Environment Agency
Pension Fund

Closed Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2023

Environment Agency Closed Pension Fund

Annual Report and Financial Statements 2022/23

Presented to Parliament pursuant to Section 52 of the Environment Act 1995

Ordered by the House of Commons to be printed on 29 November 2023

HC 14

This publication is available at **www.gov.uk/official-documents**

Any enquiries regarding this publication should be sent to us at eapf@environment-agency.gov.uk

ISBN: 978-1-5286-4147-0

E02918117 11/23

Printed on paper containing 40% recycled fibre content minimum

Printed in the UK by HH Associates Ltd. on behalf of the Controller of His Majesty's Stationery Office

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Environment Agency Pension Fund (EAPF) Chair's statement

I take great pride in chairing the Environment Agency Pension Fund and am pleased to present the Closed Fund’s Annual Report and Financial Statements for the year ended 31 March 2023.

Every year presents new challenges and 2022/23 was no exception. Global events contributed to market volatility, inflation, increased risks of cyber security and significant cost of living increases for our members. And we got yet more stark warnings about the state of our planet. Despite all the challenges, the Fund remains in good health and fully committed to serving our members.

During the year the total number of pensioners and deferred members fell from 10,707 to 10,016. At 31 March 2023, the net assets of the Fund were valued at £267.2m (2022: £329m) and the Fund’s liabilities were £411.8m (2022: £452.8m). To match the duration of the Fund’s liabilities, the investment management of the assets are spread across six index linked gilts managed by Sarasin & Partners LLP. Over the three years to 31 March 2023, the annualised investment rate of return was -4.7% (2022: +3.2%).

We completed our formal triennial valuation during the year. At 31 March 2022, the Fund reflected a funding level of 67% (2019: 51%). The estimated funding level at 31 March 2023 is 65% (2022: 72%).

Since the Fund has no contribution income, under Section 173 of the Water Act 1989, the Government has a statutory obligation to ensure that the Fund can always meet its pensions and other related liabilities. Deferred members, pensioners and their dependents can therefore be reassured about the long-term security of their pension benefits. Under the terms of letters between Her Majesty's Treasury and the Department for Environment Food & Rural Affairs (Defra), and between Defra and the Environment Agency and the Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency, the Fund receives grant-in-aid from Defra. During the year, payments amounting to £43.6m (2022: £47.9m) were received and used to meet the Fund's obligations to meet pensions and other liabilities.

Being a public sector fund reflects on the culture, operations, and level of transparency of the Fund. Along with acting in the best interest of our members, the desire to act in the wider public interest is strong and influences our approach. We said a fond farewell to some long-standing Pensions Committee members over the year, but successfully recruited their replacements who will contribute fresh thoughts and ideas. I must pay testament to the high level of commitment and engagement from all our Pension Committee Members.

I also want to thank everyone involved, including our Pension Fund Management Team, employers, and external contractors, in managing and supporting the Environment Agency Closed Pension Fund.

I hope you enjoy reading about the success of our Fund over the year. We will continue to keep you updated at **www.eapf.org.uk**.

Robert A. Gould

Robert Gould
Chair, Environment Agency Pensions Committee
24 November 2023

About the Environment Agency Pension Fund

LGPS background

With 6.1 million members, the Local Government Pension Scheme (LGPS) is one of the largest public service pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employers participating in the Scheme.

Employers in the Scheme include local authorities and public service organisations as well as other employers which provide the LGPS for their employees by becoming admitted bodies. The Scheme is administered for participating employers locally through around 90 regional pension funds in England and Wales of which the EAPF is one.

LGPS regulations

The Scheme rules are contained in regulations made by Parliament after consultation with both employee representatives (Trade Unions) and employer representatives. The rules comply with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995, the Pensions Act 2004 and the Pensions Act 2008.

The LGPS provides salary related defined benefits, which are not dependent upon investment performance. As the LGPS is a statutory funded pension scheme, it's a secure pension arrangement with rules set out in legislation made under Acts of Parliament (the Superannuation Act 1972 and Public Service Pensions Act 2013).

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004, achieving automatic registration by virtue of Part 1 of Schedule 36 of that Act (because the LGPS was, immediately before 6 April 2006, both a retirement benefits scheme approved under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and a relevant statutory scheme under section 611A of that Act). The LGPS was contracted out of the State Second Pension (S2P) until 5 April 2016, and it provides benefits that are as good as most members would receive if they had been in the S2P.

The LGPS benefits are primarily governed by the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525). The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946). These are all subject to amendment over time.

The LGPS is a national defined benefit pension scheme providing final salary benefits in relation to membership up to 31 March 2014 and career average revalued earnings (CARE) for membership from 1 April 2014.

State Pension provision and the Pensions Act 2014

In May 2014, the Pensions Act 2014 introduced a fundamental change to the provision of state pension in the UK alongside a number of significant changes for private pensions.

From 6 April 2016, the State Pension system in the UK changed with the introduction of a new single tier State Pension. The new system applied to individuals who reached their State Pension Age on or after 6 April 2016. The changes to the State Pension also heralded the abolition of contracting out for Defined Benefit schemes, such as the EAPF, from April 2016.

The Act also legislates for the acceleration of State Pension Age from age 66 to 67 for both men and women between 6 April 2026 and 5 April 2028.

LGPS responsibilities

The regulations give specific responsibilities to scheme employers and pension fund administrators, each of whom must make decisions in relation to some matters and can exercise their discretion in relation to others.

The Environment Agency Board delegates responsibility for management of the Fund to a Pensions Committee. The Pensions Committee is assisted by an Investment Sub Committee, and our Pension Board which was created on 1 April 2015.

The Fund Actuary sets each employer's contribution rate as part of the actuarial valuation of the Fund's assets and liabilities every three years. The 31 March 2022 valuation has been completed, and the next triennial valuation is due as at 31 March 2025.

Changes to the Local Government Regulations during 2022/23

There were two changes to existing pensions legislation and three brand-new pieces of legislation that were made/come into force during 2022/23 that affect the Local Government Pension Regulations 2013, these were:

- **The Public Service Pensions and Judicial Offices Act 2022 (PSPJOA 2022)** – receiving Royal Assent on 10 March 2022, this Act is a piece of primary legislation, setting out the changes that public service pension schemes (PSPS) need to make to their rules to incorporate the requirements of the McCloud Judgment (i.e. extending the final salary protection, which was originally offered to certain older members, to younger members, too). Whilst the Act provides broad strokes to PSPS on what changes need to be made to their scheme rules, some of the detail on how the scheme(s) will actually rectify the discrimination won't be known until the final amendment regulations for each scheme are published.

- **The Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022** – Coming into force on 1 June 2022 and amending the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, these regulations introduced the requirement to offer members with defined contribution (DC) benefits (including DC benefits attached to a defined benefit main scheme benefit i.e. an AVC fund) the opportunity to receive free, impartial guidance from Money Helper on the different ways in which their DC benefits can be taken. Generally known as the 'Stronger Nudge towards Pensions Guidance', the new rules required pension providers to offer to book Money Helper appointments on a member's behalf, with members needing to either accept the appointment or opt out of receiving the guidance (though a few exceptions apply, where members don't need to be offered a 'nudge').

- **The Pensions Dashboard Regulations 2022 (PDR 2022)** – coming into force on 12 December 2022, the PDR 2022 sets out the rules for pension providers to make their data ('value data') accessible to members wishing to see a summary of all their pension rights (in most cases, both a current value and a projection to the member's Normal Pension Age) in one handy place – the 'pensions dashboard'. Although LGPS funds have until September 2024 (though it's likely that this deadline will be extended) to make their data available (the 'staging date'), there's a considerable amount of work that LGPS funds will need to do to ensure how the 'value data' is displayed (as well as when 'value data' needs to be provided).

- **The Public Service Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023** – applicable specifically to members affected by the McCloud Judgment, these regulations, which come into force on 6 April 2023, were introduced to allow for certain pensionable payments to be made, and for certain decisions to be made retrospectively, without the member being subject to the unauthorised payments tax charges. In addition, the regulations remove the need to revisit previous annual allowance calculations where, had the member received a final salary uplift at the time, the member's pension savings for an earlier tax year would be greater.

- **The DRAFT Local Government Pension Scheme (Amendment) Regulations 2023** – although the regulations are currently in draft, the DLUHC fully intends to move the Scheme's in-service revaluation rate (which is currently linked to the rise in the Consumer Price Index from October to September) from 1 April to 6 April, but still applying the revaluation to the member's accrued career average pension on 31 March 2023. Whilst, on the face of it, the change seems relatively small, it will have a considerable impact on members' pension savings towards the annual allowance, as the revaluation rate for April 2023 (10.1%) will not be included in the pension savings calculation for the 2022/23 tax year. Going forwards, the inflationary increase used to revalue pension savings at the start of the tax year will be the same as the revaluation applied to the career average pension during the tax year, thereby making the inflationary/revaluation increases relatively neutral to one another. If (or, more likely, when) the regulations are approved, the plan is for them to come into effect on 31 March 2023.

Environment Agency Pension Fund governance

Introduction

The Environment Agency is the administering authority responsible for maintaining and managing the Environment Agency Pension Closed and Active Funds (the Funds), which are part of the Local Government Pension Scheme (the Scheme) in England and Wales.

Flexibility is provided for each Administering Authority to determine their own governance arrangements relating to how they maintain and manage their Fund. Our Governance Policy provides high level information in relation to those arrangements and how we govern the Funds. **This, and our other policies, can be found at www.eapf.org.uk/trustees/governance-policies**

Objectives

Our main governance objectives are to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place to manage conflicts of interest and to facilitate informed decision making, supported by appropriate advice, policies and strategies understand and monitor risk.
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success.
- Deliver our services through people who have the appropriate knowledge, skills and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance ensure those persons responsible for governing the EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest; and
- Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.

Regulatory background

The Local Government Pension Scheme is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 outline the key responsibilities of administering authorities in managing the Scheme.

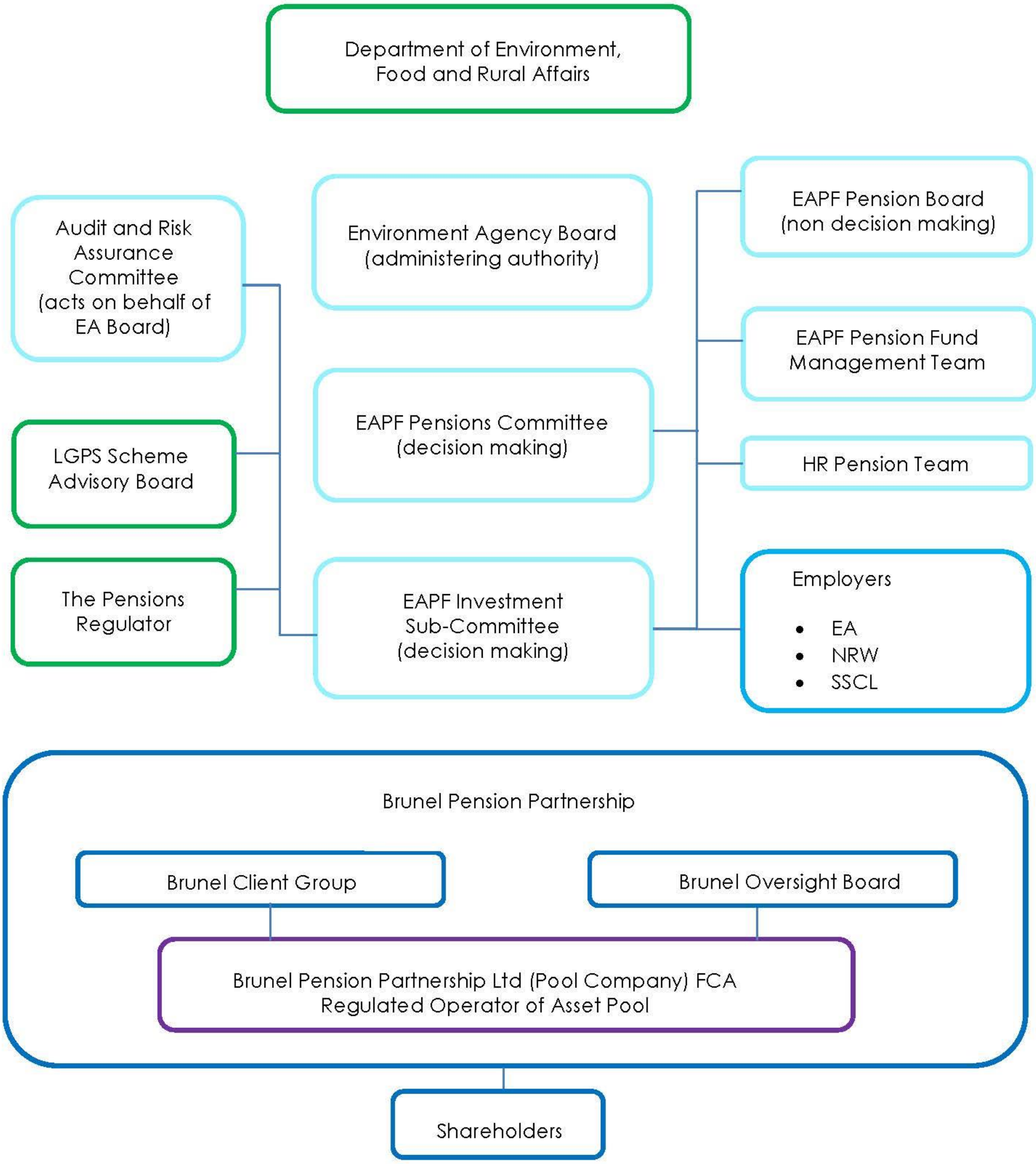
Our Governance structure

The EAPF is one of around 90 Administering Authorities responsible for managing LGPS Funds in England and Wales. Our Funds were created at the time of the privatisation of the water industry in England and Wales in 1989 and were established as the National Rivers Authority Pension Fund.

The former Water Authorities Superannuation Fund was divided in three ways: company schemes for employees transferring to the new water companies; the Active Fund for employees joining the then National Rivers Authority (the predecessor to the Environment Agency); and the Closed Fund for deferred and pensioner members at that time.

EAPF Pensions Committee and summary governance structure

The Environment Agency Board delegates the management and oversight of the Fund in the main to a Pensions Committee, an Investment Sub-Committee, and a Pension Board. The EAPF governance structure, role of the Pensions Committee and interaction with stakeholders is illustrated at a high level in the following diagram. The role of Brunel is explained in detail on page 86.



Pension Fund membership

The Fund exists to pay the current and deferred benefits of employees of the former water authorities and associated bodies, which existed prior to1 September 1989. There are no contributing members. During the year since 1 April 2022, the number of deferred members has fallen by 16.2% from 826 to 692 (2022: fell by 7.0%). The number of pensions in payment fell by 5.6% from 9,881 to 9,324 (2022: fell by 5.8%). With no active members in the Fund, this will be a similar pattern for the future. However, dependents and deferred pensions coming into payment will serve to maintain the number of current pensioners for some years to come.

The Following tables illustrate the movement of pensioner members and deferred members over the year:

Movement in number of members	Pensioner members	Deferred members	Total
At 1 April 2022	**9,881**	**826**	**10,707**
Adjustment for late notifications	62	(61)	1
Revised opening balance	9,943	765	10,708
Add:			
New pensioners	65		65
New dependants' pensions	95		95
Less:			
Deaths/no longer eligible/suspended	(773)	(7)	(780)
Transfers to other schemes		(1)	(1)
Deferred pensions into payment		(65)	(65)
Commuted benefits	(6)		(6)
At 31 March 2023	**9,324**	**692**	**10,016**

Age profile of pensioner members at 31 March				
	2023		2022	
	No.	%	No.	%
Child dependants	48	0.5	52	0.5
Pensioners and spouses				
Under 55	10	0.1	9	0.1
55-59	53	0.6	56	0.5
60-64	620	6.6	756	7.7
65-69	1,393	14.9	1,440	14.6
70-74	1,505	16.1	1,509	15.3
75-79	1,342	14.4	1,362	13.8
80-84	1,208	13	1,321	13.4
85-89	1,516	16.3	1,642	16.6
90-94	1,184	12.7	1,276	12.9
95-99	401	4.3	400	4.0
100-108	44	0.5	58	0.6
Total	**9,324**	**100**	**9,881**	**100**

Age profile of deferred members at 31 March				
	2023		2022	
	No.	No.	No.	%
50-54	62	9.0	104	12.6
55-59	289	41.7	363	43.9
60-64	209	30.2	241	29.2
65-69	101	14.6	88	10.7
70-74	21	3.0	23	2.8
75-79	8	1.2	6	0.7
80+	2	0.3	1	0.1
Total	**692**	**100**	**826**	**100**

Pensions increase

LGPS pensions in payment and deferred benefits are reviewed under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975 and linked to the change in the Consumer Prices Index (CPI).

