Cumbria County Council

# Annual Financial Report 2017/18

# Cumbria County Council

## Audited Statement of Accounts for the year 2017/18

# Contents

## Section 7



## Section 8



## Section 9



## Section 10

# Narrative Statement

**1. Overview**

1.1. This Narrative statement explains the key messages resulting from Cumbria County Council's 2017/18 financial position. It also explains how the Council has achieved and delivered on its Council Plan objectives and Medium Term Financial Plan and therefore overall how it has used the resources available to it to achieve the expected outcomes for Cumbria. It also provides assurance as to how well Cumbria County Council is equipped to deal with challenges ahead and how it will continue to deliver services and support to the local community in future years.

1.2. The County Council has an operating model that determines an annual revenue budget for each Directorate within which they must operate and deliver on the Council's priorities. These priorities are presented as performance indicators for each Directorate and monitored alongside the revenue budget monitoring. Strategic and operational risks are identified and managed as appropriate. Overall the performance is achieved by ensuring that all resources (financial, staff and assets) are directed and supported to achieve the stated outcomes.

1.3. During 2017/18 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 and the usual Performance Indicators and financial monitoring.

1.4. The Council works in partnership across many different elements of service delivery including the strategic Health and Social Care Integration through to Local Committees working with youth groups and parish councils to support specific and tailored 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 for all.

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

1.6. The purpose of the Statement of Accounts is to report on the Council, Cumbria Local Government Pension Scheme and Group Accounts financial performance for the year 2017/18 and the overall financial position as at 31st March 2018. This is to give electors, local taxpayers, Elected Members of the Council, employees and other interested parties comprehensive information about the Council's finances and provide confidence that public money, with which the Council has been entrusted, has been used and accounted for in an appropriate manner.

1.7. The Statement of Accounts for 2017/18 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These accounts comply with International Financial Reporting Standards (IFRS) as interpreted by the Code.

1.8. In respect of the closure of accounts process an earlier closedown timetable has been achieved with the Unaudited Accounts being published by the 31st May. Following the audit process it is expected that the final audited Annual Financial Report 2017/18 will be presented to the Audit and Assurance Committee on the 27th July 2018 for approval.

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

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

1.10. As part of the development of the Statement of Accounts each year the content is reviewed for applicability and materiality. The aim being to 'declutter' the Accounts by only including relevant and material accounting policies and disclosure notes. The Council's materiality level is £14.9m 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.

## 2. Cumbria Context

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

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

2.3 Cumbria County Council is responsible for many of the key services that are important to local communities such as education, libraries and youth services, social services, highways maintenance, waste disposal, emergency planning, consumer protection and the Fire and Rescue Service. It employs almost 6,500 people and has a net Budget of £360m.

2.4 Cumbria has one of the most rapidly ageing populations in England; by 2020 one in four people will be over 65. This is as a result of an ageing population and an expected decline in numbers of people of employment age (nearly 8,000 less people by 2021).

2.5 In respect of the Cumbrian Economy there are over 28,000 businesses and 235,000 people in work. This results in a Gross Value Added of £11.2bn per year with opportunities relating to inward investment in infrastructure, nuclear, manufacturing.

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

- Arranges and delivers home care for more than 5,600 older people.
- Is Corporate Parent for 666 Children in Care out of a total of 103,000 young people aged 0-19.
- Supports 320 schools (including Academies).
- Funds 20 Children centres.
- Provides access to almost 700,000 library books and publications.
- Provides through Libraries and Archives offices over 310 public access computers.
- Carries out more than 10,400 ‘Safe and Well / Home safety check’ assessments.
- Maintains approximately 5,000 miles of road, 4,000 miles of public rights of way and over 44,000 streetlights.
- Registers almost 4,000 births.
- Over 3,200 weddings registered and held in Cumbria.
- Approx. £44 million contribution to the Cumbria economy from ceremonies in 2017/18.
- We provide 18,500 hours of music tuition each year.
- We have 6,500 learners on our community / adult education courses each year, delivered through a network of learning centres.
- During the academic year 2016-17, Active Cumbria supported 74 Primary Schools to deliver the 100 Mile Challenge improving the physical health and wellbeing of approximately 10,300 pupils.
- Through its 100% owned Company Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd it provides waste management and recycling services and catering, cleaning and facilities management services.

**Key Messages**

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

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

3.3 Local Elections were held on the 4th May 2017 and a new Administration was formed with new priorities established. The updated 2018-2022 Council Plan was approved by full Council in February 2018. For 2017/18 the performance of the Council (financial and non- financial) has been measured against delivery of the previously agreed 2016-2019 Council plan priorities.

3.4 The Council Plan 2016-2019 included the following Corporate Priorities:

i. To safeguard children and support families and schools so that all children in Cumbria can grow up in a safe environment, and can fulfil their potential;

ii. To support older, disabled and vulnerable people to live independent and healthy lives

iii. To enable communities to help shape their local services, promote health and wellbeing and support those in poverty

iv. To provide a safe and well managed highways network, secure infrastructure improvements and support local economic growth.

v. To be a modern and efficient council.

3.5 The Council agreed the net Revenue Budget for 2017/18 as part of the Medium Term Financial Plan (MTFP) at its meeting in February 2017. The net Revenue Budget requirement (gross expenditure less specific grants and fees and charges) was £375.168m. Council also agreed a 1.99% increase in Council Tax and a 2% Adult Social Care precept. The Council Tax levels set by the Council for 2017/18 therefore increased to £1,281.02 per Band D property. The Council Tax Requirement (income raised from Council Tax Payers) was £213.929m.

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

3.7 For 2017/18 the financial performance shows that the Council managed its resources effectively through the year resulting in a small underspend position of £0.311m. This is a result of the total spend of £374.761m being less than the revised total net expenditure budget for 2017/18 for the Council of £375.072m. The outturn is within 0.1% of the overall budget. The final budget position reflects the Council’s proactive approach to financial management during the year and the need to effectively manage the use of reserves throughout the year as agreed in the MTFP.

3.8 Council approves the minimum level of General Fund Balance each year as part of the Budget approval process. For 2017/18 this level was set at £10m. This is established in relation to the risks and uncertainties facing the Council when the annual budget is set.

3.9 The opening balance on the General Fund Balance for 2017/18 was £9.417m. Following the transfer of the Volatility Reserve balance on 1st April 2017 of £0.742m increased it to £10.159m. As a result of the final outturn position the

General Fund Balance at year end is £10.470m. This is slightly above the approved minimum level of £10m approved by Council in February 2018.

3.10 From a capital investment perspective the Council achieved £137.457m of investment across a number of significant schemes and programmes supporting the delivery of services across the Council. Further information is provided in para 3.41 below.

3.11 For 2017/18 there is also a broadly positive picture of non-financial performance across the full range of the Council's services. Performance is reported in respect of delivery of the Council Plan Delivery Plan and associated indicators. The overall position by the end of Quarter 4 2017/18 was that 55 of the 73 (75%) Council Plan Delivery Plan actions or projects had delivered or met the planned milestone.

3.12 One of the major achievements was that the Direction Notice for Children's social care was lifted following a positive inspection in November 2017. In the Inspection that took place in the autumn of 2017 the Council achieved 'requires improvement'. This is really positive for the County Council and recognises the improvements and hard work to achieve this improved position. This is expected to be reflected in the Value for Money judgement by the External Auditor for 2017/18. For the last three financial years the VFM opinion has included an except for statement for this issue. This has been lifted this year. This is a really positive outcome with an ongoing commitment to achieve a good outcome at the next inspection.

3.13 The Performance Report aligns with the financial monitoring report and where there are areas of financial pressures they are consistent with the reporting of underperformance or non-delivery of targets. Likewise on the capital investment performance that matches the achievement of the £137m capital expenditure.

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

3.15 In 2016/17 the Council included two significant governance issues: Children's Services Ofsted Inspection Outcomes and Amey vs Cumbria County Council litigation. As already referred to in this statement the Directions Notice for Children's Services has been lifted and whilst there is still work to do to continue to deliver improvements this issue is no longer considered a significant governance issue. In respect of the Amey litigation a detailed lessons learnt report was reported to the Council's Audit and Assurance Committee with a detailed action plan. All actions have substantially been completed and the issue is no longer considered a significant governance issue.

3.16 From the review of 2017/18 no serious governance issues have been identified. The draft Annual Governance Statement 2017/18 is available on the Council's website.

**Financial Performance – revenue**

3.17 The Council budget set in February 2017 included £16.398m of savings. Overall 77.9% of the savings were delivered in year giving a shortfall of £3.625m. These have subsequently been reflected in the 2018/19 revenue budget and 2018-2022 Medium Term Financial Plan.

3.18 Within the overall £0.311m underspend there are significant pressures reported within Directorates (£12.777m) that have been offset by additional savings and efficiencies being identified across corporate items such as Treasury Management, Insurance and Inflation (£13.088m).

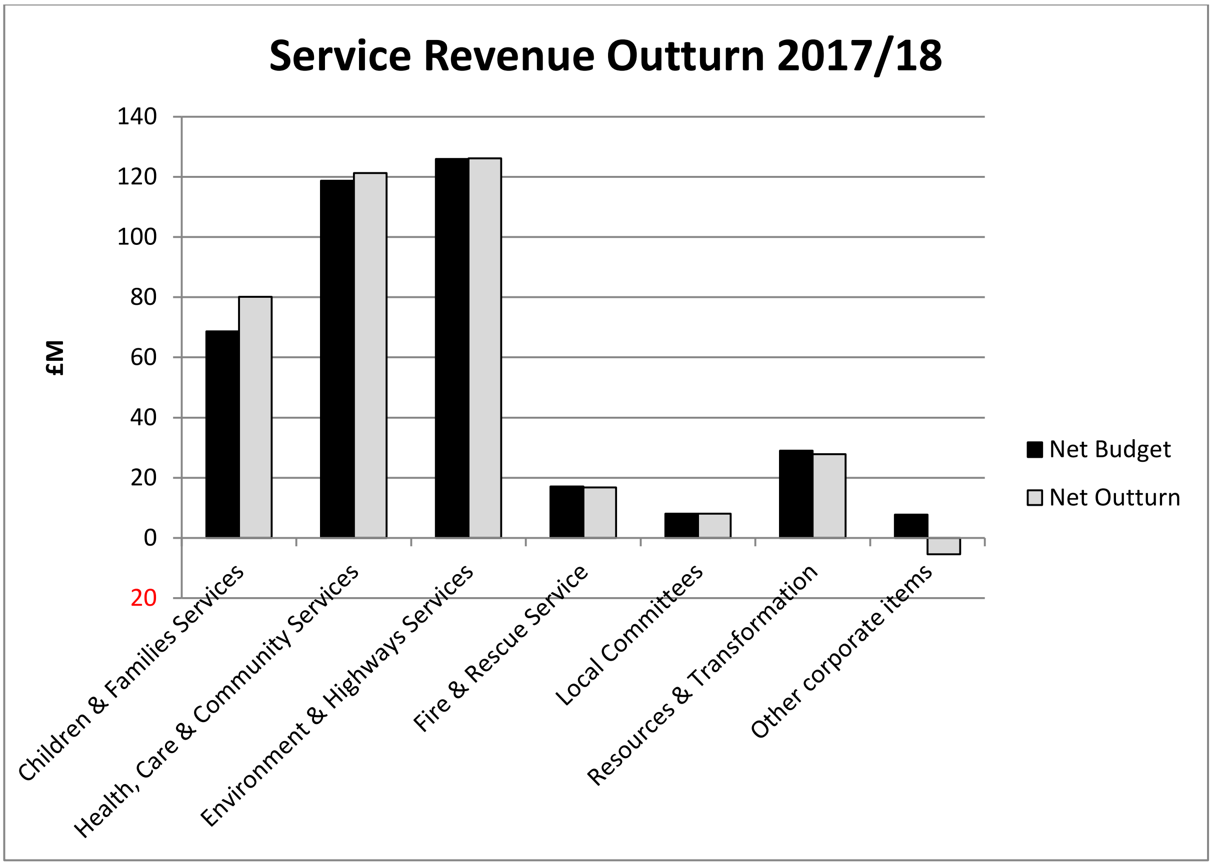
3.19 The significant Directorate pressures are in Children & Families Services £11.450m, Health, Care & Community Services of £2.567m and Economy & Highways Services £0.213m offset by Directorate underspends in Fire and Rescue Services of (£0.290m), and Resources & Transformation (£1.164m).

3.20 The table below summarises the final outturn position (subject to external audit) for 2017/18.

**Table 1 – Summary of Final Outturn Position 2017/18 as at 31st March 2018**

| | **Original Budget £m** | **Final Budget £m** | **Actual £m** | **Variance Overspend / (Underspend) £m** |
|---|---|---|---|---|
| Children and Families Services | 66.709 | 68.674 | 80.124 | 11.450 |
| Health, Care & Community Services | 115.374 | 118.655 | 121.222 | 2.567 |
| Economy & Highways Services | 119.068 | 125.882 | 126.095 | 0.213 |
| Fire & Rescue Service | 16.792 | 17.093 | 16.803 | (0.290) |
| Local Committees | 7.989 | 8.057 | 8.057 | (0.000) |
| Resources & Transformation | 25.937 | 28.998 | 27.835 | (1.164) |
| Other Corporate Costs (Treasury Management, Inflation, Dividends, Insurance, residual and past service pensions costs) | 28.272 | 7.713 | (5.375) | (13.088) |
| **Total Net Expenditure** | **380.141** | **375.072** | **374.761** | **(0.311)** |
| Financed by: | | | | |
| Government Grants | 139.628 | 140.960 | 140.960 | 0 |
| Retained Business Rates | 18.198 | 19.193 | 19.193 | 0 |
| Council Tax | 217.342 | 217.342 | 217.342 | 0 |
| Transfer (to)/from Reserves – Earmarked Reserves | 4.973 | (1.681) | (1.681) | 0 |
| Transfer (to)/from General Reserves | 0 | (0.742) | (0.742) | 0 |
| Transfer (to)/from General Reserves | 0 | 0 | (0.311) | (0.311) |
| **Total Financing** | **380.141** | **375.072** | **374.761** | **(0.311)** |

The following graph shows the outturn position for the County Council in 2017/18 for each Directorate against the Net Revenue Budget Position.




3.21 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 £410.220m compared to £374.761m on an outturn position.

3.22 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 when earned by employees in the Comprehensive Income and Expenditure Statement rather than when the benefits are eventually paid as pensions.

3.23 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 £19.204m is reported as the Surplus on Provision of

Services. This compares to a £0.311m surplus reported as the outturn position.

3.24 After other adjustments including the re-measurement of the net defined benefit (pension) liability which is a reduction of £116.890m in 2017/18 the final position on the CIES is a total surplus of £145.720m. This is compared to a deficit for 2016/17 of £229.540m. The main reason for the change is the pension liability change. This is explained further in para 3.50 – 3.52.

**Financial Performance - Going Concern**

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

3.26 Although that is the technical definition, to allow a going concern basis to be provided the Council can also clearly demonstrate that it can continue to meet its financial commitments as they occur via the delivery of its Medium Term Financial Plan (MTFP). The usable cash reserves position (£88.455m) remains healthy and on the Balance Sheet the Current Assets position of £174.421m is higher than Current Liabilities position of £98.741m so liquidity in the short term is positive.

3.27 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 2017/18 this is due to accounting for its long term pension liabilities. A negative Balance Sheet was also reported in 2014/15 and 2016/17 due to the net pension liabilities. Pension liability figures are volatile and are dependent upon market conditions at the Balance Sheet date as well as specific pension member information for the employer body. This can result in significant shifts in value from one year to the next with the subsequent impact on the net Balance Sheet position.

3.28 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. This determines the contribution rates of each employer in the Fund.

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

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

**Financial Performance – Reserves**

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

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

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

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

3.35 In respect of Revenue Earmarked Reserves the Council has a long established practice of allowing approved budgets within Directorates to be carried forward to the following financial year on a targeted basis to meet specific objectives. This transfer to Earmarked Reserves will enable the continuation of agreed schemes and activities funded from resources which were allocated as part of the 2017/18 budget to be delivered in 2018/19.

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

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

3.38 Overall Earmarked Reserves for the Council have increased by £1.681m during 2017/18. This is as a result of a number of Earmarked Reserves increasing at year end e.g. Insurance Reserve and the transfer of savings achieved in 2017/18 to an Earmarked Reserve for use in 2018/19 e.g. £6.404m transfer in respect of MRP savings. The most significant movements in earmarked revenue reserves are explained in Note 34.

3.39 In respect of Unusable Reserves the largest change relates to the Pension Reserve. The decrease of £79.644m in the Pensions Reserve is reflective of the decrease in the net Pensions Liabilities.

3.40 There is a decrease in the shortfall on the Pensions Reserve of £79.644m from £837.158m in 2016/17 to £757.514m in 2017/18. Note 35 explains how the Pensions Reserve works. In summary, the Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Statutory provisions will ensure that funding will have been set aside by the time the benefits come to be paid. The Council currently has an agreed 16 year deficit recovery period (following 2016 Triennial Valuation) in respect of the Cumbria Local Government Pension Fund consistent with actuarial advice. This supports the Council's going concern principle (see para 3.25 – 3.30).

**Financial Performance - Capital Investment and Balance Sheet**

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

3.42 In 2017/18, the Council's capital investment totalled £137.457m (£126.531m in 2016/17) as reported in Note 18. This represents £137m of capital investment across Directorates to support the delivery of Council services. As well as maintaining the Council's assets there has been significant investment in new scheme developments to support the Council's priorities and continue to deliver the outcomes effectively. This includes:

- £7.351m of capital investment in respect of priority maintenance schemes and individual school expansion schemes, focusing on those in greatest need.

- Houghton school received an extension for two classrooms and works are now completed at Samuel Kings, Alston for the integration of the primary school.

- The Short Break and Respite Care Facility for 11 to 16 year olds was completed at Arnwood House in Carlisle.

- Campus Whitehaven is progressing with completion for occupation projected to be December 2018 following severe weather delays during the winter months of 2017/18

- A new Sandside Lodge school on the Ulverston Victoria High school site has been designed with enabling works commenced in February 2018. The main work is planned to commence in May 2018.

- New care Homes at Carlisle and Whitehaven have started to be built as part of the Cumbria Care Modernisation programme.

- Ambleside Library has been converted to enable it to function as a community hub. Similar schemes at Barrow Library and Whitehaven Library are nearly complete.

- With regards to LEP Growth Deal funded activity works have completed at Currock Bridge and Workington Station Hub, with Maryport Station Hub due for completion early 2018/19. In Ulverston a number of projects to improve the connectivity of the A590 whilst also supporting development opportunities have been completed. Work has also completed on the LEP Optimising Connectivity schemes at Grasmere and the Glebe. At Barrow Waterfront works on the development platforms have completed along with the junction at Marina village. In Kendal the Burton Road phase 1 cycleway works have completed and phase 2 has commenced ahead of schedule.

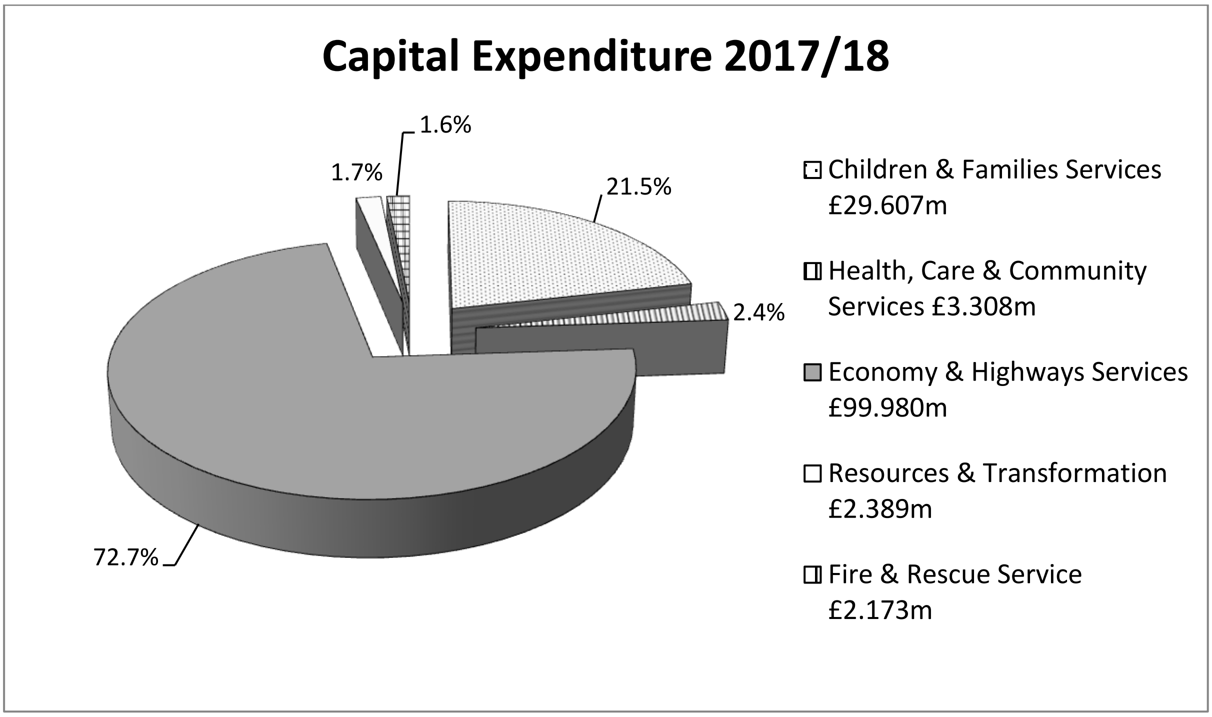
- With regards to the Government funded National Productivity Investment Fund 2017/18 works have completed at Mintsfeet, Kendal, Homewood Road, Whitehaven and a funding contribution made to Network Rail for the provision of a new bridge at the Port of Workington

- Across the highway network significant investment has been completed in various locations with £4.9m spent on our principal road networks and £19m spent on our non-principal road networks. The highways flood recovery scheme has invested £37.7m across various locations. The flood recovery work will continue into 2018/19.

- 116,819 properties are currently able to access Superfast Broadband in Cumbria through the works under phase 1 and the currently in progress phase 2 of the Connecting Cumbria Programme. 46% of properties which can access fibre broadband service have chosen to take up services.

- Work is underway at the new Blue Light Hub in Ulverston for the Cumbria Fire & Rescue Service.

3.43 The chart below shows the split of the £137m across the Council's Directorates.




3.44 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 total capital receipts generated in 2017/18 totalled £4.326m (£3.136m in 2016/17), note 33 refers, whilst £2.706m of capital receipts were utilised in year to finance capital expenditure. Capital receipts are earmarked for specific schemes where appropriate.

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

3.46 With respect to Treasury Management, the Council's strategy has been to continue its utilisation of short term cash balances (from reserves) to fund capital expenditure rather than raising new long term loans. This also reduces the risks from investment of cash with counterparties. This deferred borrowing strategy will not continue indefinitely and in the longer term the Council will need to raise new loans to fund its capital expenditure as revenue balances are utilised.

3.47 The Council's authorised limit for external debt for 2017/18 was £588m and the operational limit was £552m. In 2017/18 the Council operated within the agreed authorised limits.

3.48 The capital investment of £137.457m was financed as shown in the table below.

**Table 3 – Capital Financing 2017/18**

| | **£m** |
|---|---:|
| Capital Receipts | 2.706 |
| Government Grants and contributions | 114.270 |
| Revenue Contributions | 1.391 |
| Prudential Borrowing | 19.090 |
| | |
| **Total Capital Financing** | **137.457** |

3.49 In respect of the overall Balance Sheet position the capital investment is reflected in the value of the Property, Plant and Equipment. The detail is shown in note 21. Overall the fair value is £1.147bn and if additional long term assets are added the overall value of Long Term Assets is £1.160bn.

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

3.51 For 2017/18 there has been a reduction of £97.849m in the Council's net Pensions Liability to £739.309m (£837.158m in 2016/17). This has resulted in the Council having a Net Liability position (i.e. Assets less than Liabilities) of £41.477m as at 31st March 2018. This also occurred in 2016/17 where the size of the Pension Liability resulted in the Council having a net Liability position as at 31st March 2016. In 2015/16 the Council had a positive Balance Sheet position. The change from a negative to a positive Balance Sheet and back again is primarily due to the change in Pension Liability value.

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

**Non-Financial Performance, Risk and Opportunities**

3.53 For 2017/18 there is also a broadly positive picture of non-financial performance across the full range of the Council's services. Performance is reported in respect of delivery of the Council Plan Delivery Plan and associated indicators. The overall position by the end of Quarter 4 2017/18 was that 55 of the 73 (75%) Council Plan Delivery Plan **actions** or projects had delivered or met the planned milestone.

3.54 One of the major achievements was the lifting of the Direction Notice for Children's Services following a positive inspection in November 2017.

3.55 In other areas relating to Children's Services the proportion of **pupils attending good or outstanding secondary schools** (as judged by Ofsted at the most recent inspection) has improved from 73.9% in Quarter 3 2016/17 to 75.9% in Quarter 4 2017/18 with the national figure being 81.6% in Quarter 4 2016/17. The proportion of pupils attending good or outstanding schools (all school types) has improved to 84.81% for Quarter 4 2017/18 compared to 79.7% for Quarter 4 2016/17.

3.56 The proportion of pupils attending 'good or outstanding primary schools' has improved slightly to 91.4% in Quarter 4 2017/18 compared to 90.5% in Quarter 4 2016/17, with the National figure being 89.9% in Quarter 4 2016/17.

3.57 The number of County Council **foster care households** at 31st March 2018 was 155. This represents a reduction from 165 in 2016/17. The target is 184 and, at present, the County is 15.8% below target. National and regional data shows continued challenge in foster care recruitment. For 2018/19 the Council has increased fees for foster carers and continues a focused and resourced foster carer recruitment campaign, it is therefore expected that this will result in a higher number of foster carers being recruited in 2018/19. This is part of the mitigation strategy to manage the significant budget overspend in this area and also enable delivery of the recently approved Sufficiency Strategy.

3.58 February 2018 saw a substantial increase in the **number of Children Looked After (CLA)**; from 644 to 661 (equivalent to a rate of 71.4 per 10,000). The figure remains above target, statistical neighbour and national comparators, with a slightly declining trend over the year. At a district level, rates remain highest in Allerdale & Copeland with 282 looked after children (90.5 per 10,000) with numbers continuing to rise. Numbers in Carlisle & Eden (166 & 54.5 per 10,000) have been relatively unchanged over the last year whilst Barrow & South Lakeland's figure increased to 213 (68.7 per 10,000) after a period of sustained decreases. The increase in CLA continued for the remainder of the year and resulted in 666 children at 31st March 2018.

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

3.60 The County Council has developed a **Cumbria Care Leavers Offer** which has been presented to Corporate Parenting Board (CPB) in line with the target date of October 2017. It is being further refined and as part of it, in partnership with the Districts, Care leavers will receive a significant discount on Council Tax. The Care Leaver Offer will be signed off by Cabinet in the autumn of 2018.

3.61 In respect of the preventative agenda the Council has **Health and Wellbeing Coaches** (HAWCs) and they have exceeded the 2017/18 target of 870 referrals with 1,286 referrals received at the end of Quarter 4. In addition Cumbria Fire and Rescue Service provide **Safe and Well Visits.** These are successful prevention activity in collaboration with health services. Higher risk individual households are identified and provided with a fire home safety visit together with four key health risk areas (falls prevention, smoking cessation, alcohol reduction and social well-being) also assessed. Referrals are made where appropriate and Quarter 4 cumulative performance of 10,432 visits exceeded the target of 10,000.

3.62 **Assistive technology** targets to increase utilisation from 2,408 service users in 2016/17 to 2,800 in 2017/18 have not been fully met, however the number of people who have assistive technology, either as part of long term support or as preventative support was 2,666 in Quarter 4 2017/18. Work is continuing to further proactively promote assistive technology. Where **equipment is deployed to support people to live independently** this continues to exceed the target of 95% being deployed within 7 working days. In Quarter 4, 97% of equipment was deployed within 7 working days. Figures provided to date include Adult Social Care and NHS Partner deliveries and this work supports people to live independently and continues to support people discharged from hospital and assist hospital avoidance.

3.63 In Quarter 4 2017/18 the total number of **Delayed Transfers of Care (DTOC)** days was 11,412. The rate of delayed days in Quarter 4 was 2,815 per 100,000 which was an increase from 2,731 per 100,000 in Quarter 3. The number of delayed days is still greater than the targets agreed as part of the Better Care Fund. It is anticipated the impact of the new hospital to home scheme will reduce DTOC for those people who are waiting for package of care at home. There is further work ongoing to review internal processes and internal flow across the system.

3.64 The Council is increasingly moving towards a self-service approach where transactions can be achieved digitally. **Online transactions with the Council** through the customer portal totalled 111,157 during Quarter 4, exceeding the quarterly target by 25,157 transactions (+29.3%). Online transactions totalled 418,281 in 2017/18 which exceeds the target of 347,100 and is due to increased take-up of online services such as reporting a highways fault, paying for Penalty Charge Notices (PCNs) and School Admissions. A number of additional online forms have been launched, including Registration Services online enquiries and Community Learning course payments as examples. This is an area where the performance will continue to increase as more applications and options to deliver and access services are automated.

3.65 In respect of effective budget monitoring **the Externally Provided Workforce (EPW) marginal costs** have reduced by 34.0% in 2017/18 compared with 2016/17 figures following strong management and innovate solutions driven through the EPW Strategy Group. This year end performance significantly exceeded the target of a 20% reduction and reduced marginal costs by over £1m, which has contributed to the Council achieving an underspend position for the 2017/18 budget outturn. Further work is ongoing to ensure further cost reduction during 2018/19.

3.66 **Sickness Absence** performance has seen a sustained and significant improvement during 2017/18 compared to the 2016/17 year end. At Quarter 4, an average of 89.28% of all staff has had full attendance (zero recorded periods of absence) each month. The County Council has experienced higher than average seasonal winter ailments, however has continued to reduce absence with an additional 5,800 working days available over the 12 month period. This improvement has contributed to requiring fewer temporary staff and less overtime needed to cover vacant shifts in some services, so has also contributed to reducing marginal costs and helping the Council achieve an underspend position for the 2017/18 budget outturn.

3.67 Strategic risks are considered by the Council’s Corporate Management Team and reported to Audit and Assurance Committee on a quarterly basis. Operational and project risks are managed through Directorate Management Teams and Programme and Project Boards.

3.68 There are currently 16 risks on the Quarter 4 corporate risk register of which 8 are categorised as high risks whilst the remaining 8 are categorised as medium risks. The highest risks are in respect of Children Looked After and the higher than average number of them compared to our statistical neighbours which links with the overspend position on Children Looked After in the financial monitoring and the performance monitoring information. This is a national issue that is being raised in respect of insufficient funding available and also the impact on outcomes for the Children Looked After.

3.69 The other highest risk is linked to reshaping the Council where the risk is that the Council will not be sufficiently radical or innovative to transform services at the required pace to achieve the scale of change required for the current & future needs of the Council, our service users and the financial targets in the Medium Term Financial Plan. This risk aligns with the financial position reported for 2017/18 and the challenge ahead to achieve a balanced budget for 2019/20 – 2021/22.

3.70 Mitigations and actions are in place for both of these highest risks, as well as for all the other strategic risks and they are closely monitored.

