampen investment risk and deliver stable investment returns over the longer-term by investing in a diverse portfolio of assets. The Fund's long-term approach to investment and its diverse portfolio of investment assets meant that, whilst it was affected by the significant market movements described at 1(b) above, the impact on performance was not as extreme as that experienced in the aforementioned equity markets. Overall, the Fund made a return on its investments of 18.7% (net of fees) for the year-ended 31 March 2021.

As a long term investor, the Fund is primarily focussed on longer-term performance. and has outperformed both its 5 and 10 year benchmarks (5 year: 8.7% p.a. (net of fees) against a benchmark of 8.4% and 10 year: 8.6% p.a. against a benchmark of 8.0% (net of fees)).

Performance to 31 March 2021 in relation to the Fund's bespoke benchmark over these timeframes is summarised in the table below.

	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1 year performance	18.7%	15.8%	+ 2.9%
5 year performance	8.7%	8.4%	+ 0.3%
10 year performance	8.6%	8.0%	+ 0.6%

As shown above, the Fund's return of 18.7% for the year was above the Fund's bespoke index performance benchmark of 15.8% for the same period. The main contributors to performance included the global listed equity fund managed by Border to Coast Pensions Partnership Ltd (BCPP), and outperformance from the property portfolio.

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

The Fund underwent a full review of the Investment Strategy in 2019/20 following the completion of the Triennial Actuarial Valuation of the Fund, and the revised Investment Strategy was agreed by the Pensions Committee in December 2019. In 2020/21 with the impact of the pandemic on global investment markets, it became clear that expectations of future investment returns had reduced. It was recognised that this increased the risk of the Fund achieving lower investment returns than those reflected in the Actuary's assumptions which would then reduce the funding level of the Cumbria Fund. Importantly, this could have a material impact on employer future service rate contributions in future years. In response the Fund, in conjunction with Investment Consultants, Isio, undertook a further review of its Investment Strategy.

The outcome of this review gave the Fund both an interim asset allocation, agreed by the Pensions Committee in September 2020, and a longer-term Target strategic allocation - an evolution of the Fund's strategy from the 2019 position - which was agreed at Pensions Committee in March 2021. The key principles for the Investment Strategy are:

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

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

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

- Public equity - equities are expected to produce good returns over the long term and provide a good source of liquidity. As such they play an important role in the Strategy. However, equities are volatile and, at the time of the 2019 review, the focus was on reducing this asset class in favour of assets with a similar expected return but less volatility. However, as expectations for future investment returns overall have reduced since the 2019 review, it was agreed as part to the 2020 interim review that the Fund should continue with the 35% allocation on the basis that this should provide additional return and liquidity for the Fund.

- Illiquidity premium – the Fund is managed as a going concern and can hold long term investments to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium, whilst also ensuring that it is able to meet its cashflow requirements.

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

The process of implementing changes in asset allocation to enable the Fund to reach its interim asset allocation commenced immediately following Committee approval in September 2020, recognising that in light of uncertainties affecting the markets investment decisions will be taken in a managed and responsive way, with the following changes being made in the period to 31 March 2021:

- The increase of the Fund's holding in index-linked government gilts by 1% (to an interim aim of 20%);

- The selection of suitable investments to increase the allocation to Multi-Asset Credit funds by 4% to an interim allocation of 16% of the Fund (pending deployment of monies into private market investments over time);

- The selection of suitable investments for the alternatives portfolio, including new investment commitments of £210m made to BCPP private markets funds to be launched following the year-end (Border to Coast Infrastructure 2021, Border to Coast Private Equity 2021 and Border to Coast Private Credit 2021);

- The increase of the Fund's infrastructure equity commitments with a current manager to achieve the aim for an interim strategic allocation in total of 10% of the Fund; and

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

Implementation of changes towards the revised Target Investment Strategy has been incorporated within the Fund's business plan for 2021/22.

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

<u>2020/21 Business Plan</u>:

All targets set within the 2020/21 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion and these have been delivered within the approved budget. However, work on improving the data held within the Fund was scaled back during the year to ensure that the Fund could appropriately meet other challenges including the impact of COVID-19 and new legislation / regulatory changes whilst prioritising work to meet the requirements of the Pensions Regulator.

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 2020/21 Business Plan and new issues arising during the year were:

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

  Throughout the year, the Fund has continued to actively engage with the company and partner funds on the range and design of sub-funds that BCPP provides, via the Joint Committee, and in officer working groups. Key developments during the year include:

  - Members confirmed the decision to invest the Fund's 5% long-term strategic allocation to Multi-Asset Credit (MAC) in the Border to Coast MAC sub-fund (c.£150m at 31/03/21), upon satisfactory completion of the transition planning work, expected to be during 2021/22; and

  - Members of the Investment Sub Group confirmed new commitments totalling £210m into BCPP's Private Equity, Infrastructure and for the first year, Private Credit sub funds to meet the needs of the Fund's strategy.

- **Investigate and implement suitable investment options to implement the Investment Strategy approved by Pensions Committee in December 2019**

  During the year the Fund reviewed the investment strategy in light of the pandemic's effect on investment markets, and following approval by Pensions Committee, transitioned assets towards a revised interim strategic asset allocation. This included the exit from the corporate bonds portfolio (7% of the Fund), investing in multi-asset credit (equating to 16% of the Fund's total portfolio), funding private market investment commitments and reducing cash balances.

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

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

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

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

  All contracts were regularly reviewed to ensure that performance is appropriate. Two new contracts were for core services to the Pension Fund were let in 2020/21:

  - The Fund entered into a new contract with Eversheds Sutherland LLP in June 2020 for the provision of legal advice to the Fund.
  - The Fund appointed a new custodian, Northern Trust, with the transfer from State Street completed in October 2020.

  Officers met at least quarterly (and weekly during the early stages of the COVID-19 pandemic) with the Operations Director of Local Pensions Partnership - Administration (LPPA), the Fund's pensions' administration provider, to review performance standards. LPPA performance remained high throughout the year despite the challenges of operating throughout the pandemic.

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

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

  During 2020/21 the Fund responded to the following consultations:
  - Amendments to the Statutory Underpin Consultation

    This consultation set out MHCLG's proposals for amending LGPS regulations to remedy an age discrimination case affecting all public sector pension schemes – referred to as the McCloud case.
  - Reforming local government exit pay - A consultation on the reform of exit payments in local government

    Following the implementation of exit payment cap legislation by HM Treasury in November 2020, MHCLG consulted on further reforms to the on exit payments specific to the LGPS.

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

  Throughout 2020/21, the majority of vacant posts to the Local Pension Board were recruited to including the appointment of substitutes.

- **Responding to new legislation relating to the Exit Payment Cap and proposed new LGPS regulations related to exit payment reforms**

  In November 2020, The Restriction of Public Sector Exit Payment Regulations 2020 came into effect, placing a cap of £95,000 on the cost of exiting employees from public sector roles.

  Officers were actively engaged in working with the Fund's employers to mitigate the effect of this new legislation on employers and scheme members taking retirement through redundancy.

  This legislation was subsequently revoked in March 2021.

Looking forward to 2021/22:

Given the unprecedented measures being taken around the world to manage the trajectory of the COVID-19 pandemic and the uncertainties surrounding the nature of the virus itself, it is not possible to accurately predict the longevity and severity of its impact on the global economy, working practices and society as a whole. As such, the following key deliverables for 2021/22 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) as set out below, are focused on the principal activities of the Fund as currently anticipated. As the impact of COVID-19 becomes clearer, the Fund's work plan will be reviewed and amended where appropriate to ensure it addresses any relevant issues arising as a result of the pandemic.

Pensions Administration

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

Investment Management

- Investigating and implementing suitable investment options to implement the revised Target Investment Strategy approved by Pensions Committee in December 2019 and revised in March 2021;

- Ensuring that the asset allocations remain appropriate and monitor progress in moving towards the Target Investment Strategy;

- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities are available within the pool for the Fund to transition to its amended investment strategy;

- Reviewing the reporting requirements of the revised UK Stewardship Code (2020) with a view to the Fund reporting to the Financial Reporting Council (FRC) on the Stewardship of the Fund's assets for the 2020/21 fiscal year; and

- Ensuring that new Members of the Pensions Committee and/or Investment Sub Group receive full training in Fund investments.

Oversight & Governance

- Completion of the 2020/21 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;

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

- Reviewing governance arrangements in response to financial, regulatory and structural changes;

- Reviewing and updating Fund risks, policies and strategies;

- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan; and

- Reviewing the findings of the SAB's "Good Governance in the LGPS" review and implementing any required improvements within the Cumbria Fund identifying resource implications with the new governance framework.

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 2020/21 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2021) 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 2020/21.

<u>Fund account – revenue recognition</u>

2.1. Contribution Income

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

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

Other Employers contributions including pensions strain costs are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors. There are no such long term debtors at 31 March 2021.