Our pensions in payment and deferred pensions received an increase from 10 April 2023 of 10.1% (11 April 2022: 3.1%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2014:

April %	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Increase	2.7	1.2	0.0	1.0	3.0	2.4	1.7	0.5	3.1	10.1

Key governance documents

The following are the key documents relating to the governance of the Fund.

Title	Description
Environment Agency Framework Document	This is issued to the Environment Agency by Defra and sets out the Environment Agency's responsibilities with respect to pensions.
Terms of Reference and Standing Orders of The Pensions Committee, Investment Sub-Committee and Pension Board	As defined by the Environment Agency Board, this details the delegated responsibilities of the PC, ISC and Pension Board as well as detailing the membership and meeting procedures such as frequency, quorum and reporting.
Scheme of delegation	The Environment Agency's Scheme of Delegation is approved by the Environment Agency Board. This prescribes the scope of the delegation of powers beyond those included in the PC, ISC and Pension Board Terms of Reference. In particular it details specific delegations to officers and instructions to the third party administrators relating to the management of the Scheme. The statement of delegation details the pension extract from the Environment Agency's Non-Financial and Financial Scheme of Delegation; day to day management by Pension Fund Management team; and employing authorities responsibilities and discretions.
Governance Compliance Statement	As approved by the Pensions Committee, this is required by regulation 55 of the Local Government Pension Scheme Regulations 2013. It states how the EAPF complies with Secretary of State guidance.
Knowledge and Skills Policy	As approved by the Pensions Committee, this outlines the EAPFs approach to ensuring all key decision makers have the appropriate knowledge and skills to carry out their roles effectively.
Conflicts of Interest Policy	As approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.
Risk management policy	This policy sets out our strategic approach to effective risk management and provides cross references to the detailed risk assessment in the principal strategy documents of the fund.

Committee members must make an annual declaration of any conflicts of interest and prior to each meeting. These are recorded and held on the register of interest by our Secretariat. The Chair reviews the register annually.

Monitoring governance of the EAPF

The Fund's governance objectives are monitored as follows:

Objective	Monitoring Arrangements
Act in the best interests of the EAPF's members and employers.	The PC, ISC and Pension Board include representatives from scheme members and employers in the EAPF with equal voting rights.
Have robust governance arrangements in place, to manage conflicts of interest and to facilitate informed decision making, supported by appropriate advice, policies and strategies.	The Risk and Governance Adviser undertakes a regular review of the effectiveness of the EAPF's governance arrangements, the findings of which are reported to the PC and the Environment Agency Board. In line with the Regulations the Governance Compliance Statement will be filed with the the Department for Levelling Up, Housing and Communities (DLUHC). A Conflicts of Interest Policy is in place together with ongoing reporting and monitoring of the register of conflicts in accordance with the Conflicts of Interest Policy.
Understand and monitor risk.	A Risk Management Strategy is in place and integral to day-to-day management of the EAPF. A regular risk and compliance internal audit is carried out and reported to the Pension Board and Environment Agency Audit and Risk Assurance Committee. Ongoing consideration of key risks at PC and ISC meetings.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success.	• All strategies and policies include reference to how objectives will be monitored. • Ongoing monitoring against key objectives at PC meetings. • Ongoing monitoring of business plan targets at PC meetings. Quarterly and annual updates against the BPP business plan and objectives.
Deliver our services through people who have the appropriate knowledge, skills and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.	Outsourced providers selected for their expertise, professional knowledge, and capabilities to deliver quality and value for money services. Agreed measures, as part of robust contract management, are in place to ensure our objectives are achieved through third parties as appropriate. A Knowledge & Skills Policy is in place together with appropriate measures to ensure its objectives are being achieved.

Objective	Monitoring Arrangements
Deliver our services through people who have the appropriate knowledge, skills and expertise and ensure that this knowledge, skills, and expertise is maintained within the continually changing LGPS and wider pensions landscape.	Outsourced providers selected for their expertise, professional knowledge, and capabilities to deliver quality and value for money services. Agreed measures, as part of robust contract management, are in place to ensure our objectives are achieved through third parties as appropriate. A Knowledge & Skills Policy is in place together with appropriate measures to ensure its objectives are being achieved.
Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance.	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to the PC. • The Fund carries out a regular compliance check against the relevant The Pension Regulator's Code of Practice. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure which is reported on and monitored as outlined in that procedure. • The Pension Board prepares and publishes an annual report which may include comment on compliance matters.
Ensure those persons responsible for governing EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.	A Knowledge & Skills Policy and Conflicts of Interest Policy are both in place together with appropriate measures to ensure its objectives are being achieved.
Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.	• All information security breaches relating to data being issued insecurely by the Fund are recorded and reviewed. • All other incidents affecting confidentiality, integrity and accessibility of data, systems or services are recorded and reviewed. • The Fund has a framework for managing cyber risks in place. • The Fund has a business continuity plan. All Fund staff undertaken data protection and cyber training in accordance with the objectives of the Knowledge and Skills Policy.

EAPF Governance

Pensions Committee, Investment Sub Committee and Pension Board membership

The Environment Agency Board appoints members in accordance with our Governance Compliance Statement. Membership of the Pensions Committee (PC) will normally be 14 including the Chair of the PC. Members of the PC will comprise:

- Four Non-Executive Board members of the Environment Agency, one of whom will be the Chair;
- Two Executive members of the Environment Agency;
- One Non-Environment Agency Employer representative member;
- Five Active Scheme member representatives; and
- Two Pensioners or one Pensioner and one Deferred member representative.

Membership of the Investment Sub Committee (ISC) will be appointed by the Environment Agency Board and will normally be seven Committee members as follows:

- Two Non-Executive Environment Agency Board members (one of whom should be nominated as Chair of the ISC by the PC;
- Two from the Executive Environment Agency and Employer representative members (or deputies); and
- Three Scheme member representatives (active, pensioner or deferred).

Membership of the Pension Board is covered below under the Annual Statement from the Chair of the EAPF Pension Board.

Changes to Pensions Committee, Investment Sub Committee and Pension Board membership

Peter Kellett retired from the Environment Agency and has been replaced by Estelle Palin (Interim Director of Legal Services) from 27 September 2022. Laura Milton, new Environment Agency Director of Legal Services has replaced Estelle Palin on both Pensions Committee and Investment Sub Committee from 25 May 2023.

Colin Chiverton resigned from the Pensions Committee on 31 March 2023 after serving on the PC for the maximum 10 years. Following a competitive and inclusive recruitment exercise, Colin was replaced by new active member representative, Alice Davis, for a 3-year term to 31 March 2026. Matthew Chaddock was also appointed as the new Shadow Member Representative from 1 April 2023.

Pensions Committee (PC), Investment Sub-Committee (ISC) and Pension Board (PB) membership

As at 31 March 2023	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members					
Robert Gould	PC, ISC, PB	18/10/2018	4 yr 6 mth	31/03/2025	2 yr 0 mth
Caroline Mason	PC, ISC, PB	03/12/2018	4 yr 4 mth	31/03/2024	1 yr 0 mth
John Lelliott	PC, PB	12/12/2019	3 yr 4 mth	31/03/2024	1 yr 0 mth
Lilli Matson	PC, PB	30/09/2021	1 yr 6 mth	31/01/2025	1 yr 4 mth
Administering Authority Executive Manager nominees					
Peter Kellett	PC, ISC	01/02/2018	Resigned	N/A	N/A
Estelle Palin	PC, ISC	27/09/2022	0 yr 7 mth	N/A	N/A
Phil Lodge	PC, ISC	16/05/2018	4 yr 11 mth	N/A	N/A
Non-Environment Agency Executive Employer representative					
Rachael Cunningham	PC, PB	07/09/2020	2 yr 7 mth	06/09/2023	0 yr 5 mth
Contributing member nominees and representatives					
Colin Chiverton	PC, ISC, PB	01/04/2013	10 yr 0 mth	31/03/2023	0 yr 0 mth
Will Lidbetter	PC, ISC, PB	01/08/2016	6 yr 8 mth	31/07/2025	2 yr 4 mth
Danielle Ashton	PC, ISC	01/02/2018	5 yr 2 mth	31/01/2024	0 yr 10 mth
Veronica James	PC	16/05/2019	3 yr 11 mth	15/05/2025	2 yr 1 mth
Greg Black (shadow)	PC	01/04/2022	1 yr 0 mth	31/03/2025	2 yr 0 mth
Pensioner and deferred members					
Peter Smith	PC, PB	14/05/2015	7 yr 11 mth	13/05/2024	1 yr 1 mth
Hywel Tudor	PC, PB	14/05/2015	7 yr 11 mth	13/05/2024	1 yr 1 mth

Committee member biographies

The biographies of Committee members included below demonstrate the past and current experience of the membership and form the basis for decisions on future training needs as part of our adoption of the CIPFA Knowledge and Skills Framework for LGPS funds.

Robert Gould was appointed to the Board of the Environment Agency in 2018. As well as chairing the Pensions Committee he also sits on the Board's Flood and Coastal Risk Management Committee and Audit and Risk Management Committee. He is the EA Shareholder Representative to the Brunel Pension Partnership where he chairs the Oversight Board. He has a background in local government and was Leader of Dorset County Council from 2014 to 2017 and Leader of West Dorset District Council from 2004 to 2014. He was a vice chair of South West Councils and a member of the Local Government Association's Improvement and Innovation Board from 2015 to 2017. He previously managed the family farm after working in industry and property management. He is a deferred member of the LGPS (Dorset County Fund).

John Lelliott OBE was appointed to the Board of the Environment Agency in 2018. John became Chair of the Audit and Risk Assurance Committee in August 2018, is a member of the Flood and Coastal Risk Management Committee and is the Area Board member for East Midlands. John is currently a Board Member of the Covent Garden Market Authority where he chairs the Audit and Risk Committee. He is also Chair of the Natural Capital Coalition and Non-Executive of the Royal Bournemouth and Christchurch Hospital Foundation Trust where he chairs the Finance Committee and is a member of the Audit Committee. John is a member of H.R.M the Prince of Wales AHS Advisory Council and is also a chair of the A.C.C.A. Global Forum of Sustainability.

Dame Caroline Mason CBE is Chief Executive at Esmée Fairbairn Foundation. Before joining Esmée, Caroline was Chief Operating Officer at Big Society Capital and preceding that, Charity Bank. Caroline was also the co-founder of Investing for Good, a social investment advisory firm and one of the first Community Interest Companies. Before joining the social sector, Caroline had an eighteen-year track record of creative and innovative product development in the financial services sector. With Reuters, she managed the global development of real-time news and television services and then pioneered the introduction of web technology products. She also had her own consulting company, working with several financial institutions to develop new business and products including an electronic brokering service and a global wealth management business for a private bank. Caroline is a Board Member of the Environment Agency and the Impact Investing Institute.

Peter Kellett is a solicitor and Director of Legal Services for the Environment Agency. He attends the Environment Agency's Executive Directors Team and is an Executive nominated Member of the Pensions Committee. Peter has a Masters in Environmental Law and works on environmental regulation from its design to implementation. He has worked on the creation of Natural Resources Wales, Environmental Permitting, Civil Sanctions and the creation of Brunel Pension Partnership. He leads a legal team providing legal advice and litigation services to the Environment Agency. He is a former trustee and Chair of the UK Environmental Law Association and of St Werburghs City Farm in Bristol. Peter is currently a NED at the Great Western Credit Union. Peter is both a deferred and also an active member of EAPF.

Estelle Palin is a solicitor and Interim Director of Legal & Audit Services for the Environment Agency. She attends the Environment Agency's Executive Directors Team and is an Executive nominated Member of the Pensions Committee. Estelle works on environmental legislation, flood risk and infrastructure. She has advised on national incidents and led the Environment Agency's legal team enabling the delivery of the 6 year 2.6Bn capital programme on time and on budget and exceeding outcome targets. Estelle leads a legal team providing legal advice, litigation and Internal Audit services to the Environment Agency. Estelle is an active member of EAPF.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in Thames Area and has been an active member of the EAPF for 31 years. Colin has attended many training events on the LGPS and completed the Pensions Regulator's Public Service training. He has developed his knowledge on pension fund investment and management. He is the Pensions Representative of Prospect Union's Environment Agency Branch. Colin's tenure on the Pensions Committee ended on 31 March 2023 having served for 10 years on the Committee.

Danielle Ashton has been a member of the LGPS for 25 years. She is a contributing member representative of the committee since 2017 following open recruitment. She is employed by the Environment Agency as a Research Manager in Environment and Business working on land and net zero research issues. She has attended a series of training events run by the LGPS and will continue to develop her knowledge on pension management and investment. Danielle has attended a company AGM on behalf of the pension fund to raise the issue of their approach to climate change.

Will Lidbetter has been an active member of the Fund since 1992, and an active member nominee since July 2016. He has attended the induction training events on the LGPS and a number of other courses and conferences. Will is currently a specialist in data governance and strategy. He leads on Pensions for the Unison Thames branch and has dealt with pension issues on behalf of his members.

Peter Smith is a qualified solicitor (retired) and his appointments included Chief Executive of Malvern Council and Regional Solicitor to the Severn Trent Water Authority. Peter entered The Salvation Army Training College in 1978 and was commissioned and ordained in 1980. Following church appointments, in April 1989 Peter was transferred to International Headquarters and became the Legal and Parliamentary Secretary, a post which he held until retirement on 1 December 2009. In this capacity Peter advised The Salvation Army worldwide on a very wide range of legal issues and continued in the role of Director of Legal Services until February 2011. During this time Peter served as a Director/Trustee of The Salvation Army Trustee Company, The Salvation Army International Trustee Company and was a member of the Board of Management of The Salvation Army Housing Association. These positions and appointments have all given Peter a wide experience of law and administration of charitable bodies both in the United Kingdom and internationally. He currently serves on the Board of charity Guideposts.

Hywel Tudor is the deferred pensioner member of the EAPF having previously worked in senior management roles for the National Rivers Authority and Environment Agency in Wales. A qualified accountant with senior level experience in the public, private and charity sectors, prior to retirement he was Director of Finance & Resources for the Arts Council of Wales. He became an Independent non-executive member of the Sport Wales Audit and Risk Assurance Committee in November 2021 and completed his Independent non-executive role with the National Library of Wales in late 2022. Hywel joined the EA Pension Committee and Pension Board in 2015. He had previously been a member of the Arts Council Retirement Plan Trustee Board for 15 years. During his time as a pension trustee he has regularly attended relevant training events and gained wide ranging experience of pension matters.

Phil Lodge has been an active member of the LGPS since 1992 and joined the Pensions Committee in 2018. He has received general pension management training. Phil is currently a Director in Local Operations where he leads the delivery teams across the South and South-West of England. Phil has been a trustee of a number of charities and sat on the General Council of the Chartered Institution of Wastes Management (CIWM) for 12 years, was CIWM South West Chair from 2005-2008, and elected a Fellow in 2012. He holds an Honours Degree in Environmental Science, a Master's Degree in Business Administration and is a Chartered Environmentalist. Phil represents the Environment Agency's Executive on the Pensions Committee.

Rachael Cunningham joined NRW as Executive Director of Finance and Corporate Services, Natural Resources Wales in 2020 having previously worked as Finance Director at the DVLA. Prior to that she held several senior finance positions in the private and public sectors, including manufacturing and interior design. She is a strategic finance leader, with a focus on business transformation. Rachael is an ICAEW Chartered Accountant with a BSc Hons Degree in Chemistry from Imperial College, London.

Veronica James was appointed to the Pensions Committee as a member representative in May 2019. She has been a member of the LGPS since 2012 and is also a deferred member of LGPS from a previous employment. Veronica is currently a Planning Specialist in Thames Area and is Planning Manager for the Oxford Flood Alleviation Scheme. She attended a series of LGPS induction training courses run by the Local Government Association in autumn 2019 which increased her understanding of her role and responsibilities on the Pensions Committee. She is continuing to develop her knowledge on pension management as this will help her carry out her duties effectively as a Trustee.