3.71 There is a spread of these risks across the Council’s 2017/18 priorities; with three of the high risks being directly linked to Health and Social Care Integration and the transformation agenda. Three of the other high risks are linked to the Modern and Efficient priority linked to the overspend position in the Children and Families Directorate and the delivery and achievement of the Medium Term Financial Plan.

3.72 Four risks have reduced in score in the last quarter of 2017/18 which demonstrates that active management of the risks has been successful in these instances. The risks are:

- The failure to meet the Regulatory Standards of the CQC – this risk has reduced in score from 20 to 15.
- The failure to meet care needs & deliver continuity of care – this risk has reduced in score from 16 to 15.
- Health & Social Care Integration - this risk has reduced in score from 15 to 10.
- Serious failure in Children's safeguarding procedures – this risk has reduced in score from 15 to 10.

3.73 The Council identifies emerging risks and Opportunities as part of the reporting process. For the end of 2017/18 these are:

**Emerging Risks**

- Financial Sustainability of School Funding
- Apprenticeship Levy
- Cumbria Fire &Rescue Service mobile communications system
- Brexit implications
- Non delivery of Statutory Services

**New Opportunities**

- To influence the economic potential of Cumbria through the development of a Local Industrial Strategy, the Borderlands Growth Deal and other opportunities to secure government funding
- To develop a Single System approach to Waste Management

3.74 The risks and opportunities are aligned with both the performance management and the budget management reporting. Further development of an integrated reporting approach is being proposed during 2018/19 when the revised Performance and Risk Framework is adopted by Council.

## 4. PENSION FUND

4.1 The Council is the administering body for the Cumbria Local Government Pension Scheme (LGPS) which is managed by the Council on behalf of 128 employers, across the county, and the Firefighters' Pension Scheme, hence the Council's Statement of Accounts includes supplementary financial statements for these pension funds. Section 10 sets out these financial statements and relevant notes for the LGPS and Section 8 for the Firefighters' Pension Scheme.

**Cumbria LGPS**

4.2 During the year to 31st March 2018 the Cumbria LGPS value increased by £140.131m from £2,423.326m (31st March 2017) to £2,563.457m (31st March 2018). This compares to an increase of £376.517m during the year 2016/17. The Fund returned 4.2% (net of fees) for the year which was in line with the Fund's bespoke index performance benchmark for the year which was also 4.2%. For the twelve month period to March 2018, all markets in which the Fund holds investments showed positive returns. The UK general election in June had relatively little impact on financial markets however there is uncertainty as to the future impact of the UK leaving the European Union in 2019 will have on financial markets.

4.3 Global Equity Markets rose over the year, averaging at 2.3% although there were variations by sector and geography. Japan showed the strongest performance at 7.5% with UK, North America and Europe growing by 1.2%, 1.3% and 3.9% respectively. Property provided positive returns over the year with an annual yield of 9.4%.

4.4 The Fund has also performed well over the medium to longer term with the three-year return of 8.2% (net of fees) outperforming the bespoke hedged benchmark of 6.9% (per year). The ten year Fund return was 7.8% (net of fees), outperforming the benchmark of 7.3% (per year).

## 5. GROUP ACCOUNTS

5.1 The Group Accounting Statements are set out in section 7 and show an increase in the total value of the Group Net Assets to a liability position of £147.673m (from a Net Liabilities position of (£177.924m) at 31st March 2017 to a Net Liabilities position of (£30.251m) at 31st March 2018). The decrease relates mainly to the decrease in the pension liability of £98.542m which reflects the Council's decreased net pension liability of £97.849m and the decreased net pension liability of Cumbria County Holdings Ltd of£0.693m.

## 6. EVENTS AFTER THE REPORTING PERIOD

6.1 The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 27th July 2018 in respect of the audited Statement of Accounts for 2017/18.

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

## 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 (Assistant Director – Finance).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

**Corporate Directors' Responsibilities**

- The Chief Executive and other Corporate 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 Assistant Director - Finance.
- Each Corporate 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 Assistant Director – 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 Assistant Director – 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 Assistant Director – Finance has also:

- Kept proper accounting records which were up to date.
- 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 2018 and its expenditure and income for the year ended the 31st March 2018.

Signed:

Julie Crellin, BA (Hons), CPFA, MBA
Director of Finance (S151 Officer)
27th July 2018

## Certificate of Approval of the Council’s Statement of Accounts

I certify that the accounts set out in this document have been considered by the Council’s Audit and Assurance Committee at its meeting held on 27th July 2018 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

27th July 2018

Grant Thornton

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

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Accounting Statements including the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, the Group Accounting Statements including the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, and all notes to the Accounting Statements and Group Accounting Statements, including the Accounting Policies, and include the Fire Fighters Pension Scheme financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial 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 2017/18.

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 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

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

### Who we are reporting to

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.

### Conclusions relating to going concern

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

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

### Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 3 to 240 and the Annual Governance Statement other than the group and Authority financial statements, 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 of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

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

### Matters on which we are required to report by exception

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

- we have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 21 to 22, 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Assurance Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

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

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

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

### Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matter:

Following a legal contractual dispute settled in November 2016 the Authority carried out a lessons learned review, which resulted in a number of agreed management actions in September 2017. These actions were designed to address weaknesses in contract management arrangements.

As a result of the lessons learned review, the Authority acknowledged that, it needed to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring, risk and escalation management of all major contracts, and to improve arrangements for the management of any future contract disputes.

During 2017/18 the Authority has made progress in implementing the actions determined in the review, but as at 31 March 2018 these actions have not been fully embedded.

As these actions were not fully embedded throughout the financial year, this matter is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance and for working with third parties effectively to deliver strategic priorities.

### Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

### Report on other legal and regulatory requirements - Certificate

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

## 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 the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

***Gareth Kelly***

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

110 Queen Street
Glasgow
G1 3BX

27 July 2018

## Accounting Statements

Section 4 sets out four accounting statements in respect of the Council's activities in 2017/18, showing the previous year's comparators.

***Comprehensive Income and Expenditure Statement*** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost.

The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

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

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

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

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

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

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

***Cash Flow Statement*** shows the changes in cash and cash equivalents of the Council during the reporting period.
The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

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

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

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

# Comprehensive Income and Expenditure Statement

| 2016/17 Restated | | | | | 2017/18 | | |
|---|---|---|---|---|---|---|---|
| **Expenditure £000** | **Income £000** | **Net £000** | | **Note Ref** | **Expenditure £000** | **Income £000** | **Net £000** |
| 371,627 | (282,037) | 89,590 | Children & Families Services | | 383,911 | (292,961) | 90,950 |
| 194,153 | (62,760) | 131,393 | Health, Care and Community Services | | 200,353 | (73,266) | 127,087 |
| 141,490 | (28,699) | 112,791 | Economy & Highways Services | | 139,409 | (25,388) | 114,021 |
| 13,948 | (459) | 13,489 | Fire & Rescue Service | | 16,380 | (600) | 15,780 |
| 8,786 | (311) | 8,475 | Local Committees | | 8,290 | (200) | 8,090 |
| 34,135 | (6,868) | 27,267 | Resources & Transformation | | 37,066 | (7,197) | 29,869 |
| 20,584 | (1,563) | 19,021 | Other Corporate Items | | 20,119 | (484) | 19,635 |
| 8,364 | (1,634) | 6,730 | Non Distributed Costs | | 4,788 | 0 | 4,788 |
| **793,087** | **(384,331)** | **408,756** | **Cost of Services** | **4** | **810,316** | **(400,096)** | **410,220** |
| 2,909 | 0 | 2,909 | Other Operating Expenditure | 6 | 2,489 | (2,010) | 480 |
| 98,947 | (50,145) | 48,802 | Financing and Investment Income and Expenditure | 7 | 84,482 | (38,404) | 46,078 |
| 0 | (460,673) | (460,673) | Taxation and Non Specific Grant Income | 8 | 0 | (475,981) | (475,981) |
| **894,943** | **(895,149)** | **(206)** | **(Surplus) or Deficit on Provision of Services** | **4.3** | **897,287** | **(916,491)** | **(19,204)** |
| | | (8,842) | (Surplus) or deficit on revaluation of Property, Plant and Equipment | 35 | | | (9,626) |
| | | (14) | (Surplus) or deficit on revaluation of Available for Sale Assets | | | | 0 |
| | | 238,602 | Remeasurement of the net defined benefit liability / (asset) | 37 | | | (116,890) |
| | | **229,746** | **Other Comprehensive Income and Expenditure** | | | | **(126,516)** |
| | | **229,540** | **Total Comprehensive Income and Expenditure** | | | | **(145,720)** |

2016/17 Financing and Investment Income and Expenditure has been restated further detail is included in note 43 Prior Period Adjustment.

# Movement in Reserves Statement

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

| | | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Total General Reserves £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 2016** | 33/34/35 | (14,300) | (86,344) | (100,644) | (11,707) | (1,317) | **(113,669)** | 71,325 | **(42,343)** |
| **Movement in reserves during 2016/17** | | | | | | | | | |
| (Surplus) or deficit on the provision of services | | (206) | 0 | (206) | 0 | 0 | **(206)** | 0 | **(206)** |
| Other Comprehensive Income / Expenditure | | 0 | 0 | 0 | 0 | 0 | **0** | 229,746 | **229,746** |
| **Total Comprehensive Income and Expenditure** | | **(206)** | **0** | **(206)** | 0 | 0 | **(206)** | **229,746** | **229,540** |
| Adjustments between accounting basis and funding basis under regulations | 9 | 27,657 | 0 | 27,657 | 801 | (653) | **27,805** | (27,805) | **0** |
| **Net (Increase) or Decrease before Transfers to Earmarked Reserves** | | **27,450** | **0** | **27,450** | **801** | **(653)** | **27,599** | **201,941** | **229,540** |
| Transfers to / (from) Earmarked Reserves | 34 | (22,568) | 22,568 | 0 | 0 | 0 | **0** | 0 | **0** |
| **(Increase) or Decrease in 2016/17** | | **4,882** | **22,568** | **27,450** | **802** | **(652)** | **27,599** | **201,941** | **229,540** |
| **Balance at 31 March 2017** | **33/34/35** | **(9,417)** | **(63,776)** | **(73,194)** | **(10,906)** | **(1,970)** | **(86,069)** | **273,266** | **187,197** |

# Balance Sheet

| Note Ref | Restated 31 March 2016 £000 | Restated 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|---|---|
| 21 | 994,895 | 1,062,148 | Property, Plant and Equipment | 1,147,236 |
| | 543 | 563 | Heritage Assets | 563 |
| 23 | 2,285 | 4,655 | Investment Property | 4,905 |
| 24 | 833 | 528 | Intangible Assets | 416 |
| 25 | 0 | 548 | Assets Held for Sale | 0 |
| 28 | 3,183 | 3,183 | Long Term Investments | 3,183 |
| 28 | 7,174 | 4,252 | Long Term Debtors | 4,063 |
| | **1,008,913** | **1,075,877** | **Long Term Assets** | **1,160,366** |
| 28 | 100,201 | 125,447 | Short-term Investments | 48,157 |
| 25 | 1,048 | 1,623 | Assets Held for Sale | 654 |
| | 1,040 | 1,184 | Inventories | 1,256 |
| 26 | 62,153 | 60,731 | Short Term Debtors | 52,822 |
| 30 | 105,712 | 33,025 | Cash and Cash Equivalents | 71,533 |
| | **270,154** | **222,010** | **Current Assets** | **174,421** |
| 28 | (11,938) | (11,822) | Short-Term Borrowing | (11,747) |
| 31 | (80,087) | (77,359) | Short-Term Creditors | (70,670) |
| 32 | (4,636) | (5,341) | Provisions | (5,045) |
| 17 | (10,847) | (8,214) | Grants Receipts in Advance - Revenue | (11,279) |
| | **(107,508)** | **(102,736)** | **Current Liabilities** | **(98,741)** |
| | (4,424) | (5,478) | Long-Term Creditors | (5,181) |
| 32 | (8,008) | (7,324) | Provisions | (6,955) |
| 28 | (295,361) | (287,835) | Long Term Borrowing | (330,309) |
| 20 / 37 | (687,048) | (953,781) | Other Long-Term Liabilities | (855,377) |
| 17 | (134,375) | (127,930) | Grants Receipts in Advance - Capital | (79,701) |
| | **(1,129,216)** | **(1,382,348)** | **Long Term Liabilities** | **(1,277,523)** |
| | **42,343** | **(187,197)** | **Net Assets / (Liabilities)** | **(41,477)** |
| 33 / 34 | (113,668) | (86,069) | Usable Reserves | (88,455) |
| 35 | 71,325 | 273,266 | Unusable Reserves | 129,932 |
| | **(42,343)** | **187,197** | **Total Reserves** | **41,477** |

# Cash Flow Statement

| Note Ref | 2016/17 £000 | | 2017/18 £000 |
|---|---|---|---|
| | (206) | Net (surplus) or deficit on the provision of services | (19,204) |
| 38 | (76,643) | Adjustment to (surplus) or deficit on the provision of services for non cash movements | (75,632) |
| 38 | 81,526 | Adjustment for items included in the net (surplus) or deficit on the provision of services that are investing or financing activities | 104,258 |
| | **4,677** | **Net cash flows from operating activities** | **9,422** |
| 39 | 59,943 | Net cash flows from investing activities | (5,891) |
| 40 | 8,067 | Net cash flows from financing activities | (42,039) |
| | **72,687** | **Net (increase) or decrease in cash and cash equivalents** | **(38,508)** |
| 30 | 105,712 | Cash and cash equivalents at the beginning of the reporting period | 33,025 |
| **30** | **33,025** | **Cash and cash equivalents at the end of the reporting period** | **71,533** |

# Accounting Policies

### *i. General Principles*

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its overall financial position as at 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 supported by International Financial Reporting Standards (IFRS).

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

### *ii. Accounting Concepts*

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- 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***

Accruals of Income and Expenditure 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.

Relevant

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

Reliable

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

Comparable

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

Understandable

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

Materiality

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

Going Concern

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

Primacy of Legislative Requirements

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

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

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

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

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

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

### *iv. Charges to Revenue for Non Current Assets*

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

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

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

***iv. Charges to Revenue for Non Current Assets continued***

The following change in the MRP policy was agreed by full Council at its meeting on 11th January 2018.

**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, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years. Previously, the Council charged MRP in line with former DCLG Option 1. This option provided for an approximate 4% reduction in the supported borrowing need (Capital Financing Requirement or CFR) each year.

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

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

***v. Overheads and Support Services***

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

***vi. Principal and Agent Transactions***

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

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

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

***vii. Employee Benefits***

Benefits Payable During Employment

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

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

Termination Benefits

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

Post Employment Benefits

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

a) Teachers' Pensions

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

**vii. Employee Benefits continued**

b) Firefighters' Pensions

There are currently four Fire Fighters Pension Schemes:

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

<u>Transfer to 2015 Scheme</u>

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

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

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

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

c) The NHS Pension Scheme

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

***vii. Employee Benefits continued***

Post Employment Benefits continued

d) The Local Government Pension Scheme

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

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

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

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

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

a) Service cost comprising:

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

***vii. Employee Benefits continued***

Post Employment Benefits continued

b) Re-measurement comprising:

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

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

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

***viii. Government Grants and Contributions***

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

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

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

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

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.

***viii. Government Grants and Contributions continued***

Capital Grants and Contributions

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

Revenue Grants

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

***ix. Leases***

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

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

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

The Council as Lessee

*Buildings*

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

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

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.

***ix. Leases continued***

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

*Land*

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

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

*Finance Leases*

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

Lease payments are apportioned between:

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

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

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

*Operating Leases*

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

***ix. Leases continued***

*Finance Leases continued*

The Council as Lessor

*Buildings*

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

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

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

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

*Land*

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

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

*Finance Leases*

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

Lease rentals receivable are apportioned between:

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

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

***ix. Leases continued***

*Finance Leases continued*

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

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

*Operating Leases*

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

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

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

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

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

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

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

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

***xi. Property, Plant and Equipment***

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

Recognition

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

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

***xi. Property, Plant and Equipment continued***

Componentisation

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

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost; and
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

***xi. Property, Plant and Equipment continued***

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

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

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

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

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 above), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

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.

***xi. Property, Plant and Equipment continued***

Disposals and Non Current Assets Held for Sale

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

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

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

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

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

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

***xi. Property, Plant and Equipment continued***

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

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

Depreciation

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

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

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

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

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

Components have been recognised in the financial year where:

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

***xi. Property, Plant and Equipment continued***

Depreciation continued

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

Non Current Assets - Schools

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

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

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

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

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

***xiii. Investment Properties***

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

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

***xiii. Investment Properties continued***

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

**Financial Instruments**

***xiv. Financial Liabilities***

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

<u>Borrowing</u>

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.

***xiv. Financial Liabilities***

Creditors are recognised when a supplier has provided goods and services to the Council for an agreed price. The value of the creditors recognised in the Balance Sheet represents the current value of the outstanding liabilities of the Council as at 31st March as a proxy for amortised cost.

### *xv. Financial Assets*

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables 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 for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Debtors

Debtors are recognised when goods and services have been provided by the Council for an agreed price. The value of the debtors recognised in the Balance Sheet represents the current value of the outstanding asset of the Council as at 31st March as a proxy for amortised cost.

***Financial Instruments continued***

***xv. Financial Assets***

Available for Sale Assets

Available for sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments - discounted cash flow analysis

Changes in fair value are balanced by an entry in the Available for sale Reserve and the gain/loss is recognised in the 'surplus or deficit on revaluation of available for sale financial assets' within the Other Comprehensive Income and Expenditure part of the Comprehensive Income and Expenditure Statement. Impairment losses are debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Statement of Recognised Gains and Losses under UK GAAP accounting. In future such gains / losses will be recognised in the other comprehensive income and expenditure part of the Comprehensive Income and Expenditure Statement.

Where fair value cannot be measured reliably (such as the investment in Cumbria County Holdings Ltd) the instrument is carried at cost (less any impairment losses).

***xvi. Cash and Cash Equivalents***

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

### *xvii. Provisions*

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

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

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

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

### *xviii. Reserves*

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

The Council's main usable reserves are as follows:

- The General Fund Balance is set aside to meet general future revenue expenditure and to protect the Council against exposure to unexpected events.
- Earmarked Reserves are set aside to meet specific items of future expenditure.
- Under the Government's Fair Funding arrangements individual schools manage their own budgets and are allowed to carry forward accumulated surpluses and deficits as reserves.

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

***xviii. Reserves continued***

Unusable Reserves

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

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

***xix. Interests in Companies and Other Entities***

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

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

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 parties have contractually agreed to share control, such that decisions about the activities of the arrangement are given unanimous consent from all parties.

*Joint Operation*

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

### *xxi. Contingent Liabilities*

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

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

### *xxii. Events After the Balance Sheet Date*

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

Adjusting Events

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

Non Adjusting Events

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

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

### *xxiii. Value Added Tax*

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

### *xxiv. Pooled Funds*

Both Health, Care and Community Services and Children and Families Services work with authorities outside the Council to ensure that a coordinated approach to service delivery is achieved. The Council only accounts for its own share of income, expenditure and assets and liabilities in accordance IFRS 11 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 had a Business Rate Pool in place for the period 1st April 2014 to 31st March 2018; it comprised the County Council, Allerdale Borough Council, Barrow Borough Council, Eden District Council, South Lakeland District 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.

A new Business Rate Pool was established on 1st April 2018, in addition to the five members of the original Pool Copeland Borough Council has now joined.

**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.

## Note 1 - Accounting Standards Issued, Not Adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

This section provides a brief summary of the accounting and legislative issues that will affect local government accounting during the 2018/19 year.

***Changes Introduced by the 2018/19 Code***

There are a number of accounting standards that will be introduced as part of the 2018/19 Code:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets.

- IFRS 15 Revenue Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers. IFRS15 presents new requirements for the recognition of revenue, based on a control-based revenue recognition model.

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses, applies to deferred tax assets related to debt instruments measured at fair value.

- Amendments to IAS 7 Statement of Cash Flows (Disclosure Initiative) will potentially require some additional analysis of Cash Flows from Financing Activities (disclosed at Note 40) in future years.

The impact of the above will be assessed during 2018/19 and where necessary the figures will be restated in the 2018/19 Financial Statements.

## Note 2 - Critical Judgements in Applying Accounting Policies

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

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

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

Land and Buildings

The Council has to decide whether land and buildings owned by the Council are investment properties. The Council's Valuers make judgements in accordance with IAS 40 Investment Property and IFRS13 Fair Value Measurement. In 2017/18 it has been determined that the Council has ten investment properties from which £0.344m net income was generated (2016/17 ten investment properties from which £0.296m net income was generated).

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

*Annual review of carrying value*

In 2017/18 the largest individual category of operational land and buildings in terms of both Net Book Value and the number of assets is schools, they account for £253m (52.8%) of the £479m Land and Building Net Book Value on the Balance Sheet.

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

The Community Primary Schools account for 61.2% of the overall £253m schools Net Book Value (NBV). The percentage change in the average Community Primary Schools NBV when compared to 2014/15 is:

| Year of valuation | % increase in average NBV from 2014/15 |
|---|---|
| 2015/16 | 3.5% |
| 2016/17 | 13.9% |
| 2017/18 | 9.5% |

If the percentage increases in the average NBV in the previous table are applied to the elements of the total Community Primary Schools NBV as at 31st March 2018 then theoretically there could be an increase of £5.4m. This is summarised in the table below:

| | **% increase in average NBV from 2014/15** | **Potential increase in average NBV** |
|---|---|---|
| Schools last valued in 2014/15 | 9.5% increase | £3.7m |
| Schools last valued in 2015/16 | 6% increase (i.e. 9.5% - 3.5%) | £3.3m |
| Schools last valued in 2016/17 | 4.4% reduction (i.e. 9.5% - 13.9%) | (£1.6m) |
| | Total | **£5.4m** |

However, these are only average figures and do not take into account any local conditions. The Council's materiality for accounting purposes in 2017/18 is £14.907m which equates to 1.75% of forecast gross expenditure for the year (2016/17 £15.5m) so the Balance Sheet is not materially different to the current value.

During 2017/18 the Valuers have assessed that there has been no general impairment.

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

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

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

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

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

Schools
*Accounting for Schools – Consolidation*
In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the County are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts. The timetable for the closure of the Council's accounts requires the 87 schools that operate a "cheque book" arrangement locally i.e. they manage the day to day accounting for income and payments close their accounts by mid March. Therefore they have to make use of estimates for their March payroll costs.

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

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

The table below sets out the number and type of schools within the County as at 31st March 2018.

| Type of School | No. of Primary Schools | No. of Secondary Schools | No. of Nursery Schools | No of Special Schools | No. of Pupil Referral Units | Total No. of Schools | On Council's Balance Sheet | Off Council's Balance Sheet |
|---|---|---|---|---|---|---|---|---|
| Community | 109 | 8 | 6 | 4 | 3 | 130 | 130 | 0 |
| Voluntary Controlled (VC) | 48 | 1 | 0 | 0 | 0 | 49 | 0 | 49 |
| Voluntary Aided (VA) | 70 | 4 | 0 | 0 | 0 | 74 | 0 | 74 |
| Foundation | 13 | 2 | 0 | 0 | 0 | 15 | 11 | 4 |
| **Total Maintained Schools** | **240** | **15** | **6** | **4** | **3** | **268** | **141** | **127** |
| Academies | 30 | 21 | 0 | 1 | 0 | 52 | 0 | 52 |
| **Total** | **270** | **36** | **6** | **5** | **3** | **320** | **141** | **179** |

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.

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.

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

Closed Landfill Sites

*Consideration of the Issue*

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

The Council has considered this issue again in 2017/18 and has concluded that no provision is required for the 2017/18 accounts but will continue to make disclosure in contingent liabilities (note 42).

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

The Statement of Accounts contains estimated figures that are either based on assumptions made by the Council about the future, or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Provisions

| Uncertainties | Consequences if actual results differ from assumption |
|---|---|
| *Insurance*<br>The insurance provision represents the sum estimated to meet motor, employers' liability, public liability and education related fire claims identified and also claims incurred. The estimate is based on the advice of consulting actuaries – Marsh Risk Consulting. | The long term and short term provisions are estimated at £6.401m at 31st March 2018 (£6.750m at 31st March 2017). If the estimate of the insurance provision were underestimated by 10% then the charge to the accounts would increase by £0.640m. |
| *Business Rates*<br>Since the introduction of Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2017/18 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have challenged up to 31st March 2018. 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 2018 is £0.792m (31st March 2017 £0.792m), if the District Councils had either under or over estimated their provisions by 10% then the Council provision would be increased or decreased respectively by £0.079m. |

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

Property, Plant and Equipment

| **Uncertainties** | **Consequences if actual results differ from assumption** |
|---|---|
| Useful Life of Assets<br>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to deliver the backlog maintenance programme following the condition surveys recently undertaken, bringing into doubt the useful lives assigned to assets. | The largest elements of the Council's annual depreciation charge of £32m are operational buildings £11m and infrastructure £16m.<br>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £0.467m and infrastructure by £0.593m for every year that useful lives had to be reduced. |
| *Fair Value Measurement*<br>When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation technique:<br><br>For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; | Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible; judgment is required in establishing fair values.<br><br>These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities. |

Pensions Liability

| **Uncertainties** | **Consequences if actual results differ from assumption** |
|---|---|
| Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Mercers, a firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. Note 37 includes a sensitivity analysis. In summary for all Pension schemes the effects are:<br><br>0.1% increase in the discount rate assumption would result in a decrease in the net pension deficit of £38.364m and vice versa.<br>0.1% increase in inflation would result in an increase of £39.064m in the net pension liabilities<br>1 year increase in life expectancy would increase net liabilities by £45.554m. |

## 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.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Net Expenditure Chargeable to the General Fund Balance** | **Adjustments between the Funding and Accounting Basis** | **Net Expenditure in the Compre-hensive Income and Expenditure Statement** | | **Net Expenditure Chargeable to the General Fund Balance** | **Adjustments between the Funding and Accounting Basis** | **Net Expenditure in the Compre-hensive Income and Expenditure Statement** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| 88,019 | 1,571 | 89,590 | Children & Families Services | 80,125 | 10,825 | 90,950 |
| 127,601 | 3,792 | 131,393 | Health, Care and Community Services | 121,222 | 5,865 | 127,087 |
| 120,033 | (7,242) | 112,791 | Economy & Highways Services | 126,096 | (12,075) | 114,021 |
| 17,522 | (4,033) | 13,489 | Fire & Rescue Service | 16,803 | (1,023) | 15,780 |
| 8,479 | (4) | 8,475 | Local Committees | 8,057 | 33 | 8,090 |
| 26,663 | 604 | 27,267 | Resources & Transformation | 27,835 | 2,034 | 29,869 |
| 21,770 | (2,749) | 19,021 | Other Corporate Items | (5,379) | 25,014 | 19,635 |
| 0 | 6,730 | 6,730 | Non Distributed Costs | 0 | 4,788 | 4,788 |
| **410,087** | **(1,331)** | **408,756** | **Net Cost of Services** | **374,758** | **35,461** | **410,220** |
| (382,636) | (26,326) | (408,962) | Other Income and Expenditure | (377,493) | (51,931) | (429,424) |
| **27,451** | **(27,657)** | **(206)** | **(Surplus) or Deficit on Provision of Services** | **(2,735)** | **(16,470)** | **(19,204)** |
| (100,644) | | | Opening Combined General Reserves | (73,193) | | |
| 27,451 | | | Plus / less (Surplus) or Deficit on the General Fund Reserves for the Year (Statutory basis) | (2,735) | | |
| **(73,193)** | | | **Closing Combined General Reserves** | **(75,929)** | | |

## 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 Comprehensive Income and Expenditure Statement.

**Other Adjustments**

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

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

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

| | 2017/18 | | | |
|---|---|---|---|---|
| | **Net Capital Statutory Adjustments** | **Net Pensions Statutory Adjustments** | **Other Statutory Adjustments** | **Total Adjustments** |
| | **£000** | **£000** | **£000** | **£000** |
| Children & Families Services | (298) | 10,107 | 1,016 | 10,825 |
| Health, Care and Community Services | 221 | 5,983 | (339) | 5,865 |
| Economy & Highways Services | 246 | 2,511 | (14,832) | (12,075) |
| Fire & Rescue Service | (462) | (410) | (152) | (1,023) |
| Local Committees | 26 | 7 | 0 | 33 |
| Resources & Transformation | (406) | 2,575 | (135) | 2,034 |
| Other Corporate Items | 45,839 | (9,024) | (11,801) | 25,014 |
| Non Distributed Costs | 0 | 4,788 | 0 | 4,788 |
| **Net Cost of Services** | **45,167** | **16,538** | **(26,244)** | **35,461** |
| Other Income and Expenditure | (101,397) | 20,708 | 28,758 | (51,931) |
| **Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement** | **(56,230)** | **37,246** | **2,514** | **(16,470)** |

| | 2016/17 | | | |
|---|---|---|---|---|
| | **Net Capital Statutory Adjustments** | **Net Pensions Statutory Adjustments** | **Other Statutory Adjustments** | **Total Adjustments** |
| | **£000** | **£000** | **£000** | **£000** |
| Children & Families Services | (2,721) | 2,226 | 2,066 | 1,571 |
| Health, Care and Community Services | 2,323 | 1,260 | 209 | 3,792 |
| Economy & Highways Services | 8,026 | 593 | (15,861) | (7,242) |
| Fire & Rescue Service | (592) | (3,574) | 133 | (4,033) |
| Local Committees | (6) | 1 | 1 | (4) |
| Resources & Transformation | (190) | 510 | 284 | 604 |
| Other Corporate Items | 18,574 | (10,112) | (11,211) | (2,749) |
| Non Distributed Costs | 0 | 6,730 | 0 | 6,730 |
| **Net Cost of Services** | **25,414** | **(2,366)** | **(24,379)** | **(1,331)** |
| Other Income and Expenditure | (74,107) | 20,577 | 27,204 | (26,326) |
| **Difference between the Statutory Charge and the (Surplus) or Deficit in the Comprehensive Income and Expenditure Statement** | **(48,693)** | **18,211** | **2,825** | **(27,657)** |

# Note 4.2 - Segmental Analysis of Income and Expenditure

| | 2017/18 | |
|---|---|---|
| | **Revenues from External Customers** | **Depreciation and Amortisation** |
| | **£000** | **£000** |
| Children & Families Services | (16,155) | 7,016 |
| Health, Care and Community Services | (36,091) | 1,788 |
| Economy & Highways Services | (10,030) | 21,898 |
| Fire & Rescue Service | (75) | 1,521 |
| Local Committees | (178) | 11 |
| Resources & Transformation | (1,087) | 267 |
| Other Corporate Items | (490) | 34 |
| Non Distributed Costs | 0 | 0 |
| **Total Managed by Segments** | **(64,105)** | **32,535** |

| | 2016/17 | |
|---|---|---|
| | **Revenues from External Customers** | **Depreciation and Amortisation** |
| | **£000** | **£000** |
| Children & Families Services | (16,431) | 7,492 |
| Health, Care and Community Services | (36,321) | 1,616 |
| Economy & Highways Services | (10,084) | 18,666 |
| Fire & Rescue Service | (92) | 1,464 |
| Local Committees | (85) | 11 |
| Resources & Transformation | (1,810) | 304 |
| Other Corporate Items | (956) | 50 |
| Non Distributed Costs | 0 | 0 |
| **Total Managed by Segments** | **(65,779)** | **29,603** |

## Note 4.3 - Expenditure and Income Analysed by Nature

| 2016/17 £000 | Nature of Expenditure or Income | 2017/18 £000 |
|---|---|---|
| (67,259) | Fees, charges and other service income | (64,105) |
| (5,536) | Interest and investment income | (2,721) |
| (273,445) | Income from local taxation | (279,134) |
| (488,395) | Government grants and contributions | (513,227) |
| (17,388) | Other income | (19,611) |
| 359,956 | Employee benefits expenses (see note below) | 374,994 |
| 393,732 | Other service expenses | 388,839 |
| 42,680 | Depreciation, amortisation, impairment and (gains) / losses on revaluation of non current assets | 48,144 |
| 48,198 | Net Interest payments | 48,017 |
| 812 | Precepts and levies | 827 |
| 6,439 | (Gain) or loss on disposal of non-current assets | (1,228) |
| **(206)** | **(Surplus) or Deficit for Year** | **(19,204)** |

Employee benefits expenses in the table above include Voluntary Aided and Foundation Schools employee expenditure of £64.046m (2016/17 £64.778m).