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

2.2. Transfers to and from other schemes

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

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

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

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

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

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

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

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

2.6. Administrative expenses (Note 7)

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

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

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

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

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

The 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 any 2020/21 submissions of cost transparency templates received prior to the cut off for the accounts and, where appropriate, used these to inform the Management Fees disclosed in the Accounts; the remaining cost transparency templates will be assessed as they are received and will inform additional disclosures of investment costs in the Fund's 2020/21 Annual Report to be published by 1st December 2021. Where a transparency template is not received, officers consider other available information to ensure that disclosed costs are reasonable. It is anticipated that in future years the templates received will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the transparency of investment costs in coming years.

2.8. Oversight and Governance costs (Note 7)

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

The expenses for those charged with the governance of the Fund (e.g. training, travel and allowances) and the cost of obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs. This section also includes actuarial fees, legal fees and shareholder voting services.

<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 until 30 September 2020 and Northern Trust Corporation from 1 October 2020, as independent Custodians to the Fund, value any directly held assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There were no such investments at 31 March 2021.

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

- In the case of the unquoted equity shares for Cumbria LGPS's ownership of share capital in Border to Coast Pensions Partnership Ltd (BCPP), as no market or comparable market exists, there is no intention for the company to be profit making and as the financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost). Consequently, the shares are valued at cost. At 31 March 2021, these are valued at £1,181,818 as detailed in Note 22.

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

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. All valuations are performed in accordance with the appropriate Standards of Professional Appraisal Practices (“USPAP”) and International Valuation Standards (“IVS”) or provides an IPEVC (International Private Equity and Venture Capital) (or other recognised industry standard) compliant valuation as applicable. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31 March 2021. 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.

f) Freehold and leasehold properties: The properties are valued at fair value at 31 March 2021 by an independent valuer, CBRE Ltd, Chartered Surveyors, Henrietta House, Henrietta Place, London W1G 0NB, in accordance with the Royal Institution of Chartered Surveyors’ Valuation - Global Standards (incorporating the International Valuation Standards) and the UK national supplement (“the Red Book”) current as at the valuation date.

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

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

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

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

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

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

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

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

v. No account has been taken of the availability or otherwise of capital grants.

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

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

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31 March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound. There are no long-term debtors as at 31 March 2021.

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. Northern Trust Corporation value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31 March 2021.

2.11. Derivatives

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

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

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

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

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

2.13. Financial liabilities

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

2.14. Actuarial present value of promised retirement benefits

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

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

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business. From January 2020, the Equitable Life AVC closed with investments transferring to Utmost Life.

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

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

2.16. Contingent assets and contingent liabilities

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

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

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

2.17. Stock Lending

Securities on loan at the 31 March, if any, are included in the net assets statement to reflect the Fund's continuing economic interest in the securities. The Fund's stock lending program was wound down following the transition of the Fund's active global equity to BCPP and the exit from the Fund's corporate bond portfolio. BCPP has an active stock lending programme, where it is permissible and as lenders of stock do not generally retain voting rights on lent stock, there are procedures in place to enable stock to be recalled prior to a shareholder vote if considered necessary from a responsible investment perspective. The Fund's passive global equity holding is managed by Legal and General who also operate a stock lending programme in selective overseas equity markets under strict conditions.

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

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

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

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

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2020/21 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 2020/21 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 13.7% to 34.5% 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	**2019/20 £'000**	**2020/21 £'000**
Employee contributions to the fund	18,106	19,177
Employer contributions to the fund:		
Normal contributions	47,002	57,896
Deficit recovery contributions	3,601	10,653
Total Employer contributions	50,603	68,549
Total Contributions receivable	**68,709**	**87,726**
By Employer Type	**2019/20 £'000**	**2020/21 £'000**
Administering Authority	38,941	53,586
Other Scheduled bodies	28,007	32,701
Admitted bodies	1,761	1,439
	68,709	**87,726**

As shown in the above table the administering authority contributions (Cumbria County Council) were £55.586m (£38.941m 2019/20). This value was inclusive of £5.417m which related to historic deficit contributions pre-paid for financial years 2021/22 and 2022/23.

In April 2020, three employers chose to pay additional lump sum contributions to offset their historic deficit contribution for the years 2020/21 to 2022/23. This greater volume of additional payments explains the significant increase in the deficit recovery contributions for 2020/21 in the table above.

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

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

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this are contained in the full Actuarial Valuation Report as at 31 March 2019, and all other Cumbria LGPS employer policies that are relevant to the 2020/21 financial year are available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

	2019/20 £'000	2020/21 £'000
Individual transfers	6,160	4,129
	6,160	**4,129**

NOTE 5: BENEFITS

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

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

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

By Category	**2019/20 £'000**	**2020/21 £'000**
Net pensions paid	74,270	76,874
Net lump sum on retirement	14,355	12,889
Net lump sum on death	2,492	2,146
	91,117	**91,909**
By Employer Type	**2019/20 £'000**	**2020/21 £'000**
Administering Authority	51,387	51,874
Scheduled bodies	31,352	32,276
Admitted bodies	8,378	7,759
	91,117	**91,909**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2020/21 were £51.874m (£51.387m 2019/20).

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

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

	2019/20 £'000	2020/21 £'000
Refund of member contributions	236	262
Individual transfers out to other Schemes	6,781	5,876
Group transfer out to other Schemes	-	-
	7,017	**6,138**

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 administration services, provided by delegation of function to Lancashire County Council, through Local Pensions Partnership - Administration (LPPA), are charged to the Fund. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of management expenses are as follows:

	2019/20 £'000	2020/21 £'000
Administrative costs	1,306	1,471
Investment management costs	10,661	16,660
Oversight and governance costs	760	583
	12,727	**18,714**

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 2020/21 is provided for information in the next note.

Administration costs were £0.165m (12.7%) higher in 2020/21 than the previous year, for further details refer to Note 8.

Investment management costs were £5.999m (56.3%) higher in 2020/21 than the previous year, for further details refer to Note 8 and 8(a).

Oversight and governance costs were £0.177m (23.3%) lower in 2020/21 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 2020/21 is provided below.

	2019/20 £'000	2020/21 £'000
Administrative costs:		
Pensions Administration	1,047	1,223
Employee costs	257	239
Legal advice	-	8
Other	2	1
	1,306	1,471
Investment Management costs: See Note 8 (a)		
Management Fees	8,743	10,910
Performance Fees	1,723	5,719
Custody fees	77	31
Transaction costs	118	-
	10,661	16,660
Oversight and governance costs:		
Employee costs	318	306
Pension fund committee	22	14
Pension Board	15	10
Investment consultancy fees	130	92
Performance monitoring service	41	42
Shareholder voting service	10	10
Actuarial fees	109	60
Audit fees	32	33
Legal and tax advice	39	14
Other (including bank charges)	44	2
	760	583
	12,727	**18,714**

In accordance with the CIPFA guidance there are some presentational changes for the 2020/21 accounts that seek to provide more detailed disclosure of investment management fees. To comply with this, a new disclosure Note 8(a) has been created to further breakdown the Investment Management fees section of the above table.

Variations on spend between years include:-

- Pensions Administration - The budget for the Fund's pensions administrator, Local Pensions Partnership - Administration (LPPA), increased in 2020/21 due to higher costs within LPPA arising from additional scheme complexity, enhanced technology and improved customer service processes.

- Investment Management Costs – Investment management costs increased in 2020/21 from £10.661m to £16.660m. Details of these costs are explained further in Note 8(a).

- Actuarial Fees - Actuarial fees were significantly lower in 2020/21 than 2019/20 due to the work undertaken in 2019/20 associated with the triennial valuation of the Fund.

NOTE 8(a) : INVESTMENT MANAGEMENT EXPENSES ADDITIONAL INFORMATION

As detailed above, in accordance with CIPFA Guidance for the completion of the 2020/21 LGPS accounts this additional note provides more detailed disclosure of investment management fees across the more specific asset class headings for the Fund's Pooled investment holdings. This includes a restatement of the 2019/20 investment management fee values for presentational reasons only.