Greg Black (Active member representative) joined the committee in as a full member in 2022 and is looking forward to increasing his knowledge of pension funds and investments. He is a Senior Advisor with the Advanced Technologies and Future Strategy team in E&B with a PhD in Nuclear Engineering and strong background in data analysis. Greg has been attending AGMs of companies we invest in to raise questions related to our responsible investment policy. Greg is also the Pensions representative for Prospect Union.

Lilli Matson is a member of Flood and Coastal Risk Management and Pensions Committees and attends the Investment Sub Committee. She is the Area Board member for Devon, Cornwall and the Isles of Scilly, as well as Greater Manchester area. Lilli is Chief Officer of Safety, Health and Environment at Transport for London (TfL) since 2019. Her former roles at TfL include Director of Transport Strategy, Head of Strategy and Outcome Planning, Head of Delivery Planning and Head of Integrated Area Programmes. She is a Board member of the London Transport Museum. She brings a wealth of operational, infrastructure, urban planning and pension fund experience.

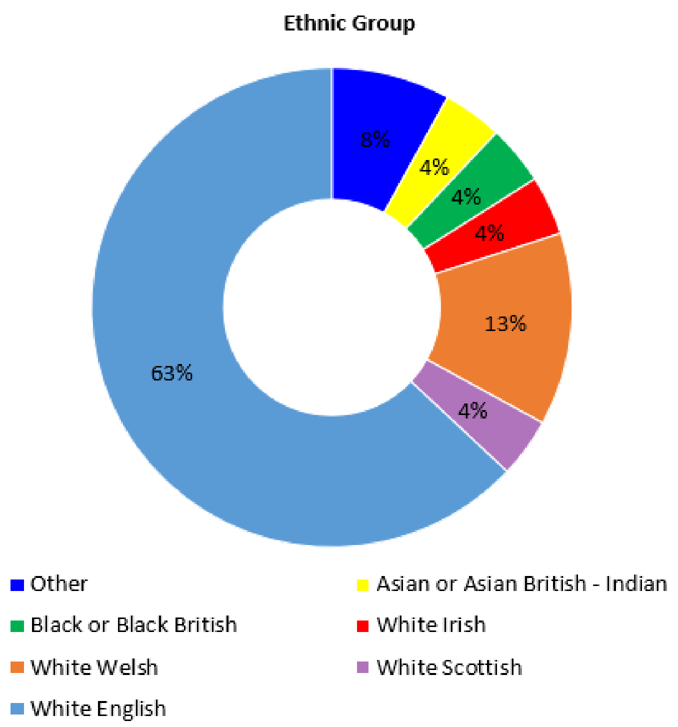
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

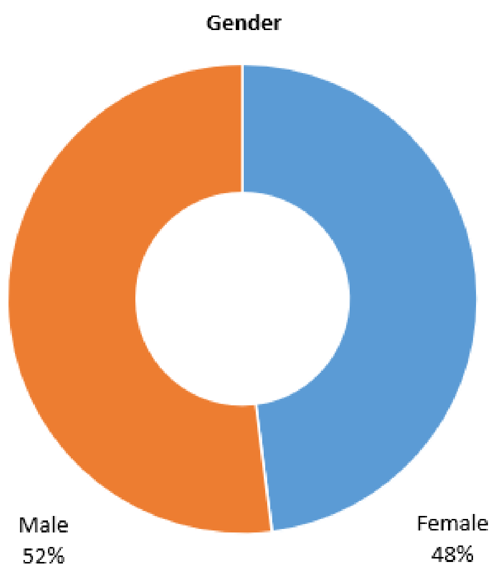
During the past year, the Pensions Committee met on four occasions. The Investment Sub-Committee met on six occasions and the Pensions Board met on one occasion.

	Pensions Committee meeting 4 in total	Investment Sub-Committee 6 in total	Pension Board meeting 1 in total	Total attendance
Board members				
Robert Gould (Chair)	4/4	5/6	1/1	10
Lilli Matson	3/4	-	1/1	4
John Lelliott	4/4	-	1/1	5
Caroline Mason	4/4	4/6	1/1	9
Executive members				
Peter Kellett	2/2	2/3	-	4
Estelle Palin	2/2	2/3	-	4
Rachael Cunningham	2/3	-	0/1	2
Robert Bell	1/1	-	-	1
Phil Lodge	3/4	6/6	-	9
Active members				
Danielle Ashton	3/4	-	-	3
Colin Chiverton	4/4	5/6	1/1	10
Veronica James	4/4	-	-	4
Will Lidbetter	4/4	5/6	1/1	10
Greg Black	4/4	1/6 (Observer)	-	5
Pensioner members				
Peter Smith	4/4	3/6 (Observer)	1/1	8
Hywel Tudor	4/4	3/6 (Observer)	1/1	8

Diversity

Below is diversity information for the combined personnel within the Pension Committee, Pension Board and Officers.





Pensions Committee business during 2022/23

The Pensions Committee made several key recommendations and decisions throughout the year on significant issues that will have a long-term impact on the performance of the Fund. These decisions have been made in a timely and informed manner, in line with our policies, taking appropriate legal, financial and investment advice, when necessary.

Our key activities included:

a) Management of EAPF related risks including cyber risk.

Risk management and discussion of risk registers is an important standing item on both the Pension Committee and Investment Sub Committee agenda. Our top risks which we continue to manage include: External geopolitical events (including COVID pandemic and Ukraine/Russia conflict), Cyber Security, data, Team resilience and succession and risks around third party supplier delivery.

We completed our internal IT (DDTS) review of our cyber risk, funded directly by the Environment Agency. We will be implementing recommendations from this review during 2023.

In addition, the volatility in the markets, particularly following the September 2022 mini budget impacted both our funding position and assets. The Investment Sub Committee have been regularly monitoring and taken appropriate investment and funding advice. We set long term strategies to manage our risks, we remain in a very positive funding position.

b) Triennial actuarial valuation

We completed our Fund actuarial valuation at 31 March 2022 during the year. We prepared for this during 2021 and signed off the final valuation results at our September 2022 Pensions Committee meeting. We were pleased to see that the Fund remains in a very healthy funding position (103% at March 2022). We also agreed employer contribution rates with both the Environment Agency (19% p.a.) and NRW (£7m) p.a. for the 3 year period from April 2023.

Due to market movements over the year, we have seen our funding level improve significantly. More information of this can be found in the actuarial statements section and we will continue to keep members updated on progress and results through our newsletters and at **www.eapf.org.uk**.

c) New Responsible Investment Strategy Statement (RISS)

In April 2022, our updated 'Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change'. We were delighted to agree this updated policy following detailed Committee discussion and investment and legal advice. We are one of the first public sector pension funds to make this commitment and have a clear roadmap to achieve this ambition.

The implementation of this new policy has been a key focus of both the Investment Sub Committee and Pensions Committee over the last year. Following completion of our actuarial valuation, we agreed our new investment strategy at our March 2023 Pensions Committee meeting. We now have a new specific allocation to Natural Capital and an allocation to Sustainable Secured Finance. We continue to work through the Brunel Pension Partnership and welcomed Liz McKenzie, Brunel Shareholder NED to our September 2022 meeting.

We created our first Responsible Investment Strategy statement, reflecting our Investment Strategy Statement and the incorporation of high-level priorities from our Responsible Investment Strategy and Policy to Address Climate Change. We are seeking to mainstream our Responsible Investment approach within our Investment Strategy.

d) Benefits administration and communications

Our members are core to everything we do as a Fund and ensuring the right level delivery of service is critical from our administrator. Capita have reported at all our Pension Committee meetings as we continue to challenge in improving delivery.

We have set up a new Benefits Working Group of the Pensions Committee recognising the increased amount of member related activity and project that is coming down the horizon. We commenced our deferred member strategy and were regularly updated on the SSCL Pensionable Pay Project. A more detailed update on administration and communication can be found on page 32.

e) National Audit Office and the oversight and assurance from other audits

The Environment Agency Pension Fund is audited by the National Audit Office (NAO), which is different to the other local authority LGPS Funds. Our Annual Report and Financial Statements link into both the Environment Agency reports and Defra reports, and wider all of government reports.

Due to our asset size and the scope of change, we are currently seen as an area of increased risk and greater audit focus for the Environment Agency. The changes referred to include pooling through the Brunel Pension Partnership, Capita and their internal controls report (AAF 01/20), our actuarial valuation, valuation of our assets and the McCloud judgment plus other legal cases.

The NAO's audit strategy was presented at our March 2023 meeting. Our Annual Report and Financial Statements for 2021/22 were laid in Parliament in October 2022, a fantastic achievement given wider challenges.

We have also supported internal audits during the year. We have commenced a benefit related audit through Capita, which we hope to complete during 2023. We have also supported an audit of SSCL pension provision following the issues reported.

Pensions Committee training

Our Knowledge & Skills Policy incorporates the recommended standards that trustees and officers should know, as outlined in CIPFA Guidance.

All Members have individual training plans. This is based on an initial self-assessment, with all training undertaken logged and recorded.

Officers also agree a training plan with their line manager, with staff encouraged to consider achieving professional qualifications.

Some training is provided jointly to all Members and officers. This is because it may be a priority in our business plan, a high risk to the Fund or many Committee Members have recognised the need for training on that subject in their training plans. Joint training is delivered through in-house, in-person training days or as part of a formal Committee meeting. Hybrid facilities are made available for those unable to attend in person.

There was individualised training to meet specific needs. This was typically attending third-party webinars or training courses online. In 2022/23, each Pension Committee Member undertook an average of 10 hours of training. On average, each EAPF officer undertook an average of 32 hours of training. Last year, the PC received training on the issues in the following table.

PC Training Log 2022/23	Governance framework	CIPFA framework	Cyber security	Contractor management	Investment strategy	EAPF investment beliefs	Investments (Natural Capital)	Accounts and audit regulation	Actuarial Valuation	Managing complaints	Wider pensions training
EA Board members											
Robert Gould – PC Chair	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Caroline Mason	✓	✓	✓		✓	✓	✓	✓	✓	✓	
John Lelliott	✓	✓	✓			✓	✓	✓	✓	✓	
Lilli Matson	✓		✓			✓	✓		✓	✓	✓
Executive members											
Rachael Cunningham (NRW)	✓		✓	✓		✓	✓	✓	✓	✓	✓
Peter Kellett	✓	✓	✓		✓	✓		✓	✓	✓	
Estelle Palin	✓		✓	✓	✓	✓	✓		✓	✓	
Phil Lodge	✓	✓		✓	✓		✓	✓	✓		
Active member nominees											
Danielle Ashton	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Colin Chiverton	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Greg Black	✓	✓	✓			✓	✓	✓	✓	✓	
Will Lidbetter	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Veronica James	✓	✓	✓			✓	✓	✓	✓	✓	✓
Pensioner members											
Peter Smith	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hywel Tudor	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	

Professional advisers to the Committee

The Pensions Committee uses the services of the providers tabled below to make informed decisions.

Actuarial Adviser	Hymans Robertson
Bankers	National Westminster
Benefit Adviser	Hymans Robertson
Custodian	State Street Global Services
External Auditor	The Comptroller and Auditor General - NAO
Governance and Risk	Aon Hewitt
Investment Adviser	Hymans Robertson
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd
Legal Adviser – Benefits Administration	Osborne Clarke
Legal Adviser – Investment Management	Pinsent Masons
Pensions Administrator	Capita Pension Solutions Limited

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

From April 2015, the Ministry of Housing, Communities and Local Government (now known as the Department for Levelling Up, Housing and Communities (DLUHC)) introduced further governance requirements for Local Government Pension Schemes. Each administering authority had to establish a Pension Board to provide oversight and assurance to the administering authority (scheme manager i.e. the EAPF Pensions Committee) of effective governance of their Pension Fund.

The Pension Board is a non-decision making body responsible for assisting the administering authority in:

- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator.

- Ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds.

Membership

Membership of the EAPF Pension Board is normally the members of the Pensions Committee less the two Executive members of the Environment Agency and two Active Scheme Members. The Pension Board is therefore the 10 remaining Pensions Committee members as follows:

Employer representatives

- Four Non-Executive Environment Agency Board members.
- One Non-Environment Agency Employer representative (or deputies).

Member representatives

- Three Active Scheme member representatives.
- Two Pensioner or one Pensioner and one Deferred Scheme member representatives.

Chair of the PC is also Chair of the Pension Board. Where absent, the Chair is another Environment Agency Board member.

Pension Board business 2022/23

The Pension Board met once during 2022/23 (on 22 March 2023) after the Pensions Committee meeting. In addition, some or all of the Pension Board members participated in meeting reviews at the end of all the Pensions Committee meetings and Investment Sub-Committee meetings during 2022/23.

The Pensions Board reviewed how the Fund had met its strategic objective for the year, as set out in the Business Plan agreed in March 22. This included consideration of:

- Strengthening the Fund’s governance
- Managing regulatory change
- Reviewing the Fund’s investment approach
- Providing the best working environment for the EAPF team

Providing good customer service for our members

In 2022/23, we achieved third-party accreditation from Assessment Services Ltd (UKAS accredited) that we had met Customer Service Excellence with an increased number of 'compliance plus' scores.

Engaging with members

Every year we engage with members through our website, our member portal, newsletters, social media, and a series of 20 webinars, two of which are 'How the EAPF Invests'.
The member webinars are all recorded and available afterwards online.
Last year, 2,374 members signed up to one of the pension webinars. Of the 423 members who responded to the feedback questionnaire

- 100% agreed their webinar was interesting
- 98.8% of participants were interested in attending future webinars
- 99.5% said they'd recommend the webinar to other members

"*It is heartening to see the EAPF acting to improve the environmental profile and long-term sustainability of its investment portfolio. An interesting debate about the merits of retaining some investment in oil & gas companies and keeping some influence, rather than divesting completely and losing all influence*." Member feedback from webinars in 2022.

In 2021 we held our inaugural members' Annual General Meeting (AGM) to give members the opportunity to raise any issue with the Pensions Committee directly.

We did not hold an AGM in 2022. This was due to a lack of internal resources and a lower than expected take up by members; this may have been because we didn't advertise it well enough; that the timing was wrong (coming after a suite of pensions webinars), and/or that active members in particular feel they can't spare the time in working hours.

We decided to re-arrange the date to early summer in 2023 to allow a bigger break between the AGM and the suite of pension webinars in autumn, and a longer lead in time for advertising the event, hopefully allowing members to plan in the time to attend.

Some members expressed disappointment in the delay and raised their question in writing instead.

Governance Compliance Statement

Introduction

Under Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) an administering authority must, after consultation with such persons as it considers appropriate, prepare, publish and maintain a Governance Compliance Statement.

This statement is required to set out:

a) Whether the administering authority delegates its functions, or part of its functions, under these Regulations to a committee, a sub-committee or an officer of the administering authority.

b) If the authority does so;

- i) The terms, structure and operational procedures of the delegation
- ii) The frequency of any committee or sub-committee meetings
- iii) Whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights.

c) the extent to which a delegation, or the absence of delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reason for not complying; and

d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to above.

This statement was made and approved by the Environment Agency Pensions Committee on 27 June 2023. It is reviewed at least annually as part of the annual report and financial statements to ensure it remains up to date and meets the necessary regulatory requirements. The statement included in the annual report and financial statements becomes the approved statement for the year unless updated during the year.