## Note 5 - Material Items of Income and Expense

The Council has considered items within the Comprehensive Income and Expenditure Statement (CIES) in relation to the materiality threshold of£14.9m. 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 (formerly Shanks Waste Management Ltd) of £27.604m which comprises of £22.585m unitary charge and £5.019m for other services (2016/17 total £28.184m, £22.133m unitary charge and £6.051m for services) in respect of the Public Private Partnership for Waste Management.
- Connect CNDR Ltd of £14.040m which comprises of £14.031m unitary charge in respect of the Carlisle Northern Development Route PFI scheme and £0.009m of other services (2016/17 total £14.006m, £13.752m unitary charge and £0.254m of other services).

## Note 6 - Other Operating Expenditure

Other operating expenditure included in Comprehensive Income and Expenditure Statement.

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 812 | Levies | 827 |
| 1,170 | Gains / (losses) on the Disposal of Non-Current Assets | (2,010) |
| 927 | Other | 1,662 |
| **2,909** | **Total Other Operating Expenditure** | **480** |

## Note 7 - Financing and Investment Income and Expenditure

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

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 28,560 | Interest payable and similar charges | 28,238 |
| 62,766 | Net interest on the net defined benefit liability | 55,138 |
| (43,128) | Net interest on the net defined benefit (asset) | (35,359) |
| (2,954) | Interest receivable and similar income | (2,140) |
| (455) | Income in relation to investment properties | (668) |
| 159 | Expenditure in relation to investment properties | 324 |
| (2,128) | Investment properties change fair value | (237) |
| 5,270 | Loss on Disposal of Academies | 782 |
| 712 | Other investment income and expenditure | 0 |
| **48,802** | **Total** | **46,078** |

Further details on the Pension interest cost and return on pension assets can be found in note 37. When a school becomes an Academy the Council has no continuing interest in the school as an entity and does not receive a consideration on transfer. Net assets are therefore written off to revenue. The resultant loss is recognised in the Financing and Investing Income and Expenditure line of the 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 and receives Business Rates and grants from central government each year to support revenue expenditure which is not attributable to specific services. The grants, Business Rates and Council Tax received for 2017/18 were:

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| (205,381) | Council tax income | (215,882) |
| (68,064) | Non-domestic rates income and expenditure | (63,251) |
| (108,838) | Non-ringfenced government grants | (96,916) |
| (78,390) | Capital grants and contributions | (99,932) |
| **(460,673)** | **Total** | **(475,981)** |

## 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.

| **2017/2018** | **General Fund Balance £000** | **Capital Receipts Reserve £000** | **Capital Grants Unapplied £000** | **Movement in Unusable Reserves £000** |
|---|---|---|---|---|
| Adjustments to the Revenue Resources | | | | |
| *Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:* | | | | |
| Pension cost (transferred to (or from) the Pensions Reserve) | (37,246) | 0 | 0 | 37,246 |
| Financial Instruments (transferred to the Financial Instruments Adjustments Account) | 15 | 0 | 0 | (15) |
| Council tax and NDR (transfers to or from the Collection Fund) | (1,444) | 0 | 0 | 1,444 |
| Holiday pay (transferred to the Accumulated Absences reserve) | (352) | 0 | 0 | 352 |
| Reversal of entries included in the (Surplus) or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 48,927 | 0 | 0 | (48,927) |
| Total Adjustments to Revenue Resources | 9,899 | 0 | 0 | (9,899) |
| Adjustments between Revenue and Capital Resources | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 4,326 | (4,326) | 0 | 0 |
| Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account) | 853 | 0 | 0 | (853) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 1,391 | 0 | 0 | (1,391) |
| Total Adjustments between Revenue and Capital Resources | 6,570 | (4,326) | 0 | (2,244) |
| Adjustments to Capital Resources | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 2,706 | 0 | (2,706) |
| Application of capital grants to finance capital expenditure | 0 | 0 | 1,970 | (1,970) |
| Total Adjustments to Capital Resources | 0 | 2,706 | 1,970 | (4,676) |
| **Total Adjustments** | **16,469** | **(1,620)** | **1,970** | **(16,818)** |

| **2016/2017** | **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) | (18,211) | 0 | 0 | 18,211 |
| Council tax and NDR (transfers to or from the Collection Fund) | (383) | 0 | 0 | 383 |
| Holiday pay (transferred to the Accumulated Absences reserve) | (2,443) | 0 | 0 | 2,443 |
| 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) | 28,293 | 0 | 0 | (28,293) |
| Total Adjustments to Revenue Resources | 7,256 | 0 | 0 | (7,256) |
| Adjustments between Revenue and Capital Resources | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 3,136 | (3,136) | 0 | 0 |
| Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account) | 10,812 | 0 | 0 | (10,812) |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 5,800 | 0 | 0 | (5,800) |
| Transfer to Capital Grants Unapplied Account | 653 | 0 | (653) | 0 |
| Total Adjustments between Revenue and Capital Resources | 20,401 | (3,136) | (653) | (16,613) |
| Adjustments to Capital Resources | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 3,937 | 0 | (3,937) |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 |
| Total Adjustments to Capital Resources | 0 | 3,937 | 0 | (3,937) |
| **Total Adjustments** | **27,657** | **802** | **(653)** | **(27,805)** |

## 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 one school, Bassenthwaite School, (4 in 2016/17) converting during the year, this resulted in a reduction in gross income of £0.005m (2016/17 £1.860m) and expenditure of £0.023m (2016/17 £1.814m). This transfer of responsibility also resulted in a reduction of £0.782m (2016/17 £5.270m) 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.

| 2016/17 £000 | Youth Offending Service | 2017/18 £000 |
|---|---|---|
| (490) | Authority Funding | (443) |
| (1,171) | Partner Funding | (1,145) |
| (1,661) | Total Pooled Funding | (1,588) |
| 1,560 | Expenditure | 1,520 |
| **(101)** | **Net (Surplus)/Deficit on the Pooled Budget** | **(68)** |
| **(101)** | **Authority Share of the Net (Surplus) / Deficit** | **(68)** |

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

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

| 2016/17 £000 | Better Care Fund | 2017/18 £000 |
|---|---|---|
| (4,919) | Authority Funding | (17,582) |
| (35,851) | Partner Funding | (36,493) |
| (40,770) | Total Pooled Funding | (54,075) |
| 40,770 | Authority Expenditure | 54,075 |
| 0 | Partner Expenditure | 0 |
| 40,770 | Expenditure | 54,075 |
| **0** | **Net (Surplus)/Deficit on the Pooled Budget** | **0** |
| **0** | **Authority Share of the Net (Surplus) / Deficit** | **0** |

**Specialised Commissioning Pooled Fund**
The Specialised Commissioning Pooled Fund allows for joint commissioning of statutory social care and some clinical services to improve general well-being and life chances of adults with a learning disability.

| 2016/17 £000 | Specialised Commissioning Fund | 2017/18 £000 |
|---|---|---|
| (16,766) | Authority Funding | (20,880) |
| (7,652) | Partner Funding | (7,266) |
| (24,418) | Total Pooled Funding | (28,146) |
| 25,806 | Authority Expenditure | 28,146 |
| 0 | Partner Expenditure | 0 |
| 25,806 | Expenditure | 28,146 |
| **1,388** | **Net (Surplus)/Deficit on the Pooled Budget** | **0** |
| **953** | **Authority Share of the Net (Surplus) / Deficit** | **0** |

## Note 12 – Officers' Remuneration

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

**Senior Officers' Remuneration**

| | | Salary, Fees and Allowances | Pension Contribution | Total |
|---|---|---|---|---|
| | | £ | £ | £ |
| **Katherine Fairclough - Chief Executive (from 1st March 2017)** | **2017/18** | 142,814 | 21,279 | **164,093** |
| | **2016/17** | 11,783 | 1,532 | **13,315** |
| **Diane Wood- Chief Executive (to 28th February 2017)** | **2017/18** | 0 | 0 | **0** |
| | **2016/17** | 129,617 | 16,850 | **146,467** |
| **Dominic Donnini, Corporate Director - Economy & Highways Services** | **2017/18** | 127,513 | 18,999 | **146,512** |
| | **2016/17** | 131,250 | 16,413 | **147,662** |
| **John Macilwraith, Corporate Director - Children & Families Services** | **2017/18** | 127,513 | 18,999 | **146,512** |
| | **2016/17** | 131,250 | 16,413 | **147,662** |
| **Dawn Roberts, Corporate Director - Resources & Transformation (from 1st July 2016)** | **2017/18** | 127,513 | 18,999 | **146,512** |
| | **2016/17** | 94,687 | 12,309 | **106,997** |
| **Brenda Smith, Corporate Director - Health, Care and Community Services (from 6th June 2016)** | **2017/18** | 127,513 | 18,999 | **146,512** |
| | **2016/17** | 103,455 | 13,449 | **116,904** |
| **Colin Cox, Assistant Director - Health & Wellbeing (Director of Public Health)** | **2017/18** | 98,848 | 14,214 | **113,062** |
| | **2016/17** | 97,869 | 13,995 | **111,864** |
| **Julie Crellin, Assistant Director - Finance (Chief Finance Officer)** | **2017/18** | 93,645 | 13,953 | **107,598** |
| | **2016/17** | 92,718 | 12,053 | **104,771** |
| **Steve Healey, Chief Fire Officer (from 1st August 2017)** | **2017/18** | 71,909 | 10,283 | **82,192** |
| | **2016/17** | 0 | 0 | **0** |
| **Jim Onions, Chief Fire Officer (to 5th April 2016)** | **2017/18** | 0 | 0 | **0** |
| | **2016/17** | 3,660 | 258 | **3,918** |
| **Iolanda Puzio, Senior Manager - Legal & Democratic Services (Monitoring Officer) (from 1st August 2016)** | **2017/18** | 79,011 | 10,696 | **89,708** |
| | **2016/17** | 54,850 | 6,524 | **61,374** |
| **Dawn Roberts, Assistant Director - Corporate Governance (Monitoring Officer) (to 31st July 2016)** | **2017/18** | 0 | 0 | **0** |
| | **2016/17** | 23,180 | 3,013 | **26,193** |
| **Total** | **2017/18** | **996,279** | **146,424** | **1,142,703** |
| | **2016/17** | **874,319** | **112,810** | **987,128** |

**Definitions**

- 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 2017/18 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 2017/18.

- Employer's Current Service Pension Contribution - LGPS 14.9% (2016/17 13.0%), NHS Pension Scheme 14.3%, and Firefighters' Pension Scheme 21.7% - on continuing employment and in relation to the salary thereof.

**Notes**

1. Between 6th April 2016 and 31st July 2017 the post of Chief Fire Officer was fulfilled by Paul Hancock, the Chief Fire Officer and Chief Executive of Cheshire Fire Authority, in a joint arrangement with Cheshire Fire Authority. The Council Paid Cheshire Fire Authority a contribution of £60,000 in 2016/17 and £15,000 in 2017/18.

2. In January 2015 the Council contracted Gatenby Sanderson to provide the services of an interim Corporate Director - Health & Care Services, this arrangement continued into 2016/17 until 6th June 2016. The total fee payable to Gatenby Sanderson in 2016/17 was £37,051. In April 2016 the Council appointed Brenda Smith to the post of Corporate Director - Health & Care Services with effect from 6th June 2016.

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 5 non-school staff (20 for 2016/17) 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

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| Number of Employees | | | | Number of Employees | | |
| School Staff | Other Staff | Total | | School Staff | Other Staff | Total |
| 87 | 29 | **116** | £50,001 to £55,000 | 95 | 32 | **127** |
| 47 | 47 | **94** | £55,001 to £60,000 | 61 | 58 | **119** |
| 32 | 14 | **46** | £60,001 to £65,000 | 28 | 10 | **38** |
| 21 | 32 | **53** | £65,001 to £70,000 | 23 | 31 | **54** |
| 7 | 2 | **9** | £70,001 to £75,000 | 12 | 8 | **20** |
| 5 | 5 | **10** | £75,001 to £80,000 | 6 | 4 | **10** |
| 3 | 3 | **6** | £80,001 to £85,000 | 2 | 2 | **4** |
| 0 | 5 | **5** | £85,001 to £90,000 | 0 | 3 | **3** |
| 1 | 6 | **7** | £90,001 to £95,000 | 1 | 4 | **5** |
| 1 | 3 | **4** | £95,001 to £100,000 | 1 | 1 | **2** |
| 1 | 1 | **2** | £100,001 to £105,000 | 1 | 0 | **1** |
| 1 | 2 | **3** | £105,001 to £110,000 | 0 | 0 | **0** |
| 0 | 0 | **0** | £110,001 to £115,000 | 0 | 0 | **0** |
| 0 | 1 | **1** | £115,001 to £120,000 | 1 | 1 | **2** |
| 0 | 0 | **0** | £120,001 to £125,000 | 0 | 0 | **0** |
| 0 | 0 | **0** | £125,001 to £130,000 | 0 | 0 | **0** |
| 1 | 0 | **1** | £130,001 to £135,000 | 0 | 0 | **0** |
| 0 | 0 | **0** | £135,001 to £140,000 | 0 | 0 | **0** |
| 0 | 0 | **0** | £140,001 to £145,000 | 0 | 0 | **0** |
| 0 | 1 | **1** | £145,001 to £150,000 | 0 | 0 | **0** |
| **207** | **151** | **358** | **Total** | **231** | **154** | **385** |

**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 2017/18 was £1.536m for 117 employees, an average of £13.1k (£7.843m for 301 employees in 2016/17, an average of £26.1k). The value of exit packages related to schools in 2017/18 was £0.670m for 53 employees, an average of £12.6k (£1.000m for 69 employees in 2016/17, an average of £14.5k).

**Exit Packages**

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band (£) | |
|---|---|---|---|---|---|---|---|---|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| £0-£20,000 | 5 | 1 | 190 | 95 | 195 | 96 | 1,499,381 | 550,527 |
| £20,001 - £40,000 | 3 | 2 | 49 | 11 | 52 | 13 | 1,528,433 | 358,487 |
| £40,001 - £60,000 | 0 | 0 | 18 | 3 | 18 | 3 | 852,853 | 139,841 |
| £60,001 - £80,000 | 0 | 0 | 14 | 2 | 14 | 2 | 976,351 | 158,599 |
| £80,001 - £100,000 | 0 | 0 | 9 | 1 | 9 | 1 | 810,442 | 89,001 |
| £100,001 - £150,000 | 0 | 0 | 6 | 2 | 6 | 2 | 714,079 | 240,038 |
| £150,001 to £200,000 | 0 | 0 | 2 | 0 | 2 | 0 | 352,415 | 0 |
| £200,001 to £250,000 | 0 | 0 | 5 | 0 | 5 | 0 | 1,109,691 | 0 |
| **Total** | **8** | **3** | **293** | **114** | **301** | **117** | **7,843,644** | **1,536,493** |

## Note 13 - Termination Benefits

Termination payments to employees include: redundancy payments, payment in lieu of notice, or any other departure payments, but do not include any pension costs. In 2017/18 the termination payments made to employees totalled £1.072m and related to 112 staff. In 2016/17 the termination payments made to employees totalled £3.901m and related to 297 staff.

## Note 14 - Members' Allowances

Allowances and expenses paid to elected Members (Councillors) during 2017/18 were:

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 920 | Allowances | 928 |
| 109 | Expenses | 100 |
| 1,029 | **Total Members' Allowances** | 1,028 |

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

## Note 15 - External Audit Costs

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

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| 115 | Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year | 115 |
| 8 | Fees payable in respect of other services provided by external auditors during the year | 7 |
| **123** | **Total** | **122** |

## Note 16 - Dedicated Schools Grant

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

| **DSG Receivable for 2017/18** | **Central Expenditure £000** | **Individual Schools Budget £000** | **Total £000** | **Total Carry Forward £000** |
|---|---|---|---|---|
| Final DSG for year before Academies recoupment | | | 345,273 | |
| Academy figure recouped for year | | | (103,009) | |
| Total DSG after academy recoupment | | | **242,264** | |
| Plus: Brought forward from previous year | | | (5,666) | |
| Less: Carry forward to following year (agreed in advance) | | | 5,033 | 5,033 |
| Agreed initial budgeted distribution in year | **34,138** | **207,492** | **241,631** | |
| In year adjustments | 0 | 0 | 0 | |
| Final budget distribution for year | **34,138** | **207,492** | **241,631** | |
| Less: Actual central expenditure | (34,248) | | (34,248) | |
| Less: Actual ISB deployed to schools | | (205,902) | (205,902) | |
| Plus: Local Authority contribution for year | 0 | 0 | 0 | |
| **Carry forward to 2018/19** | **(110)** | **1,590** | | (1,480) |
| **Total Carry Forward** | | | | **3,553** |

| **DSG Receivable for 2016/17** | **Central Expenditure £000** | **Individual Schools Budget £000** | **Total £000** | **Total Carry Forward £000** |
|---|---|---|---|---|
| Final DSG for year before Academies recoupment | | | 335,088 | |
| Academy figure recouped for year | | | (102,000) | |
| Total DSG after academy recoupment | | | **233,088** | |
| Plus: Brought forward from previous year | | | (1,191) | |
| Less: Carry forward to following year (agreed in advance) | | | (109) | (109) |
| Agreed initial budgeted distribution in year | **30,150** | **201,638** | **231,788** | |
| In year adjustments | 0 | 0 | 0 | |
| Final budget distribution for year | **30,150** | **201,638** | **231,788** | |
| Less: Actual central expenditure | (35,509) | | (35,509) | |
| Less: Actual ISB deployed to schools | | (202,054) | (202,054) | |
| Plus: Local Authority contribution for year | 0 | 0 | 0 | |
| **Carry forward to 2017/18** | **(5,359)** | **(416)** | | 5,775 |
| **Total Carry Forward** | | | | **5,666** |

## Note 17 - Grant Income

The Council received the following non ring-fenced Government Grants and Capital Grants and contributions in 2017/18 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 2017 £000 | | 31 March 2018 £000 |
|---:|---|---:|
| (58,558) | Revenue Support Grant | (40,572) |
| (14,513) | Top Up Grant (Central Government) | (21,153) |
| (13,536) | PFI Grant | (13,536) |
| (1,886) | New Homes Bonus Grant | (1,861) |
| (4,466) | Education Services Grant | (1,235) |
| (2,190) | NNDR Small Businesses Relief Grant | (2,860) |
| (1,783) | Troubled Families Grant | (1,606) |
| (3,569) | Independent Living Fund | (3,452) |
| (5,770) | Rural Services Support Grant | (4,659) |
| 0 | Adult Social Care Support Grant | (2,518) |
| (2,567) | Other Grants & Contributions < £1m | (3,464) |
| (78,390) | Capital Grants and Contributions | (99,932) |
| **(187,228)** | **Total** | **(196,848)** |

### Credited to Services

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---:|---|---:|
| (233,088) | Dedicated Schools Grant | (242,264) |
| 244 | Dedicated Schools Grant - adjustment re previous year | 49 |
| (11,993) | Pupil Premium Grant | (11,745) |
| (2,107) | Primary PE & Sports Grant | (2,566) |
| (6,250) | Sixth Form Funding | (6,060) |
| (2,905) | Adult & Community Learning Grants | (2,868) |
| (4,918) | Universal Free School Meals Grant | (4,782) |
| (1,662) | Business Recovery Grant | (156) |
| (742) | Youth Offending Team Grant | (745) |
| (19,363) | Public Health Grant | (18,886) |
| 0 | Improved Better Care Fund | (10,542) |
| (3,567) | Other Grants & Contributions < £1m | (3,446) |
| (14,813) | REFCUS Grants | (12,369) |
| **(301,164)** | **Total** | **(316,380)** |

Specific grants are credited to services and shown as Gross Income in the Comprehensive Income and Expenditure Account. The Council received the specific grants detailed above in 2017/18 that were credited to Services.

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

- £53,152 Police and Crime Panel Grant for the Home Office in 2017/18 (£42,000 in 2016/17). This grant is made to Cumbria County Council, as the host authority, for the maintenance of the police and crime panel for the Cumbria police area in 2017/18.

- 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 £399,939 from Sport England. Further details of Active Cumbria's accounts for 2017/18 can be found at www.activecumbria.org.

## Grants Receipts in Advance (Revenue Grants) - Current Liabilities

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (6,207) | Revenue Grants Receipts in Advance < £1m | (8,035) |
| (2,007) | Revenue Contributions Receipts in Advance < £1m | (3,244) |
| **(8,214)** | **Total** | **(11,279)** |

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

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (90,364) | Highways & Flood Recovery (2015) Grant | (59,706) |
| (8,407) | Campus Whitehaven Contributions | (3,971) |
| (8,343) | Basic Need Grant | (7,133) |
| (5,000) | Strategic Flood Recovery Grant | 0 |
| (3,578) | Fire Transformation Grant | (2,010) |
| (1,950) | Capital Maintenance Grant | (1,785) |
| (1,651) | Devolved Formula Capital Grant | (1,613) |
| (1,650) | Broadband UK Grant | 0 |
| (1,587) | Department of Health Grant | (1,587) |
| (5,400) | Other Grants & Contributions <£1m | (1,897) |
| **(127,930)** | **Total** | **(79,701)** |

## Note 18 - Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The CFR is analysed in the second part of this note.

### Capital Expenditure and Capital Financing

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 487,862 | Opening Capital Financing Requirement | 500,641 |
| | Capital Investment: | |
| 111,713 | Property Plant and Equipment | 124,991 |
| 0 | Investment Property | 13 |
| 0 | Intangible Assets | 85 |
| 5 | Assets Held for Sale | 0 |
| 14,813 | Revenue Expenditure Funded from Capital Under Statute | 12,369 |
| 126,531 | **Total Capital Spending** | 137,457 |
| | Sources of Finance: | |
| (3,937) | Capital receipts | (2,706) |
| (93,203) | Government Grants and other contributions | (114,270) |
| | Sums set aside from revenue: | |
| (5,800) | - Direct revenue contributions | (1,391) |
| (10,812) | - Minimum revenue provision | (853) |
| (113,752) | **Total Sources of Finance** | (119,220) |
| **500,641** | **Closing Capital Financing Requirement** | **518,877** |

### Explanation of movements in year

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (10,812) | Increase / (Decrease) in underlying need to borrow (supported by government financial assistance) | (853) |
| 23,591 | Increase / (Decrease) in underlying need to borrow (unsupported by government financial assistance) | 19,089 |
| **12,779** | **Increase/(decrease) in Capital Financing Requirement** | **18,236** |

**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 2017/18 the MRP was £0.853m (2016/17 £10.812m).

## 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 2017/18 there were no contingent rents payable by the Council (None in 2016/17). The Council sub lets part of one of the buildings which it leases in. Income of £0.587m was received in 2017/18 (£0.587m 2016/17).

**Authority as Lessee - Finance Leases**

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 14,929 | Other Land and Buildings | 15,881 |

### Authority as Lessee - Operating Leases

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 1,741 | Not later than one year | 1,288 |
| 2,846 | Later than one year and not later than five years | 1,726 |
| 4,655 | Later than five years | 4,377 |
| **9,242** | **Total** | **7,391** |

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 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 2,442 | Minimum lease payments | 2,314 |
| (587) | Less: Sublease payments receivable | (587) |
| **1,855** | **Total** | **1,727** |

### Authority as Lessor - Operating Leases

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 776 | Not later than one year | 626 |
| 867 | Later than one year and not later than five years | 2,355 |
| 4,142 | Later than five years | 4,208 |
| **5,785** | **Total** | **7,189** |

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 2017/18. Lease income of £1.417m (2016/17 £1.120m) were recognised as income in the Comprehensive Income and Expenditure Statement.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no contingent rents receivable by the Council in 2017/18 or 2016/17.

## 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 £459m. 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 £357m. 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.

**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 £49m. 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

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

| 2016/17 | Waste Management PPP | Carlisle Northern Development Route PFI | Fire Station Replacement PFI | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | |
| at 1 April 2016 | 42,364 | 57,057 | 14,878 | 114,298 |
| Revaluation increases/(decreases) recognised in the (Surplus) / Deficit on the Provision of Services | (3,252) | 0 | 466 | (2,786) |
| **at 31 March 2017** | **39,113** | **57,057** | **15,343** | **111,512** |
| **Accumulated Depreciation and Impairment** | | | | |
| at 1 April 2016 | (2,856) | (4,346) | (982) | (8,184) |
| Depreciation charge | (1,608) | (1,426) | (387) | (3,422) |
| Depreciation written out to the (Surplus) / Deficit on the Provision of Services | 2,868 | 0 | 189 | 3,057 |
| **at 31 March 2017** | **(1,596)** | **(5,773)** | **(1,180)** | **(8,549)** |
| **Net Book Value** | | | | |
| **at 31 March 2017** | **37,517** | **51,284** | **14,163** | **102,963** |
| **at 1 April 2016** | **39,508** | **52,711** | **13,895** | **106,114** |

## Movement in PFI Liabilities

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

| 2016/17 | Waste Management PPP | Carlisle Northern Development Route PFI | Fire Station Replacement PFI | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance outstanding at start of year | (42,614) | (59,280) | (15,807) | (117,701) |
| Payments during the year | 36 | 260 | 259 | 555 |
| **Balance outstanding at year-end** | **(42,578)** | **(59,020)** | **(15,548)** | **(117,146)** |

## Payments due under PFI schemes - 2017/18

| 1. Reimbursement of Capital Expenditure | Waste Management PPP | Carlisle Northern Development Route PFI | Fire Station Replacement PFI | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Payable within one year | 0 | (342) | (305) | (647) |
| Payable within two to five years | (1,602) | (4,694) | (1,494) | (7,790) |
| Payable within six to ten years | (8,943) | (8,574) | (2,683) | (20,199) |
| Payable within eleven to fifteen years | (24,063) | (13,724) | (4,024) | (41,811) |
| Payable within sixteen to twenty years | (7,938) | (23,619) | (6,057) | (37,614) |
| Payable after twenty years | 0 | (7,949) | (703) | (8,653) |
| **Total** | **(42,545)** | **(58,903)** | **(15,266)** | **(116,714)** |

| 2. Interest | Waste Management PPP | Carlisle Northern Development Route PFI | Fire Station Replacement PFI | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Payable within one year | (5,818) | (8,066) | (1,327) | (15,211) |
| Payable within two to five years | (22,858) | (32,327) | (5,090) | (60,275) |
| Payable within six to ten years | (25,205) | (38,602) | (5,665) | (69,472) |
| Payable within eleven to fifteen years | (14,357) | (33,380) | (4,457) | (52,194) |
| Payable within sixteen to twenty years | (486) | (23,548) | (2,548) | (26,583) |
| Payable after twenty years | 0 | (4,562) | (17) | (4,579) |
| **Total** | **(68,724)** | **(140,485)** | **(19,104)** | **(228,314)** |

| 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 | (17,576) | (5,920) | (544) | (24,040) |
| Payable within two to five years | (75,503) | (22,444) | (2,336) | (100,283) |
| Payable within six to ten years | (106,588) | (32,406) | (3,328) | (142,321) |
| Payable within eleven to fifteen years | (122,129) | (39,010) | (3,851) | (164,990) |
| Payable within sixteen to twenty years | (26,419) | (46,324) | (4,468) | (77,211) |
| Payable after twenty years | 0 | (11,705) | (346) | (12,051) |
| **Total** | **(348,216)** | **(157,809)** | **(14,872)** | **(520,897)** |

| 4. Total Payments Due under PFI | Waste Management PPP | Carlisle Northern Development Route PFI | Fire Station Replacement PFI | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Total** | **(459,485)** | **(357,197)** | **(49,242)** | **(865,925)** |

# Note 21 - Property, Plant and Equipment

## Movements to 31 March 2018

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

**Movements to 31 March 2017**

| | 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 2016** | 472,937 | 69,154 | 589,612 | 54 | 14,564 | 15,881 | **1,162,202** |
| Additions | 18,653 | 11,231 | 71,042 | 0 | 870 | 9,916 | **111,713** |
| Donations | 0 | 30 | 0 | 0 | 0 | 0 | **30** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 2,559 | (1,076) | 0 | 0 | 387 | 0 | **1,870** |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (13,837) | (1,128) | 0 | 0 | (3,976) | 0 | **(18,942)** |
| Derecognition – disposals | (2,047) | (265) | 0 | 0 | (625) | 0 | **(2,937)** |
| Derecognition – other | (6,769) | (188) | 0 | 0 | (640) | 0 | **(7,597)** |
| Reclassifications and transfer | 25,849 | 401 | (11,370) | (1) | 6,193 | (21,317) | **(245)** |
| Assets reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | (1,318) | 0 | **(1,318)** |
| **at 31 March 2017** | **497,345** | **78,158** | **649,284** | **53** | **15,455** | **4,480** | **1,244,776** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| **at 1 April 2016** | (13,277) | (42,518) | (111,511) | 0 | 0 | 0 | **(167,307)** |
| Depreciation charge | (11,558) | (4,249) | (14,503) | 0 | (151) | 0 | **(30,460)** |
| Depreciation written out to the Revaluation Reserve | 5,631 | 735 | 0 | 0 | 503 | 0 | **6,869** |
| Depreciation written out to the (Surplus)/Deficit on the Provision of Services | 6,076 | 833 | 0 | 0 | 118 | 0 | **7,027** |
| Derecognition – disposals | 606 | 200 | 0 | 0 | 0 | 0 | **806** |
| Derecognition – other | 271 | 155 | 0 | 0 | 4 | 0 | **430** |
| Reclassifications and transfers | (1,238) | (64) | 1,806 | 0 | (502) | 0 | **3** |
| Eliminated on reclassification to Held for Sale | 0 | 0 | 0 | 0 | 4 | 0 | **4** |
| **at 31 March 2017** | **(13,489)** | **(44,908)** | **(124,207)** | **0** | **(23)** | **0** | **(182,628)** |
| **Net Book Value** | | | | | | | |
| **at 31 March 2017** | **483,856** | **33,250** | **525,077** | **53** | **15,432** | **4,480** | **1,062,148** |
| **at 31 March 2016** | **459,660** | **26,636** | **478,101** | **54** | **14,564** | **15,881** | **994,895** |

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The officers who undertook these valuations in 2017/18 were:

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

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

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

The significant assumptions applied in estimating the fair values are:

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

Property assets are classified as:

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

Fair Value is reported or measured as follows:

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

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

The history of asset valuations is as follows:

**Property, Plant and Equipment Revaluations**

| | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Surplus Assets | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Carried at historical cost** | 0 | 34,448 | 0 | 34,448 |
| **Valued at current value (Net Book Value) as at:** | | | | |
| **31/03/2018** | 82,308 | 0 | 7,193 | 89,500 |
| **31/03/2017** | 123,017 | 2,085 | 4,809 | 129,911 |
| **31/03/2016** | 154,480 | 0 | 7,600 | 162,079 |
| **31/03/2015** | 103,679 | 0 | 0 | 103,679 |
| **31/03/2014** | 15,535 | 0 | 0 | 15,535 |
| **Total** | **479,019** | **36,533** | **19,601** | **535,153** |

## Capital Commitments

At 31st March 2018 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2018/19 and future years budgeted to cost £20.797m. Similar commitments at 31st March 2017 were £10.513m. The major commitments are:

| 2016/17 | | 2017/18 |
|---|---|---|
| **£000** | **Capital Project** | **£000** |
| | **School Projects:** | |
| 677 | Priority Maintenance (Schools) | 350 |
| 500 | Whitehaven Education campus | 13,000 |
| 1,015 | Short Break & Respite Provision | 0 |
| 0 | Inclusive Cumbria –Sandside Lodge | 500 |
| 0 | Individual Access Needs Capital | 100 |
| 825 | Houghton School | 0 |
| 304 | Other School Projects | 19 |
| | **Other Projects:** | |
| 850 | Modernising Cumbria Care | 500 |
| 422 | Highways Schemes | 3,022 |
| 585 | Street Lighting improvements | 0 |
| 0 | LEP - Devolved Major Transport Scheme Funding | 300 |
| 1,000 | LEP – Barrow Waterfront | 0 |
| 250 | LEP – Kendal Infrastructure | 400 |
| 1,485 | LEP - South Ulverston | 400 |
| 450 | LEP – Optimising Connectivity | 0 |
| 450 | ICT Equipment | 0 |
| 400 | Fire vehicles | 0 |
| 0 | Co-located Emergency Response Centre - Ulverston | 1,976 |
| 1,300 | Other Minor commitments | 230 |
| **10,513** | | **20,797** |
| | | |

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

## Note 21.1 - Impairment Losses

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

There were impairment losses of £0.924m in 2015/16 as a result damage caused to three Council properties in the December 2015 flooding. The affected properties were the Whinfell Centre, Kendal, Mintsfeet Depot, Kendal and Edenside Care Home, Appleby. £0.585m of this loss has been written out on disposal of the Whinfell Centre in 2016/17.