2020/21 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction Costs £'000	2020/21 £'000
Asset Classes				
Corporate Bonds	33	-	-	33
Equities	-	-	-	-
BCPP Asset Pool				
Pooled Equity Investments with BCPP	2,019	-	-	2,019
Governance & Development costs of BCPP	665	-	-	665
Pooled Passive Investments	90	-	-	90
Alternatives				
Infrastructure Funds	2,015	963	-	2,978
Private Equity Funds	2,222	4,228	-	6,450
Private Debt Funds	920	528	-	1,448
Multi Asset Credit Funds	1,879	-	-	1,879
Property Funds	417	-	-	417
Directly held Property	546	-	-	546
Derivatives	(12)	-	-	(12)
Cash & FX Contract costs	116	-	-	116
	10,910	5,719	-	16,629
Custody Fees				31
Total Investment Management Expenses				**16,660**

2019/20 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction Costs £'000	2019/20 £'000
Asset Classes				
Corporate Bonds	232	-	-	232
Equities	1,256	-	118	1,374
BCPP Asset Pool				
Pooled Equity Investments with BCPP	1,034	-	-	1,034
Governance & Development costs of BCPP	294	-	-	294
Pooled Passive Investments	45	-	-	45
Alternatives				
Infrastructure Funds	2,050	557	-	2,607
Private Equity Funds	1,647	897	-	2,544
Private Debt Funds	707	269	-	976
Multi Asset Credit Funds	-	-	-	-
Property Funds	414	-	-	414
Directly held Property	570	-	-	570
Derivatives	370	-	-	370
Cash & FX Contract costs	124	-	-	124
	8,743	1,723	118	10,584
Custody Fees				77
Total Investment Management Expenses				**10,661**

- Corporate Bonds – the fees have reduced significantly from those paid in 2019/20 due to the asset class being largely exited in the summer of 2020 with the final holding sold in March 2021.

- Equities – the fees shown in 2019/20 were for half a year of fees related to the Fund's previous segregated investments with active global equity managers, prior to the Fund transitioning its active equity holdings to BCPP's Global Equity Alpha Fund (a pooled fund) in October 2019. As the Fund no longer holds any segregated investments in equities, there are no such costs in 2020/21.

- BCPP asset pool – the 2020/21 fees represent a full year's cost for both the internally managed UK Equity fund and the Global Equity Alpha fund, together with the annual charges from the pool in relation to the operational and governance costs and ongoing development of the company and related investment management projects to increase capacity.

- 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. The growth in the portfolio values together with additional investments into Multi Asset Credit pooled funds has led to increased management fees

  Total management fees on investments in alternatives was £7.453m in 2020/21 (£4.818m in 2019/20). The increase in 2020/21 is mainly attributable to the new allocation to Multi Asset Credit funds and increased portfolio values overall. Positive investment returns especially in the Private Equity funds has resulted in increased performance fees, from £1.723m in 2019/20 to £5.719m in 2020/21.
- Transaction costs – there were no transactions costs paid directly by the Fund in 2020/21 as there were no segregated equity mandates held.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £48.501m (2019/20 £47.417m net of £0.206m irrecoverable tax on dividends in 2019/20 only); and including stock lending income of £0.001m (2019/20: £0.012m), can be analysed as follows:

	2019/20 £'000	2020/21 £'000
Income from Corporate Bonds	7,045	928
Income from Equities	7,674	58
Infrastructure Funds Income	15,061	13,058
Private Equity Funds Income	1,980	8,066
Private Debt Funds Income	3,788	8,060
Multi Asset Credit Funds Income	3	9,260
Property Funds Income	3,463	2,720
Rents from Directly held Property	8,043	6,279
Interest on Cash deposits	360	72
	47,417	**48,501**

In October 2019, the Fund transitioned from global equity segregated portfolio managers to the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund. The Fund does not receive investment income directly from equity dividends, as this is received by the pooled fund and increases the value of the unitised holdings, hence the absence of equity dividends for 2020/21.

In 2020/21 the Fund exited from its directly held corporate bonds portfolio, as the Fund ceased to require an allocation to this asset following the 2019 Investment Strategy Review. The resulting reduction in income from corporate bonds is seen in 2020/21.

The majority of income earned relates to the Fund's alternatives portfolio. The increase in amounts received between 2019/20 and 2020/21 is in line with expectations as the Fund is committed to more alternative investment; however timing of income is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle. The Fund invests in these assets with the objective of generating stable and / or inflation protected income streams to support payment of pensions.

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2020 Total £'000	31 March 2020 Total £'000	31 March 2021 Total £'000	31 March 2021 Total £'000
Long-Term assets					
Unquoted Equities (shares in BCPP Ltd)			**833**		**1,182**
Investment Assets					
Corporate bonds			**173,363**		**-**
Pooled investment vehicles					
Pooled equity (active):					
- UK equities		223,894		282,723	
- Global equities		472,433		701,677	
		696,327		984,400	
Unitised insurance policies (passive):					
- Global equities		144,303		201,806	
- UK index-linked securities		495,549		533,853	
- UK sterling liquidity fund		105,022		521	
		744,874		736,180	
Other pooled funds and limited partnerships:					
- Infrastructure Funds		213,799		216,023	
- Private Equity Funds		124,146		174,588	
- Private Debt Funds		107,592		123,371	
- Multi Asset Credit / Fixed Income Funds		227,885		488,223	
- Property Funds		78,928		79,798	
		752,350		1,082,003	
Pooled investment vehicles & managed funds total			**2,193,551**		**2,802,583**
Investment properties	10(b)		**155,700**		**176,615**
Derivative contracts	10(c)		**452**		**2,335**
Cash & cash equivalents			**37,726**		**81,747**
Amounts receivable for sales *			**1,525**		**-**
Investment income accrued *			**3,326**		**2,105**
Property rental debtors *			**1,927**		**2,932**
			44,956		**89,119**
Subtotal investment assets			**2,567,570**		**3,068,317**
Investment liabilities					
Derivative contracts	10(c)		**(2,369)**		**(2,450)**
Amounts payable for purchases *			**(47)**		**-**
Property creditors *			**(2,981)**		**(3,810)**
Subtotal investment liabilities			**(5,397)**		**(6,260)**
Total Net Investments			**2,563,006**		**3,063,239**

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

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

Note 10(c) details the derivative contracts. These are forward foreign exchange contracts and futures held at 31 March, presented as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31 March 2021.

In 2020/21 the Fund exited from its directly held corporate bonds portfolio, in line with the 2019 Investment Strategy Review, hence the reduction in quoted corporate bonds and increase in pooled funds and alternative private market funds in 2020/21.

In response to government requirements in relation to the pooling of LGPS assets, Cumbria LGPS along with 11 other partner LGPS funds, set up Border to Coast Pensions Partnership Ltd (BCPP). The company, formed to enable the pooling of LGPS investment assets by the twelve partner funds, launched its first investment funds in 2018/19. The share capital in BCPP is shown as a long-term asset as unquoted equities. During 2020/21 Northumberland County Council Pension Fund and Tyne and Wear Pension Fund, two of the partner funds, merged. This required an equalisation of the ownership shares between the remaining eleven partner funds and led to the increase in shares in BCPP Ltd shown in the table (from £0.833m in 2019/20 to £1.182m in 2020/21).

The Fund's largest manager holding is with BCPP. Cumbria LGPS transitioned from its actively managed UK equity into units in the Border to Coast UK Equity Fund in December 2018, followed by its actively managed global equity allocation into units in the Border to Coast Global Equity Alpha Fund in October 2019. As pooled unquoted investments, these are shown in the table managed by BCPP, totalling £984.400m.

The Fund's second largest manager holding is the unitised insurance policies with Legal and General totalling £736.180m, shown in the table categorised into the underlying asset types. These unitised, index-tracking (passive) funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets that the index-tracking funds hold on behalf of clients are quoted assets, such as fixed interest gilts and equity.

The Fund holds a portfolio of alternative investments (infrastructure, private equity, long-lease property, private debt and multi-asset credit funds) which are investment vehicles for collective investment such as limited partnerships and are shown as 'Other Pooled Funds and Limited Partnerships' in the table. The Fund is increasing its investment into alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. This portfolio totals £1,082.003m at 31 March 2021.