A current version of this Governance Compliance Statement will always be available on our website at **www.eapf.org.uk.** Paper copies will be available on request.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Pension Fund Management
Environment Agency
Horizon House
Deanery Road
Bristol
BS1 5AH

Email: **eapf@environment-agency.gov.uk**

Statement

Full details relating to our governance structure can be found in the Environment Agency Terms of Reference and Standing Orders for the Pensions Committee, Investment Sub-Committee and Pension Board and explained in our Governance Policy. The key elements are summarised below:

Details to be provided	EAPF
Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority.	All key pension fund management responsibilities are delegated to the Pensions Committee (PC) other than implementing the Fund's investment strategy which is delegated to the Investment Sub-Committee (ISC).
If the authority does so (i) the terms, structure and operational procedures of the delegation.	See the Terms of Reference for specifically delegated responsibilities. PC has 14 members and ISC has seven members.
(ii) the frequency of any committee or sub-committee meetings.	The ISC and PC meetings are scheduled quarterly.
(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights.	The EAPF has three employers. The PC includes one Non-EA Employer Representative, five Active Scheme member representatives and two Pensioner or one Pensioner and one Deferred member representatives. The ISC includes three Scheme member representatives and potentially the one Non-EA employer representative. All members have voting rights.
The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.	See Compliance Statement below.
Details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).	The Pension Board is a non-decision making body responsible for assisting the administering authority in: a) Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator. b) Ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds. Membership of the Pension Board comprises of 10 members of the Pensions Committee which excludes the two Executive Directors members of the Environment Agency and two Active Scheme members. Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC has 14 members, appointed by the EA Board and includes: Four Non-Executive EA Board members Two EA Executive members One Non-EA employer representative Five Active Scheme member representatives Two Pensioner or one Pensioner and one Deferred member representatives. Three Scheme member representatives and the one Non EA employer representative are also members of the Investment Sub-Committee (ISC).
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chair of the Pensions Committee reports to each EA Board meeting. Reports of the ISC meetings are available to all PC members. The Chair of the ISC provides a summary report and draft minutes to the following PC meeting.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The membership of our ISC comprises members of the main PC.
B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g. admitted bodies);	Compliant	The employers of our Closed Fund members no longer exist. Our Active Fund has three employers – EA, NRW and SSCL. We have a non EA employer member representing NRW and SSCL on the main PC and who may also be on the ISC.

ii) scheme members (including deferred and pensioner scheme members);	Compliant	The main PC has seven scheme member representatives on it, including five active scheme member representatives and two pensioner/deferred member representatives, ideally one of each. Our ISC includes three scheme member representatives (active, deferred or pensioner).
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISC and PC meetings. Our other professional advisers also regularly attend our PC and ISC meetings.
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC and ISC meetings as needed. This includes our actuary, legal adviser, risk and governance advisor and investment consultants, pension fund administration consultants, and external auditors.
v) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members of the PC and ISC receive equal access to the papers and training and have full and equal speaking and voting rights in our meetings and decision making processes.
C – Selection and role of lay members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	New PC members receive an induction and appropriate training that details the role, function and activities of the PC and ISC. Our PC members understand that their primary fiduciary duty of care is our funds' beneficiaries and employers, in whose best interests they are required to act at all times, particularly in terms of investment and financial decisions. They also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of either a financial or non-financial nature arising from any other roles they may perform and abstain from participation in that item on the agenda. The EAPF has a Conflicts of Interest Policy which is made available to all PC members.
b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all PC and ISC meetings. A register of interests is also maintained, made available at each meeting and annual updates required from all members, audited annually.

D – Voting		
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main Pensions Committee and ISC.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Compliant	Our PC has a Training Policy which is reviewed regularly. We provide induction training. All members undergo further developmental, specialist, and/or 'top up' refresher training for 2-3 days each year during their terms of office. We maintain a log of all PC member training needs and training undertaken. Members of the main PC and the ISC are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC and ISC training is met from the Pension Fund's budget.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The Knowledge & Skills Policy applies equally to all PC and ISC members.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	Our PC usually meets four times a year, for normal business and at least once for briefing or training. Eight of the 14 PC members (including at least one Board member, one EA Executive member and one scheme member representative) constitute a quorum.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Our ISC meetings are synchronised to meet four times a year before the PC so it can report to and make recommendations to the full PC. Four members (including at least one Board Member, one EA Executive member and one scheme member representative) constitute a quorum for the ISC.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have seven 'lay' members on our main PC, comprising five active scheme member representatives and two pensioner/deferred member representatives. Due to the geographical spread of our organisation and fund membership across England and Wales we hold annual briefings which provide a forum for fund members and stakeholders to be informed about the Fund, particularly about changes to the LGPS. All active fund members are invited to attend webinar pension briefings each year.

G – Access		
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	All members of our PC and ISC receive the same agenda and papers containing information and advice for each meeting, unless there is a conflict of interest. Members of the PC who are not members of the ISC can request full ISC papers and they also receive summary reports of all meetings. All our PC and ISC members can ask questions of our professional advisers who attend the PC and ISC meetings.
H – Scope		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Our PC and ISC meetings all have agenda items on pooling, wider LGPS scheme issues, future challenges, and risks to our funds, as well as information on our Funds' recent financial and administrative performance. The ISC review their risks at all meetings. The PC carries out annual reviews of fund performance, key strategic risks, and our statutory governance, administration, and communications policy statements. It also reviews its own effectiveness at the end of each meeting and annually.
I – Publicity		
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	We publish our Governance Compliance Statement and all other key governance documents and policies on our website, and they are available in hard copy from our Pension Fund Management Team. The Governance Compliance Statement is also published in our Annual Report & Financial Statements. We have an agreed procedure for appointment of new employee, pensioner, and deferred member nominees to our PC when vacancies arise working in conjunction with our Trades Unions and all employers.

Signed on behalf of the Environment Agency

Robert Gould
Chair
Environment Agency Pensions Committee
24 November 2023

Philip Duffy
Accounting Officer
Environment Agency
24 November 2023

Pension Fund investment

Ongoing Government funding of the Closed Fund

Before privatisation in August 1989, the basic pensions of the water authorities' staff were funded by contributions to the Water Authorities Superannuation Fund (WASF). This Fund fell within the Local Government Superannuation Scheme. On privatisation, the WASF was divided in 3 ways:

- Company schemes for employees transferring to the new water companies;
- An Active Fund for employees joining the National Rivers Authority; and
- A Closed Fund for existing and deferred pensioners.

As part of the pension rationalisation carried out in 1989, the Government recognised that, in the longer term, the Closed Fund would require support to meet its ultimate liabilities. Parliament therefore placed a legal obligation on the Secretary of State for the Environment (under section 173 of the Water Act 1989) to meet the pension and other related liabilities of the Fund.

The valuation of the Fund as at March 2004 indicated that assets available would not meet the future liabilities. The Chief Secretary to the Treasury therefore agreed in April 2004 that provisions should be made by The Department for Environment Food and Rural Affairs (Defra) to allow for the Secretary of State's statutory obligation under the 1989 Act to be met from April 2006. Therefore, the obligations and running costs of the Closed Pension Fund would be met by Defra.

A detailed Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency was completed in 2005. Since 1 April 2006, ring fenced grant-in-aid that is sufficient to meet pension obligations and the running costs of the Fund has been paid. Members and their dependants can rest assured that the future of their benefits are statutorily guaranteed and are safe. Extracts from relevant letters and the full text of the Memorandum of Understanding are reproduced at Annex 1.

Funding Strategy Statement

All LGPS funds are required to publish a Funding Strategy Statement. This statement is used by the Actuary to inform his valuation. The Funding Strategy Statement was adopted by the Committee on 8 December 2022 and is reproduced in Annex 2 to this document.

Investment Strategy Statement

All LGPS funds are required to publish an Investment Strategy Statement. Our Investment Strategy Statement was adopted by the Committee on 27 June 2023 and is reproduced in Annex 3 to these financial statements. It is reviewed annually or as required.

Custody arrangements

State Street Bank & Trust Company ('State Street') were appointed as the Funds Global Custodian from 1 April 2018. This was as a result of a competitive tender exercise within the Brunel Pension Partnership in 2017. State Street are independent to the investment managers, and as part of their normal procedures, hold the assets in safe custody, are responsible for the settlement of all investment transactions, collection of dividend income and interest, provide data for corporate actions, liaises closely with the investment managers and report on all activity during the period.

State Street is a strong company that is rated by Standard and Poor's as 'AA-' for long term / senior debt and 'A-1+' for short term / deposits. The Fund's assets are not held in the name of State Street and so are segregated from those of State Street Bank & Trust Company, safeguarding them in the event of company failure. Where appropriate, cash held by the Fund at State Street in Sterling, Euros and United States Dollars are invested in State Street Liquidity Funds, which would not be affected in the event of a failure by State Street. The State Street Liquidity Funds are rated 'AAAm' by Standard and Poor's and are invested in short term money instruments to preserve capital and liquidity. Only small amounts of cash are left on deposit at State Street.

Regular service reviews are held with State Street to monitor service commitments, plus custodial monitoring is reported to Officers and the Pensions Committee by an independent organisation. Other procedures and controls are reviewed by an independent reporting accountant via the Service Organisation Control (SOC1) Report.

Investment management

Following the agreement with Defra in 2004 over the future funding arrangements of the Fund, the Committee agreed that the Fund's investment strategy should be simplified by switching to investment in long dated index linked gilts. Sarasin & Partners LLP manage the long dated gilt portfolio, with the primary aim of preserving the real value of the Fund's assets. They have full discretion in the management of their portfolio subject to complying with the statutory limits, the Investment Strategy Statement and the range of asset distribution defined by the Committee. During 2017 the Committee agreed to diversification of the portfolio from two index-linked gilts to six holdings with a greater spread of maturities to provide a closer match to the duration of the Fund's liabilities.

The existing funding strategy relies upon regular payments (known as Grant in Aid) being received from Defra to meet the pension and administrative costs until the present value of the remaining liabilities is equal to the value of the Fund assets at that time. At that point, the Fund will take on the responsibility for meeting the costs of the Closed Fund. The Fund's assets are expected to be sufficient to meet the outstanding benefit and expense outgo after 31 March 2026, based on a simple projection from the 2022 valuation date.

Portfolio analysis

Distribution of investment assets by market value as at 31 March 2023:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Net investment assets
UK Index linked gilts	239.6	-	239.6	91.0
Cash	-	23.3	23.3	8.8
Accrued income	-	0.5	0.5	0.2
Net investment assets	**239.6**	**23.8**	**263.4**	**100.0**

Distribution of investment assets by market value as at 31 March 2022:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Net investment assets
UK Index linked gilts	302.3	-	302.3	92.0
Cash	-	25.9	25.9	7.9
Accrued income	-	0.4	0.4	0.1
Net investment assets	**302.3**	**26.3**	**328.6**	**100.0**

Unquoted investments

With the agreement of the Board, the value of the unquoted investments was written down to £nil during 2007.

Income from capital distributions of the residual holdings being liquidated is credited to the Fund as it arises.

Investment performance

The investment performance of the Fund for the year to 31 March 2023 was -18.3% (2022: +5.3%) against a benchmark return of -39.1% (2022: +3.9%). Over the three years to 31 March 2023 the annualised rate of return was -4.7% (2022: +3.2%) against a benchmark return -13.1% (2022: +3.2%).

Pension Fund administration

Administration arrangements

The Environment Agency is responsible for administering the current and future pension benefits for just over 10,000 members of the Closed Pension Fund.

While the Committee provides strategic direction and regular oversight, day to day pension fund administration is delivered through our third party pension administrator, Capita Pension Solutions Limited (a subsidiary of Capita Group Plc). We do this because it involves specialist knowledge, complex activity and significant investment in IS/IT which is considered beyond the core business of the Environment Agency.

The breadth and volume of work delivered by Capita is significant, and includes administering members' historical records, handling all Fund members' queries, distributing newsletters and annual benefit statements, issuing monthly pension payslips, making lump sum and pension payments, fraud prevention and debt collection, undertaking all HMRC returns, producing audited annual financial statements for Parliament, provision of LGPS technical advice and a wide range of other tasks.

Performance measurement

The Committee measures the performance of Capita through monthly, quarterly and annual reports showing progress against the contractual Service Level Agreement (SLA). The perspectives by which the Committee assesses the performance include accuracy, timeliness, quality, helpfulness, feedback, service improvements and complaints.

We would like to express our thanks to Capita for resolving 47,825 (2022: 38,069) Active and Closed Fund member requests/queries and for paying pensions to over 9,300 Closed Fund pensioners. Over the year, Capita achieved service levels for 77.10% of all casework processed.

During 2022 Capita were working hard to maintain SLA attainment through an agreed Recovery Plan to remove case-work backlog, but this became unsustainable due to increasing high volumes of new casework and attrition on the team. The Fund is working closely with Capita on understanding resource requirements needed now in an environment of continuing high demand, and future requirements and regulatory demands. This review will provide improvements to these service levels.

The five largest case types processed by Capita for the Closed Pension Fund during 2022/23 were:

Case Type	2023	2022
Death of pensioner	388	416
Death of spouse	647	405
Retirements	228	183
Transfer Out quotes/finalisation	23	20
Changes of address	437	566

Closed Fund administration costs for the year to the 31 March 2023 were £519k (2022: £439k) including member communications and postage costs. We benchmark our Fund administration costs annually through the public accounting body CIPFA. For 2021/22 data the CIPFA average was £20.58 (2020/21: £20.86) per member. Across both our Active and Closed Funds, our average cost for 2021/22 was £23.10 (2020/21: £23.33) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 15 deal solely with pension benefits administration. Based on a membership of 39,470 across both the Active and Closed Funds at 31 March 2023, this represents an average of 2,819 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery.

Internal controls

The EAPF system of internal controls is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 2023, in accordance with LGPS and Treasury guidance and best practice.

In 2019, independent reviews by Environment Agency Internal Audit on the adequacy and effectiveness of internal controls and Pension Fund Risks were conducted in accordance with

Government Internal Audit Standards during the year. The Pension Fund compliance audit concluded that we showed strong compliance with the provisions of the Pensions Schedule of the Financial Memorandum and the requirements from the Pensions Regulator's public sector Code of Practice. It found that the framework of governance, risk management and control is adequate and effective, and gave an overall risk score of 92%, up from 83% in the prior year. In 2020, Internal Audit reviewed the progress made against five management actions. A substantial assurance rating was given, confirming that four actions had been fully addressed and one action substantially addressed with alternative mitigations.

Report on Internal Controls

The Directors of Capita Pension Solutions Limited (CPSL) produce an audited annual Assurance Report on internal controls, under ISAE 3402 and AAF 01/20, which is reviewed by Officers. In considering the effectiveness of the internal controls for the Fund, account has been taken of the findings of the reporting accountants (Ernst & Young) in their assurance report for CPSL for the year ending December 2022. CPSL are pleased to confirm that all controls testing was completed by their auditor and no exceptions were reported.

The delivery of Capita's Internal Control Report was delayed due to the Cyber Incident, which is reported in more detail on page 34 below. Upon its release, the Directors also issued a Bridging Letter, dated 14 July 2023, which states that from the period 1 January 2023 none of their key controls have changed. Additionally, in direct response to the Cyber Incident, the Directors concluded that this event does not change their opinion regarding the operating effectiveness of their controls.

Data quality

Good quality data is vital to the efficient and accurate payment of retirement benefits and general administration of the Closed Pension Fund. This is achieved primarily through the use of electronic interfaces between Fund employers and Capita on a weekly and monthly basis. Guidance issued by the Pensions Regulator (TPR) recommends that the Fund regularly assess the quality of EAPF member data.

Common data is defined by TPR as the key data items that are essential to the identification of the member's identity and are common to all schemes including items such as National Insurance number, surname, gender, and address. The guidance recommends that Common data is 95% complete (in compliance with the tests specified by TPR) for data created prior to June 2010 and 100% for new data post June 2010.

Data quality testing is carried out for the Closed Fund annually and a certificate issued reflecting compliance with TPR guidance. The latest available results from our May 2023 certificates showed our post June 2010 data as 98.62% with pre June 2010 data at 93.05% which gives an overall score of 95.20%. The missing data for both categories relates to members moving house and not informing our administrators. We continue to carry out exercises to trace these members and will update their records accordingly. A specific address tracing exercise is currently underway and will inform the next certification exercise.

Data security

The Environment Agency Pension Fund and Pensions Committee take data security very seriously. Ownership and accountability for the transmission of employees' pensions related data to Capita is assigned to the human resources and payroll functions of our participating employers. This is mainly through the secure transmission of monthly and weekly electronic data interface files.

Capita has an Information and Cyber Security policy for the organisation which sets out its commitments to information security. This policy covers the following:

- Maintaining the confidentiality, integrity and availability of information, while ensuring information is only accessible by those who are entitled to access it.
- Protecting information assets consistently to a high standard to prevent compromise by external and internal threats, both deliberate and accidental.
- Raising and maintaining security awareness to help avoid the unintentional or malicious disclosure of confidential information, which could cause inconvenience and distress to others, be unlawful, and to avoid causing financial and reputational damage.

Cyber Incident

In March 2023, Capita experienced a cyber incident where malicious activity was detected to one of their servers on 22 March. This was interrupted by Capita on 31 March. As a result of the system lockdown employed by Capita, the impact of the attack was significantly restricted. Capita informed us, that based on its own forensic work and that of its third-party providers, that less than 0.1% of data was exfiltrated from one of its server estates.