## Note 22 - Fair Value Disclosures for Surplus Assets

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

There has been no change in the valuation techniques used during the year. In estimating their fair value, the Council's surplus assets have been valued to their highest and best use. The net book value at 31st March 2018 was £19.601m (31st March 2017 £15.433m).

## Note 23 - Investment Properties

Each year the Council reviews its property portfolio to identify any properties that should be classified as Investment Properties. The 2017/18 review has not resulted in any further properties being re-classified as investment properties. There are a total of ten investment properties. The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| **31 March 2017 £000** | **Investment Property Income and Expenditure** | **31 March 2018 £000** |
|---:|---|---:|
| (455) | Rental income from investment property | (668) |
| 159 | Direct operating expenses from investment property | 324 |
| **(296)** | **Net (gain)/loss** | **(344)** |

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

| 31 March 2017 Non-Current £000 | Investment Properties Movements in Year | 31 March 2018 Non-Current £000 |
|---:|---|---:|
| 2,285 | Opening Balance | 4,655 |
| | Additions: | |
| 0 | Subsequent expenditure | 13 |
| 2,128 | Net gains/(losses) from fair value adjustments | 237 |
| | Transfers: | |
| 242 | (to)/from Property Plant and Equipment | 0 |
| **4,655** | **Balance at the end of the year** | **4,905** |

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

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

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

## Note 24 - Intangible Assets

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

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.267m charged to revenue in 2017/18 (£0.304m 2016/17) was charged to Resources and Transformation directorate as part of the IT department costs in the Comprehensive Income and Expenditure Statement. The movement on Intangible Asset balances during the year is as follows:

| 31st March 2017 Total £000 | | 31st March 2018 Total £000 |
|---:|---|---:|
| | Balance at start of year: | |
| 20,378 | Gross carrying amounts | 20,378 |
| (19,545) | Accumulated amortisation | (19,850) |
| **833** | **Net carrying amount at start of year** | **528** |
| | Additions: | |
| 0 | Purchases | 85 |
| 0 | Reclassifications and transfers | 70 |
| (305) | Amortisation for the period | (267) |
| **528** | **Net carrying amount at end of year** | **416** |
| | Comprising: | |
| 20,378 | Gross carrying amounts | 20,533 |
| (19,850) | Accumulated amortisation | (20,117) |
| **528** | **Total** | **416** |

# Note 25 - Assets Held for Sale

| Current 31 March 2017 £000 | Non-current 31 March 2017 £000 | | Current 31 March 2018 £000 | Non-current 31 March 2018 £000 |
|---|---|---|---|---|
| 1,048 | 0 | Balance outstanding at start of year | 1,623 | 548 |
| 5 | 0 | Additions | 0 | 0 |
| | | Assets newly classified as held for sale: | | |
| 1,099 | 548 | - Property Plant and Equipment | 100 | 0 |
| (7) | 0 | Revaluation losses | (733) | 0 |
| 90 | 0 | Revaluation gains | 0 | 0 |
| | | Assets declassified as held for sale: | | |
| (333) | 0 | - Property Plant and Equipment | (221) | 0 |
| (278) | 0 | Assets sold | (663) | 0 |
| 0 | 0 | Transfers from non current and current | 548 | (548) |
| **1,623** | **548** | **Balance Outstanding year end** | **654** | **0** |

# Note 26 – Short Term Debtors

An analysis of sums due to the Council as at 31st March 2018 is as follows:

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 15,090 | Central Government Bodies | 9,347 |
| 6,279 | Other Local Authorities | 5,723 |
| 2,005 | NHS Bodies | 5,433 |
| 516 | Public Corporations and Trading Funds | 0 |
| 36,841 | Other Entities and Individuals | 32,319 |
| **60,731** | **Total Debtors** | **52,822** |

# Note 27 - Financial Instruments

## Financial Instruments

| | Long-term 31 March 2017 £000 | Long-term 31 March 2018 £000 | Current 31 March 2017 £000 | Current 31 March 2018 £000 |
|---|---|---|---|---|
| **Investments** | | | | |
| Loans and receivables | 0 | 0 | 125,447 | 48,157 |
| Unquoted equity investment at cost | 3,183 | 3,183 | 0 | 0 |
| **Total investments** | **3,183** | **3,183** | **125,447** | **48,157** |
| **Debtors** | | | | |
| Loans and receivables | 4,252 | 4,063 | 0 | 0 |
| Financial assets carried at contract amounts | 0 | 0 | 17,545 | 25,703 |
| **Total included in Debtors** | **4,252** | **4,063** | **17,545** | **25,703** |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | (287,835) | (330,309) | (11,822) | (11,747) |
| **Total included in Borrowings** | **(287,835)** | **(330,309)** | **(11,822)** | **(11,747)** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | (116,623) | (116,067) | | |
| **Total included in other long term liabilities** | **(116,623)** | **(116,067)** | | |
| **Creditors** | | | | |
| Financial liabilities carried at contract amount | | | (49,754) | (40,502) |
| **Total Creditors** | | | **(49,754)** | **(40,502)** |

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

## Income, Expense, Gains and Losses

**2018**

| | Financial Liabilities: Liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available-for-sale assets | Assets and Liabilities at Fair Value through Profit and Loss | PFI Liability | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 13,059 | 0 | 0 | 0 | 15,178 | 28,237 |
| Impairment losses | - | 44 | - | - | - | 44 |
| **Total expense in (Surplus) or Deficit on the Provision of Services** | **13,059** | **44** | **0** | **0** | **15,178** | **28,282** |
| Interest income | - | (2,140) | 0 | 0 | 0 | (2,140) |
| **Total income in (Surplus) or Deficit on the Provision of Services** | **0** | **(2,140)** | **0** | **0** | **0** | **(2,140)** |
| **Net (gain)/loss for the year** | **13,059** | **(2,095)** | **0** | **0** | **15,178** | **26,142** |

**2017**

| | Financial Liabilities: Liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available-for-sale assets | Assets and Liabilities at Fair Value through Profit and Loss | PFI Liability | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense | 13,304 | 0 | 0 | 0 | 15,256 | 28,560 |
| Impairment losses | - | 76 | - | - | - | 76 |
| **Total expense in (Surplus) or Deficit on the Provision of Services** | **13,304** | **76** | **0** | **0** | **15,256** | **28,636** |
| Interest income | - | (2,954) | 0 | 0 | 0 | (2,954) |
| **Total income in (Surplus) or Deficit on the Provision of Services** | **0** | **(2,954)** | **0** | **0** | **0** | **(2,954)** |
| **Net (gain)/loss for the year** | **13,304** | **(2,878)** | **0** | **0** | **15,256** | **25,682** |

## Note 28 - Financial Instruments - Fair Value

**Fair Value Of Assets And Liabilities**

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

- For Public Works Loan Board (PWLB) debt, new borrowing rates as per PWLB rate sheet number 127/18 have been applied to provide the fair value under PWLB debt redemption procedures.
- For other market debt 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.

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

**The Fair Values of Financial Assets and Financial Liabilities that are not**

**Financial Liabilities**

| | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Financial Liabilities held at Amortised Cost | (299,657) | (396,199) | (342,056) | (432,609) |
| PFI and finance lease liabilities | (117,146) | (230,288) | (116,714) | (217,927) |
| **Total** | **(416,803)** | **(626,487)** | **(458,770)** | **(650,536)** |

**Financial Assets**

| | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | Carrying Amount £000 | Fair Value £000 | Carrying Amount £000 | Fair Value £000 |
| Loans and Receivables | 125,447 | 125,511 | 48,157 | 48,143 |
| Long-Term Debtors | 4,252 | 4,252 | 4,063 | 4,063 |
| **Total** | **129,699** | **129,763** | **52,219** | **52,205** |

The fair value of the PWLB borrowings and Market Loans 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.

The fair value of the deposits with banks and building societies is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the prevailing rates for similar deposits at the Balance Sheet date.

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 the new Cumbria County Holdings Ltd (CCH), which is also wholly owned by the Council. This company now 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 2017 and 31st March 2018 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 29 - Nature and Extent of Risks Arising from Financial Instruments

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

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

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

**Credit Risk**

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. This risk is minimised through the Treasury Management Strategy which requires that deposits are only placed with institutions that meet specific creditworthiness criteria. The credit ratings of investments as at 31st March 2018 are detailed below:

*Credit ratings of Investments as at 31st March 2018*

| **Deposits with Banks and Financial Institutions** | **Fitch Rating** | **Amount at 31st March 2018 £000** |
|---|---|---|
| Bank of Scotland (Lloyds Group) | **A+** | 5,000 |
| BNP Paribas MMF - Insticash | **AAA** | 4,900 |
| Commonwealth Bank Australia | **AA-** | 10,000 |
| Deutsche Bank MMF - Managed Sterling | **AAA** | 8,000 |
| Federated Short Term Prime Fund | **AAA** | 17,500 |
| Goldman Sachs International Bank | **A** | 12,000 |
| J P Morgan MMF Sterling Liquidity Fund | **AAA** | 12,600 |
| Northumberland County Council | **AA** | 10,000 |
| Qatar National Bank | **A+** | 10,000 |
| Royal Bank of Scotland | **BBB+** | 8,000 |
| Standard Life MMF | **AAA** | 17,500 |
| Schools Investments (Lloyds Bank) | **A+** | 50 |
| | **Total** | **115,550** |

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 2018 that this was likely to crystallise.

**Debtors**

The table below analyses the age of the outstanding debt within the Accounts Receivable system for those debtors that are classed as financial instruments. The Council generally allows 30 days credit for customers, such that £1.227m (£2.045m 2016/17) of the £2.483m (£3.387m 2016/17) balance is past its due date for payment. This analysis does not include all contractual debtors. The Council also has £13.607m owed by individuals in respect of outstanding residential and non residential care charges (£14.574m in 2016/17). Of this debt £3.012m (2016/17 £3.142m) 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 2017** | **31 March 2018** |
|---|---:|---:|
| | **£000** | **£000** |
| Less than three months | 2,173 | 1,750 |
| Three to six months | 226 | 148 |
| Six months to one year | 268 | 187 |
| More than one year | 720 | 398 |
| | 3,387 | 2,483 |

**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 (£48.157m) 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 2017** | **31 March 2018** |
|---|---|---|
| | **£000** | **£000** |
| Less than one year | 7,500 | 7,500 |
| Between one and two years | 7,500 | 16,000 |
| Between two and five years | 23,500 | 12,500 |
| More Than 5 Years | 52,200 | 47,200 |
| More Than 10 years | 204,635 | 254,609 |
| | 295,335 | 337,809 |

| **Lender** | **31 March 2017** | **31 March 2018** |
|---|---|---|
| | **£000** | **£000** |
| Public Works Loans Board | 269,700 | 312,200 |
| Market Debt | 25,480 | 25,465 |
| Other | 155 | 144 |
| | 295,335 | 337,809 |

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

### Refinancing and Maturity Risk

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

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

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

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

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

**Market Risk**

Interest Rate Risk

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

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

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

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

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. The analysis will also advise whether new borrowing taken out is fixed or variable. According to this assessment strategy, at 31st March 2018, 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 £1.096m. The impact of a 1% fall in interest rates would be a net decrease in income of £0.581m, as the average rate of interest on investments is currently below 1%.

Price Risk

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

Foreign Exchange Risk

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

## Note 30 - Cash and Cash Equivalents

The balances on the Council's various imprest accounts, school bank accounts and cash in transit between internal accounts amounted to £4.034m (2016/17 £4.344m) and are included as cash and cash equivalents in Current Assets. Short term deposits totalling £67.499m (2016/17 £28.681m) 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 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 4,344 | Cash and Bank balances | 4,034 |
| 28,681 | Short Term Deposits | 67,499 |
| **33,025** | **Total Cash and Cash Equivalents** | **71,533** |

## Note 31 – Short Term Creditors

An analysis of amounts owed by the Council at 31st March 2018 is:

| Restated 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (8,687) | Central Government Bodies | (8,801) |
| (3,644) | Other Local Authorities | (3,758) |
| (1,258) | NHS Bodies | (554) |
| (49) | Public Corporations and Trading Funds | (2,908) |
| (63,721) | Other Entities and Individuals | (54,650) |
| **(77,359)** | **Total Creditors** | **(70,670)** |

In 2016/17 the short term PFI liability pf £0.523m was shown separately on the Balance Sheet. This is now included in short term creditors.

# Note 32 - Provisions

## Current Provisions

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

| 2016/17 | Insurance - Motor and Fire | MMI Provision | Equal Pay | Voluntary Redundancies | Other Provisions | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Opening Balance | (154) | (625) | (156) | (321) | (3,380) | (4,636) |
| Increase in provision during year | (64) | 0 | (9) | (1,353) | (207) | (1,633) |
| Utilised during year | 0 | 428 | 0 | 321 | 179 | 928 |
| **Closing Balance** | **(218)** | **(197)** | **(165)** | **(1,353)** | **(3,408)** | **(5,341)** |

## Long Term Provisions

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

| 2016/17 | Insurance - employers and public liability | Business Rates Appeals | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Opening Balance | (7,051) | (957) | (8,008) |
| Increase in provision during year | 0 | (792) | (792) |
| Utilised during year | 519 | 957 | 1,476 |
| **Closing Balance** | **(6,532)** | **(792)** | **(7,324)** |

## Total Provisions

| 2016/17 | Total Provisions | 2017/18 |
|---|---|---|
| £000 | | £000 |
| (12,644) | Opening Balance | (12,665) |
| (2,425) | Increase in provision during year | (4,039) |
| 2,404 | Utilised during year | 4,704 |
| **(12,665)** | **Closing Balance** | **(12,000)** |

## Note 33 - 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 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (9,417) | General Fund Balance | (10,472) |
| (63,776) | Earmarked General Fund Reserves | (65,457) |
| **(73,193)** | **Total General Reserves** | **(75,929)** |
| (10,906) | Capital Receipts Reserve | (12,526) |
| (1,970) | Capital Grants Unapplied Account | 0 |
| **(86,069)** | **Total Usable Reserves** | **(88,455)** |

**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 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (11,707) | Balance 1 April | (10,906) |
| (3,136) | Capital Receipts in year | (4,326) |
| 3,937 | Capital Receipts used for financing | 2,706 |
| **(10,906)** | **Balance 31 March** | **(12,526)** |

**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 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (1,317) | Balance 1 April | (1,970) |
| 0 | Capital grants and contributions applied | 1,970 |
| (653) | Other movements | 0 |
| **(1,970)** | **Balance 31 March** | **0** |

## Note 34 - Transfers to/from Earmarked Reserves

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

| | Balance at 1 April 2016 | Transfers In 2016/17 | Transfers Out 2016/17 | Balance at 31 March 2017 | Transfers In 2017/18 | Transfers Out 2017/18 | Balance at 31 March 2018 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **General Fund Earmarked Reserves:** | | | | | | | |
| Health Care & Community Services | (704) | (1,238) | 969 | **(973)** | (366) | 500 | **(839)** |
| Economy & Highways Services | (7,826) | (1,537) | 6,822 | **(2,541)** | (38) | 642 | **(1,937)** |
| Fire & Rescue Service | (300) | (300) | 600 | **0** | 0 | 0 | **0** |
| Local Committees | (1,556) | (847) | 1,556 | **(847)** | (779) | 847 | **(779)** |
| Resources & Transformation | 0 | (1,654) | 105 | **(1,549)** | (300) | 279 | **(1,570)** |
| Children & Families Services | (29) | 0 | 90 | **61** | (8) | 0 | **53** |
| Improvement & Efficiency Reserve | (1,108) | 0 | 798 | **(310)** | 0 | 301 | **(9)** |
| Elections Reserve | (453) | (119) | 0 | **(572)** | (119) | 691 | **0** |
| Sea Fisheries Reserve | (213) | (103) | 316 | **0** | 0 | 0 | **0** |
| Business Rates Pool Volatility Reserve | (380) | 0 | 0 | **(380)** | 0 | 0 | **(380)** |
| Other Services | (1,991) | (9,222) | 4,885 | **(6,328)** | (8,025) | 7,074 | **(7,279)** |
| Modernisation Reserve | (15,285) | 0 | 10,283 | **(5,002)** | 0 | 96 | **(4,906)** |
| Revenue Grants Reserves | (37,049) | (2,966) | 5,491 | **(34,524)** | (1,826) | 3,564 | **(32,786)** |
| Insurance Reserve | (8,701) | (1,156) | 0 | **(9,857)** | (2,427) | 0 | **(12,284)** |
| **Sub Total Council Earmarked Revenue Reserves** | **(75,595)** | **(19,142)** | **31,915** | **(62,822)** | **(13,888)** | **13,994** | **(62,716)** |
| Schools ring fenced Reserves | (6,402) | (1,672) | 4,790 | **(3,284)** | (2,368) | 3,967 | **(1,685)** |
| DSG Reserve | 1,190 | (1,720) | 6,196 | **5,666** | (2,113) | 0 | **3,553** |
| **Sub Total Delegated Schools Budgets and Ring Fenced Schools Related** | **5,212** | **(3,392)** | **10,986** | **2,382** | **(4,481)** | **3,967** | **1,868** |
| Revenue Reserve for Capital Purposes | (2,724) | 0 | 2,201 | **(523)** | (1,386) | 113 | **(1,796)** |
| Long Term Investment Reserve | (2,813) | 0 | 0 | **(2,813)** | 0 | 0 | **(2,813)** |
| **Total General Fund Earmarked Reserves** | **(86,344)** | **(22,534)** | **45,102** | **(63,776)** | **(19,755)** | **18,074** | **(65,457)** |

*Directorates*

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

*Modernisation 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 2017 the balance on this reserve was £5.002m.

The Council has not utilised the Reserve in 2017/18 to meet the cost of restructuring through service reviews and voluntary redundancy. The cost of redundancies has either been funded in year by Directorate budgets or by the flexibility requirements to utilise capital receipts.

Small transfers from the reserve totalled £0.096m in respect of residual Equal Pay issues in the year. The balance on the reserve at 31st March 2018 is £4.906m.

*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 at 31st March 2018 is £32.786m which includes £27.873m of PFI grant to support the Carlisle Northern Development Route and replacement fire stations project (2016/17 total revenue grants £37.049m including £27.710m for PFI).

*Insurance*
The Council self-insures a proportion of its risks in order to reduce its costs of insurance. Each year funding is set aside to meet claims on that self-insurance; the funds set aside have been separated into two elements – a provision and a reserve. The insurance provision £6.401m (long term £6.163m and short term £0.238m note 32) represents the sum estimated to meet claims identified at 31st March 2018. 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 2018 the reserve is £12.284m.

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

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

*Schools Earmarked Reserves*

| Schools Earmarked Reserves | 31st March 2017 No. | 31st March 2017 £000 | 31st March 2018 No. | 31st March 2018 £000 |
|---|---|---|---|---|
| Schools in surplus | 214 | (7,882) | 207 | (8,066) |
| Schools in deficit | 56 | 4,598 | 62 | 6,381 |
| | **270** | **(3,284)** | **269** | **(1,685)** |
| Children's Services - DSG ring fenced to schools | | 5,666 | | 3,553 |
| **Total** | | **2,382** | | **1,868** |

Schools Surpluses and Deficits

There has been a decrease of one in the overall number of schools as a result of Bassenthwaite School converting to Academy status during the year. Further details are in Note 10. Included in the schools in deficit is one Community Development Centre which is attached to a school.

Children's Services - DSG ring fenced to schools

The movement on the Dedicated Schools Grant central reserve is set out below:

| | 2016/17 £000 | 2016/17 £000 | 2017/18 £000 | 2017/18 £000 |
|---|---|---|---|---|
| Balance as at 1st April | | 1,190 | | 5,666 |
| Transfer to Reserve | (1,720) | | (698) | |
| High Needs Service overspend / (underspend) | 5,824 | | (522) | |
| Other DSG central budgets (underspend) | (48) | | (957) | |
| Other net transfers from reserve | 420 | 4,476 | 64 | (2,113) |
| **Balance as at 31st March** | | **5,666** | | **3,553** |

## Note 35 - Unusable Reserves

The details of each unusable reserve are set out in the notes below.

| 31 March 2017 £000 | Unusable Reserves | 31 March 2018 £000 |
|---|---|---|
| (101,318) | Revaluation Reserve | (108,469) |
| (468,480) | Capital Adjustment Account | (526,802) |
| 480 | Financial Instruments Adjustment Account | 465 |
| 837,158 | Pension Reserve | 757,514 |
| (3,438) | Collection Fund Adjustment Account | (1,994) |
| 8,864 | Accumulated Absences Account | 9,216 |
| **273,266** | **Total** | **129,932** |

**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 1 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 2017 £000 | Revaluation Reserve | 31 March 2018 £000 |
|---:|---|---:|
| (95,929) | **Balance 1 April** | (101,318) |
| (12,086) | Upward revaluation of assets | (14,855) |
| 3,244 | Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services | 5,229 |
| **(8,842)** | **Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services** | **(9,626)** |
| 1,797 | Difference between fair value depreciation and historical cost depreciation | 1,939 |
| 1,641 | Accumulated gains on assets sold or scrapped | 1,811 |
| **3,438** | **Amount written off to the Capital Adjustment Account** | **3,750** |
| 15 | Other movements to the Surplus or Deficit on Provision of Services | (1,275) |
| **(101,318)** | **Balance 31 March** | **(108,469)** |

**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 authority 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 authority. The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 31 March 2017 £000 | Capital Adjustment Account | 31 March 2018 £000 |
|---|---|---|
| (416,185) | **Balance 1 April** | (468,480) |
| 30,460 | Charges for depreciation and impairment of non-current assets | 32,747 |
| 11,915 | Revaluation losses on non-current assets | 15,130 |
| 304 | Amortisation of intangible assets | 267 |
| 14,813 | Revenue expenditure funded from capital under statute | 12,369 |
| 9,576 | 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 | 3,099 |
| 67,068 | Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | 63,611 |
| (3,438) | Adjusting Amounts written out of the Revaluation Reserve | (3,750) |
| 63,631 | **Net written out amount of the cost of non-current assets consumed in the year** | 59,861 |
| (3,937) | Use of Capital Receipts Reserve to finance new capital expenditure | (2,706) |
| (93,233) | Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (114,270) |
| (10,812) | Statutory provision for the financing of capital investment charged against the General Fund | (853) |
| (5,800) | Capital expenditure charged against the General Fund balances | (1,391) |
| (113,783) | **Capital financing applied in year:** | (119,220) |
| (2,128) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | (237) |
| (15) | Other movements | 1,275 |
| **(468,480)** | **Balance 31 March** | **(526,802)** |

**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 2017 £000 | Financial Instruments Adjustment Account | 31 March 2018 £000 |
|---|---|---|
| 494 | **Balance 1 April** | 480 |
| (14) | Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | (15) |
| (14) | 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 | (15) |
| 480 | **Balance 31 March** | 465 |

**Pension Reserve**

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The authority 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 authority 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 authority 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 2017 £000 | Pensions Reserve | 31 March 2018 £000 |
|---|---|---|
| 580,345 | Balance 1 April | 837,158 |
| 238,602 | Remeasurements of the net defined benefit (liability)/asset | (116,890) |
| 65,114 | 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 | 83,454 |
| (46,903) | Employer's pensions contributions and direct payments to pensioners payable in the year | (46,208) |
| **837,158** | **Balance 31 March** | **757,514** |

### Collection Fund Adjustment Account

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

| 31 March 2017 £000 | Collection Fund Adjustment Account | 31 March 2018 £000 |
|---|---|---|
| (3,821) | Balance 1 April | (3,438) |
| 383 | 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 | 1,444 |
| **(3,438)** | **Balance 31 March** | **(1,994)** |

### 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 2017 £000 | Accumulated Absences Account | 31 March 2018 £000 |
|---|---|---|
| 6,421 | **Balance 1 April** | 8,864 |
| (6,421) | Settlement or cancellation of accrual made at the end of the preceding year | (8,864) |
| 8,864 | Amounts accrued at the end of the current year | 9,216 |
| 2,443 | 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 | 352 |
| **8,864** | **Balance 31 March** | **9,216** |

## Note 36 - Pension Schemes Accounted for as Defined Contribution Schemes

***Teachers***

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2017/18, the Council paid £16.166m to Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. The figures for 2016/17 were £16.080m and 16.48%. Although the Scheme is a defined benefit scheme, the arrangements for the scheme mean that the liabilities for these benefits cannot be identified to the Council, therefore for the purposes of this Statement of Accounts; it is accounted for on the same basis as a defined contribution scheme.

***NHS Staff Pension Scheme***

Council staff who transferred from the NHS have maintained their membership in the NHS Pension Scheme. In 2017/18, the Council paid £0.068m to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. The figures for 2016/17 were £0.086m and 14.3%.

Nature of Funds

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

Governance

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

Funding the liabilities

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

Investment Risks

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

Other risks
There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions. The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 37. Additional and discretionary pensions paid to retired teachers by the County Council totalled £3.093m in 2017/18 and £3.193m 2016/17.

*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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Contributions Receivable** | | | | | | | | | | |
| Employers Contributions | -705 | -652 | -9 | -15 | -71 | -65 | -638 | -736 | -1,423 | -1,469 |
| Employees Contributions | -479 | -442 | -7 | -12 | -157 | -104 | -545 | -635 | -1,188 | -1,193 |
| **Total Income** | **-1,184** | **-1,094** | **-16** | **-27** | **-228** | **-169** | **-1,183** | **-1,372** | **-2,611** | **-2,662** |
| **Benefits Payable** | | | | | | | | | | |
| Pensions Paid | 4,290 | 4,400 | 27 | 27 | 73 | 71 | 0 | 0 | 4,390 | 4,499 |
| Ill Health and Injury | 1,340 | 1,293 | 7 | 7 | 3 | 2 | 0 | 8 | 1,350 | 1,309 |
| Lump Sums | 1,371 | 648 | 0 | 3 | 100 | 75 | 0 | 71 | 1,471 | 796 |
| Lump Sum Death Benefits & Widows Pensions | 471 | 506 | 0 | 0 | 2 | 2 | 20 | 6 | 493 | 514 |
| **Total Expenditure** | **7,472** | **6,847** | **34** | **37** | **178** | **150** | **20** | **85** | **7,705** | **7,118** |
| **Contribution Rates** | | | | | | | | | | |
| Employers | 21.7% | 21.7% | 19.8% | 19.8% | 21.7% | 21.7% | 14.3% | 14.3% | | |
| Employees - range depending on pensionable pay | 11% - 17.0% | 11% - 17.0% | 8.5% - 12.5% | 8.5% - 12.5% | 11% - 17.0% | 11% - 17.0% | 10.0% - 14.5% | 10.0% - 14.5% | | |

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

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

Funding the liabilities

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

Investment Risks

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

Other risks

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

## Note 37 - Defined Benefit Pension Scheme

*Participation in Pensions Schemes*

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

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

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

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

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

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

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

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

| 2016/2017 £000 | Employers Pension Contributions | 2017/2018 £000 |
|---|---|---|
| 20,091 | 14.9% (13.0% 2016/17) of pensionable pay | 23,068 |
| 10,481 | Annual element of 3 year lump sum prepayment | 9,370 |
| 4,239 | Actuarial strain costs | 2,711 |
| 2,072 | Benefits recharged | 2,021 |
| **36,883** | | **37,170** |

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

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

Funding the liabilities

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

A valuation was undertaken as at 31st March 2016 with the resultant contribution rates for employers being effective from 1st April 2017 to 31st March 2020. This has valued the shortfall of assets against liabilities for the Fund as being £210m as at 31st March 2016, equivalent to a funding level of 91%. The Council's Pensions Committee set the parameters for this valuation in September 2016 which included the reduction in deficit recovery period to 16 years. The weighted average duration of the authority's defined benefit obligation is 18 years, measured on the actuarial assumptions used for IAS19 purposes. The duration profile used to determine the assumptions is "very mature".