NOTE 10(a): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2020		31 March 2021	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity Fund	Equities	223,894	8.7%	282,723	9.2%
Border to Coast Global Equity Alpha Fund	Equities	472,433	18.4%	701,677	22.9%
Border to Coast Cumbria LP	Infrastructure Funds	6,480	0.3%	19,404	0.6%
Border to Coast Cumbria LP	Private Equity Funds	4,742	0.2%	14,465	0.5%
	Managed by BCPP Pool	**707,549**	**27.6%**	**1,018,269**	**33.2%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	103,227	4.0%	124,026	4.0%
Legal & General Policy No. 2	Index-linked bonds, cash	497,344	19.4%	410,348	13.4%
Legal & General Policy No. 3	Global equities	144,303	5.6%	201,806	6.6%
Legal & General Passive Currency	Currency overlay	(1,426)	-0.1%	(115)	0.0%
PIMCO	Multi Asset Credit	-	0.0%	191,288	6.2%
Aberdeen Standard Investments	Direct property	156,758	6.1%	180,237	5.9%
Apollo	Multi Asset Credit	90,195	3.5%	156,005	5.1%
CQS	Multi Asset Credit	100,000	3.9%	121,703	4.0%
JP Morgan	Infrastructure	121,897	4.8%	114,366	3.8%
Partners Group	Private Market Credit	52,133	2.1%	64,226	2.1%
Strategic cash allocation	Cash	29,354	1.1%	57,086	1.9%
Barings	Private Loan Fund	45,746	1.8%	56,251	1.8%
Unigestion	Secondary Funds	37,204	1.5%	49,290	1.6%
Partners Group	Infrastructure	52,025	2.0%	47,833	1.6%
Pantheon	Private Equity Funds	23,499	0.9%	43,248	1.4%
Insight Investments	Fixed income / cash	37,690	1.5%	40,787	1.3%
M&G	Property Fund	40,022	1.6%	39,942	1.3%
Aviva	Property Fund	38,861	1.5%	39,856	1.3%
Aberdeen SL Capital	Infrastructure	33,398	1.3%	34,419	1.1%
Aberdeen SL Capital	Secondary Funds	22,262	0.9%	29,672	1.0%
Healthcare Royalty Partners	Royalties Fund	21,564	0.8%	26,595	0.9%
BlackRock	Private Equity Funds	17,130	0.7%	11,318	0.4%
M&G	Real Estate Debt	9,714	0.4%	2,895	0.1%
Border to Coast Ltd	Share capital	833	0.0%	1,182	0.0%
Transition residual, tax accruals	Overseas/UK equities	799	0.0%	358	0.0%
Aberdeen Standard Investments	Bonds / Sales outstanding	179,370	7.0%	348	0.0%
Sales outstanding receivable	Infrastructure	1,510	0.1%	-	0.0%
Aberdeen Asset Management	Indirect property	45	0.0%	-	0.0%
	Outside of BCPP Pool	**1,855,457**	**72.4%**	**2,044,970**	**66.8%**
Total Net Investments		**2,563,006**	**100.0%**	**3,063,239**	**100.0%**

Border to Coast Pensions Partnership Ltd (BCPP), the company created for the pooling of LGPS investment assets by initially twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. As shown above, the pool currently manages 33% of Cumbria's investments, i.e. the Border to Coast UK Equity

Fund, the Border to Coast Global Equity Alpha Fund, and the Border to Coast Cumbria Limited Partnership for alternative investments in infrastructure and private equity.

Since 2012, the Fund has been increasing its investment into infrastructure and other alternatives in its strategic asset allocation. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams.

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31 March 2021 the portfolio valued at £176.615m included 24 properties ranging from £1.500m to £17.000m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in Note 11(a**)** 'Valuation of Financial Instruments carried at fair value'. However, they are valued at fair value (as detailed in Note 2.9(f)). As these assets are illiquid and prices are not readily quantifiable, they are categorised as level 3 assets in the Fair Value analysis in Notes 10(f) **to (h).**

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

	2019/20 £'000	2020/21 £'000
Rental income from investment property	8,390	6,693
Direct operating expenses arising from investment property	(347)	(414)
	8,043	**6,279**

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:

	2019/20 £'000	2020/21 £'000
Balance at the start of the year	**161,280**	**155,700**
Additions:		
Purchases	12,408	24,327
Subsequent expenditure	-	3,888
Disposals	(5,712)	(12,548)
Net gains/(losses) from fair value adjustments	(12,276)	5,248
Balance at the end of the year	**155,700**	**176,615**

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

	2019/20 £'000	2020/21 £'000
Not later than one year	7,594	8,150
Later than one year and not later than five years	25,760	24,288
Later than five years	18,018	25,825
Total future lease payments due under existing contracts	**51,372**	**58,263**

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

The full potential rental income receivable for the properties going forward is currently £8.315m per year, and due to the above targeted and prudent approach to the certainty of payment and bad debt provision, the future lease payments are reduced by an allowance for expected credit losses to those shown in the above table, i.e. by £0.165m to £8.150m for the forthcoming year. To provide context to this, it is worth noting that as at 31 March 2021 the Fund held £1.190m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31 March 2021, an allowance of £0.263m for expected credit loss on outstanding rent arrears (which totalled £1.685m as at 31 March 2021), is recognised within the 'Property rental creditors' figure of £3.810m at Note 10. This represents approximately 4.2% of the 2020/21 net rental income of £6.279m. Of the £0.263m allowance for expected credit loss, £0.153m related to a current live lease (approximately 2.4% of the annual rental income). The above disclosures have therefore been adjusted accordingly to remove this lease in full. It is considered that the level of provisioning is appropriately prudent in the context of the financial statements.

NOTE 10(c): DERIVATIVES

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

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

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

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

	31 March 2021		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	2,335	(2,450)	**(115)**
Futures	-	-	-
Derivative Contracts Gain/(Loss)	**2,335**	**(2,450)**	**(115)**

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

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

Currency Bought		Currency Sold		2020/21	
Currency	**Local Value 000's**	**Currency**	**Local Value 000's**	**Unrealised Gain Sterling £'000**	**Unrealised Loss Sterling £'000**
Settlement one					
GBP	56,939	EUR	65,312	1,251	-
GBP	31,141	JPY	4,580,800	1,084	-
GBP	282,132	USD	392,700	-	(2,450)
				2,335	**(2,450)**
Net forward currency contracts at 31 March					**(115)**

The open forward foreign exchange contracts as at 31 March 2020 can be summarised as follows:

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

There were no outstanding exchange traded futures contracts as at 31 March 2021. Outstanding exchange traded futures contracts as at 31 March 2020 were as follows:

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

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.

2020/21 saw the Fund exit from its directly held corporate bonds portfolio, as the Fund ceased to require an allocation to this asset following the 2019 Investment Strategy Review, hence the reduction in quoted corporate bonds, and increase in alternative private market funds in 2020/21. The Fund has also made other strategic moves, funding a higher allocation to defensive assets; index-linked gilts and multi-asset credit (MAC) funds. Hence the year shows a high volume of sales of corporate bonds, and the purchase of other managed funds.

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

2020/21:

Asset Class	Value at 1 April 2020 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Changes in value during the year £'000	Value at 31 March 2021 £'000
Fixed interest securities (Corporate Bonds)	173,363	-	(180,627)	7,264	-
Equities					
UK equities	833	349		-	1,182
Pooled investment vehicles	1,441,201	27,598	(107,300)	359,081	1,720,580
Other Managed funds	752,350	343,567	(83,113)	69,199	1,082,003
Property (See Note 10b)	155,700	28,215	(12,548)	5,248	176,615
Derivatives (forward foreign exchange contracts, futures)	(1,917)	5,589	(34,851)	31,064	(115)
	2,521,530	**405,318**	**(418,439)**	**471,856**	**2,980,265**
Cash & cash equivalents	37,726			(2,122)	81,747
Amounts receivable for sales	1,525				-
Investment income accrued	3,326				2,105
Property rental debtors	1,927				2,932
Amounts payable for purchases	(47)				-
Property creditors	(2,981)				(3,810)
Total Net Investments	**2,563,006**			469,734	**3,063,239**

Analysis of gains/(losses) for the year	2020/21 £'000
Realised - Profit and losses on disposal of investments	38,612
Unrealised - Changes in the market value of investments	431,122
	469,734

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

2019/20:

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

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

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

It is a requirement of the Pensions Statement of Recommended Practice (SORP) and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The occurrences of this within the Cumbria Fund are the Fund's investments managed by BCPP, two of the three unitised insurance policies held with Legal and General, and investments with PIMCO and Apollo.

Cumbria LGPS transitioned from its actively managed UK equity into units in the Border to Coast UK Equity Fund in December 2018, followed by its actively managed global equity allocation into units in the Border to Coast Global Equity Alpha Fund in October 2019.

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.

The Fund's agreed investment strategy has an interim allocation of 16% to multi-asset credit. As a result the funds held with two of the three managers, PIMCO and Apollo, account for more than 5% of the Fund in 2020/21.