Capita has taken extensive steps to recover and secure the customer, supplier and colleague data contained within the impacted server estate, and to remediate any issues arising from the incident. Capita is working closely with all appropriate regulatory authorities and with customers, suppliers and colleagues to notify those affected and take any remaining necessary steps to address the incident. Capita have confirmed that data held on the main administration platform, Hartlink, was not compromised and they want to reassure members that their pensions remain secure.

Capita confirmed on 26 May 2023 that their preliminary investigation had identified that our pensioner population had personal details exfiltrated, along with a small proportion of contributing and deferred members and we have subsequently written out to those affected individuals.

Capita have now concluded their forensic investigations and unfortunately the impact to our contributing and deferred members is wider than initially indicated. The actual data that was available on the affected server does vary for each member and we have now written to all members who have been impacted, setting out the precise categories of personal data impacted.

At the time of writing, Capita has informed us that there is no evidence that information resulting from this incident has been misused and this position is being regularly monitored.

As mentioned, Capita are working closely with regulators, and the EAPF has also reported and updated the Information Commissioners Office (ICO) and is keeping regular dialogue with other regulators which include the Pensions Regulator (tPR), and the National Audit Office (NAO).

To help support members, Capita are providing free membership to a leading identity protection service. The EAPF, supported by Capita, have also held webinars to keep our membership up to date. We've created an area on the EAPF website for members which provides helpful information, links, and 'Questions & Answers', all in one place which we hope will answer some commonly asked questions and help address any immediate concerns.

At the time of writing there is significant uncertainty on the extent of both obligation and value based on the behaviour of regulators and potential claimants with regard to the Cyber Incident at Capita and as such no contingent liability can be reliably measured.

We will continue to actively engage with Capita and consider the next steps available to us and communicate these where necessary. We will also continue to discuss ongoing support that Capita can provide to those affected.

The Fund continues to treat the incident with the utmost importance with help from various specialists and advisors. We continue to work with Capita, internal security teams and take appropriate legal advice to measure every aspect of the incident and to further underpin cybersecurity controls, protect the fund's data and ultimately avoid any recurrence.

National Fraud Initiative/mortality checks

The Fund has a formal policy and procedure for handling fraud linked to the unreported deaths of pensioners. As part of this policy it participates in the Audit Commission's biennial National Fraud Initiative (NFI) and undertakes life certificate exercises for pensioners who live overseas. In addition, from November 2012 monthly mortality screening has been implemented to help reduce overpaid pensions and potential fraud.

The results of the most recent exercise in 2022 identified 11 pensioner cases where we were not made aware of deaths. All cases were suspended and the necessary follow up actions are in progress on these cases.

As a general principle, where we investigate cases and if fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, if necessary, take legal action or involve the police. Our monthly mortality checks are in place to help reduce potential fraud on the Fund. There are no reported fraud cases for 2022/23.

Communications

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use. The updates to the website in 2021 have improved members experience with huge improvements to the navigation of the site, as well as giving it a fresh look and feel. This look and feel have been incorporated into an updated branding guide, and being applied across the updated online platform, as well as being added to new documents we produce.

We introduced a platform for creating documents called Turtl in early 2022, which can create 'ebooks' rather than pdf's which are more visually appealing, as well as being more accessible. We are migrating the most popular documents on to Turtl and will continue to, as we've received positive feedback on the documents that are available in this format. The analytics available from this are also really useful in identifying the content that is viewed the most. The updates to the website, portal and new documents ensures compliance with current accessibility standards, as well as being up to date with technology and demands in the digital area.

Both our public facing website and web portal facility, EAPF Online are 'device enabled' which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools in their own time.

We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

We deliver tailored, themed topic webinars and consult with members and Fund employers on content and introducing new sessions which are informed through customer surveys and focus groups.

These sessions are supported by newsletter, E Shots, and promotion through our Fund employers' internal communication channels. They're also recorded to enable members who miss them to view them on our website at their own leisure. Members are based nationwide across England & Wales, so it provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.

Delivering webinars allows us to:

- Reach a wider audience nationwide
- Remove the need for travel and time out of the office
- Deliver more sessions based on demand and more choice

Our annual pension benefit statements were issued to 100% of our active and deferred members within the statutory 31 August 2022 deadline.

Our Communications strategy

As part of our long-term strategy, 2022 saw us continue our move to digital communications by using our five segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

- Adventure
- Protection
- Relaxed
- Detail and focus
- Companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We've completed four years of digital campaigns with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We're able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

We monitor the feedback from members carefully and will continue to collate responses to enable us to focus our messaging.

Our 2022 Campaigns

Our campaign activity continues to adapt appropriately following changes to our working practices brought about by Covid-19. We have continued to keep communications relevant, engaging and succinct. We ask for feedback and we review our successes and areas for improvement continuously.

We continue to use Pensions Awareness Week as an opportunity to engage with members on various pension topics. This is a regular September feature, which in 2022 included a YouTube video with a well known TV chef and Grime artist, Big Zuu – who rapped about the importance of giving your pension some attention! This was a great platform for pensions to appeal to people of all ages, and was well received as it was also included in the member webinars. Throughout the awareness week, we also shared updates and information on key pension topics - including reminders about digital benefits statements, information about the 50:50 section, our funding performance, investment approach, a pensions committee vacancy, and the booking links for upcoming webinars and Annual General Meeting (AGM).

Further details on our publications and other services from the Fund can be found at www.eapf.org.uk

Complaints

The Fund has a formal process for dealing with complaints. The Committee defines a 'complaint' as any expression of oral or written dissatisfaction from members, the EAPF, its employer(s) and/or third parties, with regard to how a service has been carried out.

In addition, the Internal Dispute Resolution Procedure (IDRP) is a formal two stage procedure for settling disputes under the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

At Stage 1 the dispute will be reviewed by a person nominated by the Environment Agency to investigate complaints regarding decisions made under LGPS regulations, known as the ‘specified person’. If you disagree with the Stage 1 decision you can apply to Stage 2 where the dispute will be reviewed by a representative of the Administering Authority. If you still cannot agree with the decision you can apply to the Pensions Ombudsman who will make a binding decision and who has the power to award compensation if this is justified.

In 2022/23 Capita received 13 (2021/22: 16) formal complaints from Closed Fund members and these have all been resolved. Capita have restructured and bolstered staff numbers and this has brought improvements as the new staff training program is rolled out.

There were no IDRP cases on the Closed Fund raised during the year and no cases went to the Pensions Ombudsman.

Foreword to the financial statements

The EAPF provides benefits for current and deferred pensioners of former statutory water authorities in England and Wales, the Foundation for Water Research, WRc plc, Water Training International, the former Water Authorities Association and the former British Water International.

The Fund is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and earlier regulations (saved provisions). As all of the membership became deferred members or pensioners before September 1989, the benefits are covered by the earlier regulations.

It provides the minimum contracted out pensions required by the State Earnings Pension Scheme ('SERPS') and is a registered Pension Scheme.

Roles and responsibilities of the Pensions Committee

With a membership of nominated Environment Agency Board members, senior officers and member nominees, the Committee (which is a sub-committee of the Environment Agency Board) has been delegated the responsibility for Fund matters. It receives advice from its external advisers and is charged with appointing managers and agents required for the effective management of the duties outlined below.

The Committee and Accounting Officer is responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Fund and the disposition of its assets and liabilities at the year end, other than the liabilities to pay pensions and benefits after the scheme year end. In preparing the financial statements the Committee is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts;
- Prepare the accounts on a going concern basis; and
- Confirm that the Annual Report and Financial Statements as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Financial Statements and the judgements required for determining that it is fair, balanced and understandable.

The Committee and Accounting Officer is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Fund and enable it to ensure that the financial statements comply with the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Workforce Pay and Pensions Division at DLUHC.

The Committee and Accounting Officer is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

The Annual Report and Financial Statements are available on the Pension Funds' website.

You can also access them from the Gov.UK website.

The maintenance and integrity of those websites is the responsibility of the Environment Agency. The work carried out by the Auditor and the Scheme Administrator does not involve consideration of these matters. Accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the websites.

Summary of the financial statements

The financial statements have been prepared in accordance with CIPFA guidance including narrative reporting and accounting disclosures for LGPS funds, with quoted securities valued at bid prices at the year end. After realised gains and changes in portfolio valuations, and grant-in-aid funding for benefits and other outgoing payments, the value of the Closed Fund has decreased by £61.7m to £267.2m (2022: increased by £18.5m to £328.9m).

As expected in a closed fund arrangement there is a continuing decrease in membership. As a consequence, the value of Grant-in-Aid required to meet the Closed Fund's obligations to pay pension payments and other liabilities, reduced to £43.6m from £47.9m in the year to 31 March 2023.

Retirement benefits payable in the year to 31 March 2023 have decreased from £44.9m in 2022 to £42.9m in 2023.

In overall terms, the net additions from dealings with pensioners and deferred members after Grant-in-Aid funding in the year was £0.8m (2022: £3.0m).

The index linked portfolio of assets held by the Closed Fund as at 31 March 2023 were valued at £263.4m (2022: £328.6m).

Responsibility for ensuring that the Fund can meet all future liabilities rests with the Secretary of State at Defra.

Statement by the Consulting Actuary

Environment Agency Closed Fund ('the Fund') Actuarial Statement for 2022/23

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated December 2022. The Fund's benefits are underwritten by the Department for the Environment, Food and Rural Affairs ('the Guarantor'). The Fund's approach to funding the Guarantor's pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment. The Guarantor has committed to a funding plan that involves half-yearly cash injections to meet the following 6 months' expected benefit expenditure.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £329 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2022 valuation was £162 million.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2022 valuation were as follows:

Financial Assumptions (% p.a.)	31 March 2022
Discount rate	1.7%
Benefits increase assumption (CPI)	3.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current Pensioners	20.5 years	23.6 years
Future Pensioners*	20.4 years	24.3 years

*Aged 45 at the 2022 valuation date

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

Experience over the period since 31 March 2022

Investment returns in the year to 31 March 2023 were estimated to be minus 18.8% and the Fund assets had a market value of £266.4m as at 31 March 2023. Liabilities were estimated to be £411.8m on an ongoing funding basis as at 31 March 2023, implying that the Fund's assets were sufficient to meet 65% of the liabilities accrued up to that date.

The reduction in the value of the assets and liabilities is primarily due to an increase in government bond yields over the year to 31 March 2023, with the liabilities further reduced due to the payment of benefits over the year. The effect of the 2023 Pension Increase order (10.1%), in isolation, leads to an increase in the value of the liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Steven Scott FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
9 May 2023

INDEPENDENT AUDITOR'S REPORT TO THE HOUSES OF PARLIAMENT, THE BOARD OF THE ENVIRONMENT AGENCY AND THE SECRETARY OF STATE FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS

Opinion on financial statements

I have audited the financial statements of the Environment Agency Closed Pension Fund ('the Fund') for the year ended 31 March 2023 which comprise the:

- Fund Account;
- Net Assets Statement as at 31 March 2023; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the Fund's assets and liabilities; and
- have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law Practice Note 15 (revised) '*The Audit of Occupational Pension Schemes in the United Kingdom*' and Practice Note 10 '*Audit of Financial Statements and Regularity of Public Sector Entities in the United Kingdom (2022)*'. My responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements'* section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

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

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

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the Annual Report, Annexes and Enquiries but does not include the financial statements and my auditor's report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit:

- the Annual Report has been prepared in accordance with applicable legal requirements; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

In the light of the knowledge and understanding of the Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the Annual Report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer of the Environment Agency and the Pensions Committee for the financial statements

As explained more fully in the section entitled Roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pensions Committee are responsible for:

- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Fund'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 Accounting Officer either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

My 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 a report that includes my 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.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Fund's accounting policies.
- inquired of management, the Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Fund's policies and procedures on:
  - identifying, evaluating and complying with laws; and
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Fund's controls relating to compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.
- Inquired of management, the Fund's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud.
- Discussed with the engagement team and relevant internal specialists, including actuarial and valuation specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Fund for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, bias in management estimates and selection of inappropriate methodology or assumptions underpinning the valuation of investments and the pensions liability. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the legal and regulatory frameworks in which the Fund operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the

Fund. The key laws and regulations I considered in this context included the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.

In addition, I considered the control environment in place at the Fund, the investment custodian in respect of investments and the administrator and the scheme actuary in respect of membership data, the pension liability, contributions due and benefits payable.

Audit response to identified risk

To respond to identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performed substantive testing of contributions received and benefits paid in the year to ensure compliance with laws and regulations and that the transactions were regular;
- engaged an auditor's expert to assess the actuarial methods and assumptions used by the Fund actuary, reviewed the expert's report and undertook any further procedures as necessary; and
- reviewed and assessed any significant correspondence with The Pensions Regulator.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my 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 my report.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 27 November 2023

Financial statements for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Fund account			
Dealings with members, employers and others directly involved with the Fund			
Grant-in-Aid		43,629	47,897
		43,629	**47,897**
Benefits and other payments			
Benefits payable	7	(42,896)	(44,935)
Payments to and on account of leavers	8	(15)	-
		(42,911)	**(44,935)**
Net additions from dealings members		**718**	**2,962**
Management expenses	9	**(863)**	**(784)**
Return on investments			
Investment income	10	2,373	1,506
Profit and loss on disposal of investments and changes in the market value of investments	11	(63,954)	14,814
Net returns on investments		**(61,581)**	**16,320**
Net (decrease)/increase in the Fund during the year		**(61,726)**	**18,498**
Opening net assets of the Fund at 1 April		**328,913**	**310,415**
Net assets of the Fund at 31 March		**267,187**	**328,913**
Net assets statement			
Investment assets	11	**263,402**	**328,575**
Current assets	17	**5,163**	**1,503**
Current liabilities	18	**(1,378)**	**(1,165)**
Net assets of the Fund at 31 March		**267,187**	**328,913**

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary and these financial statements should be read in conjunction with it. The Actuary's statement on pages 40 to 41, dated 9 May 2023, is based on a valuation as at 31 March 2022. The notes on pages 47 to 61 form part of these financial statements.

Robert A. Gould

Robert Gould
Chair
Environment Agency Pensions Committee
24 November 2023

Philip Duffy
Accounting Officer
Environment Agency
24 November 2023

Notes to the financial statements

1. Description of the Fund

The Environment Agency Closed Pension Fund is part of the Local Government Pension Scheme and is administered by the Environment Agency. The Environment Agency is the reporting entity for this Pension Fund. The Fund is overseen by the Environment Agency Pension Fund Committee.
The following description is a summary only. For more detail, reference should be made to the Government Funding Agreement (Annex 1) and Funding Strategy Statement (Annex 2).

General

The Fund is governed by the Superannuation Act 1972 and the Public Services Act 2013. The Fund is administered in accordance with the following secondary legislation:

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

Unlike other Local Government pension funds, the EAPF's liabilities are statutorily guaranteed by the Department for the Environment, Food and Rural Affairs ('the Guarantor') under section 173 of the Water Act 1989. The Memorandum of Understanding between the Secretary of State for Environment, Food and Rural Affairs and the Environment Agency (17 May 2005) sets out the mechanism whereby the Guarantor makes payments to the Fund.

Membership

The Fund has been closed to new entrants and accruals of future service since 1989. As at 31 March 2023, total membership of the Fund is 10,016, represented by 9324 current pensioners and 692 deferred members.

Funding

The Environment Agency Closed Pension Fund has no contributing members. Unlike other statutory Local Government Pension Funds, it is being maintained solely to pay current and deferred benefits (or transfer values to other pension arrangements) awarded to or in respect of employees of former water authorities and associated bodies which existed prior to 1 September 1989. The Secretary of State at the Department for Environment, Food and Rural Affairs has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can always meet its liabilities, including future indexation awards. This has been formally documented in a Memorandum of Understanding and is included in Annex 1. Since 1 April 2006, Grant-In-Aid has been paid that is sufficient to meet the pension obligations and running costs of the Fund.

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounting policies have been drawn up in line with recommended accounting principles within the overall Code of Practice on Local Authority Accounting framework.

3. Summary of significant accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements which are prepared on an accruals basis.

Grant-In-Aid

As described above, Grant-In-Aid payments are received into the Fund to meet the pension obligations and running costs of the scheme. These are received in advance in April and October each year and are accounted for on a cash basis.

Benefits payable

Members can choose whether to take a proportion of their retirement benefits as a pension and/or lump sum. Pensions and lump sums are accounted for on an accrual's basis from the date the option is exercised. Lump sum death grants and refunds of contributions are included from the date of death or date the member leaves the Scheme.