Risks and Investment strategy

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

Market Risk

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

Interest Rate Risk

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

Foreign exchange risk

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

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

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

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

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

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

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

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

*Transactions Relating to Post Employment Benefits*
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

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

## 37.1 Transactions Relating to Retirement Benefits

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

| 2016/17 LGPS | 2016/17 Firefighters Pension Schemes | 2016/17 Teachers Pension Schemes | 2016/17 Total | | 2017/18 LGPS | 2017/18 Firefighters Pension Schemes | 2017/18 Teachers Pension Schemes | 2017/18 Total |
|---|---|---|---|---|---|---|---|---|
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| | | | | **Comprehensive Income and Expenditure Statement** | | | | |
| | | | | **Cost of Services:** | | | | |
| | | | | Service cost comprising: | | | | |
| 34,603 | 3,216 | 0 | 37,819 | Current service cost | 52,512 | 5,446 | 0 | 57,958 |
| 1,221 | 1,499 | 0 | 2,720 | Past service cost | 2,400 | 976 | 0 | 3,376 |
| 4,923 | 0 | 0 | 4,923 | (Gain) / loss from curtailments | 1,412 | 0 | 0 | 1,412 |
| (913) | 0 | 0 | (913) | (Gain) / loss from settlements | 0 | 0 | 0 | 0 |
| | | | | Other Operating Expenditure: | | | | |
| 927 | 0 | 0 | 927 | Administration expenses | 929 | 0 | 0 | 929 |
| | | | | Financing and Investment Income and Expenditure | | | | |
| 10,978 | 7,392 | 1,268 | 19,638 | Net interest expense | 12,284 | 6,596 | 899 | 19,779 |
| **51,739** | **12,107** | **1,268** | **65,114** | **Total charged to (Surplus) and Deficit on Provision of Services** | **69,537** | **13,018** | **899** | **83,454** |
| | | | | **Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement** | | | | |
| | | | | Re-measurement of the net defined benefit liability comprising: | | | | |
| (159,771) | 0 | 0 | (159,771) | Return on plan assets (excluding the amount included in the net interest expense) | (9,866) | 0 | 0 | (9,866) |
| (48,073) | 0 | (1,164) | (49,237) | Actuarial gains and losses - experience | 0 | (3,053) | 0 | (3,053) |
| (14,883) | 0 | (270) | (15,153) | Actuarial gains and losses arising on changes in demographic assumptions | 0 | (17,353) | 0 | (17,353) |
| 411,773 | 46,951 | 4,039 | 462,763 | Actuarial gains and losses arising on changes in financial assumptions | (76,939) | (9,388) | (291) | (86,618) |
| **189,046** | **46,951** | **2,605** | **238,602** | **Total re-measurement of the net defined benefit liability** | **(86,805)** | **(29,794)** | **(291)** | **(116,890)** |
| **240,785** | **59,058** | **3,873** | **303,716** | **Total charged to the Comprehensive Income and Expenditure Statement** | **(17,268)** | **(16,776)** | **608** | **(33,436)** |

## Movement in Reserves Statement

| 2016/17 LGPS | 2016/17 Firefighters Pension Schemes | 2016/17 Teachers Pension Schemes | 2016/17 Total | | 2017/18 LGPS | 2017/18 Firefighters Pension Schemes | 2017/18 Teachers Pension Schemes | 2017/18 Total |
|---|---|---|---|---|---|---|---|---|
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| (51,739) | (12,107) | (1,268) | (65,114) | Reversal of net charges made to the (Surplus) or Deficit on the Provision of Services | (69,537) | (13,018) | (899) | (83,454) |
| | | | | Actual amount charged against the general fund balance for pensions in the year: | | | | |
| 36,883 | 6,827 | | | Employers' contributions payable to scheme | 37,170 | 5,945 | | |
| | | 3,193 | | Retirement Benefits Payable to Pensioners | | | 3,093 | |
| | | | **46,903** | **Total Employers Contributions and Retirement Benefits Payable** | | | | **46,208** |

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 2016/17 and 2017/18 arise in the Other Post Employment Benefit Charged to the Comprehensive Income & Expenditure Statement. In 2016/17 the total re-measurement recognised in Other Comprehensive Income and Expenditure in the CIES was a net charge of £238.602m and in 2017/18 it is a net gain of £116.890m. This is a change of £355.492m.

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 2016/17 results also incorporate the outcomes of the 2016 actuarial valuation, and so include the impact of experience factors over the period 2013-2016 that were not allowed for in the accounting figures (such as actual pay increases, member movements, etc.). These factors can be positive or negative and can significantly impact the deficit and projected pensions cost.

The current economic climate, financial assumptions, and in particular the effect of bond yields on the discount rate used by the Actuaries can 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.

## 37.2 Pensions Assets and Liabilities Recognised in the Balance Sheet

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

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| LGPS | Firefighters Pension Schemes | Teachers Pension Schemes | Total | | LGPS | Firefighters Pension Schemes | Teachers Pension Schemes | Total |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| 1,392,427 | 0 | 0 | 1,392,427 | Fair value of plan assets | 1,434,818 | 0 | 0 | 1,434,818 |
| (1,925,271) | (266,820) | (37,494) | (2,229,585) | Present value of the defined obligation | (1,895,019) | (244,099) | (35,009) | (2,174,127) |
| **(532,844)** | **(266,820)** | **(37,494)** | **(837,158)** | **Net (liability) / asset arising from the defined benefit obligation** | **(460,201)** | **(244,099)** | **(35,009)** | **(739,309)** |

## *37.2a Movement in the Value of Scheme Assets*

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| LGPS | Firefighters Pension Schemes | Teachers Pension Schemes | Total | | LGPS | Firefighters Pension Schemes | Teachers Pension Schemes | Total |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| 1,194,836 | 0 | 0 | 1,194,836 | Opening fair value of scheme assets | 1,392,427 | 0 | | 1,392,427 |
| 43,128 | 0 | 0 | 43,128 | Interest income | 35,359 | 0 | | 35,359 |
| | | | | Re-measurement gain / (loss): | | | | |
| 159,771 | 0 | 0 | 159,771 | - The return on plan assets, excluding the amount included in the net interest expense | 9,866 | 0 | 0 | 9,866 |
| 36,883 | 6,827 | 3,193 | 46,903 | Contributions from employer | 37,170 | 5,945 | 3,093 | 46,208 |
| 9,571 | 1,048 | 0 | 10,619 | Contributions from employees into the scheme | 9,651 | 1,191 | 0 | 10,842 |
| (50,114) | (7,875) | (3,193) | (61,182) | Benefits / transfers paid | (48,726) | (7,136) | (3,093) | (58,955) |
| (927) | 0 | 0 | (927) | Administration expenses | (929) | 0 | 0 | (929) |
| (721) | 0 | 0 | (721) | Assets Extinguished on Settlement | 0 | 0 | 0 | 0 |
| **1,392,427** | **0** | **0** | **1,392,427** | **Closing Value of Scheme Assets** | **1,434,818** | **0** | **0** | **1,434,818** |

### *37.2b Movements in the Fair Value of Scheme Liabilities*

| 2016/17 LGPS £000 | 2016/17 Firefighters Pension Schemes £000 | 2016/17 Teachers Pension Schemes £000 | 2016/17 Total £000 | | 2017/18 LGPS £000 | 2017/18 Firefighters Pension Schemes £000 | 2017/18 Teachers Pension Schemes £000 | 2017/18 Total £000 |
|---|---|---|---|---|---|---|---|---|
| (1,513,297) | (214,589) | (36,814) | (1,764,700) | Opening balance at 1 April | (1,925,271) | (266,820) | (37,494) | (2,229,585) |
| (34,603) | (3,216) | 0 | (37,819) | Current service cost | (52,512) | (5,446) | 0 | (57,958) |
| (54,106) | (7,392) | (1,268) | (62,766) | Interest cost | (47,643) | (6,596) | (899) | (55,138) |
| (9,571) | (1,048) | 0 | (10,619) | Contributions from scheme participants | (9,651) | (1,191) | 0 | (10,842) |
| | | | | Re-measurement gains and losses: | | | | |
| 48,073 | 0 | 1,164 | 49,237 | - Actuarial gains / (losses) - experience | 0 | 3,053 | 0 | 3,053 |
| 14,883 | 0 | 270 | 15,153 | - Actuarial gains / (losses) from changes in demographic assumptions | 0 | 17,353 | 0 | 17,353 |
| (411,773) | (46,951) | (4,039) | (462,763) | - Actuarial gains / (losses) from changes in financial assumptions | 76,939 | 9,388 | 291 | 86,618 |
| (1,221) | (1,499) | 0 | (2,720) | Past service cost | (2,400) | (976) | 0 | (3,376) |
| (4,923) | 0 | 0 | (4,923) | Gains / (losses) on curtailments | (1,412) | 0 | 0 | (1,412) |
| 50,114 | 7,875 | 3,193 | 61,182 | Benefits / transfers paid | 48,726 | 7,136 | 3,093 | 58,955 |
| 1,634 | 0 | 0 | 1,634 | Liabilities extinguished on settlements | 0 | 0 | 0 | 0 |
| (10,481) | 0 | 0 | (10,481) | Lump sum deficit repayment | 18,205 | 0 | 0 | 18,205 |
| **(1,925,271)** | **(266,820)** | **(37,494)** | **(2,229,585)** | **Closing Value of Scheme Liabilities** | **(1,895,019)** | **(244,099)** | **(35,009)** | **(2,174,127)** |

## *37.3 LGPS - Pension Scheme - Assets comprised of:*

**Fair value of scheme assets**

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Quoted** | **Unquoted** | **Total** | | **Quoted** | **Unquoted** | **Total** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| **43,165** | **1,392** | **44,557** | **Cash and cash equivalents** | **76,045** | **0** | **76,045** |
| | | | **Equity Instruments** | | | |
| 179,624 | 0 | 179,624 | UK Quoted | 182,223 | 0 | 182,223 |
| 279,878 | 0 | 279,878 | Global Quoted | 307,051 | 0 | 307,051 |
| 0 | 13,924 | 13,924 | UK Equity Pooled | 0 | 15,783 | 15,783 |
| 0 | 233,928 | 233,928 | Overseas Equity Pooled | 0 | 208,049 | 208,049 |
| **459,502** | **247,852** | **707,354** | **Subtotal Equity Instruments** | **489,274** | **223,832** | **713,106** |
| | | | **Bonds** | | | |
| 87,723 | 0 | 87,723 | UK Corporate Bonds | 84,654 | 0 | 84,654 |
| 4,177 | 0 | 4,177 | Overseas Corporate Bonds | 4,304 | 0 | 4,304 |
| 0 | 271,523 | 271,523 | UK Government Indexed Pool | 0 | 251,093 | 251,093 |
| **91,900** | **271,523** | **363,423** | **Subtotal Bonds** | **88,958** | **251,093** | **340,051** |
| | | | **Property** | | | |
| 97,470 | 0 | 97,470 | UK Property | 0 | 91,828 | 91,828 |
| 0 | 43,165 | 43,165 | Property Funds | 0 | 41,610 | 41,610 |
| **97,470** | **43,165** | **140,635** | **Subtotal Property** | **0** | **133,438** | **133,438** |
| | | | **Other Investment Funds** | | | |
| 0 | 6,962 | 6,962 | Private Debt Funds | 0 | 31,566 | 31,566 |
| 0 | 34,811 | 34,811 | Private Equity Funds | 0 | 34,436 | 34,436 |
| 0 | 82,153 | 82,153 | Infrastructure Funds | 0 | 91,828 | 91,828 |
| 0 | 12,532 | 12,532 | Real Estate Debt Funds | 0 | 8,609 | 8,609 |
| 0 | 0 | 0 | Healthcare Royalties | | 5,739 | 5,739 |
| **0** | **136,458** | **136,458** | **Subtotal Other Investment Funds** | **0** | **172,178** | **172,178** |
| **692,037** | **700,390** | **1,392,427** | **Total Assets** | **654,277** | **780,541** | **1,434,818** |

## *37.4 Basis for Estimating Assets and Liabilities*

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

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

The sensitivity analysis provided by the Actuary in the following tables 37.4a to 37.4c, indicates that a 0.1% decrease in the discount rate would lead to a £38.364m increase in the net pension liability. In 2017/18 the discount rate increased from 2.5% at the start of the year to 2.7% at the end of the year.

***<u>37.4a LGPS</u>***
***The significant assumptions used by the actuary have been:***

| 2016/17 | | 2017/18 |
|---|---|---|
| Mortality assumptions | | |
| Longevity at retirement for current pensioners | | |
| 23.1 | Men | 23.2 |
| 25.7 | Women | 25.8 |
| Longevity at retirement for future pensioners | | |
| 25.4 | Men | 25.5 |
| 28.4 | Women | 28.5 |
| Other assumptions | | |
| 2.3% | Rate of inflation | 2.2% |
| 3.8% | Rate of increase in salaries | 3.7% |
| 2.3% | Rate of increase in pensions | 2.3% |
| 2.5% | Rate for discounting scheme liabilities | 2.7% |

**Impact of assumptions on the LGPS obligation:**

| Increase in Assumption £000 | Assumption | Decrease in Assumption £000 |
|---|---|---|
| (37,285) | Longevity change by 1 year | 37,285 |
| (34,364) | Rate of inflation change by 0.1% | 34,364 |
| (4,465) | Rate of increase in salaries change by 0.1% | 4,465 |
| 33,757 | Rate for discounting scheme liabilities change by 0.1% | (33,757) |

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

| 2016/17 | Firefighters Pension Schemes | 2017/18 |
|---|---|---|
| Mortality assumptions | | |
| Longevity at retirement for current pensioners | | |
| 28.4 | Men | 26.3 |
| 30.9 | Women | 28.3 |
| Longevity at retirement for future pensioners | | |
| 30.8 | Men | 28.2 |
| 33.3 | Women | 30.2 |
| Other assumptions | | |
| 2.3% | Rate of inflation | 2.1% |
| 3.8% | Rate of increase in salaries | 3.6% |
| 2.3% | Rate of increase in pensions | 2.2% |
| 2.5% | Rate for discounting scheme liabilities | 2.6% |

**Impact of assumptions on the Firefighters Pension Scheme obligation:**

| Increase in Assumption £000 | Assumption | Decrease in Assumption £000 |
|---|---|---|
| (6,835) | Longevity change by 1 year | 6,835 |
| (4,409) | Rate of inflation change by 0.1% | 4,409 |
| (301) | Rate of increase in salaries change by 0.1% | 301 |
| 4,318 | Rate for discounting scheme liabilities change by 0.1% | (4,318) |

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

| 2016/17 | Teachers Pension Schemes | 2017/18 |
|---|---|---|
| Mortality assumptions | | |
| Longevity at retirement for current pensioners | | |
| 14.2 | Men | 14.3 |
| 16.3 | Women | 16.4 |
| Other assumptions | | |
| 2.3% | Rate of inflation | 2.4% |
| 2.3% | Rate of increase in pensions | 2.4% |
| 2.5% | Rate for discounting scheme liabilities | 2.7% |

**Impact of assumptions on the Teachers Pension obligation:**

| Increase in Assumption £000 | Assumption | Decrease in Assumption £000 |
|---|---|---|
| (1,434) | Longevity change by 1 year | 1,434 |
| (291) | Rate of inflation change by 0.1% | 291 |
| 289 | Rate for discounting scheme liabilities change by 0.1% | (289) |

## Impact on the Council's Cash Flows

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

The pension contributions expected to be made by the Council in the year to 31st March 2019 are:

- Local Government Pension Scheme £34.280m.
- Teachers Discretionary Benefits Scheme £3.093m.
- Firefighters Pension Scheme £5.945m.

# Note 38 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (2,844) | Interest received | (2,380) |
| 28,690 | Interest paid | 28,313 |
| **25,846** | **Total** | **25,933** |

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| (30,459) | Depreciation | (32,268) |
| (11,915) | Impairment and downward valuations | (15,609) |
| (305) | Amortisation | (267) |
| 2,118 | (Increase)/decrease in creditors | 2,118 |
| (79) | Increase/(decrease) in debtors | (8,396) |
| 144 | Increase/(decrease) in inventories | 72 |
| (28,692) | Movement in pension liability | (19,041) |
| (9,576) | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | (3,099) |
| 2,121 | Other non-cash movements charged to the (surplus) or deficit on provision of services | 858 |
| **(76,643)** | **Total** | **(75,632)** |

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

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 3,136 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 4,326 |
| 78,391 | Any other items for which the cash effects are investing or financing cash flows | 99,932 |
| **81,526** | **Total** | **104,258** |

## Note 39 - Cash Flow from Investing Activities

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 114,059 | Purchase of property, plant and equipment, investment property and intangible assets | 127,090 |
| 251,050 | Purchase of short-term and long-term investments | 58,000 |
| (3,136) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (4,326) |
| (225,914) | Proceeds from short-term and long-term investments | (135,050) |
| (76,116) | Other receipts from investing activities | (51,606) |
| **59,943** | **Net cash flows from investing activities** | **(5,891)** |

## Note 40 - Cash Flow from Financing Activities

| 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|
| 0 | Cash receipts of short-term and long-term borrowing | (50,000) |
| 0 | Other receipts from financing activities | (73) |
| 555 | Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts | 523 |
| 7,512 | Repayments of short-term and long-term borrowing | 7,511 |
| **8,067** | **Net cash flows from financing activities** | **(42,039)** |

## Note 41 - Related Parties

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

Government

The Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills). Grants received from Government departments are set out in Note 4.1 on expenditure and income analysed by nature and by segment. Grant receipts in advance at 31st March 2018 are shown in Note 17.

Members

Members of the Council have direct control over the council's financial and operating policies. The total of Members' Allowances paid in 2017/18 is shown in Note 12. Members declare any transactions that they and 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 2017/18 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.
The link to the search page is below:

http://councilportal.cumbria.gov.uk/mgMemberIndex.aspx?bcr=1

Officers

The Council is required to identify any related party transactions for key management personnel within the Council. The Code defines this as all chief officers (or equivalent), Chief Executive of the uthority 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 Corporate 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 and 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 significant works or services commissioned during the year from companies in which officers have interests.

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

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

*NW FiReControl Limited*
NW Fire Control Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. The Company has four members - Cheshire, Cumbria, Greater Manchester and Lancashire Fire & Rescue Authorities (FRAs). The liability of each member in the event of the company being wound up is limited and shall not exceed £1. Each member of the company has the right to appoint two directors, who are Councillors appointed to their respective FRAs. All directors have equal voting rights.

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW Fire Control Ltd. The cost of the service is charged out to the four FRAs on an agreed pro rata basis set out in a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. There have also been contributions to the project from the four FRAs. From 8th May 2017 Greater Manchester Fire and Rescue Service transferred into the Greater Manchester Combined Authority and the ownership of NW Fire Control Ltd therefore also transfers.

A detailed assessment for Group Accounting requirements has taken place during 2017/18 in respect of NW Fire Control Ltd. in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control as unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement. However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2017/18.

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

| Accounts Information | Year-Ended 2016/17 £000 | Year-Ended 2017/18 £000 |
|---|---|---|
| Total Assets Less Current Liabilities | 263 | 285 |
| Net Assets | (2,831) | (2,857) |
| Profits Before Taxation | (99) | (427) |
| Profits After Taxation | (105) | (432) |
| Balance owed to CCC | 0 | 0 |
| Balance owed by CCC | (86) | 0 |
| Invoices Raised By NW Fire Control to CCC | 343 | 360 |
| Invoices Raised by CCC to NW Fire Control | 0 | 0 |

The Companies Financial Statements can be obtained from Companies House with the deadline for submission as 31st December 2018 for the final audited 2017/18 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 such as Cumbria County Holdings Ltd. The results of Cumbria County Holdings Ltd and its subsidiaries, which are shown in the table below, have been consolidated within the group accounts. Copies of the accounts can be obtained from The Company Secretary, Unit 5A, Wavell Drive, Rosehill Estate, Carlisle, CA1 2ST.

| | | | 2016/17 | | 2017/18 | |
|---|---|---|---|---|---|---|
| **Company Name** | **Nature of Business** | **Shareholding %** | **Profit / (Loss) after Tax £000** | **Net Assets / (Liabilities) £000** | **Profit / (Loss) after Tax £000** | **Net Assets / (Liabilities) £000** |
| Cumbria County Holdings Ltd | Holding Co | 100% | 1,496 | 3,681 | 1,498 | 3,679 |
| Cumbria Waste Management Ltd | Waste disposal service | 100% | 1,348 | 6,706 | 1,200 | 6,860 |
| Lakeland Waste Management Ltd | Waste disposal service | 100% | 127 | 1,732 | 308 | 2,040 |
| Trotters Dry Waste Ltd | Waste disposal service | 100% | 221 | (32) | 17 | 20 |
| Cumbria Waste Recycling Service | Waste disposal service | 100% | 1,292 | 3,223 | 1,047 | 3,770 |
| Lakeland Minerals Ltd | Waste disposal service | 50% | 156 | 567 | 131 | 548 |
| ECR Recycling Ltd | Waste disposal service | 100% | 1 | 133 | 0 | 0 |
| Orian Solutions Ltd | Catering / Cleaning Services | 100% | 361 | 1,073 | 288 | 1,863 |
| SLS (Cumbria) Ltd | Cleaning | 100% | 7 | (39) | 100 | 77 |
| | | **Total** | **5,009** | **17,044** | **4,589** | **18,857** |

In 2017/18 Cumbria County Holdings Ltd paid a dividend of £1.500m to the Council (2016/17 £1.500m).

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

| | | | | 2016/17 | | 2017/18 | |
|---|---|---|---|---|---|---|---|
| **Company Name** | **Nature of Business** | | **Share holding %** | **Profit / (Loss) after Tax £000** | **Net Assets / (Liabilities) £000** | **Profit / (Loss) after Tax £000** | **Net Assets / (Liabilities) £000** |
| Traveline Cumbria Ltd (Note 1) | Travel enquiry call centre | Company limited by guarantee | 49% | 1 | 56 | 2 | 58 |

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

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

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

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

The Chief Fire Officer and Chief Executive of Cheshire Fire Authority took up the post of Chief Fire Officer in Cumbria in a joint arrangement with Cheshire Fire Authority on 5th April 2016 until 31st July 2017. The Council paid Cheshire Fire Authority a contribution of £15,000 in 2017/18 as part of this arrangement (£60,000 in 2016/17). Total net payments of £23,736 were made for services during the year and there was no balance owed to the Authority at 31$^{st}$ March 2018.

During 2017/18 the Council paid the following sums to companies in which it has an interest.

| Organisation | Commercial Transactions £000 | Creditor Outstanding £000 | Debtor Outstanding £000 |
|---|---|---|---|
| Cumbria Waste Management Ltd | 1,035 | 201 | 180 |
| Lakeland Waste Management Ltd | 27 | 11 | 0 |
| Cumbria Waste Recycling | 340 | 37 | 0 |
| Orian Solutions Ltd | 8,155 | 888 | 6 |
| SLS (Cumbria) Ltd | 137 | 21 | 0 |
| | **9,694** | **1,158** | **186** |

## Note 42 - Contingent Liabilities

**Accountable Body Status**

The Council is the Accountable Body for a number of organisations. As Accountable Body, the Council underwrites that grants have been properly applied for and expended. To the extent that this is not the position, the Council is exposed, as guarantor, to grant repayments if the conditions on which grant funding was given are not met.

**Local Government Pension Scheme**

The Council is the Administering Body for the Cumbria Local Government Pension Scheme. Employers across Cumbria are either mandated or may be permitted to offer their employees membership of this pension scheme. Where an employer applies to join the Pension Scheme, the employer is required to secure a bond or guarantee acceptable to the Pension Scheme. This bond / guarantee would be required to meet their financial obligations to the Pension Scheme in the event of them being unable to do so.

Where an employer is unable to meet their financial obligations to the Pension Scheme and this is not covered by a bond or guarantee, all other employers within the Pension Scheme (of which there are 127 at 31st March 2018) 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 34 closed landfill sites (26 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 26 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.

*Site Management*

The Council has a planned monitoring regime with the work contracted to Cumbria Waste Management Ltd until 31st March 2018. Despite this, much of the work that is carried out by the Waste Management team is still reactive, adapting to conditions on the ground. Monitoring could for example, pick up a site with a leachate outbreak. This would be extremely difficult to predict and could occur at a site which had previously had no problems. The cost of any remedy would depend on the site, the problem that had occurred and the possible solutions available to remedy the issue and could vary considerably. Therefore any future investment that may be required for the sites is unquantifiable, planned monitoring is about environmental protection on a risk assessed basis and is a revenue running cost and any unplanned maintenance is extremely difficult to predict.

The Council continues to monitor for landfill gas on those sites that are felt to be most at risk. This is an extremely complex exposure to compute with very uncertain timescales. It is also an issue that impacts on many other Local Authorities. Nevertheless, exposures may be considerable and may not be met from the Council's own reserves. Cumbria Waste Management Ltd has a provision for aftercare costs post closure of their own landfill sites, this currently stands at £10.231m (2016/17 £10.111m).

In addition, a review has found that there are another 33 closed landfill sites that the Council may be responsible for. These are sites that the Council does not own, was not previously aware of and historically have not been subject to monitoring. The Council is in the process of collating the information held on these sites with the aim of assessing the Council's liabilities.

**Municipal Mutual Insurance Ltd**

On 30th September 1992, the Council's insurers, Municipal Mutual Insurance Ltd (MMI), announced that it had ceased taking new business or issuing renewals and had placed a moratorium on claims payments.

On 6th October 1992, MMI resumed the full payment of claims and has continued to do so since that date. MMI was only able to do this following an agreement with Local Authorities that they would underwrite their respective exposures to the extent that MMI was unable to meet the claims in full. The Council elected to participate in this Scheme of Arrangements. MMI's business was then purchased by a new insurer, Zurich Municipal, who is triple 'A' rated so far as claims payment is concerned. However, this does not guarantee claims which arose up to 31st March 1993 which will be dealt with by the MMI 'rump' company.

In November 2012 the Scheme of Arrangements was triggered. The exact amount of the liability is uncertain as MMI continue to receive claims (and may continue to do so for a further 20 to 25 years). An initial 15% 'clawback' levy was notified in May 2013 resulting in an initial payment (including pre 2013/14 claims) of £0.781m in 2013/14. The 30th June 2015 accounts of MMI indicate that the situation continues to worsen. In response to this worsening position, on 16th March 2016, MMI issued notification of an increase in the Levy to 25%. In 2017/18 this equated to a provision of £0.086m (2016/17 £0.197m).

**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 2018 has been assessed as £7.921m (2016/17 £7.921m), of which the Council share is £0.792m (2016/17 £0.792m). Local businesses can only appeal against the Rateable Value on the 2010 Rating List in very limited circumstances, although they can now make an appeal against the new 2017 Rating List. It is difficult to estimate the likelihood of businesses both submitting and being successful for an appeal that is yet to be made and therefore the Council has made no provision in its accounts for future appeals.

## Note 43 Prior Period Adjustment

In previous years the Council has presented a bank overdraft separately in the Balance Sheet as part of Current Liabilities. As this overdraft is an integral part of the Council's cash management it should be netted off the cash and cash equivalents as part of Current Assets. The impact on the opening 2016/17 Balance Sheet and closing 2016/17 are shown below. There is no overall change to the Balance Sheet.

**Impact on 1st April 2016 Balance Sheet**

| | Originally Stated at 31st March 2016 £000 | Restatement £000 | Restated 31st March 2016 £000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Cash Equivalents | 116,451 | (10,739) | 105,712 |
| **Total Current Assets** | **280,893** | **(10,739)** | **270,154** |
| **Current Liabilities** | | | |
| Bank Overdraft | (10,739) | 10,739 | 0 |
| **Total Current Liabilities** | **(118,247)** | **10,739** | **(107,508)** |

**Impact on 31st March 2017 Balance Sheet**

| | Originally Stated at 31st March 2017 £000 | Restatement £000 | Restated 31st March 2017 £000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Cash Equivalents | 37,593 | (4,568) | 33,025 |
| **Total Current Assets** | **226,578** | **(4,568)** | **222,011** |
| **Current Liabilities** | | | |
| Bank Overdraft | (4,568) | 4,568 | 0 |
| **Total Current Liabilities** | **(107,304)** | **4,568** | **(102,736)** |

**Financing and Investment Income and Expenditure**

The Council also showed the pensions interest cost and expected return on pensions assets as a net cost of £19.638m within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in 2016/17. This is made up of the interest cost on the pension liability of £62.766m and the expected income from the interest on plan assets of £43.128m. In 2017/18 these are now presented gross within Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

The following table shows the impact of the restatement of the net Pension Interest Cost to the Comprehensive Income and Expenditure Statement.

**Impact on Comprehensive Income and Expenditure Statement**

| **Financing Investment Income and Expenditure** | Originally Stated at 31st March 2017 £000 | Restatement £000 | Restated 31st March 2017 £000 |
|---|---|---|---|
| Gross Expenditure | 55,819 | 43,128 | 98,947 |
| Gross Income | (7,017) | (43,128) | (50,145) |
| **Net Expenditure** | **48,802** | **0** | **48,802** |

## Note 44 - Trust Funds

The Council acts as trustee for a number of legacies by former inhabitants of Cumbria and is responsible for the administration. The funds are not owned by the Council and are used in accordance with the aims of the trusts. The 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:

**2017/18**

| Fund | Income £000 | Expenditure £000 | Assets £000 | Liabilities £000 |
|---|---|---|---|---|
| Holehird Trust | (44) | 62 | 3,715 | 0 |
| Archives Trusts | (5) | 2 | 555 | 0 |
| Education Trusts | (19) | 8 | 408 | 0 |
| Social Services Trusts | 0 | 2 | 0 | 0 |
| **Total** | **(68)** | **74** | **4,678** | **0** |

**2016/17**

| Fund | Income £000 | Expenditure £000 | Assets £000 | Liabilities £000 |
|---|---|---|---|---|
| Holehird Trust | (117) | 57 | 3,733 | 0 |
| Archives Trusts | (4) | 9 | 542 | 0 |
| Education Trusts | (16) | 3 | 315 | 0 |
| Social Services Trusts | 0 | 1 | 0 | 0 |
| **Total** | **(137)** | **70** | **4,590** | **0** |

## Note 45 – Accountable Body Funds

The Council is the Accountable Body for a number of projects; the largest are Copeland Community Fund and Growing Places Fund.

Copeland Community Fund

The Nuclear Decommissioning Agency (NDA) established the Copeland Community Fund in January 2008 to recognise the unique role Copeland plays in hosting a low level nuclear waste storage facility on behalf of the nation.

The Council acts as Treasurer for the Fund, but it is administered by a Project Board of eight members, of which two are Cumbria County Council Councillors, two Copeland Borough Council Councillors, two independent members, one member from the NDA and one from the Low Level Waste Repository (LLWR). Disbursements from the Fund are considered and approved by the Project Board, in accordance with the unilateral undertaking entered into between the NDA, the County Council and Copeland Borough Council which was updated in July 2016. The Fund is to be spent on schemes and initiatives that are consistent with the NDA's socio-economic policy including employment, education and skills and economic and social infrastructure.

The cash balance of the fund at 31st March 2018 is £10.681m. 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 1st April 2016 £000 | 2016/17 Receipts £000 | 2016/17 Payments £000 | Balance at 31st March 2017 £000 | 2017/18 Receipts £000 | 2017/18 Payments £000 | Balance at 31st March 2018 £000 |
|---|---|---|---|---|---|---|
| (11,653) | (1,674) | 1,649 | (11,678) | (1,635) | 2,632 | (10,681) |
| | | | | | | |

Growing Places Fund

The Growing Places Fund was announced by government in November 2011. Renamed locally as the Cumbria Infrastructure Fund (CIF), the total allocation for Cumbria was £6,667,772 split between Capital £6,162,467 and Revenue £505,305.

The CIF is identified to help create jobs and homes in Cumbria, through support for infrastructure projects to 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 9 'live' CIF projects in the delivery or repayment phases (1 Large Infrastructure Repayable Grants and 8 Small Business Development Loans). Income in 2017/18 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. In 2017/18 £143,877 in returned interest was used to support production of two strategic road studies.

| | Balance at 1st April 2016 £000 | 2016/17 Receipts £000 | 2016/17 Payments £000 | Balance at 31st March 2017 £000 | 2017/18 Receipts £000 | 2017/18 Payments £000 | Balance at 31st March 2018 £000 |
|---|---|---|---|---|---|---|---|
| Revenue | (445) | (37) | 4 | (478) | (5) | 144 | (339) |
| Capital | (4,998) | (549) | 259 | (5,288) | (53) | 100 | (5.241) |
| **Total** | **(5,443)** | **(586)** | **263** | **(5,766)** | **(58)** | **244** | **(5,580)** |
| | | | | | | | |

The Council is also Accountable Body for the following:

- Rural Growth Network Pilot – balance at 31st March 2018 £0.012m (31st March 2017 £0.013m).
- Local Enterprise Partnership Core and Strategic Funding – balance at 31st March 2018 £0.208m (31st March 2017 £0.142m).
- Growth Hub – balance at 31st March 2018 is nil (31st March 2017 £0.012m).
- Enterprise Advisor Network – balance as at 31st March 2018 £0.041m (31st March 2017 £0.019m).