Holding	31 March 2020 £'000	% of Total Net Investments	31 March 2021 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	223,894	8.7%	282,723	9.2%
Border to Coast Pension Partnership Ltd - Global Equity Alph	472,433	18.4%	701,677	22.9%
Investments over 5% managed by Border to Coast	**696,327**	**27.1%**	**984,400**	**32.1%**
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Inde	150,075	5.9%	153,961	5.0%
Policy 2 Legal and General Bespoke	347,269	13.5%	256,387	8.4%
Policy 3 Legal and General FTSE World Equity Index	144,303	5.6%	201,806	6.6%
Investments over 5% managed by Legal and General	**641,647**	**25.0%**	**612,154**	**20.0%**
Other pooled investments over 5% of Net Investment Assets				
PIMCO - Diversified Income fund	-	-	191,288	6.2%
Apollo - Total Return fund	-	-	156,005	5.1%
	1,337,974	**52.1%**	**1,943,847**	**63.4%**

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

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

Description of Asset/Liability	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
LEVEL 1			
Market quoted investments (includung equity & pooled funds)	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Cash and cash equivalents	Carrying value is fair value because of short-term nature (daily access)	Not required	Not required
Futures and options in UK bonds*	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Closing bid value on published exchanges	Not required	Not required
LEVEL 2			
Unquoted fixed income bonds and unit trusts	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
UK and Overseas equity and bond options	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - unitised funds with underlying assets in quoted equity (UK or overseas), gilts or cash	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Not required
LEVEL 3			
Pooled investments - hedge funds	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties and property funds	The properties are valued at fair value at the year-end using the investment method of valuation by independent valuers CBRE Ltd in accordance with the *RICS Valuation Global Standards* (incorporating the International Valuation Standards) and the UK national supplement ("the Red Book") current as at the valuation date.	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Private/Unquoted equity (Pooled funds in Alternative Assets)	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 2021.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2021 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	2.7%	216,023	221,856	210,190
Alternatives - Private Equity	5.3%	174,588	183,841	165,335
Alternatives - Private Debt	5.6%	123,371	130,280	116,462
Alternatives - Multi Asset Credit	8.1%	488,223	527,769	448,677
Property - direct and pooled	3.5%	256,413	265,387	247,439
Total		**1,258,618**	**1,329,133**	**1,188,103**

Further details on estimates and sensitivities of values are set out in Note 22 to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

Potential price changes are determined based on the observed historical volatility of the Fund's own asset class returns. The potential volatilities represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data means that the period between March 2020 and March 2021 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. This volatility can be applied to the investment assets of the Fund at the period end in the above table to show the potential increase and decrease of value.

NOTE 10(g): FAIR VALUE HIERARCHY

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

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

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: 2% of Total Investments (2019/20: 9%)
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 2020/21 following the exit from the corporate bond portfolio. This reduced quoted corporate bonds (level 1), and has increased pooled vehicles and funds (level 3).

Level 2: 57% of Total Investments (2019/20: 56%)
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: 41% of Total Investments (2019/20: 35%)
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 2020				31 March 2021			
	Quoted market price	Using observable inputs	With significant unobservable inputs		Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss								
Unquoted Equities (shares in BCPP Ltd)	-	-	833	833	-	-	1,182	1,182
Fixed interest securities - Corporate bonds	173,363	-	-	173,363	0	-	-	0
Pooled Investments	-	1,441,201	752,350	2,193,551	-	1,720,580	1,082,003	2,802,583
Derivative contracts	-	452	-	452	-	2,335	-	2,335
Cash & cash equivalents	45,372	-	-	45,372	63,456	20,161	-	83,617
Total Financial assets at fair value through profit and loss	**218,735**	**1,441,653**	**753,183**	**2,413,571**	**63,456**	**1,743,076**	**1,083,185**	**2,889,717**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	155,700	155,700	-	-	176,615	176,615
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(2,369)	-	(2,369)	-	(2,450)	-	(2,450)
Total Investments at Fair Value	**218,735**	**1,439,284**	**908,883**	**2,566,902**	**63,456**	**1,740,626**	**1,259,800**	**3,063,882**
Percentage of Total Investments	**9%**	**56%**	**35%**	**100%**	**2%**	**57%**	**41%**	**100%**

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

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

Period 2020/21	Market value 1 April 2020 £'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 2021 £'000
Unquoted Equities	833	-	-	349	-	-	-	1,182
Level 3 pooled investments (i.e. Other managed funds)	752,350	-	-	343,567	(83,113)	10,501	58,698	1,082,003
Investment Properties	155,700	-	-	28,215	(12,548)	(4,311)	9,559	176,615
	908,883	**-**	**-**	**372,131**	**(95,661)**	**6,190**	**68,257**	**1,259,800**

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 2020 £'000	31 March 2021 £'000
Financial Instruments	2,414,568	2,887,660
Statutory debts / liabilities & provisions	3,610	2,932
Investment Property	155,700	176,615
Net Assets of the Fund	**2,573,878**	**3,067,207**

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

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31 March 2021.

	31 March 2020				31 March 2021			
	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	833	-	-	833	1,182	-	-	1,182
Fixed interest securities (corporate bonds)	173,363	-	-	173,363	-	-	-	-
Pooled investment vehicles	2,193,551	-	-	2,193,551	2,802,583	-	-	2,802,583
Derivative contracts	452	-	-	452	2,335	-	-	2,335
Cash & cash equivalents	-	45,372	-	45,372	20,161	63,456	-	83,617
Investment receivables/debtors	-	6,778	-	6,778	-	5,037	-	5,037
Current & long-term assets	-	637	-	637	-	505	-	505
	2,368,199	**52,787**	**-**	**2,420,986**	**2,826,261**	**68,998**	**-**	**2,895,259**
Financial Liabilities								
Derivative contracts	(2,369)	-	-	(2,369)	(2,450)	-	-	(2,450)
Investment payables/creditors	-	-	(3,028)	(3,028)	-	-	(3,810)	(3,810)
Current/long-term liabilities	-	-	(1,021)	(1,021)	-	-	(1,339)	(1,339)
Total Financial Instruments	**2,365,830**	**52,787**	**(4,049)**	**2,414,568**	**2,823,811**	**68,998**	**(5,149)**	**2,887,660**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	(125,662)	-	-	(125,662)	466,936	-	-	466,936
Financial Liabilities	(2,369)	-	-	(2,369)	(2,450)	-	-	(2,450)
Total Net Gains/(Losses)				(128,031)				464,486

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

NOTE 12: CURRENT ASSETS

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

	31 March 2020 £'000	31 March 2021 £'000
Cash balances	**7,646**	**1,870**
Current Debtors		
Contributions due	3,649	3,488
Employer exit from scheme due < 1 year	328	-
Miscellaneous	963	645
Total Current Debtors	**4,940**	**4,133**
Total Current Assets	**12,586**	**6,003**

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

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

NOTE 13: CURRENT LIABILITIES

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

	31 March 2020 £'000	31 March 2021 £'000
Current Creditors		
Investment Managers fees	376	356
Tax payable	693	696
Miscellaneous	645	983
Total Current Liabilities	**1,714**	**2,035**

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

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

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

Summary of Financial Risks	Credit Risk	Market Risk: Foreign Exchange	Market Risk: Interest rate	Market Risk: Liquidity	Market Risk: Other risks	2019/20 £'000	2020/21 £'000
UK Equities	◐	◐	◐	○	◐	224,727	283,905
Overseas Equities	◐	●	◐	○	◐	616,736	903,483
UK Bonds	◐	◐	●	○	◐	166,503	0
Overseas Bonds	◐	●	●	○	◐	6,860	0
Index Linked Gilts	○	○	◐	○	◐	495,549	533,853
Property *	◐	○	◐	●	◐	155,700	176,615
Alternative Investments	◐	◐	◐	●	◐	752,350	1,082,003
Derivatives**	◐	●	○	○	◐	(1,917)	(115)
UK Cash	◐	○	◐	○	◐	132,815	52,555
Overseas Cash	◐	●	◐	○	◐	17,579	31,583
Total Investments at Fair Value						**2,566,902**	**3,063,882**

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

○ Minimally ◐ Partially ● Significantly

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

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

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016[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 2021.

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.

A full Strategic Investment Review was undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund, which reported a 98.9% funding level (as at 31 March 2019). In 2020/21 it was recognised that the impact of the pandemic on global investment markets risks the Fund achieving lower investment returns going forwards than those reflected in the Actuary's assumptions, and this risks impacting on the funding level of the Cumbria Fund. In response, the Fund undertook a further review of its Investment Strategy to give both an interim asset allocation, agreed by the Pensions Committee in September 2020, and a longer-term target strategic allocation which was agreed at Pensions Committee in March 2021. Undertaking reviews to continually evolve the strategy, ensures the Fund fully considers the risk being taken within the investment portfolio, and therefore challenges its ability to meet the Actuarial objectives of the Fund.

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

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

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

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

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

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

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers' performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 8 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 BCPP's stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31 March 2021 were £1.870m (2019/20: £7.646m) within current assets (see Note 12), and £81.747m (2019/20: £37.726m) shown as cash and cash equivalents within investments (see Note 10). In addition to this, in 2020/21 £0.521m (2019/20: £105.022m) of the Fund's holding in unitised insurance policies was in cash-like investments (in the UK Sterling liquidity fund as shown in Note 10 under Unitised insurance policies (passive)). These funds were held in cash awaiting drawdowns for new investments. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2021	Balances as at 31 March 2020 £'000	Balances as at 31 March 2021 £'000
Money Market Funds			
Northern Trust GBP Liquidity Fund	AAA	-	22,838
Northern Trust USD Liquidity Fund	AAA	-	28,971
Northern Trust EUR Liquidity Fund	AAA	-	2,611
SSGA GBP Liquidity Fund	AAA	14,099	-
SSGA EUR Liquidity Fund	AAA	234	-
SSGA USD Liquidity Fund	AAA	15,018	-
Legal & General Sterling Liquidity Fund	AAA	105,022	521
Aberdeen Standard Sterling Liquidity Fund	AAA	3,703	1,400
Federated Short Term Prime Fund	AAA	3,403	300
Bank deposit accounts			
National Westminster Bank	A+	541	170
Bank current accounts			
Northern Trust Company (GBP)	AA-	-	2,665
Northern Trust Company (USD, EUR)	AA-	-	1
State Street Bank & Trust	AA-	2,864	-
Barclays Bank	A+	2,112	4,500
Short Term Deposit			
Cash Collateral Swaps		600	-
The Bank of New York Mellon call account	AA	2,798	-
Cash Equivalents - Fixed income funds			
Insight Liquidity Plus fund	AAAf/S1	-	20,161
Total		**150,394**	**84,138**

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, amongst other things, further reduce the Fund's overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, private equity secondary funds, royalties, private market loans) which the Fund is now investing in.