Transfers to other schemes

Transfers to other schemes are those amounts paid to other pension schemes relating to previous periods of pensionable employment. Individual transfers are included in the accounts when paid, but bulk transfers are accounted for an accruals basis when the amounts have been agreed.

Management expenses

Administration, oversight and governance costs and Investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. In cases where administration expenditure relates to both the Active Pension Fund and the Closed Pension Fund we attribute this 80%/20% respectively to best reflect the time spent administrating each Fund, as shown below. This apportionment is considered annually.

Apportionment of common expenditure	2022/23 AF/CF %	2021/22 AF/CF %
Custodial arrangements	80/20	80/20
Environment Agency Pension Fund Management	80/20	80/20

Investment income

All 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. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

Income from cash and short-term deposits is accounted for on an accrual's basis.

Taxation

The Fund 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. VAT input tax is recoverable on all management expenses. The accounts are exclusive of VAT.

Financial assets

Investment assets are included in the financial statements 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 the asset are recognised in the fund account.

Classification and measurement

IFRS 9 requires all financial assets and liabilities to be measured at fair value, except for Grant-in-Aid receivables which do not contain a significant financing component. Grant-in-Aid receivables are measured at amortised cost, where they exist. Classification and measurement of financial instruments is driven by the Fund's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

Impairment

IFRS 9 introduces an impairment model for financial assets not held at Fair Value through Profit and Loss ('FVPL'). As a result, the Fund must now determine forward looking expected credit losses ('ECL') for all its financial assets held at amortised cost. Financial assets held at amortised cost within the Fund comprise: Cash and cash equivalents; Other investment balances; Grant-in-Aid receivables; and Other receivables. Cash assets are not subject to determining ECL. In the case of other receivables there are no expected credit losses identified.

IFRS 9 has been applied prospectively by the Fund and this did not result in a change to the measurement of financial instruments as outlined in note 12 but some classifications have been amended to reflect IFRS 9's requirements. The Fund's other receivables continue to be measured at amortised cost. There was no material impact on the adoption of IFRS 9.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Cash deposits and instruments

Cash comprises cash on deposit, including any amounts held by the Fund's external investment manager. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

Financial Liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in market value of investments.

Defined Benefit Obligation

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Pensions Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the Statement by the Consulting Actuary on page 40.

4. Critical judgments in applying accounting policies

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation

There are no items of estimation in the net assets statement as at 31 March 2023 or 31 March 2022 for which there is a significant risk of material movement.

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 27 June 2023 and Audit and Risk Assurance Committee on 29 June 2023. The financial statements are signed under delegated authority of the Board. These will also be noted at the next available meeting of the Board.

There are no adjusting events that need to be recognised in the financial statements after the net asset statement date.

7. Benefits payable

	2023 £000	2022 £000
Retirement and dependants pensions	41,624	44,304
Lump sum retirement grants	1,248	603
Lump sum death grants	24	28
Total	**42,896**	**44,935**

8. Payments to and on account of leavers

	2023 £000	2022 £000
Individual transfers to other schemes	15	-
Total	**15**	-

9. Management expenses

	2023 £000	2022 £000
Administration expenses		
Scheme administration	**519**	**439**
Oversight and governance costs		
Environment Agency Pension Fund Management	190	168
Specialist advice	82	103
External audit	27	26
	299	**297**
Investment management expenses		
Management fees	30	30
Custody fees	15	18
	45	**48**
Total	**863**	**784**

External audit does not include any fees in respect of non-audit services for 2022/23 or 2021/22. The investment management expenses include £nil (2022: £nil) in respect of transaction costs.

Investment management expenses can be further analysed as follows:

2022/23	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Index linked gilts	**30**	**30**	**-**	**-**

10. Investment Income

	2023 £000	2022 £000
Income from index linked gilts	1,688	1,496
Interest on cash deposits	685	10
Total	**2,373**	**1,506**

11. Investments movement summary

	Market value at 01.04.22 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31.03.23 £000
Index linked gilts	**302,277**	1,289	-	(63,970)	**239,596**
Cash deposits and instruments	**25,890**	-	-	16	**23,263**
Accrued income	**408**	-	-	-	**543**
Net investment assets	**328,575**	**1,289**	**-**	**(63,954)**	**263,402**

	Market value at 01.04.21 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31.03.22 £000
Index linked gilts	**286,083**	1,717	(326)	14,803	**302,277**
Cash deposits and instruments	**19,381**	-	-	(11)	**25,890**
Accrued income	**368**	-	-	-	**408**
Net investment assets	**305,832**	**1,717**	**(326)**	**14,814**	**328,575**

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. As the Fund has invested in long term gilts, no transaction costs have been incurred during this or previous years. The Fund does not participate in stock lending.

The following table represents the investments of the Fund that exceed 5% of the total net assets.

Investment assets	**2023** £m	%	**2022** £m	%
UK Government 0.125% Index Linked Gilt 2029	**71.4**	**27.1**	76.4	23.2
UK Government 1.25% Index Linked Gilt 2032	**56.8**	**21.5**	64.2	19.5
UK Government 2% Index Linked Gilt 2035	**46.7**	**17.7**	55.1	16.8
UK Government 0.125% Index Linked Gilt 2044	**31.7**	**12.0**	47.1	14.3
UK Government 1.25% Index Linked Gilt 2055	**26.3**	**10.0**	45.1	13.7
SSGA Offshore GBP D Class Cash Instrument	**23.3**	**8.8**	25.6	7.8

12. Financial instruments

a) Classification of financial instruments

The accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.

31 March 2023	Financial assets and liabilities designated at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Index linked gilts	239,596	-	-
Cash deposits and instruments	23,263	4,633	-
Other investment balances	-	543	-
Debtors (excluding VAT)	-	239	-
Financial liabilities			
Creditors (excluding PAYE)	-	-	(885)
Net assets of the Fund	**262,859**	**5,415**	**(885)**

31 March 2022	Financial assets and liabilities designated at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Index linked gilts	302,277	-	-
Cash deposits and instruments	25,890	992	-
Other investment balances	-	408	-
Debtors (excluding VAT)	-	206	-
Financial liabilities			
Creditors (excluding PAYE)	-	-	(671)
Net assets of the Fund	**328,167**	**1,606**	**(671)**

b) Net gains on financial assets

	2023 £000	2022 £000
Financial assets		
Fair value through profit and loss	**(63,954)**	**14,814**
Total change in market value	**(63,954)**	**14,814**

13. Fair value – basis of valuation

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year. The valuation bases are set out below.

Fair value hierarchy

The valuation of financial assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted bonds and unit trusts.

Level 2

Where quoted market prices are not available, for example where valuation techniques are used to determine fair value based on observable data.

Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Transfers between levels 1 and 2

There have been no transfers between Level 1 and Level 2 in the year. Any such transfers between levels are recognised in the month in which they occur.

The following table provides 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. Financial assets and liabilities valued at amortised cost, and those that are not financial instruments, are included in the total column in order to show that all of the Fund's assets have been considered and that these reconcile back to the total net assets of the Fund.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Cash deposits and instruments	Level 1	Closing bid value on published exchanges	Not required	Not required
Index linked gilts	Level 2	Market value based on current yields	Current yields	Not required

Values at 31 March 2023	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Index Linked Gilts	-	239,596	-	**239,596**
Cash deposits and instruments	23,263	-	-	**23,263**
Net financial assets at fair value	**23,263**	**239,596**	**-**	**262,859**
Financial assets held at amortised cost				
Accrued income	-	-	-	**543**
Net investment assets				**263,402**

Values at 31 March 2022	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Index Linked Gilts	-	302,277	-	**302,277**
Cash deposits and instruments	25,890	-	-	**25,890**
Net financial assets at fair value	**25,890**	**302,277**	**-**	**328,167**
Financial assets held at amortised cost				
Accrued income	-	-	-	**408**
Net investment assets				**328,575**

14. Nature and extent of risks arising from financial instruments

Risk and risk management

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Fund is exposed at the end of the reporting period. These risks are set out by FRS 102 as follows:

1. **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
2. **Market risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

    - **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
    - **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

3. **Liquidity risk:** this is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. Cashflow forecasts are prepared on a monthly basis to ensure sufficient funds are available to pay benefits and a disinvestment from the Investment Bank account is made where we need to fund a shortfall.
   This can be actioned the same day. The Fund's current policy is to maintain a minimum balance of one month's pension payroll amount, plus a £500k cash float.

Further information on the Closed Fund's approach to risk management, credit and market risk is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Closed Fund, though the AVC assets are subject to periodic formal review to ensure ongoing appropriateness. The Closed Fund also held residual unquoted equity holdings as at year-end, however, these are not included in this report as they are considered immaterial in the context of the Closed Fund.

With regards to the Closed Fund, the Pensions Committee in conjunction with the Investment sub Committee is responsible for determining the Closed Fund's investment strategy. The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates.

The Closed Fund has exposure to the above risks because of the investments it makes to implement its investment strategy. The Pensions Committee manages the investment risks within agreed risk limits which are set taking into account the Closed Fund's strategic investment objectives and are monitored in a Risk Register which includes investment risks. The Pensions Committee, working with its advisors, regularly monitor investment risks within the Closed Fund.

The investment objectives and risk limits are implemented through the investment management agreements in place with the Closed Fund's investment managers and monitored by the Pensions and Investment Sub Committee through regular reviews of the investment portfolios. The investment objectives and risk limits of the Scheme are further detailed in the Investment Strategy Statement ('ISS').

The Closed Fund's assets as at 31 March 2023 and 31 March 2022 are detailed in the table below.

Closed Fund	2023 £000	2022 £000
UK Index Linked Gilts	240,471	302,778
Cash*	22,931	25,797
Total	**263,402**	**328,575**

*Excluding interest receivables and Natwest bank account

Investment Strategy

The Closed Fund's invested assets are fairly small relative to the value of its prospective liabilities. Working on the basis that the Guarantor will meet pension payments until the value of the remaining liabilities is equivalent to the Closed Fund's remaining assets, the investment objective of the Closed Fund is to ensure that in due course the Closed Fund's assets will equate to its liabilities in as low a risk manner as possible. From that point onwards the Closed Fund should be able to meet its pension payments directly.

The Pensions Committee has translated its objectives into a suitable investment strategy for the Closed Fund. The investment strategy takes due account of the specific liability profile of the Closed Fund, together with the planned funding arrangements agreed with the Closed Fund's Guarantor.

The strategy is consistent with the Pensions Committee's views on residual asset management on the appropriate balance between maximising the long-term return on investments and minimising volatility and risk. The Committee is adopting a low-risk approach by investing in index-linked government bonds.

The assets comprise:

- a portfolio of index-linked government bonds, intended to broadly reflect an estimate of the duration of the liabilities the Fund is exposed to;

- cash held at the Fund's custodian and administrator, sufficient to meet pension payments until the next grant in aid payment, together with a small reserve; and

1. Credit Risk

The Closed Fund is subject to credit risk because it has cash balances and directly holds UK government bonds in a segregated account. Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Closed Fund to incur a financial loss. In the case of the UK government bonds, credit risk is minimal. Careful credit quality management by the Closed Fund's cash managers helps to mitigate this risk in respect of the cash holdings.

The Closed Fund also invests in a pooled investment vehicle through the State Street Liquidity Fund. It is therefore directly exposed to credit risk arising from this pooled fund investment vehicle and is indirectly exposed to credit risk arising on the underlying investments held by this same pooled fund investment vehicle.

Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager and the regulatory environments in which the pooled manager operates.

The State Street Liquidity Fund is rated by credit rating agencies. It seeks to obtain and maintain a AAA rating from at least one of the internationally recognised rating agencies – S&P, Moody's and Fitch. The Pensions Committee manages and monitors the credit risk arising from its pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

To minimise credit risk exposure on cash most of the Closed Fund's cash is held in money market funds managed by the custodian State Street. These funds are invested across a wide range of cash instruments and have limited exposure to any individual institution. Furthermore, these monies are legally separated from EAPF's custodian, which serves to safeguard the investment in the case of default of the custodian. Assets held in both the Closed Fund's bank account and custodian accounts are held in accounts provided by banks that have an investment grade credit rating.

Fund	Balance as at 31 March 2023 £000	Balance as at 31 March 2022 £000
Money Market fund: State Street	22,931	25,797
Bank current account: National Westminster Bank plc	4,633	994
Total	**27,564**	**26,791**

2. Market Risk

a) Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Closed Fund could be exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Closed Fund (sterling). The Closed Fund invests in UK government bonds and the State Street Liquidity Fund. The State Street Liquidity Fund is composed of two sub funds, denominated in sterling and US dollars respectively. The Closed Fund is therefore not exposed to material currency risk.

The tables below show the fund structures for each mandate and set out the non-sterling currency exposures including which proportion of this is hedged back to sterling.

31 March 2023

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Sarasin - Index Linked Gilts	Segregated	100	0	0	0
State Street – Cash	Pooled	98.8	1.2	0	0.3
Total		**99.9**	**0.1**	**0**	**0.3**

31 March 2022

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Sarasin - Index Linked Gilts	Segregated	100	0	0	0
State Street – Cash	Pooled	99.0	1.0	0	0.3
Total		**99.9**	**0.0**	**0**	**0.3**

b) Interest Rate Risk

The Closed Fund's principal investments are subject to interest rate risk, defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Most of the investment assets of the Closed Fund are exposed to changes in 'real' yields. There is a small exposure to short term interest rates arising from the cash holdings, where changes in interest rates will change income received from cash.

The Closed Fund maintains an allocation to index linked government bonds. These help to match the sensitivities of the liabilities to interest rate and inflation movements. Under the Closed Fund's investment strategy, if interest rates fall, the value of these matching assets is expected to rise to help partially match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these matching assets are expected to fall in value, as will the actuarial liabilities because of an increase in the discount rate.

Interest Rate Sensitivity Analysis

	Duration	
	As at 31 March 2023	As at 31 March 2022
Sarasin Index Linked Gilts	12.9	16.1

c) Other Price Risk

Other price risk arises principally in relation to 'growth' assets. However, the Closed Fund does not hold these types of assets, and is therefore not exposed to 'other price risk'.
The following is a summary of the risk exposures by Fund:

	Credit Risk	Market Risk		
		Currency Risk	Interest Rate Risk	Other Price Risk
Sarasin Index Linked Gilts			✓	
State Street Cash	✓	✓	✓	

Appendix

Following analysis of historical data and expected investment return movement during the financial year, in consultation with its advisers, the Closed Fund has determined that the following movements in market price risk are reasonably possible for the 2022/23 reporting period. This gives an overall fund volatility of 7.2% (2022: 7.6% based on assumptions provided by the Closed Fund's investment adviser).

	1 year expected volatility (+/-) %	% of Fund	
		2023	2022
Sarasin Index Linked Gilts	7.9	91.3	92.1
State Street Cash	0.0	8.7	7.9
Total Fund Volatility	**7.2**	**100.0**	**100.0**

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review.

Had the market price of the Closed Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

	As at 31 March 2023	As at 31 March 2022
Total net investment assets (£000)	263,402	328,575
Percentage change (%)	7.2	7.0
Value on increase (£000)	282,465	351,509
Value on decrease (£000)	244,339	305,640

15. Funding arrangements as at 31 March 2022

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting the Guarantor's employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2022. The next valuation will take place as at 31 March 2025.

The funding policy focuses on ensuring that sufficient assets are available to meet all liabilities as they fall due for payment. The Fund's benefits are underwritten by the Department for the Environment, Food and Rural Affairs (Defra) who have agreed to a funding plan that involves half yearly cash injections to meet the following 6 months' expected benefit expenditure.

At the 2022 actuarial valuation, the fund was assessed as 67% funded (51% at the March 2019 valuation). This corresponded to a deficit of £162m (2019 valuation: £280m) at that time.

The level of contribution payable to the fund is not directly determined from the past service deficit position. Instead a cash flow approach is used where the contributions are paid by Defra on a six monthly basis depending on expected benefits and expenses payable from the Fund for the following six months. The projected payments due from Defra over the three-year period ending 31 March 2026 are shown in the table below:

Year	Projected payments due
2023/24	51,192
2024/25	46,077
2025/26	42,837

The projected payments allow for expected administration and investment expenses. They include unfunded pension payments.