## Note 46 - Events After the Balance Sheet Date

The Code requires the disclosure of the date the financial statements are authorised for issue and therefore, the date after which events will not have been recognised in the Statement of Accounts. This date has been set at the 27th July 2018 in respect of the audited Statement of Accounts for 2017/18.

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

# 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 2018. Cumbria County Holdings Ltd have then produced their own consolidated group accounts for 2017/18 and these have been used to produce the Cumbria County Council Group Accounts. Where balances are materially different from the Council's Accounting Statements the Group notes have been included.

The Council has restated the 2016/17 Statement of Accounts. Although this primarily is a change to the single entity accounts, consequently it does then impact on the Group Statement of Accounts. Note 43 of the Council's single entity financial statements sets out the details of the prior period adjustment.

## 7.2 Group Boundary

During 2017/18 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 2017/18 the Group accounts includes Cumbria County Holdings Ltd (CCHL) and its subsidiaries Cumbria Waste Management Ltd (CWM) and Orian Solutions Ltd.

CWM has the subsidiaries - Cumbria Waste Recycling Ltd (CWR) and Trotters Dry Waste Ltd and Lakeland Waste Management Ltd which it wholly owned and a subsidiary Lakeland Minerals Ltd, which is 50% owned and is run as a joint venture with Norman Harrison.

Orian Solutions established a wholly owned subsidiary SLS (Cumbria) Ltd (SLS). On 1st March 2016 SLS acquired the trade and assets of South Lakes Services and commenced trading. The first accounts for the 13 month period ending 31st March 2017 were included in the 2016/17 Accounts, and 2017/18 is now on a 12 month period.

The results of the companies are summarised in Note 41

The Council also has an interest in the following companies - Traveline Ltd and NW Fire Control Ltd. These are relatively small and do not materially alter the group accounting statements if they are either included or excluded. So, on the grounds of materiality they are not included in the group accounts but are still included in the related parties note to the accounts including their results for the year (Note 41).

The other entities within the group are limited companies, which are separate distinct legal entities. This restricts the Council's risk to potential financial loss to the value of the initial shareholding and the costs associated with any continuity of the services they provide to the Council.

### 7.3 Joint Ventures

During 2015/16 the wholly owned LWM acquired a 50% share of Lakeland Minerals Ltd. This is classified as a joint venture as there is a contractual agreement to share control and the joint venturers have the right to the net assets of the arrangement. The Code of Practice requires that this is incorporated into the group accounts using the equity method, adjusting the original cost of investment for any post acquisition change in its share of net assets, and including any share of profit or loss into the Group Comprehensive Income and Expenditure Statement.

### 7.4 Statement of Accounting Policies

The majority of the accounting policies adopted to produce the group accounts complement those used to prepare the Council's own accounts. However, additional policies and departures have occurred in order to meet IFRS requirements for the preparation of Group Accounts. These policies are:

i.Non Current Assets

Profits and losses on disposal are treated as a charge to the cost of services. Significant profits and losses on disposal are shown as exceptional items. Other subsidiaries do not hold interests in land & buildings. Their non current assets are held at cost with depreciation charged over their estimated useful lives.

The Cumbria Waste Management group completes a revaluation to reflect the cost and associated liabilities of managing 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 2017/18 is £10.231m (2016/17 £10.111m). The Council has treated this exposure as a contingent liability (Section 6, note 42).

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

# Comprehensive Income and Expenditure Statement

| 2016/17 Restated | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Expenditure** | **Income** | **Net** | | **Expenditure** | **Income** | **Net** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| 364,175 | (282,037) | 82,138 | Children & Families Services | 376,602 | (292,961) | 83,641 |
| 193,615 | (62,760) | 130,855 | Health, Care and Community Services | 199,807 | (73,266) | 126,541 |
| 140,104 | (28,587) | 111,517 | Economy & Highways Services | 137,891 | (25,271) | 112,620 |
| 13,902 | (459) | 13,443 | Fire & Rescue Service | 16,335 | (600) | 15,735 |
| 8,786 | (311) | 8,475 | Local Committees | 8,290 | (200) | 8,090 |
| 33,790 | (6,868) | 26,922 | Resources & Transformation | 36,790 | (7,197) | 29,593 |
| 20,584 | (1,563) | 19,021 | Other Corporate Items | 20,119 | (484) | 19,635 |
| 8,364 | (1,634) | 6,730 | Non Distributed Costs | 4,788 | 0 | 4,788 |
| 37,993 | (31,019) | 6,974 | Cumbria County Holdings Group | 37,618 | (31,433) | 6,185 |
| **821,313** | **(415,238)** | **406,075** | **Cost of Services** | **838,240** | **(431,412)** | **406,828** |
| 2,909 | 0 | 2,909 | Other Operating Expenditure | 2,489 | (2,010) | 480 |
| 99,196 | (48,724) | 50,472 | Financing and Investment Income and Expenditure | 84,800 | (36,982) | 47,818 |
| 0 | (460,673) | (460,673) | Taxation and Non Specific Grant Income | 0 | (475,981) | (475,981) |
| **923,418** | **(924,635)** | **(1,217)** | **(Surplus) or Deficit on Provision of Services** | **925,529** | **(946,385)** | **(20,856)** |
| 0 | (37) | (37) | Associates and Joint Ventures (Equity Basis) | 0 | (33) | (33) |
| 515 | 0 | 515 | Tax Expenses of Subsidiaries | 902 | 0 | 902 |
| **923,933** | **(924,672)** | **(739)** | **Group (Surplus) or Deficit** | **926,431** | **(946,418)** | **(19,987)** |
| | | (8,842) | (Surplus) or deficit on revaluation of Property, Plant and Equipment | | | (9,626) |
| | | (14) | (Surplus)/Deficit on Revaluation of Available for Sale Financial assets | | | 0 |
| | | 239,474 | Remeasurement of the net defined benefit liability / (asset) | | | (118,060) |
| | | **230,618** | **Other Comprehensive Income and Expenditure** | | | **(127,686)** |
| | | **229,879** | **Total Comprehensive Income and Expenditure** | | | **(147,673)** |

# Movement in Reserves Statement

| | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Authority Share of Subsidiary Joint Venture and Associate Reserves £000 | Total Reserves £000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2017** | **(86,069)** | 273,266 | **187,197** | (9,273) | **177,924** |
| **Movement in reserves during 2017/18** | | | | | |
| **Total Comprehensive Income and Expenditure** | **(27,281)** | **(126,516)** | **(153,797)** | **6,124** | **(147,673)** |
| Adjustments between Group Accounts and Authority Accounts | **8,077** | 0 | **8,077** | (8,077) | **0** |
| Adjustments between accounting basis and funding basis under regulations | **16,818** | (16,818) | **0** | | **0** |
| **(Increase) or Decrease in 2017/18** | **(2,386)** | **(143,335)** | **(145,720)** | **(1,953)** | **(147,673)** |
| **Balance at 31 March 2018** | **(88,455)** | **129,932** | **41,477** | **(11,226)** | **30,251** |

| | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Authority Share of Subsidiary Joint Venture and Associate Reserves £000 | Total Reserves £000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **(113,668)** | 71,325 | **(42,343)** | (9,612) | **(51,955)** |
| **Movement in reserves during 2016/17** | | | | | |
| **Total Comprehensive Income and Expenditure** | **(8,361)** | **229,746** | **221,385** | **8,494** | **229,879** |
| Adjustments between Group Accounts and Authority Accounts | **8,155** | 0 | **8,155** | (8,155) | **0** |
| Adjustments between accounting basis and funding basis under regulations | **27,805** | (27,805) | **0** | | **0** |
| **(Increase) or Decrease in 2016/17** | **27,599** | **201,941** | **229,540** | **339** | **229,879** |
| **Balance at 31 March 2017** | **(86,069)** | **273,266** | **187,197** | **(9,273)** | **177,924** |

# Balance Sheet

| Note Ref | Restated 31 March 2017 £000 | | 31 March 2018 £000 |
|---|---|---|---|
| G1 | 1,073,851 | Property, Plant and Equipment | 1,158,058 |
| | 563 | Heritage Assets | 563 |
| | 4,655 | Investment Property | 4,905 |
| | 372 | Intangible Assets | 282 |
| | 548 | Assets Held for Sale | 0 |
| | 781 | Investments in Joint Ventures | 712 |
| | 4,731 | Long Term Debtors | 4,426 |
| | **1,085,501** | **Long Term Assets** | **1,168,946** |
| | 129,447 | Short-term Investments | 53,157 |
| | 1,623 | Assets Held for Sale | 654 |
| | 1,271 | Inventories | 1,319 |
| G3 | 69,307 | Short Term Debtors | 61,227 |
| G2 | 42,989 | Cash and Cash Equivalents | 81,593 |
| | **244,637** | **Current Assets** | **197,949** |
| | (11,822) | Short-Term Borrowing | (11,747) |
| G4 | (86,287) | Short-Term Creditors | (78,307) |
| G5 | (5,355) | Provisions | (5,059) |
| | (8,214) | Grants Receipts in Advance - Revenue | (11,279) |
| | **(111,678)** | **Current Liabilities** | **(106,392)** |
| | (5,478) | Long-Term Creditors | (5,181) |
| G5 | (17,435) | Provisions | (17,186) |
| | (287,835) | Long Term Borrowing | (330,309) |
| | (957,706) | Other Long-Term Liabilities | (858,377) |
| | (127,930) | Grants Receipts in Advance - Capital | (79,701) |
| | **(1,396,384)** | **Long Term Liabilities** | **(1,290,754)** |
| | **(177,924)** | **Net Asset / (Liabilities)** | **(30,251)** |
| | (95,342) | Usable Reserves | (99,681) |
| | 273,266 | Unusable Reserves | 129,932 |
| G6 | **177,924** | **Total Reserves** | **30,251** |

# Cash Flow Statement

| 2016/17 £000 | | 2017/18 £000 |
|---|---|---|
| (739) | Net (surplus) or deficit on the provision of services | (19,987) |
| (83,233) | Adjustment to surplus or deficit on the provision of services for noncash movements | (77,840) |
| 81,526 | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 104,258 |
| **(2,446)** | **Net cash flows from operating activities** | **6,431** |
| 66,013 | Net cash flows from investing activities | (2,996) |
| 8,067 | Net cash flows from financing activities | (42,039) |
| **71,634** | **Net (increase) or decrease in cash and cash equivalents** | **(38,604)** |
| 114,623 | Cash and cash equivalents at the beginning of the reporting period | 42,989 |
| **42,989** | **Cash and cash equivalents at the end of the reporting period** | **81,593** |

# NOTES TO THE GROUP ACCOUNTING STATEMENTS

## G1 - Property, Plant and Equipment

**Movements to 31 March 2018**

| | Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | | | | |
| **at 1 April 2017** | 523,674 | 92,196 | 649,284 | 53 | 15,455 | 4,480 | **1,285,143** |
| Additions | 16,997 | 7,303 | 76,560 | 0 | 2,189 | 23,905 | **126,955** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 6,001 | 35 | 0 | 0 | 617 | 0 | **6,652** |
| Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services | (5,221) | 0 | 0 | 0 | (13,061) | 0 | **(18,283)** |
| Derecognition – disposals | (11) | (1,889) | 0 | 0 | (1,147) | 0 | **(3,046)** |
| Derecognition – other | (1,131) | (13) | 0 | 0 | (139) | 0 | **(1,283)** |
| Reclassifications and transfer | (15,572) | 1,453 | 0 | 0 | 15,778 | (1,728) | **(70)** |
| Assets reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | 121 | 0 | **121** |
| **at 31 March 2018** | **524,737** | **99,086** | **725,844** | **53** | **19,813** | **26,657** | **1,396,189** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| **at 1 April 2017** | (33,728) | (53,333) | (124,207) | 0 | (23) | 0 | **(211,292)** |
| Depreciation charge | (12,075) | (5,998) | (16,264) | 0 | (195) | 0 | **(34,531)** |
| Depreciation written out to the Revaluation Reserve | 2,648 | 0 | 0 | 0 | 326 | 0 | **2,974** |
| Depreciation written out to the (Surplus)/Deficit on the Provision of Services | 3,069 | 0 | 0 | 0 | 84 | 0 | **3,152** |
| Impairment losses/(reversals) recognised in the (Surplus)/Deficit on the Provision of Services | 0 | (126) | 0 | 0 | 254 | 0 | **128** |
| Derecognition – disposals | 0 | 1,395 | 0 | 0 | 5 | 0 | **1,400** |
| Derecognition – other | 37 | 0 | 0 | 0 | 0 | 0 | **38** |
| Reclassifications and transfers | 663 | 0 | 0 | 0 | (663) | 0 | **0** |
| **at 31 March 2018** | **(39,387)** | **(58,062)** | **(140,471)** | **0** | **(211)** | **0** | **(238,131)** |
| **Net Book Value** | | | | | | | |
| **at 31 March 2018** | **485,350** | **41,024** | **585,373** | **53** | **19,601** | **26,657** | **1,158,058** |
| **at 31 March 2017** | **489,946** | **38,863** | **525,077** | **53** | **15,432** | **4,480** | **1,073,851** |

## Movements to 31 March 2017

| | 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 2016** | 497,776 | 81,370 | 589,612 | 54 | 14,564 | 15,881 | **1,199,257** |
| Additions | 20,143 | 13,575 | 71,042 | 0 | 870 | 9,916 | **115,547** |
| Donations | 0 | 30 | 0 | 0 | 0 | 0 | **30** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 2,559 | (1,076) | 0 | 0 | 387 | 0 | **1,870** |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (13,837) | (1,128) | 0 | 0 | (3,976) | 0 | **(18,942)** |
| Derecognition – disposals | (2,047) | (787) | 0 | 0 | (625) | 0 | **(3,459)** |
| Derecognition – other | (6,769) | (188) | 0 | 0 | (640) | 0 | **(7,597)** |
| Reclassifications and transfer | 25,849 | 401 | (11,370) | (1) | 6,193 | (21,317) | **(245)** |
| Assets reclassified (to)/from Held for Sale | 0 | 0 | 0 | 0 | (1,318) | 0 | **(1,318)** |
| **at 31 March 2017** | **523,674** | **92,196** | **649,284** | **53** | **15,455** | **4,480** | **1,285,143** |
| **Accumulated Depreciation and Impairment** | | | | | | | |
| **at 1 April 2016** | (33,063) | (50,066) | (111,511) | 0 | 0 | 0 | **(194,641)** |
| Depreciation charge | (12,011) | (5,633) | (14,503) | 0 | (151) | 0 | **(32,297)** |
| Depreciation written out to the Revaluation Reserve | 5,631 | 735 | 0 | 0 | 503 | 0 | **6,869** |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 6,076 | 833 | 0 | 0 | 118 | 0 | **7,027** |
| Derecognition – disposals | 606 | 707 | 0 | 0 | 0 | 0 | **1,313** |
| Derecognition – other | 271 | 155 | 0 | 0 | 4 | 0 | **430** |
| Reclassifications and transfers | (1,238) | (64) | 1,806 | 0 | (502) | 0 | **3** |
| Eliminated on reclassification to Held for Sale | 0 | 0 | 0 | 0 | 4 | 0 | **4** |
| **at 31 March 2017** | **(33,728)** | **(53,333)** | **(124,207)** | **0** | **(23)** | **0** | **(211,292)** |
| **Net Book Value** | | | | | | | |
| **at 31 March 2017** | **489,946** | **38,863** | **525,077** | **53** | **15,432** | **4,480** | **1,073,851** |
| **at 31 March 2016** | **464,713** | **31,304** | **478,101** | **54** | **14,564** | **15,881** | **1,004,616** |

## G2 - Cash and Cash Equivalents

| 31 March 2017 Council £000 | 31 March 2017 Group £000 | | 31 March 2018 Council £000 | 31 March 2018 Group £000 |
|---|---|---|---|---|
| 4,344 | 14,308 | Cash and Bank balances | 4,034 | 14,094 |
| 28,681 | 28,681 | Short Term Deposits | 67,499 | 67,499 |
| **33,025** | **42,989** | **Total Cash and Cash Equivalents** | **71,533** | **81,593** |

## G3 - Debtors

An analysis of sums due to the Council as at 31st March 2018 is as follows:

| 31 March 2017 Council £000 | 31 March 2017 Group £000 | | 31 March 2018 Council £000 | 31 March 2018 Group £000 |
|---|---|---|---|---|
| 15,090 | 15,216 | Central Government Bodies | 9,347 | 9,668 |
| 6,279 | 6,431 | Other Local Authorities | 5,723 | 6,037 |
| 2,005 | 2,019 | NHS Bodies | 5,433 | 5,469 |
| 516 | 516 | Public Corporations and Trading Funds | 0 | 0 |
| 36,842 | 45,126 | Other Entities and Individuals | 32,319 | 40,053 |
| **60,732** | **69,307** | **Total Debtors** | **52,822** | **61,227** |

## G4 - Creditors

An analysis of amounts owed by the Council at 31st March 2018 is:

| 31 March 2017 Council £000 | 31 March 2017 Group £000 | | 31 March 2018 Council £000 | 31 March 2018 Group £000 |
|---|---|---|---|---|
| (8,687) | (12,452) | Central Government Bodies | (8,801) | (12,540) |
| (3,644) | (4,361) | Other Local Authorities | (3,758) | (4,264) |
| (1,258) | (1,258) | NHS Bodies | (554) | (554) |
| (49) | (49) | Public Corporations and Trading Funds | (2,908) | (2,908) |
| (63,721) | (68,167) | Other Entities and Individuals | (54,650) | (58,042) |
| **(77,359)** | **(86,287)** | **Total Creditors** | **(70,670)** | **(78,307)** |

# G5 - Provisions

## Current Provisions

| 2017/18 | Insurance - Motor and Fire | MMI Provision | Equal Pay | Voluntary Redundancies | Other Provisions | Deferred Taxation | Restoration and Aftercare of Landfill Sites | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Opening Balance | (218) | (197) | (165) | (1,353) | (3,408) | (14) | 0 | (5,355) |
| Increase in provision during year | (20) | 0 | (155) | (22) | (3,050) | 0 | (14) | (3,261) |
| Utilised during year | 0 | 111 | 165 | 1,277 | 1,990 | 14 | 0 | 3,556 |
| **Closing Balance** | **(238)** | **(86)** | **(155)** | **(99)** | **(4,468)** | **0** | **(14)** | **(5,059)** |

| 2016/17 | 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 | (154) | (625) | (156) | (321) | (3,380) | (24) | 0 | (4,660) |
| Increase in provision during year | (64) | 0 | (9) | (1,353) | (207) | 0 | 0 | (1,633) |
| Utilised during year | 0 | 428 | 0 | 321 | 179 | 10 | 0 | 938 |
| **Closing Balance** | **(218)** | **(197)** | **(165)** | **(1,353)** | **(3,408)** | **(14)** | **0** | **(5,355)** |

## Long Term Provisions

| **2017/18** | **Insurance - employers and public liability** | **Business Rates Appeals** | **Restoration and aftercare of landfill sites** | **Total** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Opening Balance | (6,532) | (792) | (10,111) | (17,435) |
| Increase in provision during year | 0 | (792) | 0 | (792) |
| Utilised during year | 369 | 792 | 65 | 1,226 |
| Unwinding of discounting | 0 | 0 | (199) | (199) |
| Other movements | 0 | 0 | 14 | 14 |
| **Closing Balance** | **(6,163)** | **(792)** | **(10,231)** | **(17,186)** |

| **2016/17** | **Insurance - employers and public liability** | **Business Rates Appeals** | **Restoration and aftercare of landfill sites** | **Total** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Opening Balance | (7,051) | (957) | (8,067) | (16,075) |
| Increase in provision during year | 0 | (792) | (1,963) | (2,755) |
| Utilised during year | 519 | 957 | (81) | 1,395 |
| **Closing Balance** | **(6,532)** | **(792)** | **(10,111)** | **(17,435)** |

## Total Provisions

| **2016/17** | | **2017/18** |
|---|---|---|
| **£000** | | **£000** |
| (20,735) | Opening Balance | (22,790) |
| (4,388) | Increase in provision during year | (4,053) |
| 2,333 | Utilised during year | 4,783 |
| 0 | Unwinding of discounting | (199) |
| 0 | Other movements | 14 |
| **(22,790)** | **Closing Balance** | **(22,245)** |

## G6 - Group Summary of Reserves

| | Cumbria County Council | Cumbria County Holdings Group | Inter Group Transactions | TOTAL |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Usable Reserves** | | | | |
| Usable Capital Receipts Reserve | (12,526) | 0 | 0 | (12,526) |
| Revenue - Earmarked | (65,457) | 0 | 0 | (65,457) |
| Revenue - General | (10,472) | (11,226) | 0 | (21,698) |
| | **(88,455)** | **(11,226)** | **0** | **(99,681)** |
| **Unusable Reserves** | | | | |
| Share Capital | 0 | 3,183 | (3,183) | 0 |
| Revaluation Reserve | (108,468) | 0 | 0 | (108,468) |
| Capital Adjustment Account | (526,802) | 0 | 0 | (526,802) |
| Financial Instruments Adjustment Account | 465 | 0 | 0 | 465 |
| Pensions | 757,514 | 0 | 0 | 757,514 |
| Collection Fund Adjustment Account | (1,994) | 0 | 0 | (1,994) |
| Accumulated Absences Account | 9,216 | 0 | 0 | 9,216 |
| | **129,932** | **3,183** | **(3,183)** | **129,932** |
| **TOTAL FUNDS** | **41,477** | **(8,043)** | **(3,183)** | **30,251** |

# The Fire Fighters Pension Scheme Accounts 2017/18

| 2016/17 £000 | 2016/17 £000 | | | | 2017/18 £000 | 2017/18 £000 |
|---|---|---|---|---|---|---|
| | | **FUND ACCOUNT** | | | | |
| | | **Contributions Receivable** | | | | |
| | | | From Employer | | | |
| (1,423) | | | | Normal | (1,469) | |
| | | | | Early Retirements | | |
| | | | | Additional | | |
| (1,188) | | | From Members | | (1,193) | |
| | (2,611) | | | | | (2,661) |
| | | **Transfers In** | | | | |
| 0 | | | Individual transfers from other Schemes | | (9) | |
| (487) | | | Other | | 0 | |
| | (487) | | | | | (9) |
| | (3,098) | **Total income** | | | | (2,671) |
| | | **Benefits Payable** | | | | |
| 4,390 | | | Pensions | | 4,499 | |
| 1,350 | | | Ill Health and Injury | | 1,309 | |
| 1,471 | | | Lump Sums | | 796 | |
| 493 | | | Lump Sum Death Benefits & Widows Pension | | 514 | |
| | 7,705 | | | | | 7,118 |
| | | **Payments to and on account of leavers** | | | | |
| 0 | | | Refund of Contributions | | 0 | |
| 0 | | | Individual transfers out of the Schemes | | 0 | |
| 0 | | | Other | | 0 | |
| | 0 | | | | | 0 |
| | **7,705** | **Total Expenditure** | | | | **7,118** |
| | **4,607** | **Net amount receivable/payable before top-up from Government** | | | | **4,447** |
| | **4,607** | **Top-up receivable/(payable) from Government** | | | | **4,447** |
| | **0** | **Net amount receivable/(payable) for the year** | | | | **0** |
| | | **92 Scheme Contributions holiday** | | | | |
| 138 | | | Redress Payments | | 0 | |
| (136) | | | Contributions Holiday funding | | 0 | |
| | **2** | **Net amount receivable/(payable) for the year** | | | | **0** |
| | | **NET ASSETS STATEMENT** | | | | |
| | | **Current Assets** | | | | |
| | | | Contributions due from Employer | | | |
| (1) | | | Contributions due from Employee | | 1 | |
| 642 | | | Pension top-up receivable from Government | | 821 | |
| 0 | | | Injury Payment receivable from CCC | | 0 | |
| 427 | | | Prepaid Pensions | | 440 | |
| | 1,069 | | | | | 1,262 |
| | | **Current Liabilities** | | | | |
| (1,069) | | | Other current assets and liabilities | | (1,262) | |
| | (1,069) | | | | | (1,262) |
| | **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 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 31$^{st}$ March 2018 was £244.099m (31$^{st}$ March 2017 £266.820m) Further details can be found in notes 36 and 37 to the Council's Statement of Accounts.

## 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 1 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 31 March.

ACTUARIAL GAINS AND LOSSES
For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because:
· Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
· The actuarial assumptions have changed

ASSET
An item having value to the authority in monetary terms. Assets are categorised as either current or non-current
· A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
· A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

BALANCE SHEET
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING
Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

BUDGET
The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL EXPENDITURE
Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING
Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME
The capital schemes the Authority intends to carry out over a specific period of time.

CAPITAL RECEIPT
The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

CIPFA
The Chartered Institute of Public Finance and Accountancy

COMMUNITY ASSETS
Assets that the Authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (CIES)
The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

CONSISTENCY
The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONTINGENT ASSET
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

CONTINGENT LIABILITY
A contingent liability is either:
· A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
· A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

CREDITOR
Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)
The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR
Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION SCHEME
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION
The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)
Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

EVENTS AFTER THE BALANCE SHEET DATE
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXPECTED RETURN ON PENSION ASSETS
For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

FAIR VALUE
The fair value of an asset is the price at which it could be exchanged in an arm’s length transaction.

FINANCE LEASE
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GOING CONCERN
The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS
Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

IMPAIRMENT
A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

INFRASTRUCTURE ASSETS
Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INTANGIBLE ASSETS
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority’s intangible assets comprise computer software licences.

INTEREST COST (PENSIONS)
For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVENTORIES
Items of raw materials and stores an authority has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

INVESTMENTS (PENSION FUND)
The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY
A liability is where the Authority owes payment to an individual or another organisation.
· A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
· A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

LIQUID RESOURCES
Current asset investments that are readily disposable by the Authority without disrupting its business and are either:
· Readily convertible to known amounts of cash at or close to the carrying amount; or
· Traded in an active market.

LONG-TERM CONTRACT
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

MATERIALITY
The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Authority.

NET BOOK VALUE (NBV)
The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT
The Authority's borrowings less cash and liquid resources.

NON-DISTRIBUTED COSTS
These are overheads for which no user now benefits and as such are not apportioned to services.

NON-DOMESTIC RATES (NDR)
The Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by central government and multiplied by the assessed rateable value of the premises they occupy. In England it is collected by the Authority on behalf of itself, central government and major preceptors. In Scotland it is collected by the Authority on behalf of central government and then redistributed back to support the cost of services.

NON-OPERATIONAL ASSETS
Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

OPERATING LEASE
A lease where the ownership of the fixed asset remains with the lessor.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST (PENSIONS)
For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

PENSION SCHEME LIABILITIES
The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

PRECEPT
The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT
Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PUBLIC WORKS LOAN BOARD (PWLB)
A Central Government Agency, which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government can borrow itself.

RELATED PARTIES
There is a detailed definition of related parties in FRS 8. For the Council's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS
The Code of Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

REMUNERATION
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES
The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves cannot be used to meet current expenditure.

RESIDUAL VALUE
The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE
The day-to-day expenses of providing services.

REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)
Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

TRUST FUNDS
Funds administered by the Authority for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)
The period over which the Authority will derive benefits from the use of a fixed asset.

## Cumbria Local Government Pension Scheme

# 10 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

## 10.1 THE FINANCIAL STATEMENTS

### PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2018

| | | 2016/17 | | 2017/18 | |
|---|---|---|---|---|---|
| | Notes | £000's | £000's | £000's | £000's |
| **Dealings with members, employers and others directly involved in the fund** | | | | | |
| Contributions | 3 | | 65,764 | | 110,986 |
| Transfers in from other pension funds | 4 | | 3,385 | | 5,668 |
| | | | **69,149** | | **116,654** |
| Benefits | 5 | | (81,548) | | (80,228) |
| Payments to and on account of leavers / employer exit | 6 | | (3,957) | | (4,795) |
| **Net additions / (deductions) from members** | | | **(16,356)** | | **31,631** |
| Management expenses | 7 & 8 | | (10,199) | | (11,393) |
| **Net additions / (deductions) including fund management expenses** | | | **(26,555)** | | **20,238** |
| **Returns on investments** | | | | | |
| Investment Income | | 50,196 | | 57,481 | |
| Taxes on Income | | (192) | | (239) | |
| Net investment income | 9 | 50,004 | | 57,242 | |
| Profit / (losses) on disposal of investments and changes in the market value of investments | 10(d) | 353,068 | | 62,651 | |
| Net return on investments | | | **403,072** | | **119,893** |
| **Net increase in the net assets available for benefits during the year** | | | **376,517** | | **140,131** |
| **Net assets at the start of the year** | | | **2,046,809** | | **2,423,326** |
| **Net assets at the end of the year** | | | **2,423,326** | | **2,563,457** |

## NET ASSETS STATEMENT AS AT 31st MARCH 2018

| | Notes | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|---|
| Investment assets | 10 | 2,422,518 | 2,547,532 |
| Investment liabilities | 10 | (5,783) | (4,547) |
| Total net investment assets | | **2,416,735** | **2,542,985** |
| Long term assets | 12a | 986 | 657 |
| Current assets | 12b | 8,231 | 22,287 |
| Long term liabilities | 13a | (167) | (87) |
| Current liabilities | 13b | (2,459) | (2,385) |
| **Net assets of the Fund available to fund benefits at the period end** | | **2,423,326** | **2,563,457** |

# 10.2 NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 (a): DESCRIPTION OF THE FUND AND BASIS OF PREPARATION

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

The Purpose of the Fund is to:

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

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

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

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;

- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes; and

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

Membership to the Cumbria LGPS is open to:-

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

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

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

As at 31st March 2018 the total membership of the Fund was 57,266 (2016/17: 55,998) and consisted of 17,034 contributors/actives (2016/17: 16,832), 24,436 deferred members (2016/17: 23,793) and 15,796 pensioners (2016/17: 15,373).

At 31st March 2018 there were 127 (2016/17: 132) employer bodies in the Cumbria LGPS (for the full list see Note 25). The reduction in the number of employers relates to 4 employers who had requested to exit the scheme in 2016/17 but were pending receipt of their exit calculation as at 31st March 2017. Whilst there has been a slight decrease in the number of employers in the Scheme during 2017/18, it is expected that the continued growth in academies and outsourcing of local government services to other providers will see an increase in the number of employers within the Scheme in future years.

Basis of Preparation:

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

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2017/18 and the position at the year-end date, 31st March 2018. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

In accordance with the CIPFA Code guidance there are no substantive changes affecting LGPS accounts. CIPFA introduced minor changes to the 2017/18 Code including a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure. These two changes were already incorporated into the CIPFA example accounts for 2016/17 where the proposed detail was at a level that the Cumbria LGPS accounts already met or exceeded. Therefore no additional notes or disclosures have been added to the accounts for 2017/18.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2016/17 comparatives.

## NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2017/18

For the twelve month period to March 2018, all markets in which the Fund holds investments showed positive returns, whilst there was a partial reversal of currency gains made during 2016-17.

The UK general election in June had relatively little impact on financial markets, however, sterling suffered a sharp devaluation against most other currencies. Approximately half of this fall was recovered by the end of the financial year.