Market Risk – Sensitivity Analysis

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

Potential price changes are determined based on the observed historical volatility of the Fund's own asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data means that the period between March 2020 and March 2021 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2020/21 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Equities	1,187,388	15.7%	1,373,808	1,000,968
Index Linked Gilts	533,853	11.3%	594,178	473,528
Infrastructure Funds	216,023	2.7%	221,856	210,190
Private Equity Funds	174,588	5.3%	183,841	165,335
Private Debt Funds	123,371	5.6%	130,280	116,462
Multi Asset Credit Funds	488,223	8.1%	527,769	448,677
Property and Property Funds	256,413	3.5%	265,387	247,439
Cash	84,138	1.6%	85,484	82,792
	3,063,997		**3,382,603**	**2,745,391**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2021, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,259.675m and £31.583m cash denominated in currencies other than sterling.

To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by Pensions & Investment Research Consultants Ltd (PIRC), it is considered that the movements shown below are a reasonable measure to apply to the currencies. The potential volatilities represent a one standard deviation movement in the volatility of currencies over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data means that the period between March 2020 and March 2021 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed to develop the volatility percentages.

The impact of these movements in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £94.228m, or 3.1% of the Fund’s total value.

Foreign Exchange - Sensitivity Analysis	2020/21 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	803,915	8.5%	872,248	735,582
European currency denominated assets	268,467	5.8%	284,038	252,896
Other currency denominated assets	134,075	7.7%	144,399	123,751
UK assets within Global equity funds	84,801		84,801	84,801
	1,291,258		**1,385,486**	**1,197,030**

Foreign Exchange – Derivative Contracts

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

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

As at 31 March 2021, 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. The UK Bank Rate has been held at 0.10% throughout 2020/21. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall.

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Therefore a 0.40% change in interest rates (which would bring the base rate up to 0.5%) will increase or reduce the Fund's return by £2.472m (2019/20 £3.277m) on an annualised basis.

Assets exposed to interest rate risk	**31 March 2020 £'000**	**31 March 2021 £'000**
Fixed interest securities (including pooled investments)	668,912	533,853
Cash and cash equivalents	8,915	27,497
Money market funds and pooled cash vehicles	141,479	56,641
	819,306	**617,991**

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 2020/21, as in past years, the Fund experienced a contribution cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members.

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

Note 10(g) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31 March 2021 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,804.082m, i.e. 59% of net assets (31 March 2020 £1,658.019m, 65%). The value of the illiquid assets including investment properties was £1,259.800m which represented 41% of net assets (31 March 2020 £908.883m, 35%).

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

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

Counterparty Risk

The principal mitigation of the counterparty risk on 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 the Fund's fiduciary agent to demonstrate best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

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

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

Settlement Risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. 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. £0.115m loss on the currency derivatives at 31 March 2021 (see Note 10c).

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

Unquoted Investments

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

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

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

The unquoted investments held at 31 March 2021 are as follows:

Asset Class	2019/20 £'000	2020/21 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	696,327	984,400	Border to Coast	UK and Global equity funds.
Unitised insurance policies	744,874	736,180	Legal and General	Index tracking funds.
Other managed funds	-	191,288	PIMCO	Multi Asset Credit
	90,195	156,005	Apollo	Multi Asset Credit
	100,000	121,703	CQS	Multi Asset Credit
	121,897	114,366	JP Morgan	Infrastructure fund.
	52,025	64,226	Partners Grp	Private Market Credit
	45,746	56,251	Barings	Global private loan fund.
	37,204	49,290	Unigestion	Secondary private equity funds
	52,133	47,833	Partners Grp	Infrastructure fund.
	23,499	43,248	Pantheon	Private Equity funds.
	37,690	40,787	Insight	Fixed Income funds.
	40,022	39,942	M&G	Long-lease property fund.
	38,861	39,856	Aviva	Long-lease property fund.
	33,398	34,419	Aberdeen SLC	Infrastructure fund.
	22,262	29,672	Aberdeen SLC	Secondary private equity funds
	21,564	26,595	HRP	Healthcare Royalties Partners Fund.
	6,480	19,404	Border to Coast	Infrastructure Funds
	4,742	14,465	Border to Coast	Private Equity Funds
	14,873	11,318	BlackRock	BlackRock in-house funds.
	9,714	2,895	M&G	Real estate debt funds.
	45	-	Aberdeen	Overseas property funds (ex-
UK equity unquoted	833	1,182	Border to Coast	Company share capital.
	2,194,384	**2,825,325**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund gives no guarantee of investment performance of the providers and makes no contribution to the employees' funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped accepting new business. From January 2020, the Equitable Life AVC closed with investments transferring to Utmost Life.

The values of the three active schemes for Cumbria LGPS, along with the value of Utmost Life, are shown below:

	2019/20 £'000	2020/21 £'000
Standard Life	895	921
Scottish Widows	919	795
Utmost Life	577	456
Prudential	1,386	1,386
Total AVCs	**3,777**	**3,558**

The Prudential have not provided the Fund with the 31 March 2021 valuation of the Prudential scheme and therefore the above table assumes the value to be equal to the 31 March 2020 valuation.

AVC contributions of £0.058m were paid directly from employees pay to the providers during the year, excluding those to Prudential. During 2019/20 the contributions excluding Prudential were £0.078m with the total contributions being £0.528m.

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

NOTE 16: RELATED PARTY TRANSACTIONS

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

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

Border to Coast Pension Partnership Ltd (BCPP)

As indicated in Note 22, in 2017/18 the Fund became a partner in BCPP as its chosen route to pool investment assets across the LGPS. BCPP is the organisation set up to run pooled LGPS investments for the Fund and initially 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. BCPP was incorporated in May 2017 and initially issued 12 £1 A Ordinary shares. 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 2020/21.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pension Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2020/21 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pensions Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover at least 85% of the active membership. This target has been exceeded in 2020/21, with 90% coverage.

Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 17 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'LPPA') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2020/21 (see Note 13 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected

Members who have responsibility of the management of the Fund to the extent that they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

Notes on below table:

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

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2020/21 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 2020/21

- Cumbria County Council's Employer's Future Service Rate – LGPS 18.4% (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 2020/21 on Cumbria LGPS specific work.

- During 2020/21, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2019/20:1FTE) 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 2020/21 this allowance was £7,301. This cost is charged to Cumbria LGPS.

- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

2020/21 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Director of Finance (S151 Officer)	13,209	13,209	2,430	15,639
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	46,212	46,212	14,436	60,648
	59,421	**59,421**	**16,866**	**76,287**

2019/20 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS** £	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS** £	**Employer's Pension contributions recharged to Cumbria LGPS** £	**Total Remuneration including pension contributions recharged to Cumbria LGPS** £
Director of Finance (S151 Officer)	12,855	12,855	1,915	14,770
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	49,853	49,853	7,428	57,281
	62,708	**62,708**	**9,343**	**72,051**

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no contingent liabilities or outstanding contractual commitments at 31 March 2021.

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 2020/21. The estimated value of claims still outstanding is £3.991m (value in GBP at 31 March 2021, 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 2020/21 and despite a positive ruling in respect of time limits by the French Supreme Court there has been little progress for Fokus Bank (withholding tax) claims in France, Germany and Italy. A judgement by the Supreme Court in November 2020 has the potential to render the Foreign Income (FID) and Tax Credit (Manninen) Group claims time barred however there remains further litigation before the decision can be considered final. Whilst it is prudent for the Cumbria Fund not to make any assumptions, settlements previously received from other European countries lend some optimism as to the success of recovering additional income for the Fund in the future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. The total claim value is in excess of £0.914m, although no accrual has been put in the accounts as the outcome is uncertain. A Supreme Court hearing is scheduled for the second half of 2021 when HMRC will appeal the Court of Appeal judgement issued in October 2019 and found in favour of the claimant.

The fees incurred to date for the outstanding tax claims mentioned above total £0.407m 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 2020/21 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 2020/21.