The valuation of the fund has been undertaken using the projected accrued benefit method. The principal assumptions were:

Financial assumptions

	%	Descriptions
Investment return (Discount rate)	1.7	Yield on long term fixed interest Government bonds
Retail Price Inflation (RPI)	3.7	The difference between yields on fixed and index-linked Government bonds at the valuation date
Pension increases	3.1	CPI (assumed to be 1% less than RPI up to 2030 and 0% less than RPI thereafter)

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI2021 model with no weighting placed on 2020 and 2021 data, an initial additional parameter of 0.25% for males and females and a long-term rate of improvement of 1.5% p.a. for both women and men. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current pensioners	20.5 years	23.6 years
Future pensioners*	20.4 years	24.3 years

* Figures assume members are aged 60 as at 31 March 2022

Commutation assumption

It is assumed that future retirees will take 50% of the maximum additional tax-free lump sum up to HMRC limits.

16. Actuarial present value of promised retirement benefits (IAS26)

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions and considering funding benefits only, is estimated to be £379m (2022: £480m). This figure is used for statutory accounting purposes by Defra. The assumptions underlying the figure are set out in Defra's statutory accounts. The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for the funding purposes and setting contributions payable to the Fund.

Assumptions used Year ended 31 March 2023	**% p.a.**
Discount rate	**4.15**
Pension increase rate (CPI)	**2.40**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model with 10% weighting placed on 2020 and 2021 data, an initial additional parameter of 0.25% for males and females and a long-term rate of improvement of 1.5% p.a.

17. Current assets

	2023 £000	**2022 £000**
Cash at bank	4,633	992
Debtors		
VAT debtor	291	305
Overpaid pensions due to be returned	239	206
Total	**5,163**	**1,503**

Analysis of debtors

Overpaid pensions due to be returned to the fund represent recoveries being made from members who have had funds paid across after they have died.

18. Current liabilities

	2023 £000	**2022 £000**
Creditors		
Administration and investment expenses	635	653
PAYE	493	494
Benefits payable	207	18
Tax payable on refunds	43	-
Total	**1,378**	**1,165**

Analysis of creditors

No funds are due to the Environment Agency Active Pension Fund (2022: £nil) in respect of administration expenses and VAT reclaimed.

19. Related party transaction

During the year ended 31 March 2023 there have been the following related party transactions:

- Pensions administration costs of £190k (2022: £168k) were recharged to the Closed Pension Fund by the Environment Agency;

- No funds are due to the Environment Agency Active Pension Fund in respect of administration expenses and VAT reclaimed (2022: £nil). The Active Fund is a sister scheme to the Closed Fund and further details about this Fund are shown in Annex 4;

- One member of the Committee is in receipt of pension benefits from the Closed Fund which is paid in accordance with the Fund Rules; and

- Benefits payable exclude £5.6m (2022: £6.2m) for historical unfunded pensions liabilities of the Environment Agency in respect of compensatory added years and water company pension scheme charges paid via the pension's administrator. This has been recharged to the Environment Agency and funded by Grant-In-Aid from Defra.

20. Contingent liabilities

At the time of writing there is significant uncertainty on the extent of both obligation and value based on the behaviour of regulators and potential claimants with regard to the Cyber incident at Capita and as such no contingent liability could be reliably measured.

There are no contingent liabilities as at 31 March 2023 (2022: £nil).

21. Contingent assets

There are no contingent assets as at 31 March 2023 (2022: £nil).

22. Impairment losses

For the year to 31 March 2023 the Fund has recognised an impairment loss of less than £0.1m (2022: less than £0.1m) for the non-recovery of pensioner death overpayments.

23. IAS10: Authorisation for issue

The Environment Agency Closed Pension Fund Annual Report and Financial Statements are laid before the Houses of Parliament by Defra. In accordance with IAS10 these financial statements have been authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General's independent auditor's report.

The annexes

The annexes included within this report are unaudited.

Annex 1 – Government Funding Agreement

Extract from a letter sent on 15 April 2004 by Paul Boateng (Chief Secretary to the Treasury) to the Rt Hon Margaret Beckett (Secretary of State for the Environment).

Environment Agency Closed Pension Fund

"Thank you for your letter of 18 March requesting a change in the arrangement agreed in the 2002 spending review for funding the liabilities of the Environment Agency Closed Pension Fund. I am prepared to agree to the revised arrangements you suggest for the 2004 spending review baseline year. The funding of the Environment Agency Closed Pension Fund will remain ring-fenced and will reduce over time in line with the unwinding of the liability".

Paul Boateng

Extract from a letter sent on 15 July 2004 by the Rt. Hon Margaret Beckett (Secretary of State for the Environment) to Sir John Harman (Chairman of the Environment Agency).

Environment Agency Closed Pension Fund

The Environment Agency Closed Pension Fund is in actuarial deficit. Current valuations indicate that the assets available will not meet its future liabilities and the Fund will be exhausted by autumn 2006. Section 173 of the Water Act 1989 gave me the function of providing funding to enable the liabilities of the Fund – a public service, final salary, funded pension scheme – to be met. I propose to exercise this function through stabilisation of the Fund and annual top up payments from April 2006.

The assets of the Fund should be allowed to run down (rather than be liquidated) and then stabilised through annual top up payments using section 173 provisions of the Water Act 1989, thus meeting ongoing liabilities on a pay as you go basis. The Chief Secretary to the Treasury has agreed to this and that we should retain financial cover sufficient to fund annual costs from 2006/07.

Actuarial valuations indicate that the Fund will fall below the £100m mark – the equivalent of a little over annual outgoings in the latter half of 2005/06. I therefore propose to top up the Fund in April/May 2006 and again in September/October 2006 by a total amount equivalent to its annual outgoings as determined by actuarial forecasts. This will be repeated in subsequent years, with the amount proportionate to the actual Fund liabilities.

I confirm that the implementation of these proposals will not either dilute or remove my statutory funding function under section 173 of the Water Act 1989. The Fund pensioners will not see any change in how their individual pensions are paid, and they can be certain that their entitlement will be met. I would therefore commend these arrangements to you, to the Agency's Pensions Committee and to the Fund's members.

Margaret Beckett

Memorandum of understanding

Between: The Secretary of State for Environment, Food and Rural Affairs of Nobel House, 17 Smith Square, London SW1P 3JR ('the Secretary of State'); and

The Environment Agency – Pensions Committee of Rio House, Waterside Drive, Almondsbury, Bristol, BS32 4UD ('the Agency').

Background

(i) The Environment Agency Closed Fund ('the Closed Fund') is vested in, and required to be maintained by, the Environment Agency by regulation 2(1) of the Local Government Pension Scheme (Environment Agency) Regulations 1996.

(ii) Before 1989, the Water Authorities Superannuation Fund ('WASF') served the former Regional Water Authorities in England and Wales. Under the Water Act 1989 their water supply and sewerage functions were transferred to newly created water companies, together with the relevant employees. The pension liabilities and assets in respect of such employees were transferred from the WASF to the new water company pension schemes. The pension liabilities and assets in respect of the remaining employees, and also of the former employees and pensioners, were transferred with the WASF to the National Rivers Authority ('the NRA'), which set up a pension fund for its own employees ('the Active Fund') into which were transferred the pension liabilities and assets in respect of the said remaining employees.

(iii) Following the transfer of active employed members to both the water company pension schemes and the Active Fund, the only remaining members of the WASF were deferred and pensioner members. No further members were admitted to it, so that it became a closed scheme ('the Closed Fund'). The Secretary of State and the NRA accepted the possibility that, in due course, the Closed Fund could have insufficient resources to meet its pension liabilities. With effect from 1 April 1996 the Agency assumed the functions of the NRA and the Closed Fund is now known as the Environment Agency Closed Fund.

(iv) The Closed Fund is maintained for the purposes of Section 7 of the Superannuation Act 1972, and accordingly the Secretary of State has the function conferred by Section 173 of the Act to make such payments into the Closed Fund as may be considered appropriate in respect of the actual and prospective liabilities falling from time to time to be met out of the Closed Fund for the benefit of its members ('the Closed Fund members').

(v) As at 31 March 2004, the Closed Fund's FRS 17 valuation indicated that it had a net deficit for accounting purposes of £826,600,000 and its actuarial valuation indicated that it had a funding level of 21% which corresponded to a net past service reserve deficit of £880,000,000. The value of the liability under both valuations is sensitive to future mortality rates, inflation rates, and the discount rate used.

(vi) This Memorandum of Understanding sets out the mechanism whereby the Secretary of State will exercise the function under section 173 of the 1989 Water Act with a view to addressing the deficit in the Closed Fund.

(vii) This Memorandum has been agreed between the Secretary of State and the Environment Agency and the arrangements for funding the Closed Fund have been approved by Her Majesty's Treasury pursuant to that section, as indicated in the letter of 15 April 2004 from the Chief Secretary to the Secretary of State, subject to the conditions referred to in that letter.

Payments into the Fund

(viii) The Closed Fund's funding level continues to deteriorate, and on actuarial advice it is assumed that the value of the assets will reduce to a level of between £50 million and £60 million by about April 2006. With effect from that date the Secretary of State will ensure that cash payments are made into the Fund each year totaling an amount equivalent to its total annual outgoings (defined as total anticipated payments to pensioners, transfers out of the Closed Fund, investment management or other agents' fees, administration costs, and all other liabilities or expenses whatsoever, less interest earned on such cash payments made to the Environment

Agency for the Closed Fund during the year) to be calculated and properly certified by the Environment Agency in accordance with actuarial advice received.

(ix) Such payments will be solely to finance the Closed Fund's annual outgoings and will be treated separately from the Environment Agency's mainstream finances. They will be made every six months, with the sums to be paid equaling the amount of the Fund's outgoings for the previous six months. The first payment into the Fund will be made in April 2006. These payments will continue until the liabilities of the Closed Fund have been met in full. Latest actuarial projections indicate that this will occur in 2062.

(x) These payments will be in the form of ring-fenced grant-in-aid from the Secretary of State and will be paid twice each year in April and October through the normal grant-in-aid procedures to the Environment Agency

(xi) The Environment Agency will provide the Secretary of State with a copy of actuarial advice received and such information as is reasonably required to illustrate how the payments certified as payable have been calculated. Any assets held in the Closed Fund in excess of the payments will be retained to protect against minor variations in outgoings until a certificate of the actuary to the Closed Fund confirms that their retention is unnecessary. A copy of any such certificate shall be provided by the Environment Agency to the Secretary of State.

(xii) Payments made by the Secretary of State into the Closed Fund will be reported in Defra's annual accounts together with the Closed Fund's liability in accordance with FRS 17 (or any replacement accounting standard).

Payments to pensioners

(xiii) Nothing in this Memorandum will affect the Environment Agency's role in the making of payments from the Closed Fund which are to be made in accordance with the Local Government Pension Scheme Regulations 1997 ('LGPS Regulations').

Control, monitoring and review

(xiv) The Environment Agency will manage the residual assets of the Closed Fund according to the high standards of financial integrity expected of those responsible for the management of public assets. The Environment Agency will invest any surplus funds, as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and in accordance with the Closed Fund's Statement of Investment Principles and Funding Strategy Statement. The Environment Agency's procedures and the accounts of the Fund will continue to be the subject of an annual external audit, and nothing in this Memorandum affects the need for an actuarial valuation of the Closed Fund as required by the LGPS Regulations.

(xv) For monitoring purposes, the Environment Agency will inform the Secretary of State of the Closed Fund's liabilities at the end of each financial year in accordance with FRS 17 (or any replacement accounting standard).

(xvi) This information will be used to update provisions in the annual accounts of Defra. Significant variations from profiled grant-in-aid payments will be fully justified by the Environment Agency.

(xvii) This Memorandum shall only be amended by the agreement in writing of both the Secretary of State and the Environment Agency.

Brian Bender
Accounting Officer
Defra
On behalf of the Secretary of State for
Environment, Food and Rural Affairs

Barbara Young
Accounting Officer
Environment Agency
On behalf of the Environment Agency
Date of signature: 17 May 2005

Annex 2 – Funding Strategy Statement

1 Introduction

This is the Funding Strategy Statement (FSS) of the Environment Agency Closed Pension Fund ('the Fund'), which is administered by the Environment Agency on behalf of the Environment Agency Pensions Committee ('the Administering Authority').

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Department for the Environment, Food and Rural Affairs (Defra - 'the Guarantor') and the Fund's investment adviser. It is effective from 8 December 2022.

Fund history

The Fund is part of the national Local Government Pension Scheme (LGPS).

The Fund is the vehicle used to pay the pensions and related benefits of certain former employees in the water industry in England and Wales prior to its privatisation. The Fund was created by the Water Act 1989 and has always been closed to new entrants and accrual of future service. The Fund's liabilities are statutorily guaranteed by Defra under section 173 of the Water Act 1989 and it is unique in this respect in the family of Local Government pension funds. The Memorandum of Understanding between the Secretary of State for Environment, Food and Rural Affairs and the Environment Agency – Pensions Committee sets out the mechanism whereby the Guarantor makes Grant-in-Aid (GiA) payments to the Fund to cover the cost of benefits in payment.

The Fund provides a convenient and efficient vehicle to deliver scheme benefits, in particular by

- Receiving GiA payments and investment income, and
- Paying scheme benefits, transfer values and administration costs.

Profile of liabilities

As at 31 March 2022, the Fund's membership consisted of 9,997 pensioners and 1,056 deferred pension members whose benefits have yet to come into payment. The liability-weighted average age of members in receipt of pensions in payment was around 77 years, and 61 years for deferred pensioners.

Around 50% of the liabilities are expected to be discharged over the next 7-8 years, but the remaining liabilities could take a further 40-50 years to come close to being extinguished. The final payment from the Fund may not be paid until the end of the 21st century.

The Fund's assets are expected to be sufficient to meet the outstanding benefit and expense outgo by 2026, based on a simple projection from the 2022 valuation date.

The discounted mean term of the liabilities – a measurement of duration that can be useful in matching liabilities to bond durations – was 9.6 years as at 31 March 2022.

As at 31 March 2022, the Fund's assets were £329m (£294m at 31 March 2019) and the value placed on the liabilities (discounted in line with the minimum risk return available on UK government bonds) was £491m (£574m) resulting in a funding level of 67% (51%) and a deficit of £162m (£280m). Benefit expenditure flowing out of the Fund is running at around £45m per annum.

All these figures exclude the additional 'unfunded' pension payments of around £6m per annum which are paid to Fund members for added years awarded on retirement. The Administering Authority receives Grant-in-Aid payments covering funded and unfunded benefit payments.

Regulatory framework

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Fund's Investment Strategy Statement (see Section 3)

The FSS has been prepared by the Administering Authority in collaboration with the Fund's actuary, Richard Warden, and its investment consultant, Nell McRae, both of Hymans Robertson. It has been consulted on with the Guarantor, Defra.

Reviews of FSS

The FSS applies with effect from 31 March 2023 for lump sum contributions payable in the Fund's financial year 2023/24 and thereafter. The principles documented herein have been used for the actuarial valuation as at 31 March 2022. The FSS is reviewed in detail at alongside each triennial valuation.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

Funding strategy objective

The FSS sets out the objectives of the Fund's funding strategy, which is to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.

How do I find my way around this document?

In Section 3 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. the assumptions which the Fund actuary currently makes about the future,

E. a glossary explaining the technical terms occasionally used here.

For any queries, please contact Craig Martin, Chief Pensions Officer by emailing

EAPF@environment-agency.gov.uk

2 Determining the solvency target and funding position

Reviews of funding position and Guarantor payments

The Fund's actuary is required by LGPS Regulations to report the funding position (or 'solvency') of the Fund relative to its solvency target at every actuarial valuation. Unlike other LGPS funds there is no requirement to certify contribution rates as the Fund has no contributing employers.

At each valuation the Administering Authority also works with the Fund's actuary to review the cash flow position of the Fund and the expected benefit expenditure for the following years. This is used to forecast the GiA payments required from the Guarantor.

Solvency target

The Fund defines 'solvency' to be the ability to meet ongoing benefit expenditure. As at 31 March 2022, the assets held by the Fund were only sufficient to cover 67% of its liabilities (51% in 2019). Without the GiA payments made by the Guarantor, the Fund would expect to be exhausted by 2033.

The accrued liabilities are the future payments of pensions and lump sums, allowing for annual increases on pensions in payment in line with Consumer Prices Index (CPI) Inflation. The valuation allows for future investment returns when calculating the liabilities, which reduces the value placed on them today.

Ongoing funding basis

The Fund's actuary agrees the financial and demographic assumptions to be used for each triennial valuation with the Administering Authority.

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member.