The **Global Equities** markets have shown a small rise overall in 2017/18 of 2.4%, although there were variations by region. Japan showed the strongest performance at 7.5% with the UK, North America and Europe growing by 1.2%, 1.3% and 3.9% respectively. UK equities hit a new peak when the FTSE100 was near 7,800 in January 2018 followed by a sharp selloff during Spring, replicating similar developments in the US markets. Higher levels of equity market volatility were seen in the last quarter, as an escalation in trade tensions between the United States and China resulted in the first negative quarter for global equities for over two years.

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

**NOTE 1 (c): FUND PERFORMANCE 2017/18**

During the year to 31st March 2018 the Cumbria LGPS value increased by £140.131m from £2,423.326m (31/03/17) to £2,563.457m (31/03/18). The Fund returned 4.2% (net of fees) for the year which was in line with the Fund's bespoke index performance benchmark for the year. Whilst the Fund experienced some clawback in 2017/18 of the gains made in 2016/17 as a sterling investor abroad, this was offset by positive performance attributable to the property, global and UK equity managers and the alternative portfolio.

The Fund performed well over the medium to longer term with the three-year return of 8.2% (net of fees) outperforming the bespoke hedged benchmark of 6.9% (per year) by 1.3%. The five year Fund return was 9.4% (net of fees), 1.4% above the benchmark of 8.0% (per year). The ten year Fund return was 7.8% (net of fees), 0.5% above the benchmark of 7.3% (per year).

The Fund underwent a Strategic Investment Review in 2017/18, the results of which were received by the Pensions Committee in September 2017. The main conclusion of this review was that "the Fund's investment strategy is in good shape with no material changes required". Further to this, some recommendations were made, and agreed to be taken forward by the Committee:

- Continue to fill the infrastructure and opportunistic allocations.
- Increasing the speed of building up the defensive portfolio.
- Consider options for banking some of the recent funding level improvements.

On this last recommendation, the Investment Sub Group with Advisers and officers have undertaken significant work in 2017/18, with the result that an 'equity protection' overlay was in place from early April 2018. This provides the Fund with protection from falls of more than 5% in the value of its protected equity from 4th April 2018 when the protection was placed until 31st March 2020 – the date at which the 2019 Actuarial Valuation is required to be completed. This protection aims to mitigate the risk of significant increases in employer contributions being required for three year period from April 2020 to March 2023.

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

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

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets. This was achieved as the chosen funds make drawdowns of commitments from investors to deploy into underlying investments;

- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with capital deployed to Barings Global Private Loan Funds, and to Partners Group Multi-Asset Credit 2016 Fund of £25.0m; and

- The liquidation of the BlackRock alternatives portfolio has continued with the Fund's assets held by BlackRock reducing (from £31.8m at 31/03/17 to £21.7m at 31/03/18) as funds are released for new investment into infrastructure and opportunistic products.

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

All aspects of the 2017/18 Business Plan have either been achieved or are on track for completion and these have been delivered within the approved budget. Further to the continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned for 2017/18 were:-

- **Support and influence the development of Border to Coast Pensions Partnership (BCPP) Ltd and for transition of assets from Cumbria LGPS to the company.**

  Development of the BCPP Ltd has continued at pace throughout 2017/18. Twelve partner LGPS funds, including Cumbria, have created BCPP Ltd and have resolved to use the company as their chosen route to meet their regulatory requirement to pool investment assets. The Chair, Executive and Non-Executive Directors of BCPP Ltd were appointed late in 2017. An application for registration with the FCA was submitted in February 2018.

  The Fund has been active in the influencing the composition of sub-funds that BCPP Ltd will provide to ensure that the company can offer investment opportunities relevant to the Fund's investment strategy.

  A transition manager has been appointed using the National LGPS Framework to assist the company and Partner Funds in transitioning assets to BCPP Ltd.

  It is expected that the company will be ready to commence transitioning assets from Partner Funds in July 2018 with investment opportunities relevant to Cumbria expected to be available from Q3 of 2018/19.

The Council, as a shareholder of BCPP Ltd, is represented at shareholder meetings. The Fund is represented through the BCPP Joint Committee, Officer Operation Group, Statutory Officer Group and other working groups.

An update on the developments of BCPP Ltd is presented to each Pension Committee.

- **Undertake a review of the Investment Strategy.**

  Following a competitive procurement exercise Mercer Ltd was appointed to review the Fund's Investment Strategy. This was completed over the summer of 2017 and the results were received by Pensions Committee in September 2017.

  It was concluded that the Investment Strategy is fit for purpose but also recommended potential solutions to further diversify the Fund's assets and minimise risk. The Pensions Committee accepted these recommendations and work has been ongoing throughout the second half of 2017/18 to consider their implementation.

- **Gross Minimum Pension Reconciliation**.

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

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

Looking forward to 2018/19, the proposed key deliverables in 2018/19 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

**Administration:**

- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.

- Continue to monitor and improve employer communication and employer data submission issues. The Pensions Regulator Code of Practice sets out the importance of complete and accurate records and states that Administering Authorities must ensure that member data across all membership categories is complete and accurate.

- Continue communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator to ensure that the Fund receives the information required in a timely manner.

- Continuation of the Scheme reconciliation, GMP (Guaranteed Minimum Pension), to comply with guidance issued by the Pensions Regulator, HMRC, or the Local Government Association (LGA), and avoid erroneous liabilities being assigned to the Cumbria Fund.

- Review data quality held by the Fund in preparation for the 2019 Actuarial Valuation.

**Investment Management**:

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

- Preparation for transition of assets from Cumbria LGPS to BCPP Ltd. It is expected that BCPP Ltd will be able to offer investment opportunities relevant to Cumbria's investment objectives by Q3 of 2018/19.

- Actively review the cash flow position (at a contribution level) of the Fund to ensure that sufficient cash is available to meet pension liabilities as they fall due.

- Implementation of Equity Protection solutions within the Fund to mitigate the risk of significant increases in employer contributions following the 2019 triennial valuation.

**Oversight & Governance:**

- Review and update the Fund's risks, policies and strategies to ensure that Scheme policy documents including the Risk Register are up to date, appropriate and accessible to all stakeholders.

- Support and influence the development of robust governance arrangements in respect of the relationships between the Fund and BCPP Ltd.

- Deliver, review and measure training to Members and Officers as outlined in the Training Plan and as is required to maintain the Fund's client status as "elected professional clients" under the MiFID II regulations.

- Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund. The outcome of these consultations could have significant implications for employers of the Cumbria LGPS therefore it is important that timely, clear and well thought out responses are made by the Fund.

- Annual review of governance arrangements in response to financial, regulatory and structural changes to ensure they are up to date and appropriate.

- Completion of the 2017/18 Cumbria LGPS Annual Report and Accounts incorporating any new regulatory/technical changes to meet guidance issued by CIPFA, the Pensions Regulator, HMRC, or the Local Government Association (LGA). Annual accounts are required to be completed by the shortened time frame of 31st July 2018.

- Preparation to incorporate the requirement for the inclusion of Cost Transparency into the 2018/19 Financial Accounts and Annual Report.

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 2017/18 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2018) at: www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp 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 2017/18.

### Fund account – revenue recognition

### 2.1. Contribution Income

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

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

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

### 2.2. Transfers to and from other schemes

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

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

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

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

### 2.3. Investment income (Note 9)

a) ***Interest income***: is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

b) ***Dividend income***: is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

c) ***Distributions from pooled funds***: are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

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

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

**<u>Fund account – expense items</u>**

### 2.4. Benefits payable (Note 5)

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

### 2.5. Taxation

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

### 2.6. Administrative expenses (Note 7)

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

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

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

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

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

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

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

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

**Net assets statement**

### 2.9. Financial Assets

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

**Investment Assets**
State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

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

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

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

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There was no such investment at 31st March 2018.

- Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See Note 14).

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

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2018. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).

f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2018 by an independent valuer, CB Richard Ellis Ltd, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards UK January 2014 (revised April 2015).

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

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

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

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

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

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

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

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

    v. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

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

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

**Long-Term Assets**

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

**2.10. Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2018.

**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.

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

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

### 2.16. Contingent assets and contingent liabilities

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

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

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

### 2.17. Stock Lending

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

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

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

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

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

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2017/18 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 2017/18 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.

- Employers - range from 11.9% to 29.1% of pensionable pay, plus a lump sum payment for deficit recovery contributions. Individual employer rates are set by the actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances. This includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

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

| By Category | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Employee contributions to the fund | 16,389 | 16,581 |
| Employer contributions to the fund: | | |
| Normal contributions | 41,744 | 42,887 |
| Deficit recovery contributions | 7,631 | 51,518 |
| | 49,375 | 94,405 |
| | **65,764** | **110,986** |
| **By Employer Type** | **2016/17 £'000** | **2017/18 £'000** |
| Administering Authority | 33,901 | 62,996 |
| Other Scheduled bodies | 28,812 | 35,493 |
| Admitted bodies | 3,051 | 12,497 |
| | **65,764** | **110,986** |

As shown in the above table the administering authority contributions (Cumbria County Council) were £62.996m (£33.901m 2016/17) this value was inclusive of £18.205m which related to historic deficit contributions pre-paid for financial years 2018/19 and 2019/20.

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

In April 2017, Cumbria County Council, Allerdale Borough Council, Carlisle City Council, Copeland District Council, South Lakeland District Council and the Lake District National Park Authority all paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20. This greater volume of additional payments explains the significant increase in the deficit recovery contributions for 2017/18 in the table above.

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

Non ill-health early retirements: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). These contributions are recognised in line with the agreement with the employer if there is no agreement, 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 and all other Cumbria LGPS employer policies that are relevant to the 2017/18 financial year are contained in the full Actuarial Valuation Report as at 31st March 2016, available on the County Council's website, at www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

## NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Individual transfers | 3,385 | 5,668 |
| | **3,385** | **5,668** |

## NOTE 5: BENEFITS

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

| | Service Pre 1 April 2008 | Service 1.04.08 to 31.03.14 | Service Post 1 April 2014 |
|---|---|---|---|
| **Basis** | Final salary | Final Salary | Career Average Revalued Earnings (CARE) |
| **Pension** | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. | Each year worked accrues 1/49th x pensionable salary. |
| **Lump sum** | Each year worked is worth 3/80 x final pensionable salary.<br><br>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.<br><br>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.<br><br>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 | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Net pensions paid | 65,032 | 67,266 |
| Net lump sum on retirement | 14,449 | 11,334 |
| Net lump sum on death | 2,067 | 1,628 |
| | **81,548** | **80,228** |
| **By Employer Type** | **2016/17 £'000** | **2017/18 £'000** |
| Administering Authority | 45,637 | 45,168 |
| Scheduled bodies | 29,192 | 28,124 |
| Admitted bodies | 6,719 | 6,936 |
| | **81,548** | **80,228** |

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2017/18 were £45.168m (£45.637m 2016/17).

The overall decrease in benefits paid of £1.320m reflects a reduction in the amount of service restructuring and staff reductions undertaken by Fund employers that has taken place compared to previous years, leading to a reduction in the value of lump sums on retirement being paid.

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Refund of contributions | 158 | 163 |
| Individual transfers out to other Schemes | 3,799 | 4,632 |
| Group transfer out to other Schemes | - | - |
| | **3,957** | **4,795** |

## NOTE 7: MANAGEMENT EXPENSES

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

Further details of management expenses are as follows:

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Administrative costs | 1,196 | 1,152 |
| Investment management costs | 8,358 | 9,364 |
| Oversight and governance costs | 645 | 877 |
| | **10,199** | **11,393** |

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted in 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2017/18 is provided for information in the next note.

Administration costs were £0.044m lower in 2017/18 than the previous year. This was primarily due to a rebate received from Partner Funds of BCPP Ltd for work undertaken by the Senior Manager in the development of the company.

Investment management costs were £1.006m higher in 2017/18 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.232m higher in 2017/18 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 2017/18 is provided below.

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| **Administrative costs:** | | |
| Pensions Administration | 1,016 | 1,016 |
| Employee costs | 169 | 127 |
| Legal advice | 11 | 9 |
| | 1,196 | 1,152 |
| **Investment Management costs:** | | |
| Fund management fees | 3,266 | 3,584 |
| Custody fees | 96 | 93 |
| Pooled fund costs including entry fees* | 4,651 | 5,445 |
| Transaction costs | 345 | 242 |
| | 8,358 | 9,364 |
| **Oversight and governance costs:** | | |
| Employee costs | 347 | 352 |
| Pension fund committee | 18 | 26 |
| Pension Board | 4 | 9 |
| Investment consultancy fees | 94 | 140 |
| Performance monitoring service | 22 | 27 |
| Shareholder voting service | 16 | 14 |
| Actuarial fees | 79 | 60 |
| Audit fees | 27 | 27 |
| Legal and tax advice | 22 | 29 |
| Other (including bank charges) | 16 | 193 |
| | 645 | 877 |
| | | |
| | **10,199** | **11,393** |

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

Variations on spend between years include:-

- Employee costs (including staff training and travel) – in 2017/18 the Fund received a rebate for officer time incurred on the development of BCPP Ltd. This rebate, from the other Partner Funds within the pool, was used by the Fund to buy in specialist advice where necessary to provide appropriate backfill for the service.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance. As the Fund's investments have returned 4.2% growth (net of fees) in 2017/18, the fees paid in 2017/18 have increased from the fees paid in 2016/17.

- Pooled fund costs and entry fees – the objective of the strategy to select a portfolio of alternative pooled funds of growth assets is to aid cash flow and increase diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £3.322m in 2017/18 (£2.966m 2016/17) and the result of the positive investment returns has required the accrual of performance fees of £1.668m in 2017/18 (£1.051m 2016/17). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2017/18 entry costs of £0.455m were incurred (£0.634m 2016/17), but as the valuation of the investment at March 2018 exceeds the price paid, the costs of entry have been recouped within a matter of months. These funds are viewed as long-term illiquid investments.

- Transaction costs – these costs occur on trades of shares and bonds and are payable to third party agents as brokerage fees; they are variable depending on investment manager purchases and sales. There were fewer of these transactions in 2017/18 from 2016/17 resulting in a reduced cost.

- Investment consultancy fees – there has been a need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda i.e. backfill and advice. Additionally the Fund incurred expenditure in 2017/18 associated with an Investment Strategy review and advice related to the purchase of equity protection products.

- Actuarial fees – in line with regulation an Actuarial Valuation is undertaken on the Fund once every three years. During 2016/17 the Fund incurred the costs of the 2016 valuation, these costs related to 2016/17 only and therefore the value of actuarial fees reduced in 2017/18.

- Other Costs – In 2017/18, the Fund incurred expenditure of £0.169m associated with development of BCPP Ltd (£0.030m in 2016/17). This expenditure is included within the “Other Costs” row resulting in the increase from 2016/17.

## NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £57.242m (2016/17 £50.004m) net of £0.239m (2016/17: £0.192m) irrecoverable tax on dividends, and including stock lending income of £0.068m (2016/17: 0.057m), can be analysed as follows:

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Interest from fixed interest securities (corporate bonds) | 7,161 | 6,970 |
| UK equities dividends | 12,308 | 12,067 |
| Overseas equities dividends | 8,833 | 9,940 |
| Distributions from pooled investment vehicles | 13,506 | 20,134 |
| Net rental income from investment properties (see note 10b) | 7,937 | 7,741 |
| Interest on cash deposits | 259 | 390 |
| | **50,004** | **57,242** |

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of factors (including size and stability of dividend payment). The Fund benefitted in 2017/18 from companies continuing to pay some high UK dividends.

The Fund is increasing its investment into infrastructure and other alternatives with the objective of both long term stability and inflation protected income streams. As shown above as 'Distributions from pooled investment vehicles', in 2017/18 income of £20.134m was earned from the alternative investments. This included infrastructure (£6.951m), pooled property funds (£2.942m), private loan and multi asset credit funds (£1.698m), opportunistic investments (£8.278m) and other pooled investments (£0.265m).

## NOTE 10: INVESTMENT ASSETS

| | | 31 March 2017 | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|---|
| | | UK | Overseas | Total | UK | Overseas | Total |
| | Notes | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Investment Assets** | | | | | | | |
| **Equities** | | | | | | | |
| Equities - quoted | | 304,023 | 493,020 | **797,043** | 311,732 | 503,151 | **814,883** |
| | | 304,023 | 493,020 | **797,043** | 311,732 | 503,151 | **814,883** |
| **Fixed interest securities** | | | | | | | |
| Corporate bonds - quoted | | 151,892 | 6,850 | **158,742** | 154,734 | 6,377 | **161,111** |
| | | 151,892 | 6,850 | **158,742** | 154,734 | 6,377 | **161,111** |
| **Pooled investment vehicles** | | | | | | | |
| Pooled investments - quoted | | 5,733 | 4,680 | **10,413** | 6,539 | 4,005 | **10,544** |
| Pooled investments - unquoted | | 634,226 | 572,292 | **1,206,518** | 728,472 | 574,967 | **1,303,439** |
| | 10(a) | 639,959 | 576,972 | **1,216,931** | 735,011 | 578,972 | **1,313,983** |
| **Investment properties** | | | | | | | |
| Freehold | | 135,940 | - | **135,940** | 137,800 | - | **137,800** |
| Long leasehold | | 25,250 | - | **25,250** | 27,875 | - | **27,875** |
| | 10(b) | 161,190 | - | **161,190** | 165,675 | - | **165,675** |
| **Derivative contracts** | 10(c) | 8,284 | - | **8,284** | 2,332 | - | **2,332** |
| **Cash Deposits** | | 38,456 | 33,827 | **72,283** | 40,694 | 40,155 | **80,849** |
| **Amounts receivable for sales *** | | 2,382 | - | **2,382** | 2,642 | - | **2,642** |
| **Investment income accrued *** | | 5,044 | - | **5,044** | 5,409 | - | **5,409** |
| **Property rental debtors *** | | 619 | - | **619** | 648 | - | **648** |
| | | 54,785 | 33,827 | **88,612** | 51,725 | 40,155 | **91,880** |
| Subtotal investment assets | | 1,311,849 | 1,110,669 | **2,422,518** | 1,418,877 | 1,128,655 | **2,547,532** |
| **Investment liabilities** | | | | | | | |
| **Derivative contracts** | 10(c) | (261) | - | **(261)** | (58) | - | **(58)** |
| **Amounts payable for purchases *** | | (2,754) | - | **(2,754)** | (1,982) | - | **(1,982)** |
| **Property creditors *** | | (2,768) | - | **(2,768)** | (2,507) | - | **(2,507)** |
| Subtotal investment liabilities | | (5,783) | - | **(5,783)** | (4,547) | - | **(4,547)** |
| **Total Net Investments** | | 1,306,066 | 1,110,669 | **2,416,735** | 1,414,330 | 1,128,655 | **2,542,985** |

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

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

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

Note 10(c) details the derivative contracts above. These are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2018.

## NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £913.729m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| **Unitised insurance policies - unquoted** | | |
| UK equities | 26,727 | 27,097 |
| Overseas equities | 359,131 | 360,035 |
| UK index-linked securities | 464,562 | 468,128 |
| UK sterling liquidity fund | 30,006 | 58,469 |
| | **880,426** | **913,729** |
| **Unit trusts** | | |
| UK - quoted | 5,733 | 6,539 |
| Overseas - quoted | 3,226 | - |
| | **8,959** | **6,539** |
| **Other Managed funds** | | |
| Pooled property REIT's - quoted | 1,454 | 4,005 |
| Pooled property funds - unquoted | 73,380 | 76,216 |
| Other managed funds - unquoted | 252,712 | 313,494 |
| | **327,546** | **393,715** |
| **Total** | **1,216,931** | **1,313,983** |

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

## NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2018 the portfolio valued at £165.675m included 25 properties ranging from £1.800m to £15.800m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class.

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

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Rental income from investment property | 8,427 | 8,093 |
| Direct operating expenses arising from investment property | (491) | (352) |
| | **7,936** | **7,741** |

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:

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| **Balance at the start of the year** | **156,840** | **161,190** |
| Additions: | | |
| **Purchases** | 4,965 | - |
| Subsequent expenditure | 93 | 69 |
| **Disposals** | (7,532) | (3,220) |
| Net gains/(losses) from fair value adjustments | 6,824 | 7,636 |
| **Balance at the end of the year** | **161,190** | **165,675** |

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:

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Not later than one year | 8,181 | 8,167 |
| Later than one year and not later than five years | 29,416 | 27,862 |
| Later than five years | 31,389 | 26,763 |
| **Total future lease payments due under existing contracts** | **68,986** | **62,792** |

**NOTE 10(c): DERIVATIVES**

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

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

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

The derivatives can be summarised as follows:

| | 31 March 2018 | | |
|---|---|---|---|
| **Reconciliation to Note 10** | **Investment Asset / Unrealised Gain £'000** | **Investment Liability / Unrealised Loss £'000** | **Net Market Value £'000** |
| **Total Derivatives** | | | |
| Forward currency contracts | 2,116 | (2) | **2,114** |
| Futures | 216 | (56) | **160** |
| **Derivative Contracts Gain/(Loss)** | **2,332** | **(58)** | **2,274** |

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

| Currency Bought | | Currency Sold | | 2017/18 | |
|---|---|---|---|---|---|
| Currency | Local Value 000's | Currency | Local Value 000's | Unrealised Gain Sterling £'000 | Unrealised Loss Sterling £'000 |
| **Settlement within one month** | | | | | |
| EUR | 60 | GBP | 54 | - | (1) |
| GBP | 2,525 | EUR | 2,837 | 37 | - |
| GBP | 4,155 | USD | 5,746 | 62 | - |
| USD | 126 | GBP | 91 | - | (1) |
| **Settlement one to six months** | | | | | |
| GBP | 72,065 | EUR | 81,413 | 506 | - |
| GBP | 42,806 | JPY | 6,305,320 | 460 | - |
| GBP | 300,635 | USD | 421,643 | 1,051 | - |
| | | | | **2,116** | **(2)** |
| **Net forward currency contracts at 31 March 2018** | | | | **2,114** | |

Outstanding exchange traded futures contracts are as follows:

| Type | Expires | Economic exposure | Market Value at 31 March 2017 £'000 | Economic exposure | Market Value at 31 March 2018 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| UK Fixed Interest | Less than one year | 11,865 | 189 | 11,422 | 216 |
| Overseas Fixed Interest | Less than one year | - | - | - | - |
| | | | **189** | | **216** |
| **Liabilities** | | | | | |
| Overseas Fixed Interest | Less than one year | (3,783) | (8) | (4,621) | (56) |
| | | | **(8)** | | **(56)** |
| **Net Futures** | | | **181** | | **160** |

## NOTE 10(d): PROFIT AND LOSSES ON DISPOSAL OF INVESTMENTS AND CHANGES IN THE MARKET VALUE OF INVESTMENTS

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments if appropriate, and cash transfers from and to the Administering Authority.

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

2017/18

| Asset Class | Value at 1 April 2017 £'000 | Purchases at Cost and Derivative Payments £'000 | Sales Proceeds and Derivative Receipts £'000 | Realised gains/(losses) £'000 | Unrealised gains/(losses) £'000 | Value at 31 March 2018 £'000 |
|---|---|---|---|---|---|---|
| **Fixed interest securities (Corporate Bonds)** | 158,742 | 17,441 | (9,402) | (270) | (5,400) | 161,111 |
| **Equities** | | | | | | |
| **UK equities** | 304,023 | 54,306 | (37,632) | 11,737 | (20,702) | 311,732 |
| **Overseas equities** | 493,020 | 147,746 | (156,657) | 42,834 | (23,792) | 503,151 |
| | 797,043 | 202,052 | (194,289) | 54,571 | (44,494) | 814,883 |
| **Pooled investment vehicles** | 880,426 | 60,197 | (40,000) | 14,798 | (1,692) | 913,729 |
| **Unit Trusts** | 8,959 | 11 | (3,129) | 695 | 3 | 6,539 |
| **Managed funds** | 327,546 | 104,790 | (52,513) | 15,275 | (1,383) | 393,715 |
| **Property (See Note 10b)** | 161,190 | 69 | (3,220) | (247) | 7,883 | 165,675 |
| **Derivatives (forward foreign exchange contracts, futures)** | 8,023 | 16,996 | (55,572) | 38,575 | (5,748) | 2,274 |
| | **2,341,929** | **401,556** | **(358,125)** | **123,397** | **(50,831)** | **2,457,926** |
| **Cash** | 72,283 | | | (5,929) | (3,986) | 80,849 |
| **Amounts receivable for sales** | 2,382 | | | | | 2,642 |
| **Investment income accrued** | 5,044 | | | | | 5,409 |
| **Property rental debtors** | 619 | | | | | 648 |
| **Amounts payable for purchases** | (2,754) | | | | | (1,982) |
| **Property creditors** | (2,768) | | | | | (2,507) |
| **Total Net Investments** | **2,416,735** | | | 117,468 | (54,817) | **2,542,985** |

| **Analysis of gains/(losses) for the year** | **2017/18 £'000** |
|---|---|
| Realised - Profit and losses on disposal of investments | 117,468 |
| Unrealised - Changes in the market value of investments | (54,817) |
| | **62,651** |

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

2016/17:

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

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

## NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

| Manager | Asset Class | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|---|
| | | £'000 | % | £'000 | % |
| Legal & General Policy No. 1 | Equities, bonds, cash | 379,669 | 15.7% | 398,195 | 15.7% |
| Legal & General Policy No. 2 | Index-linked bonds | 377,610 | 15.6% | 389,209 | 15.3% |
| Legal & General Policy No. 3 | Global equities | 123,147 | 5.1% | 126,325 | 5.0% |
| Legal & General Passive Currency | Currency overlay | 7,725 | 0.3% | 2,018 | 0.1% |
| Schroders Investment Management | UK equities | 291,671 | 12.1% | 289,398 | 11.4% |
| Loomis Sayles | Global equities | 258,744 | 10.7% | 288,047 | 11.3% |
| Nordea | Global equities | 272,733 | 11.3% | 261,195 | 10.3% |
| Standard Life | UK corporate bonds | 169,769 | 7.0% | 171,400 | 6.7% |
| Aberdeen Asset Management | Direct property | 169,677 | 7.0% | 169,169 | 6.7% |
| JP Morgan | Infrastructure | 94,285 | 3.9% | 96,787 | 3.8% |
| Strategic cash allocation | Cash | 34,768 | 1.5% | 56,836 | 2.2% |
| Partners Group | Infrastructure | 46,727 | 1.9% | 39,410 | 1.6% |
| M&G | Property Fund | 36,840 | 1.5% | 38,657 | 1.5% |
| Aviva | Property Fund | 35,400 | 1.5% | 36,809 | 1.4% |
| Barings | Private Loan Fund | 16,067 | 0.7% | 34,238 | 1.3% |
| Unigestion | Secondary Funds | 24,670 | 1.0% | 30,110 | 1.2% |
| Partners Group MAC | Multi Asset Credit | 0 | 0.0% | 26,148 | 1.0% |
| SL Capital | Infrastructure | 13,417 | 0.6% | 23,883 | 0.9% |
| BlackRock | Alternatives | 31,792 | 1.3% | 21,744 | 0.9% |
| SL Capital | Secondary Funds | 10,154 | 0.4% | 17,957 | 0.7% |
| M&G | Real Estate Debt | 20,287 | 0.8% | 15,043 | 0.6% |
| Healthcare Royalty Partners | Royalties Fund | 433 | 0.0% | 9,647 | 0.4% |
| Aberdeen Asset Management | Indirect property | 1,140 | 0.1% | 750 | 0.0% |
| Transition residual | Overseas equities | 10 | 0.0% | 10 | 0.0% |
| **Total Net Investments** | | **2,416,735** | **100.0%** | **2,542,985** | **100.0%** |

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

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

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

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient liquid method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

| Holding | 31 March 2017 £'000 | % of Total Net Investments | 31 March 2018 £'000 | % of Total Net Investments |
|---|---|---|---|---|
| Policy 1 Legal and General North America Index | 157,197 | 6.6% | 151,261 | 5.9% |
| Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index | 86,952 | 3.6% | 87,620 | 3.4% |
| Policy 1 Legal and General UK Equity Index | 26,727 | 1.1% | 27,096 | 1.1% |
| Policy 1 Legal and General Europe(Ex UK)Equity Index | 37,130 | 1.5% | 38,664 | 1.5% |
| Policy 1 Legal and General Japan Index | 22,594 | 0.9% | 24,320 | 1.0% |
| Policy 1 Legal and General Other Pacific Basin Index | 19,063 | 0.8% | 19,465 | 0.8% |
| Policy 1 Legal and General Sterling Liquidity Fund | 30,006 | 1.2% | 49,769 | 2.0% |
| Policy 1 Total | 379,669 | 15.7% | 398,195 | 15.7% |
| Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index | 377,610 | 15.6% | 238,521 | 9.4% |
| Policy 2 Legal and General Bespoke Equity Protection | - | 0% | 150,688 | 5.9% |
| | 377,610 | 15.6% | 389,209 | 15.3% |
| Policy 3 Legal and General FTSE World Equity Index | 123,147 | 5.1% | 126,325 | 5.0% |
| | **880,426** | **36.4%** | **913,729** | **36.0%** |

Investments managed by external investment managers shown in Table 10(e) that exceed 5% and are not shown above, relate to segregated mandates where no one underlying holding is in excess of 5% of the total net assets of the fund. The Fund agreed an ‘equity protection’ overlay solution with Legal and General which was implemented in April 2018. Some assets (index-linked gilts and cash) were moved within Policy 2 in readiness, hence the addition of the new ‘Bespoke Equity Protection’ line above as at 31st March 2018.

## NOTE 10(g): FAIR VALUE – BASIS OF VALUATION

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

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

* Both Futures and Derivatives can be either Assets or Liabilities

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2018.

**Fair Value – Sensitivity of Assets values at Level 3**

| | Assessed valuation range (+/-) | Value at 31 March 2018 £'000 | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| Pooled funds in Alternative Assets | 7% | 389,710 | 416,990 | 362,430 |
| Freehold and leasehold property | 10% | 165,675 | 182,243 | 149,108 |
| **Total** | | **555,385** | **599,233** | **511,538** |

## NOTE 10(h): FAIR VALUE HIERARCHY

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

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

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

**Level 1: 42% of Total Investments (2016/17: 43%)**
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities, quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

These are considered the most reliably quantifiable and easily liquidated i.e. converted into cash, assets carrying the lowest valuation and liquidity risk.

**Level 2: 36% of Total Investments (2016/17: 37%)**
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: 22% of Total Investments (2016/17: 20%)**
Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

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

Such investments include unquoted equity investments, limited partnerships and property, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9 (c), (d) and (f). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund.