Financial Assets That Are Past Due As At 31 March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within the £4.133m (£4.940m at 31 March 2020) of current debtors (see Note 12) is £0.021m of debtors aged between two and six months (£0.016m at 31 March 2020) and £0.103m of debtors aged greater than six months (£0.075m 31 March 2020).

NOTE 20: STOCK LENDING

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). The stock lending program has been wound down following the transition of the Fund's active global equity to BCPP and the sale of the Fund's corporate bond portfolio.

The value of securities on loan as at 31 March 2021 has reduced to nil following the transition of assets away from segregated mandates with Loomis Sayles and Nordea during 2019/20 (where the Fund was the asset owner and could therefore stock lend) to a unitised holding of Global Equity with BCPP (where the Investment Manager is the asset owner), and the exit from the segregated mandate of corporate bonds during 2020/21. Within the BCPP UK and Global equity sub-funds that the Fund has subscribed to, BCPP actively participates in stock lending and the income from this forms part of the return on the holding.

The Fund had no securities on loan at 31 March 2021 (2019/20: £0.773m); in the prior year these were included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consisted of (2019/20 only) £0.043m UK corporate bonds and £0.730m overseas corporate bonds. The related collateral totalled (2019/20 only) £0.812m, consisting of £0.745m overseas corporate bonds, and £0.067m UK corporate bonds.

For the year to 31 March 2021, the Fund earned income of £0.001m (2019/20 £0.012m) through stock lending of the various assets.

NOTE 21: EVENTS AFTER THE REPORTING DATE

The COVID-19 pandemic remains an ongoing issue and the impact on the valuation of the Fund's assets will continue to be assessed up until the publication of the audited accounts.

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

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

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 Pension Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in Note 14); and
- The impact of the COVID-19 pandemic on the valuation of the Fund's 'level 3' assets (as defined in Note 10(g)).

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(f) **and** 10 (g).

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

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

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund

Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible and therefore there is not expected to be any material uncertainty of the valuation of these assets. Investments Level 3 – the hardest to value holdings often do not depend on market forces; but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	For every 1% increase in market value of all assets, the value of the Fund will increase by approx. £30.632m, with a decrease having the opposite effect. For further information on the Sensitivity of Asset values at Level 3 including property, refer to Note 10(f) with further information on the sensitivity analysis of market prices included in the Market Risk section of Note 14. Level 3 investments including property – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons. For each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases. For further information on the assumptions contained in the Actuarial valuation, and how sensitive the funding position is to changes in those assumptions, please refer to the published Actuarial Valuation report which is available on the Fund's website.	The effects on the funding level of changes in the individual assumptions can be measured; but interact in complex ways. For instance: • a 1 year increase in life expectancy would result in a £75m increase in deficit shortfall; • a 0.25% reduction in the real investment return achieved would result in a £124m increase in the deficit shortfall, or; • a 25% reduction in Asset values would result in a £676m increase in the deficit shortfall; as determined at the 2019 valuation.

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

BCPP is the organisation set up to run pooled LGPS investments initially for 12 Pensions Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. BCPP was incorporated in May 2017 and initially issued 12 £1 'A Ordinary' shares. In 2020 when Northumberland and Tyne & Wear Pension Funds merged the number of £1 A Ordinary shares reduced to 11. 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. In addition to meet the FCA regulated capital requirements, the Fund also holds the required number of class B non-voting shares, to meet the funds obligation to the partnership; the value of this holding was initially £833,333.

During 2020/21 there have been two amendments to the level of Class B shares held by the Fund:

- On 3 June 2020 the statutory instrument confirming that Tyne & Wear and Northumberland Pension Funds would merge came into effect, this led to Cumbria LGPS increasing its regulatory Capital by £75,757 to change from being a 1/12th shareholder to a 1/11th shareholder (increasing the Fund's Class B share to the value of £909,090).
- At Pensions Committee in March 2020, Members were advised that due to the increasing value of the assets held by BCPP, and to meet the FCA regulatory capital requirements, the Fund would need to increase it's holding of B class shares by 1/11th of an additional £3m, this increase was approved. The Fund's portion (£272,728) was paid on 3 March 2021 bringing the total B Class shares to £1,181,818.

For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

This investment has been valued at cost on the basis that fair value as at 31 March 2021 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd (BCPP) became licensed to trade in May 2018;
- The first two years of financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost); and
- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared and there is no expectation of a future dividend being projected.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with a variety of rental periods. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on an accruals basis, over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a premium paid at the commencement of the lease).

Impact of COVID-19 on the valuation of 'level 3' assets

The outbreak of COVID-19, declared as a pandemic on 11 March 2020, continues to impact on many aspects of daily life and the global economy. In the final quarter of 2019/20, most investment markets experienced large reductions in valuations, however, during 2020/21 most markets have recovered to at least pre-pandemic levels as at 31 March 2021.

For the 2019/20 accounts only, the Fund's property valuer (CBRE Ltd) was directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This approach was removed from valuations from September 2020 onwards, as businesses and the wider economy began to function in a more normal sense. As at the valuation date, property markets are showing transaction volumes and other relevant evidence at levels where enough market evidence exists upon which to base opinions of value.

Valuations for Private Equity investments are usually received at least a quarter in arrears, and these investments are valued at an estimate to the fair value at 31 March, as best as is available at the time of preparation. For 31 March 2021, the 31 December 2020 valuations have been the latest available for the private equity investments shown at Note 10 (5.7% of the net investments assets), further cash transactions up to 31 March are reflected, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value. During the pandemic some underlying investments have been by the nature of their revenues more resilient than others, e.g. healthcare versus consumer spending. All such estimates are subject to a degree of uncertainty; it remains a fluid situation and, whilst 2020/21 saw a recovery of much of the decline associated with COVID-19, the economic outlook remains uncertain.

Infrastructure investments have been impacted overall to a lesser degree by the global pandemic, as these include operational assets in renewable and contracted energy, power distribution and utilities. For 31 March 2021, the 31 December 2020 valuations have been the latest available for £101.656m infrastructure investments shown at Note 10 (3.3% of the net investments assets), further cash transactions up to 31 March are reflected, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value.

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

The full Actuarial Valuation Report as at 31 March 2019 is available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The calculation of the liabilities in compliance with IAS 19 uses different assumptions than those used for the valuation basis. For example:

- The IAS 19 valuation calculates growth on the basis of bond yields at balance sheet date. The actuarial valuation, whilst also based on bond yields at balance sheet date, will generally look to dampen the effect of any perceived short term market volatility on yields (i.e. it takes a 'smoothing' approach).
- The IAS 19 valuation calculation requires that all entities assume their pension Fund grows at a standard rate, whereas the actuarial valuation considers the expected investment return of the assets actually held by the Fund, (e.g. IAS 19 requires that all funds use a generic discount rate whereas the discount rate used by the Fund in the actuarial valuation basis reflects the expected investment return based on the unique combination of assets it holds).

The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

	31 March 2020 £'m	31 March 2021 £'m
Valuation Basis		
Present value of past service liabilities	(2,827)	(2,861)
Net assets of the Fund	2,574	3,067
Net liability (Valuation Basis)	**(253)**	**206**
IAS 19 Basis		
Present value of past service liabilities	(3,478)	(4,129)
Net assets of the Fund	2,574	3,067
Net liability (IAS 19 Basis)	**(904)**	**(1,062)**

The statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) and in compliance with IAS 26 and on the basis of IAS19 is presented below.

Mercer

CUMBRIA LOCAL GOVERNMENT PENSION FUND

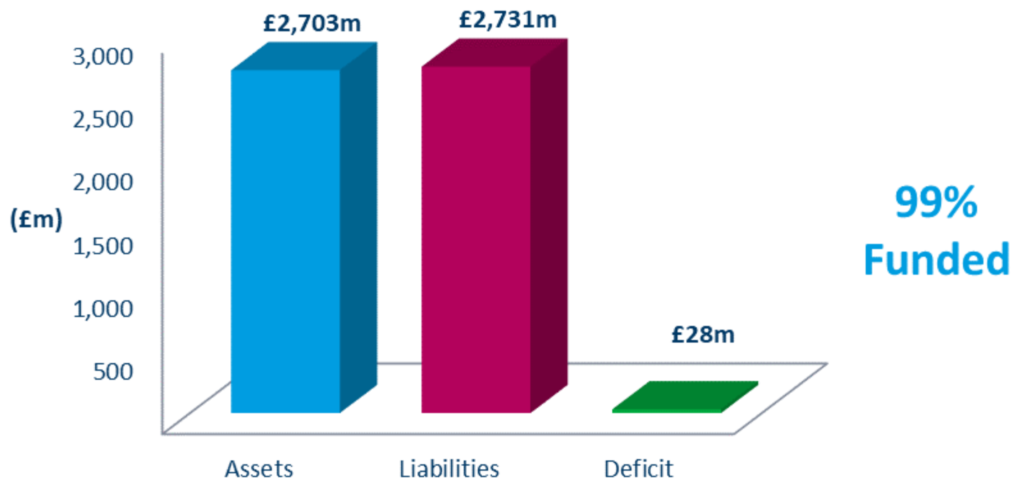
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Cumbria Local Government Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,703 million represented 99% of the Fund's past service liabilities of £2,731 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £28 million.

Actuarial Valuation as at 31 March 2019



The valuation also showed that a Primary contribution rate of 18.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 12 years, and the total recovery payment (the "Secondary rate" for 2021/22) is an addition of approximately £6m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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

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

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.65% per annum	4.40% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgement

The "McCloud judgement" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS.

The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgement (although there is a margin within the assumptions that may be used to absorb costs arising). At the overall Fund level we estimate that the cost of the judgement could be an increase in past service liabilities of broadly £23 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of COVID 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events.

Our view is that employer contributions should not be revisited as a general rule but the Administering Authority is consulting on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

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 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4%). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. 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 2020 was estimated as £3,478 million including the potential impact of the McCloud Judgement.

Interest over the year increased the liabilities by c£83 million, and allowing for net benefits accrued/paid over the period increased the liabilities by c£25 million (this includes any increase in liabilities arising as a result of early retirements). There was also an increase in liabilities of £543 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £4,129 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Clive Lewis

Fellow of the Institute and

Faculty of Actuaries

Mark Wilson

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

May 2021

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

There have been no accounting standards issued but not yet adopted that would materially impact on the 2020/21 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31 March 2021 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Fund as at 31 March 2021 (total 124)

Scheduled Scheme Employers (13)

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

Scheduled Resolution Bodies (16)

- Allerdale Waste Services (New)
- 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 (39)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Castle Carrock Academy
- Chetwynd School Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Cumbria Academy for Autism
- Dallam Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC
- Fairfield Primary Academy
- George Hastwell School Academy
- Ghyllside Academy
- Great Corby Academy
- James Rennie Academy
- Kendal MAT - Castle Park Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Penny Bridge Academy

Scheduled Bodies - Academies (cont)

- 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

Cumbria Education Trust (one employer)

- Caldew Lea Academy
- Hensingham Primary
- Longtown Academy
- Newtown Academy (New)
- Northside Academy
- Tebay Academy
- The Workington Academy
- Whitehaven Academy
- William Howard Academy
- Yanwath Academy
- Yewdale Academy

Furness Education Trust (one employer)

- Furness Academy
- Parkside GGI Academy
- Victoria Primary Academy
- Yarlside Primary Academy

Lunesdale MAT (one employer)

- Queen Elizabeth Academy
- Queen Elizabeth Studio School

The Good Shepherd MAT (one employer):

- Ambleside Primary Academy
- Braithwaite Primary Academy
- Dean Academy
- Gilsland Academy
- Kirkland Academy (New)
- Lazonby Academy
- Lorton Academy
- Whitfield Academy
- Wreay School Academy

West Lakes Academy (one employer)

- Arlecdon Primary Academy
- Dearham Primary Academy
- Flimby Academy
- Thornhill Primary Academy
- West Lakes Academy

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)

Scheduled Bodies No Actives (cont)

- Seaton Parish Council
- Water Authority

Admitted Bodies Transferee (16)

- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Caterlink - W/Lakes
- Caterlink - WHT
- Greenwich Leisure (Copeland)
- Greenwich Leisure (South Lakes)
- Life Leisure
- 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 (15)

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

Admitted Bodies No Actives (13)

- Bulloughs - Solway
- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- FCC Environment
- Henry Lonsdale Trust
- Kendal Brewery Arts Centre Trust Ltd
- Kendal Citizens Advice
- Lake District Cheshire Homes
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swimming Pool
- Wigton Joint Burial Committee

APPENDIX B: GLOSSARY

Active Management – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. *(Also see Passive Management).*

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Actuarial Valuation – An actuary formally reviews the assets and liabilities of the pension Fund and produces a report on the Fund's financial position.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return; and is a central concept in financial planning and investment management.

Authorised Contractual Scheme (ACS) – an ACS is a type of structure in which institutional investors (including Pension funds) can hold their pooled investments. The ACS is the investment vehicle chosen by BCPP to hold the public market quoted investments for the twelve partner funds; and provides a tax efficient means for managing all the equity and bonds held by the company.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

Beneficiaries (in relation to Stewardship) – In this context we are referring to Scheme Members and Scheme Employers, please see separate definitions below.

Bid price – Price at which a security or unit in a pooled fund can be sold.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgement from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own lawsuit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

Coronavirus (COVID-19) – The World Health Organisation (WHO) declared the outbreak of Coronavirus to be a global pandemic on 11 March 2020. Investment markets have seen significant volatility as a result of concerns relating to the Coronavirus Pandemic.

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Counterparty - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Currency Hedge – This is one way for pension funds to reduce the volatility of their foreign currency exposures, by using derivatives to convert exposures back to the domestic currency. Open funds with a long term focus commonly hedge 50% of their exposure to mitigate the worst effects that any adverse currency movement would have on the value of the Fund.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government. In January 2018 this was renamed the Ministry of Housing, Communities and Local Government ("MHCLG").

Deficit recovery period – A reasonable period of time over which a pension fund will aim to repair it's funding level to meet it's statutory objective of 100% solvency, taking into account employer circumstance where possible**.**

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Designated Body – Also known as Resolution body – please refer below.

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Diversified Credit – Also known as Multi Asset Credit – please refer below.

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG (Environmental, Social and Corporate Governance) - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF) - Fund that tracks an index; but can be traded like a stock.

Fiduciary Duty - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

Fixed Interest Securities – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

Futures Contract – A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Loans and Receivables – are also known as 'Financial assets held at amortised cost' in the context of IFRS9 (International Financial Reporting Standards)

Long term cost efficiency – Implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

Market Value – The price at which an investment can be bought or sold at a given date.

MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government ("DCLG").

Multi-Asset Credit – MAC is a term used for a fund investing in a range of investments that are classed as 'credit' i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, asset-backed securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types (also known as Diversified Credit).

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

Other Registerable Interests – Including the receipt of gifts or hospitality worth over £100; and membership / being in position of general control or management of a body to which they are appointed or nominated by the Council.

Over-the-Counter (OTC) - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Partner Funds - The term we use to describe the 10 other LGPS Pension Funds who are equal owners of BCPP along with Cumbria. A list of our partner funds can be found at: https://www.bordertocoast.org.uk/partner-funds/

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

Pecuniary Interests – Including the ownership of securities and other assets, any employment, office, trade, profession or vocation carried out for profit or gain.

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Proxy Voting – Also known as Shareholder Voting – please refer below.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

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.

Scheme Members – are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

Shareholder Rights & Responsibilities - Rights exist primarily through shareholdings (but can be derived through other means). The shareholder role includes responsibilities for appointing directors and auditors and ensuring that appropriate governance structures are in place. Good governance is about ensuring that company policies and practices are robust, and its operations are effective and responsibly delivered in relation to its stakeholders.

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right and responsibility to vote on matters of 'corporate policy' at the underlying company's AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted 'by proxy'. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors
Approve dividend
Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing – An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Solvency – A level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Stewardship - The responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Supranational Institutions – Owned or established by governments of two or more countries, usually established by international treaties and generally not subject to commercial law; they include multilateral insurance companies, monetary funds and regional public policy institutions.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

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 2021, which comprise the Pension Fund Account, the Net Assets Statement 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 2020/21.

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 2021 and of the amount and disposition at that date of the scheme's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Scheme to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Scheme's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Scheme. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Scheme financial statements and the disclosures in the Pension Scheme financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Scheme financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

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 Annual Governance Statement, other than the Pension Scheme's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group'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 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) 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 Statement of Accounts, for the financial year for which the 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 in relation to the Pension Scheme**.**

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, as set out on page 24, 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 2020/21, 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 for the Pension Scheme. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Scheme and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards) as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of senior officers and the Audit and Assurance Committee, concerning the Authority's policies and procedures relating to:

the identification, evaluation and compliance with laws and regulations;

the detection and response to the risks of fraud; and

the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, Internal Audit and the Audit and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Scheme's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraud in revenue recognition. We determined that the principal risks were in relation to:

- unusual journals with specific risk characteristics and large value journals; and
- significant accounting estimates and critical judgements made by management.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
- journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation level 3 investments, valuation of directly held property and actuarial present value of promised retirement benefits;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and accounting estimates related to valuation level 3 investments, valuation of directly held property and actuarial present value of promised retirement benefits;

Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- knowledge of the local government pensions sector;
- understanding of the legal and regulatory requirements specific to the Pension Scheme including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA, LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Scheme's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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 September 2021