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

| | 31 March 2017 | | | | 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted market price | Using observable inputs | With significant unobservable inputs | | Quoted market price | Using observable inputs | With significant unobservable inputs | |
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| **Financial assets at fair value through profit and loss** | | | | | | | | |
| Equities - quoted | 797,043 | - | - | 797,043 | 814,883 | - | - | 814,883 |
| Fixed interest securities- Corporate bonds - quoted | 158,742 | - | - | 158,742 | 161,111 | - | - | 161,111 |
| Pooled investments - quoted | 10,413 | - | - | 10,413 | 10,544 | - | - | 10,544 |
| Pooled investments - unquoted | - | 880,426 | 326,092 | 1,206,518 | - | 913,729 | 389,710 | 1,303,439 |
| Derivative contracts | - | 8,284 | - | 8,284 | - | 2,332 | - | 2,332 |
| Cash Deposits | 73,933 | - | - | 73,933 | 98,587 | - | - | 98,587 |
| **Total Financial assets at fair value through profit and loss** | **1,040,131** | **888,710** | **326,092** | **2,254,933** | **1,085,125** | **916,061** | **389,710** | **2,390,896** |
| Investment properties (Non-financial assets) at fair value through profit and loss | - | - | 161,190 | 161,190 | - | - | 165,675 | 165,675 |
| Financial liabilities (Derivative contracts) at fair value through profit and loss | - | (261) | - | (261) | - | (58) | - | (58) |
| **Total Investments at Fair Value** | **1,040,131** | **888,449** | **487,282** | **2,415,862** | **1,085,125** | **916,003** | **555,385** | **2,556,513** |
| **Percentage of Total Investments** | **43%** | **37%** | **20%** | **100%** | **42%** | **36%** | **22%** | **100%** |

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

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

| Period 2017/18 | Market value 1 April 2017 £'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 2018 £'000 |
|---|---|---|---|---|---|---|---|---|
| **Private/Unquoted equity (Pooled funds in Alternative Assets)** | **326,092** | - | - | 101,669 | (52,513) | 15,275 | (813) | **389,710** |
| **Investment Properties** | **161,190** | - | - | 69 | (3,220) | (247) | 7,883 | **165,675** |
| | **487,282** | **-** | **-** | **101,738** | **(55,733)** | **15,028** | **7,070** | **555,385** |

## NOTE 11: FINANCIAL INSTRUMENTS

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Fund can be classified as Financial Instruments and Investment Property as follows:

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Financial Instruments | 2,256,152 | 2,393,712 |
| Statutory debts / liabilities & provisions | 5,984 | 4,070 |
| Investment Property | 161,190 | 165,675 |
| **Net Assets of the Fund** | **2,423,326** | **2,563,457** |

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

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2018.

| | 31 March 2017 | | | | 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Total | Fair Value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **CLASSIFICATION** | | | | | | | | |
| **Financial Assets** | | | | | | | | |
| **Investments** | | | | | | | | |
| Equities | 797,043 | - | - | 797,043 | 814,883 | - | - | 814,883 |
| Fixed interest securities (corporate bonds) | 158,742 | - | - | 158,742 | 161,111 | - | - | 161,111 |
| Pooled investment vehicles | 1,216,931 | - | - | 1,216,931 | 1,313,983 | - | - | 1,313,983 |
| Derivative contracts | 8,284 | - | - | 8,284 | 2,332 | - | - | 2,332 |
| **Cash deposits** | - | 73,933 | - | 73,933 | - | 98,587 | - | 98,587 |
| **Investment receivables/debtors** | - | 8,045 | - | 8,045 | - | 8,699 | - | 8,699 |
| **Current & long-term assets** | - | 717 | - | 717 | - | 319 | - | 319 |
| | **2,181,000** | **82,695** | **-** | **2,263,695** | **2,292,309** | **107,605** | **-** | **2,399,914** |
| **Financial Liabilities** | | | | | | | | |
| **Derivative contracts** | (261) | - | - | (261) | (58) | - | - | (58) |
| **Investment payables/creditors** | - | - | (5,522) | (5,522) | - | - | (4,489) | (4,489) |
| **Current/long-term liabilities** | - | - | (1,760) | (1,760) | - | - | (1,655) | (1,655) |
| **Total Financial Instruments** | **2,180,739** | **82,695** | **(7,282)** | **2,256,152** | **2,292,251** | **107,605** | **(6,144)** | **2,393,712** |
| **ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH** | | | | | | | | |
| **Financial Assets** | 346,505 | - | - | 346,505 | 55,073 | - | - | 55,073 |
| **Financial Liabilities** | (261) | - | - | (261) | (58) | - | - | (58) |
| **Total Net Gains/(Losses)** | | | | 346,244 | | | | 55,015 |

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

## NOTE 12(a): LONG TERM ASSETS

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Long Term Debtors** | | |
| Long term debtors - contributions | - | - |
| Long term debtors - employer exit | 986 | 657 |
| **Total Long Term Assets** | **986** | **657** |
| **Long Term Debtors relating to (per IFRS headings):** | | |
| Central Government bodies | 986 | 657 |
| Other entities and individuals | - | - |
| **Total Long Term Assets** | **986** | **657** |

‘Long-term debtors – employer exit’ is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within ‘Employer exit from the scheme due < 1 year’ (see Note 12(b)) and the remainder of £0.657m shown above as ‘Long Term Debtors – Employer exit’.

## NOTE 12(b): CURRENT ASSETS

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Cash balances** | **1,650** | 17,738 |
| **Current Debtors** | | |
| Contributions due | 5,098 | 3,449 |
| Employer exit from scheme due < 1 year | 329 | 329 |
| Miscellaneous | 1,154 | 771 |
| **Total Current Debtors** | **6,581** | **4,549** |
| **Total Current Assets** | **8,231** | **22,287** |
| **Current Debtors relating to (per IFRS headings):** | | |
| Central Government bodies | 799 | 756 |
| Other local authorities | 4,617 | 2,612 |
| Other entities and individuals | 1,165 | 1,181 |
| **Total Current Debtors** | **6,581** | **4,549** |

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

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

## NOTE 13(a): LONG TERM LIABILITIES

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Long term Creditors** | | |
| Interest provision on long-term debt | 167 | 87 |
| **Total Long term Liabilities** | **167** | **87** |
| **Long Term Creditors relating to (per IFRS headings):** | | |
| Other entities and individuals | 167 | 87 |
| **Total Long term Liabilities** | **167** | **87** |

## NOTE 13(b): CURRENT LIABILITIES

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| **Current Creditors** | | |
| Investment Managers fees | 951 | 927 |
| Tax payable | 629 | 651 |
| Interest provision on long-term debt | 70 | 79 |
| Miscellaneous | 809 | 728 |
| **Total Current Liabilities** | **2,459** | **2,385** |
| **Current Creditors relating to (per IFRS headings):** | | |
| Central government bodies | 699 | 737 |
| Other local authorities | 686 | 614 |
| Other entities and individuals | 1,074 | 1,034 |
| **Total Current Liabilities** | **2,459** | **2,385** |

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

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

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

| Summary of Financial Risks | Credit Risk | Market Risk: Foreign Exchange | Market Risk: Interest rate | Market Risk: Liquidity | Market Risk: Other risks | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|---|---|---|---|---|
| UK Equities | ◐ | ◐ | ◐ | ○ | ◐ | 336,483 | 345,368 |
| Overseas Equities | ◐ | ● | ◐ | ○ | ◐ | 856,831 | 867,191 |
| UK Bonds | ◐ | ◐ | ● | ○ | ◐ | 151,892 | 154,734 |
| Overseas Bonds | ◐ | ● | ● | ○ | ◐ | 6,850 | 6,377 |
| Index Linked Gilts | ○ | ○ | ◐ | ○ | ◐ | 464,562 | 468,128 |
| Property * | ◐ | ○ | ◐ | ● | ◐ | 161,190 | 165,675 |
| Alternative Investments | ◐ | ◐ | ◐ | ● | ◐ | 326,092 | 389,710 |
| Derivatives | ◐ | ● | ○ | ○ | ◐ | 8,023 | 2,274 |
| UK Cash | ◐ | ○ | ◐ | ○ | ◐ | 70,112 | 116,901 |
| Overseas Cash | ◐ | ● | ◐ | ○ | ◐ | 33,827 | 40,155 |
| **Total Investments at Fair Value** | | | | | | **2,415,862** | **2,556,513** |

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.

## 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 at www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

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

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 2018.

The Investment Strategy Statement (ISS) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line at:

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

www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

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

The Fund underwent a Strategic Investment Review in 2017/18, the results of which were received by the Pensions Committee in September 2017. The main conclusion of this review was that "the Fund's investment strategy is in good shape with no material changes required". A further recommendation was made to consider options for banking some of the recent funding level improvements, and following significant work in 2017/18, this resulted in an 'equity protection' overlay being in place from early April. This brings the Fund protection from falls of more than 5% in the value of its equity from 4th April 2018 (the date the protection was purchased) until 31st March 2020 – the date at which the 2019 Actuarial Valuation is required to be formally completed. This protection is aimed at mitigating the risk of significant increases in employer contribution rates increasing for the period of April 2020 to March 2023.

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

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

**Credit Risk**

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

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

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

The Fund's cash and cash-like holdings as at 31st March 2018 were £17.738m (2016/17: £1.650m) within current assets (see Note 12(b)), and £80.849m (2016/17: £72.283m) shown as cash within investments (see Note 10). In addition to this, in 2017/18 £58.469m of the Funds holding in unitised insurance policies shown in Note 10a under pooled investments, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments for the in-house alternative asset portfolio which were planned for and executed in early April. The credit ratings of the accounts and funds were as follows:

| Cash and Cash Equivalents | Rating at 31 March 2018 | Balances as at 31 March 2017 £'000 | Balances as at 31 March 2018 £'000 |
|---|---|---|---|
| **Money Market Funds** | | | |
| SSGA GBP Liquidity Fund | AAA | 19,627 | 28,582 |
| SSGA EUR Liquidity Fund | AAA | 1,621 | 20,575 |
| SSGA USD Liquidity Fund | AAA | 29,431 | 14,884 |
| Legal & General Sterling Liquidity Fund | AAA | 30,006 | 58,469 |
| BlackRock Institutional Cash USD | AAA | 3,226 | - |
| Standard Life Sterling Liquidity Fund | AAA | - | 8,905 |
| Goldman Sachs Sterling Reserves Fund | AAA | - | 8,602 |
| Standard Life Euro Liquidity Fund | AAA | 11 | 131 |
| **Bank deposit accounts** | | | |
| National Westminster Bank | BBB+ | 1,650 | 231 |
| **Bank current accounts** | | | |
| State Street Bank & Trust | AA- | 3,946 | 4,795 |
| Barclays Bank | A | 10,636 | 5,353 |
| **Short Term Deposit** | | | |
| Cash Collateral Swaps | | (11) | (131) |
| Bank of New York call account | AA | 7,022 | 6,660 |
| **Total** | | **107,165** | **157,056** |

**Market Risk**

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

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

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

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

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. In addition to mitigate against the impact of equity market falls, the Fund has implemented an 'equity protection' overlay in April 2018 to be in place until March 2020.

**Market Risk – Sensitivity Analysis**

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

Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

| Market Risk - Sensitivity Analysis | 2017/18 £'000 | % Change | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| UK Equities | 345,368 | 9% | 376,451 | 314,285 |
| Overseas Equities | 867,191 | 9% | 945,238 | 789,144 |
| Fixed interest securities (corporate bonds) | 161,111 | 6% | 170,778 | 151,444 |
| Index Linked Gilts | 468,128 | 12% | 524,303 | 411,953 |
| Alternatives | 389,710 | 7% | 416,990 | 362,430 |
| Property | 165,675 | 2% | 168,989 | 162,362 |
| Cash | 157,056 | 0% | 157,072 | 157,040 |
| | **2,554,239** | | **2,759,821** | **2,348,658** |

## Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2018, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,088.500m and £40.155m cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £56.433m, or 2.22% of the Fund's total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), it is considered that a 5% movement is a reasonable measure to apply across the basket of currencies.

| Foreign Exchange - Sensitivity Analysis | 2017/18 £'000 | % Change | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| US Dollar denominated assets | 735,650 | 5% | 772,433 | 698,868 |
| European currency denominated assets | 230,518 | 5% | 242,044 | 218,992 |
| Other currency denominated assets | 162,487 | 5% | 170,611 | 154,363 |
| | **1,128,655** | | **1,185,088** | **1,072,223** |

## Foreign Exchange – Derivative Contracts

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

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

As at 31st March 2018, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

**Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates increased in November 2017 from their historic low of 0.25% to 0.50%. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2018 and 31st March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Assets exposed to interest rate risk | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Fixed interest securities (including pooled investments) | 623,304 | 629,239 |
| Cash and cash equivalents | 23,243 | 16,908 |
| Money market funds and pooled cash vehicles | 83,922 | 140,148 |
| | **730,469** | **786,295** |

**Liquidity Risk**

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

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

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations).

However, in past years, the Fund has experienced a contributions cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members. In 2016/17, the contributions deficit was £16.356m.

However in 2017/18 the Fund had a surplus of £6.671m, which is net of the £24.959m prepayment for the following years (2018/19 and 2019/20). This was primarily due to a number of employers paying historic pension deficits early as detailed in Note 3.

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

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2018 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £2,001.128m, i.e. 78% of net assets (31st March 2017 £1,928.580m, 80%). The value of the illiquid assets including investment properties was £555.385m which represented 22% of net assets (31st March 2017 £487.282m, 20%).

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

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

| **Maturity Risk - Long term liabilities** | **31 March 2017 £'000** | **31 March 2018 £'000** |
|---|---|---|
| Due 1 to 2 years | 79 | 87 |
| Due 2 to 5 years | 88 | - |
| Due 5 to 10 years | - | - |
| **Total Long term liabilities** | **167** | **87** |

## Counterparty Risk

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

- previous dealing experience of the counterparty,

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

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

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

**Settlement Risk**

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

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £2.274m gain on the currency derivatives at 31st March 2018 (see note 10c).

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

**Unquoted Investments**

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

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

The unquoted investments held at 31st March 2018 are as follows:

| Asset Class | 2016/17 £'000 | 2017/18 £'000 | Manager | Holding Details |
|---|---|---|---|---|
| **Pooled investment vehicles** | | | | |
| Unitised insurance policies | 880,426 | 913,729 | Legal and General | Index tracking funds. |
| Other managed funds | 94,285 | 96,787 | JP Morgan | Infrastructure fund. |
| | 46,727 | 39,410 | Partners Grp | Infrastructure fund. |
| | 36,840 | 38,657 | M&G | Long-lease property fund. |
| | 35,400 | 36,809 | Aviva | Long-lease property fund. |
| | 16,067 | 34,238 | Barings | Global private loan fund. |
| | 24,670 | 30,110 | Unigestion | Secondary private equity funds |
| | - | 26,148 | Partners Grp | Multi Asset Credit |
| | 13,417 | 23,883 | SL Capital | Infrastructure fund. |
| | 26,672 | 20,270 | BlackRock | BlackRock in-house funds. |
| | 10,154 | 17,957 | SL Capital | Secondary private equity funds |
| | 20,287 | 15,043 | M&G | Real estate debt funds. |
| | 433 | 9,647 | HRP | Healthcare Royalties Partners Fund. |
| | 1,140 | 750 | Aberdeen | Overseas property funds (ex-BlackRock). |
| | **1,206,518** | **1,303,438** | | |

## NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

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

| | 2016/17 £'000 | 2017/18 £'000 |
|---|---|---|
| Standard Life | 1,037 | 958 |
| Scottish Widows | 1,085 | 1,146 |
| Equitable Life | 793 | 684 |
| Prudential | 523 | 936 |
| **Total AVCs** | **3,438** | **3,724** |

AVC contributions of £0.504m were paid directly from employees pay to the providers during the year (2016/17: £0.473m).

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

## NOTE 16: RELATED PARTY TRANSACTIONS

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

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

### Border to Coast Pension Partnership Ltd (BCPP Ltd)

As detailed in section 1 (d) of the accounts, in 2017/18 the Fund became a partner in BCPP Ltd as its chosen route to pool investment assets across the LGPS. BCPP Ltd is the organisation set up to run pooled LGPS investments for 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. BCPP Ltd was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. There are no material transactions in respect of related parties requiring separate reporting for 2017/18.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2017/18 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been achieved in 2017/18.

**Key Management Personnel**

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 17 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2017/18 (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 2017/18 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 2017/18.

- Employer's Future Service Rate – LGPS 14.9% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2017/18 on Cumbria LGPS specific work.

- During 2017/18, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2016/17:1FTE) 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 2017/18 this allowance was £6,238 (pro rata of £6,949). This cost is charged to Cumbria LGPS.

- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

***2017/18 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:***

| **Post Title** | **Salary recharged to Cumbria LGPS** | **Total Remuneration excluding pension contributions recharged to Cumbria LGPS** | **Employer's Pension contributions recharged to Cumbria LGPS** | **Total Remuneration including pension contributions recharged to Cumbria LGPS** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Director of Finance (s.151 Officer) | 11,706 | 11,706 | 1,744 | 13,450 |
| Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS): | | | | |
| 1st April 2017 - 31st December 2017 | 35,937 | 35,937 | 5,355 | 41,292 |
| 5th March 2018 - 31st March 2018 | 3,545 | 3,545 | 528 | 4,073 |
| **Senior Manager total** | **39,482** | **39,482** | **5,883** | **45,365** |
| | **51,188** | **51,188** | **7,627** | **58,815** |

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

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

## NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding contractual commitments at 31st March 2018.

## 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 2017/18. The estimated value of claims still outstanding is £4.027m (value in GBP at 31st March 2018, 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 2017/18 and progress has slowed for Fokus Bank (withholding tax) claims in France, Germany and Italy and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the settlements previously received from other European countries such as the Netherlands in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

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

The fees incurred to date for all the above tax claims regardless of the outcome total £0.462m, 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 2017/18 are considered to be recoverable with no further impairment beyond the existing provision for bad and doubtful debts.

There were no impairments of investments during 2017/18.

### Financial Assets That Are Past Due As At 31st March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.002m of debtors aged between two and six months (£0.064m 2016/17). Debtors aged greater than six months totalled £0.017m as at 31st March 2018 (£0.035m 2016/17).

## NOTE 20: STOCK LENDING

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

Securities on loan at the 31st March 2018 of £54.618m (2016/17: £47.006m) are included in the net assets statement to reflect the scheme's continuing economic interest in the securities, and consist of £45.657m UK equities, £5.568m overseas equities and £3.393m UK corporate bonds (2016/17: £40.717m UK equities and £6.289m overseas equities). The related collateral totalled £57.651m (2016/17: £49.688m), consisting £32.327m overseas bonds, £22.753m UK equities and £2.571m UK bonds (2016/17: £22.856m overseas bonds and £26.832m UK equities).

For the year to 31st March 2018, the Fund earned income of £0.068m (2016/17 £0.057m) through stock lending of the various assets (as detailed in Note 9).

## NOTE 21: POST BALANCE SHEET EVENTS

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

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

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

| Item | Uncertainties | Effect if actual differs from assumptions |
|---|---|---|
| Market Value of Investments | Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.<br>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.<br>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, the value of the Fund will increase by approx. £25.635m, with a decrease having the opposite effect.<br><br>Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes.<br>Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons. For each case the underlying factors would be considered before acceptance or otherwise of the sale. |
| Pensions Liability | Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases. | The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £53m increase in deficit shortfall as identified in the 2016 valuation. The Actuarial Valuation at March 2016 contains further information. |

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

## NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. A valuation estimate based on similar actuarial assumptions was also carried out at 31 March 2017 and 31 March 2018.

The full Actuarial Valuation Report as at 31st March 2016 is available on the County Council's website at: www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The calculation of the liabilities in compliance with IAS 19 uses different, and more prudent, assumptions than that used for the valuation basis. The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

| | 31 March 2017 £'m | 31 March 2018 £'m |
|---|---|---|
| **Valuation Basis** | | |
| Present value of past service liabilities | (2,554) | (2,618) |
| Net assets of the Fund | 2,423 | 2,563 |
| **Net liability (Valuation Basis)** | **(131)** | **(55)** |
| **IAS 19 Basis** | | |
| Present value of past service liabilities | (3,262) | (3,245) |
| Net assets of the Fund | 2,423 | 2,563 |
| **Net liability (IAS 19 Basis)** | **(839)** | **(682)** |

The statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) and in compliance with IAS 26 and on the basis of IAS19 is presented below.

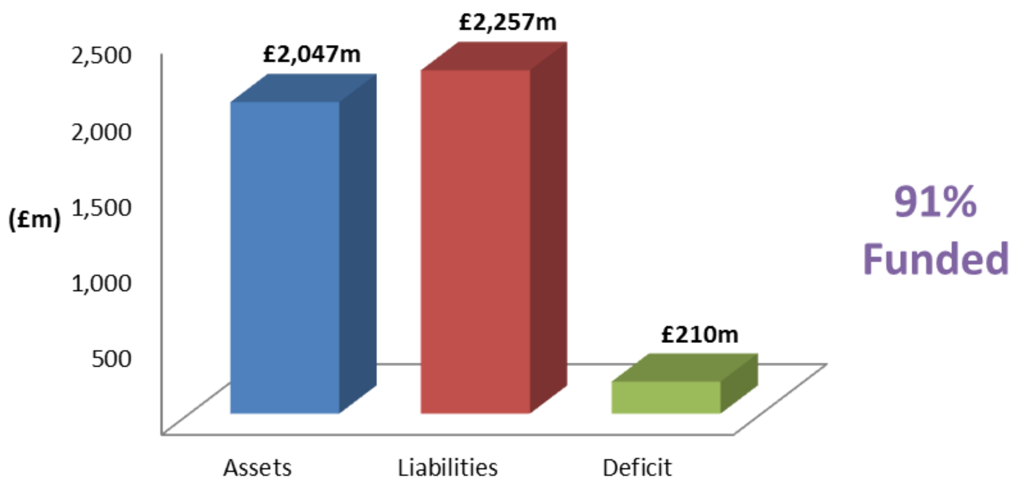
# CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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




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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the "Secondary rate") for 2018/19 is approximately £15.9 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

| | 31 March 2017 | 31 March 2018 |
|---|---|---|

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.5% per annum | 2.6% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.3% per annum | 2.1% per annum |
| Rate of pay increases* | 3.8% per annum | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.3% per annum | 2.2% per annum |

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

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

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £3,262 million. Interest over the year increased the liabilities by c£82 million, and net benefits accrued/paid over the period also increased the liabilities by c£31 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was a decrease in liabilities of £130 million due to "actuarial gains" (i.e. the effects of the changes in actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £3,245 million.

**John Livesey**
**Fellow of the Institute and Faculty of Actuaries**

**Mark Wilson**
**Fellow of the Institute and Faculty of Actuaries**

**Mercer Limited**
**May 2018**

## 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.

Consideration has been given to IFRS 9 – Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. It is concluded that these accounting standards, once adopted would have no material impact on the financial statements.

## NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2018 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

| Employers of the Fund as at 31 March 2018 (total 127) | | |
|---|---|---|
| **Scheduled Scheme Employers (13)** | **Scheduled Bodies - Academies (cont)** | **Admitted Bodies Transferee (18)** |
| Cumbria County Council | Great Corby Academy | 1st Eclipse |
| Allerdale Borough Council | Kendal MAT - Castle Park Academy | Bulloughs - Solway (New) |
| Barrow Borough Council | Keswick Academy | Carlisle Leisure Ltd |
| Carlisle City Council | Kirkbie Kendal Academy | Carlisle Leisure Allerdale |
| Copeland Borough Council | Kirkby Stephen Academy | Carlisle Mencap - Huntley Ave |
| Eden District Council | Northside Academy | Carlisle Mencap - Hart St |
| South Lakeland District Council | Penny Bridge Academy | Caterlink - W/Lakes |
| Cumbria Chief Constable | Queen Elizabeth Grammar Academy | Caterlink - WHT |
| Cumbria Police & Crime Commissioner | Richard Rose Academies | FCC Environment |
| Furness College | Seaton Academy | Greenwich Leisure (Copeland) |
| Kendal College Further Educ | Settlebeck High Academy | Greenwich Leisure (South Lakes) |
| Lake District National Park Authority | Stanwix School Academy | Mellors Catering - Appleby |
| Lakes College (West Cumbria) | Stramongate Academy | Mellors Catering - Kirkby Stephen |
| **Scheduled Resolution Bodies (15)** | The Queen Katherine School Academy | Mellors Catering Services - Rockcliffe |
| Aspatria Town Council | Trinity Academy | People First |
| Cleator Moor Town Council | Walney Academy | SLS (Cumbria) Ltd - QK |
| Cockermouth Town Council | West Lakes Academy | SLS (Cumbria) Ltd - StH |
| Cumbria Waste Management | Whitehaven Academy | Tullie House Trust |
| Egremont Town Council | Inspired Learning MAT (one employer): | **Admitted Bodies Community (17)** |
| Grange Town Council | Parkside GGI Academy | Commission for Social Care Inspection |
| Kendal Town Council | Victoria Primary Academy | Cumbria Cerebral Palsy |
| Keswick Town Council | Yarlside Primary Academy | Cumbria Deaf Vision |
| Maryport Town Council | The Good Shepherd MAT (one employer): | Cumbria Tourism |
| Orian Solutions | Ambleside Primary Academy | Eden Housing Association |
| Penrith Town Council | Braithwaite Primary Academy | Glenmore Trust |
| Ulverston Town Council | Lazonby Academy | Harraby Community Centre |
| Whitehaven Town Council (New) | Lorton Academy | Higham Hall |
| Wigton Town Council | Whitfield Academy (New) | Home Group (Copeland) |
| Workington Town Council | Cumbria Education Trust (one employer) | Kendal Brewery Arts Centre Trust Ltd |
| **Scheduled Bodies - Academies (54)** | Longtown Academy | Longtown Memorial Hall Community Centre |
| **(number of employers 42)** | Tebay Academy | Morton Community Centre |
| Appleby Grammar Academy | The Workington Academy | Oaklea Trust |
| Arnside National CofE Academy | William Howard Academy | Soundwave |
| Bassenthwaite Academy (New) | Yanwath Academy | South Lakes Housing |
| Broughton Primary Academy | Yewdale Academy | West House |
| Burton Morewood Primary Academy | Lunesdale MAT | Wigton Joint Burial Committee |
| Caldew Academy | Queen Elizabeth Academy | **Admitted Bodies No Actives (10)** |
| Cartmel Priory Academy | Queen Elizabeth Studio School (New) | Cumbria Training Partnership |
| Castle Carrock Academy | **Scheduled Bodies No Actives (12)** | Direct Training Services |
| Chetwynd School Academy | Brampton Parish Council | Egremont & District Pool Trust |
| Cockermouth Academy | Charlotte Mason College | Henry Lonsdale Trust |
| Crosby on Eden Academy | Cumbria Institute of the Arts | Kendal Citizens Advice |
| Dallam Academy | Cumbria Primary Teacher Training | Lake District Cheshire Homes |
| Dearham Primary Academy | Cumbria Sea Fisheries | Lakeland Arts Trust |
| Eaglesfield Paddle Academy | Dept Constit Affairs (Cumbria Magistrates) | NRCS Ltd (Neighbourhood Revitalisation) |
| Energy Coast UTC | Health Authority | Project Homeless |
| Fairfield Primary Academy | Millom Town Council | Troutbeck Bridge Swimming Pool |
| Furness Academy | Port of Workington | |
| George Hastwell School Academy | Practical Alternatives to Custody (Ltd) | |
| Ghyllside Academy | Seaton Parish Council | |
| Gilsland Academy | Water Authority | |

# 10.3 GLOSSARY

**Active Management** – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. *(Also see Passive Management).*

**Actuary** – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

**Actuarial Valuation** – An actuary formally reviews the assets and liabilities of the pension Fund and produces a report on the Fund's financial position.

**Admitted Body** – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain.

**Alternatives –**Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

**Asset Allocation –** Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

**Auto Enrolment** - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

**Benchmark** – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

**Bid price** – Price at which a security or unit in a pooled fund can be sold.

**Bonds** – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

**Buy and Hold Credit -** An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

**Career Average Revalued Earnings (CARE) Scheme –** The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

**CIPFA –** Chartered Institute of Public Finance & Accountancy.

**Class Action –** An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

**Conflicts of Interest** - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

**Consumer Price Index (CPI)** - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

**Corporate Governance** - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

**Counterparty** - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

**Custodian –** Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

**DCLG –** Department for Communities and Local Government.

**Defined Benefit** – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

**Defined Contribution** – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

**Derivative** – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

**Diversification –** Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

**Divestment or divestiture** – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

**EBITDA –** Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

**Emerging Markets** – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

**Engagement** - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

**Equities** – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

**ESG (Environmental, Social and Corporate Governance)** - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

**Exchange Traded Fund (ETF)** - Fund that tracks an index, but can be traded like a stock.

**Fiduciary Duty** - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

**Final Salary** – Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

**Fixed Interest Securities** – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

**Funding Level** – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

**Futures Contract** – A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

**Gilts –** These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

**Governance** - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

**IFRS** – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

**Index-linked Gilts** – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

**Index-Tracking Fund (Managed Fund)** – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

**Infrastructure** - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

**Investment Strategy** – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

**Liabilities** – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

**Market Value** – The price at which an investment can be bought or sold at a given date.

**Myners Review** – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

**OTC** - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

**Passive Management** – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

**PIRC –** Pensions & Investment Research Consultants

**Pooled Investment Fund** – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

**Pooling –** In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

**Portfolio** – Block of assets generally managed under the same mandate.

**Private Equity** – Shares in unquoted companies. Usually high risk, high return in nature.

**Private Equity Secondaries** – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

**Retail Price Index** – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

**Real Estate Debt** – Commercial property loans; the debt is secured against commercial property or portfolios of property, 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.

**Return** – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

**Risk** – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

**Scheduled Body** – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

**Settlement** – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime after the deal and price are agreed.

**Shareholder Voting** - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right to vote on matters of ‘corporate policy’ at the underlying company’s AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes ;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted ‘by proxy’. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

*Resolutions which are voted upon include:-*
*Approval of Annual Report and Accounts*
*Approval of Remuneration Policy, and Remuneration Report*
*Election/Re-election of Directors*
*Appointment/Re-appointment of auditors*
*Approve dividend*

*Approve political donations*

Voting is the key to exercising ownership rights, and influencing investee company policy

**Socially Responsible Investing** – An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

**Stewardship** - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

**Stock Lending** – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

**Target** – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

**Triennial Actuarial Valuation –** Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund’s financial position.

**Unit Trust** – A specific type of pooled investment fund.

**Unquoted (Unlisted) Stock** – A company share that is not available for purchase or sale through the stock market.

**Venture Capital** – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

GrantThornton

## Independent auditor's report to the members of Cumbria County Council on the pension scheme financial statements

### Opinion

We have audited the pension scheme financial statements of Cumbria County Council (the 'Authority') for the year ended 31 March 2018 set out on pages 172 to 247 which comprise the Pension Fund Account, the Net Assets Statement and the related notes. 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 2017/18.

In our opinion the pension scheme financial statements:

- give a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension scheme of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension scheme 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.

### Who we are reporting to

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.

### Conclusions relating to going concern

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

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

## Other information

The Director of Finance is responsible for the other information. The other information comprises the Pension Scheme Annual Report and information included in the Cumbria County Council Statement of Accounts and Annual Governance Statement, other than the Cumbria Local Government Pension Scheme Financial Statement, our auditor's report thereon and our auditor's report on the Administering Authority's financial statements. Our opinion on the pension scheme 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 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 financial statements or our knowledge of the pension scheme of the Authority obtained in the course of our work 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 this 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 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 financial statements the other information published together with the pension scheme financial statements in the Pension Scheme Annual Report, the Cumbria County Council Statement of Accounts and the Cumbria County Council Annual Governance Statement for the financial year for which the pension scheme financial statements are prepared is consistent with the pension scheme financial statements.

## Matters on which we are required to report by exception

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

- we have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 21 to 22, 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 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension scheme 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 the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Assurance Committee is Those Charged with Governance.

## Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension scheme 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 pension fund financial statements.

A further description of our responsibilities for the audit of the pension scheme 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.

***Gareth Kelly***

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

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27 July 2018