The key financial assumption affecting the projected GiA payments is the rate of CPI inflation which will determine future benefit increases. This has been taken to be 3.1% p.a. at the 2022 valuation for the purpose of calculating the solvency position mentioned above.

In determining the value placed on the liabilities it is also important to use a suitable discount rate. The Fund is invested almost entirely in index-linked UK government bonds, so the discount rate chosen is the expected nominal return on these assets as at the valuation date. As at 31 March 2022 this return is expected to be 1.7% p.a., leading to a real assumed return of −1.4% p.a. relative to CPI.

Given that CPI inflation is currently much higher than this long-term assumption and is expected to be volatile for the next few years, the GiA projections will be updated each year to allow for actual pension increases. These are based on CPI inflation in the 12 months to September which is typically available by mid-October. The formal pension increase is confirmed in a Pension Increase order typically released around January before coming into force in April.

Note that the discount rate assumption does not affect the GiA projections.

3 Funding strategy and links to investment strategy

What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive investment income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The Fund has a low-risk investment strategy, being invested in a portfolio of index-linked UK government bonds.

What is the link between funding strategy and investment strategy?

The Fund's funding and investment strategies are inextricably linked. However, the modest value of assets compared to liabilities and the fact that benefit payments are currently met by GiA payments from the Guarantor means that the performance of the Fund's assets will only have a limited effect on the Fund's finances for the time being.

How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The discount rate assumption is consistent with the Fund's investment strategy and is considered to be consistent with the requirement to take a 'prudent longer-term view' of the funding of liabilities as required by the UK Government (see Appendix A1).

Does the Fund monitor its overall funding position?

The Administering Authority monitors the benefit expenditure and cash flow position of the Fund on a regular basis to ensure that there are always sufficient assets to meet the benefit expenditure.

4 Statutory reporting and comparison to other LGPS Funds

Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ('Section 13'), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department for Levelling Up, Housing and Communities (DLUHC) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

However, given the extraordinary nature of the Environment Agency Closed Fund and its funding through Grant-in-Aid payments from Defra, it is excluded from most aspects of the Section 13 analysis.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Levelling Up, Housing and Communities (DLUHC) has stated that the purpose of the FSS is:

"To establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;

to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;

ensure the fund meets its **solvency and long-term cost efficiency** objectives

to take a **prudent longer-term view** of funding those liabilities."

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue… with council tax raising authorities and representatives of other participating employers'.

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to Defra on 21 October 2022 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required, approved by the Pensions Committee on 8 December 2022 and then subsequently published.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on our website at www.eapf.org.uk/trustee/governance-policies
- A copy sent by e-mail to Defra;
- A full copy included in the annual report and financial statements of the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up-to-date information on the Fund.

These documents can be found on the website at www.eapf.org.uk

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. Operate the Fund as per the LGPS Regulations.
2. Collect GiA payments, and investment income and other amounts due to the Fund.
3. Ensure that cash is available to meet benefit payments as and when they fall due.
4. Pay from the Fund the relevant benefits and entitlements that are due.
5. Invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations.
6. Manage the valuation process in consultation with the Fund's actuary.
7. Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 4).
8. Prepare and maintain a FSS and an ISS, after consultation.
9. Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary).
10. Monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Fund Actuary should:-

1. Prepare valuations, including the forecasting of GiA payments. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations.
2. Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 4).
3. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
4. Fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B3 Other parties:-

1. Investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS.
2. Investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS.
3. Auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required.
4. Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.

5. Legal advisers (either internal or external) should ensure the Fund’s operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority’s own procedures.
6. DLUHC (assisted by the Government Actuary’s Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.
7. The Guarantor (the Department for the Environment, Food and Rural Affairs) should make the Grant-in-Aid payments agreed with the Administering Authority to meet the cost of benefits.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- Financial
- Demographic
- Regulatory
- Governance

C2 Financial risks

	Summary of Control Mechanisms
Price inflation significantly more than anticipated.	GiA projections will be reviewed each year to allow for actual Pension Increase Orders. The focus of the actuarial valuation process is on real returns on assets, net of price increases. Inter-valuation monitoring, as above, gives early warning. Investment in index-linked bonds also helps to mitigate this risk. The Fund holds liquid assets that can be used to pay benefits if GiA payments are inadequate in any given year
Effect of possible asset underperformance as a result of climate change	The EAPF has a comprehensive approach to managing this risk outlined in its Policy to Address the Risks of Climate Change.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.

C4 Regulatory risks

	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Pensions Committee Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ('the liabilities'). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns and pension increases; demographic assumptions include life expectancy and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the 'basis'. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower GiA projections. A more prudent basis will give higher funding targets and higher GiA projections.

D2 What assumptions are made in the Fund's standard basis?

a) Pension increases

The key financial assumption in determining GiA requirements is the assumed rate of pension increases. Since 2011 the consumer prices index (CPI), rather than the retail prices index (RPI), has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers.

As at the previous valuation, we derived our assumption for RPI inflation from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, this allowance has reduced to 0.6% per annum. This reflects the fact that after 2030 RPI inflation will be redefined to equal CPIH inflation which historically has been very similar to CPI inflation. Therefore, RPI inflation and CPI inflation are expected to be virtually identical from 2030. Taking account of the timing of the expected benefit payments before and after 2030, the average RPI-CPI gap is 0.6% pa. Note that the reduction is applied on a geometric, not arithmetic, basis.

b) Investment return / discount rate

The anticipated return on the Fund's investments is a key assumption in determining the funding position, but has no influence on the projected GiA payments required. This 'discount rate' assumption is set equal to the market-implied return on long-dated UK government bonds, reflecting the Fund's low-risk investment strategy.

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of 'VitaCurves', produced by Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Appendix E – Glossary

Actuarial assumptions/ basis
The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.

Administering Authority
The body with statutory responsibility for running the Fund, in effect the Fund's 'trustees'.

Discount rate
The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.

Funding target
The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

Gilt
A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be 'fixed interest', where the interest payments are level throughout the gilt's term, or 'index-linked' where the interest payments vary each year in line with a specified index (usually RPI). Gilts are held as assets by the Fund and are also used in funding as an objective measure of a risk-free rate of return.

Guarantee / guarantor
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. The guarantor for the Fund is the Department for the Environment, Food and Rural Affairs (Defra).

LGPS
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Profile The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. former employees. This includes: the proportions which are deferred or pensioner; the average ages of each category; the varying pension levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Annex 3 – Investment Strategy Statement

Introduction

The Environment Agency Closed Pension Fund (the 'Fund' or 'EAPF') is a closed, final salary (defined benefit) pension scheme with around 10,000 members at 31 December 2022 and assets of approximately £260m as 31 December 2022. Full details of the Environment Agency Pension Funds and our activities can be found on **www.eapf.org.uk**.

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 22 March 2023, which acts on the delegated authority of the Environment Agency's Board, after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

We will refer to this Statement when making investment decisions to ensure they are consistent with our investment principles and strategy. As set out in the regulations, the Pensions Committee will review the Statement from time to time, but at least every three years following the triennial valuation of the Fund.

The Closed fund is governed and managed by the same Pensions Committee and officers as the Environment Agency Active Pension Fund. Although the circumstances of the Closed Fund are always taken account of whenever appropriate, on certain matters both Funds are considered together ('the combined EAPF'). The Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Strategy, Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change and our joint stewardship policy. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our members and wider stakeholders including external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

Our Governance Policy sets out how the Fund is governed and the role of the Pensions Committee; Pension Board; Investment Sub-Committee; and Environment Agency officers on investment matters. The Environment Agency Board appoints the Pensions Committee and Pension Board, and delegates responsibility for compliance with legislation and best practice, overall strategic asset allocation, investment policy, budgets and the appointment of fund managers and investment advisers. The Environment Agency Board approves the Annual Report and Financial Statements of the Fund, which includes the policies under which the Fund is governed.

The Investment Sub-Committee normally consists of seven representatives of the Pensions Committee and receives input and advice from professional investment officers, specialist investment consultants, an independent investment adviser, the Fund actuary, and other professional advisers as required.

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates.

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safe-keeping of the directly-held assets of the Fund and who works in close liaison with each fund manager. State Street fulfils both of these functions.

The Fund's actuary is responsible for performing a formal valuation of the Fund every three years in order to assess the extent to which the assets cover accrued liabilities and to inform the development of an appropriate Funding Strategy Statement. The Funding Strategy takes account of, and informs the development of, our investment strategy and this ISS.

In all matters, our fiduciary obligations to Fund members are paramount, and neither the Fund's committees nor the Fund's officers would take any action which would be in conflict with these obligations. Similarly, fund managers are required to invest in the best interest of the Fund.

High Level Investment Principles

Working with our partners in the Brunel Pension Partnership, we have agreed a set of investment principles with the intention that they provide a framework for the investment strategy, operations, manager selection, monitoring and reporting. The principles are also designed to meet the Department for Levelling up, Housing and Communities' Local Government Pension Scheme: Investment Reform Criteria and Guidance and the requirements and expectations of Financial Conduct Authority. They can be applied to all asset classes, although the detail of operation will vary by asset class.

The principles do not impose any restrictions on type, nature of companies or assets held within the portfolios. The principles do place an expectation that recognised best practice standards in governance, risk management, stewardship and value for money will be delivered.

Long-term investors	We are long-term investors: we implement our funds investment strategies that require productive assets that contribute to economic activity, such as equities, bonds and real assets. This may include the delegated responsibility to provide sustainable and sufficient return on their assets.
Responsible investors	We are responsible investors: we believe that in the long term we will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
Best practice governance	We adopt best practice collective governance with appropriate oversight, prioritisation, delegation and decision-making at the right level, and clear accountability.
Decisions informed through experts and knowledgeable officers and committee	We make our informed decisions based on extensive expertise including trained and insightful operations' governance members, experienced and professional officers and high quality, knowledgeable advisors.
Evidence and research at heart of investments	We take an evidence and research-based approach to investment: continually learning and reappraising from academic research, investment professionals, and our peers, and seek continual development in our understanding of investment.
Leadership and innovation	We are prepared to be innovative and demonstrate thought-leadership in collective investment, within the requirement of prudence and our joint fiduciary duty.

Right risk for right return	We will seek right risk for right return. We will make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of Portfolios and managers within asset classes. While we take account of market and economic levels in our decision-making, we will avoid making decisions on purely a short-term basis.
Full risk evaluation	We will be comprehensive in our consideration of our funds' risks assessed on their liabilities and contributions; consider financial and non-financial risk as appropriate; offer a pooled structure to accommodate the need to diversify risk, but also recognise the limits of that diversification – as long term investors we accept that our investment success depends substantially on the sustainable growth of the economy.
Responsible stewardship	We will enable our funds' to exercise responsible stewardship of the assets they hold, and act as a collective responsible voice in the broader investment community.
Cost effective solutions	We will seek the most cost-effective solutions to achieving our funds' objectives and implementing these principles collectively: we recognise the impact of costs on the Funds, but we are prepared to pay for active management and other services when we believe that the costs incurred are likely to be justified by the benefits. We will seek to gain leverage from our collective status through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise.
Be Transparent and accountable	We believe in the importance of being transparent and accountable, to ensure correct decisions are taken and to minimise risk. This applies both in our own operations, those we work with, and our investments.
Collaborate	We will collaborate with others whenever possible, to share ideas and best practice; to improve effectiveness and to minimise costs.

Investment objectives

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 8 December 2022. The Fund's solvency is guaranteed by the Government, in the form of the Secretary of State for Environment, Food and Rural Affairs ('the Guarantor'). The level of the Guarantor's contributions is reviewed every six months.

The Fund's invested assets are fairly small relative to the value of its prospective liabilities. Working on the basis that the Guarantor will meet pension payments until the value of the remaining liabilities is equivalent to the Fund's remaining assets, the investment objective of the Fund is to ensure that in due course that the Fund's assets will equate to its liabilities in as low a risk manner as possible. From that point onwards the Fund should be able to meet its pension payments directly.

Responsible Investment

We are long-term investors who aim to deliver a truly sustainable Pension Fund; ensuring that it is affordable; delivers financially to meet the objectives of our scheme employers; and is invested responsibly. We seek to be a leading responsible investor. Full details are contained in our Responsible Investment Strategy, and Getting to Net Zero and Building Resilience: EAPF Policy to Address the Impacts of Climate Change. Both the Brunel Pension Partnership's and the Fund's underlying investment managers are strongly expected to comply with these policies when implementing the mandates on our behalf.

Considering Responsible Investment with respect to the Obligations of the Pensions Committee and fiduciary duty to our members

Our primary duty is to provide pensions to members of the EAPF. Part of this includes making investments to ensure we are able to maintain a secure and well-funded pension fund for our members.

When making investment decisions we carefully consider the environmental, social and governance issues that can impact negatively or positively on our portfolio.

If an environmental, social and/or governance issue is poorly managed and thereby poses a material financial risk to our individual investments or our portfolio as a whole, we must take this into account. This includes, for example, climate change and nature risks.

We may also consider other environmental, social and governance issues, which don't present a material financial risk to our fund but allow us to act in the best long-term interest of our members more generally. In doing this, we must not impact on our ability to maintain a secure and well funded pension scheme.

We need to take these issues into account in our funding and investment strategies, and throughout the funding and investment decision-making process.

We place a great emphasis on engaging with our members to understand their views and to make sure that EAPF reflects their values. We want our members to take pride in the work their pension fund is doing to tackle climate change and build a better future.

Members' views inform our approach but the decisions on setting the right investment strategy remains with the Pensions Committee. As a defined benefit scheme, the EAPF Pensions Committee has the legal responsibility for ensuring that the right approach is taken to ensure that it is able to pay members' pensions over the very long term.

By law our investment strategy must contain our policy on environmental considerations among other considerations.

Responsible Investment Strategy: Priorities to 2025

Invest to build a better future:	**Make our members proud of their pension fund:**
• invest significantly in sustainable and low carbon assets • calculate the impact on, and impact of, our Fund on climate change • Embrace opportunities for investing responsibly across all asset classes in particular in natural capital and transition finance, and take advantage of the investment opportunities that the transition to a more sustainable global economy will create	• tell members about the positive impact their pension fund is making • encourage members' feedback on how our responsible approach can be improved
Work with the investment community to help build a better future:	

- Prioritise in our engagements the issues of climate change, nature, using resources sustainably and managing water
- continue to support the development of the Transition Pathway Initiative (TPI)
- raise the importance of managing the physical risks from climate change
- support shareholder initiatives through the Brunel Pension Partnership and challenge company boards directly on their performance asking questions at Annual General Meetings, where in line with wider pool objectives
- take part in at least 2 campaigns every year to deliver wider change in company and investor behaviour

EAPF Position on Climate Change & Nature

Climate change & nature loss pose significant threats to our economy, environment, health, way of life and our members' future. They present interrelated systemic risks, where the actions, or inaction, of one company can positively or negatively affect its sector as well as the overall economy.
As a pension fund, climate change and nature loss both present material financial risks to us. They have the potential to impact the value of the holdings in our investment portfolio and our long term liabilities. There are financial risks to us in not considering climate change & nature.
Our climate policy recognises the central role of nature in combatting climate change and we will consider the biodiversity impacts in enacting our climate objectives at all stages of our net zero journey.

To tackle climate change & nature loss we will:

Halve total Fund emissions by 2030 and get to net zero by 2045	**Invest significantly in green solutions which build a clean, biodiverse and climate-resilient future**
• reduce our listed equity emissions by 43% by 2025 and 77% by 2030 versus a 31 December 2019 baseline • allocate money through listed fixed income, multi-asset credit and private debt markets to fund the low carbon transition and help build resilience • monitor performance of managers versus Paris Aligned Benchmarks by 2030, where available • explore options through pooling to stop participating in new debt finance to companies which contribute significant GHG emissions and are misaligned with a low carbon transition pathway (as identified by TPI) unless there are climate change covenants in place • progressively analyse our holdings in all asset classes and include Scope 3 emissions in monitoring and target setting • refrain from using carbon offsets at the Fund level at this stage. Where offsetting is used by those we invest in, it should focus on proven nature-based solutions or use technology that is shown to be clean and viable, and be subject to a credible carbon standards	• Aim to always have at least 33% of our investments in sustainable assets • have 17% of our investments by 2025 directly tackling climate change by helping to reduce emissions or build resilience • invest in nature-based solutions, which will bring the additional benefits of protecting and enhancing biodiversity • seek to demonstrate our new investments in sustainable agriculture and sustainable forestry in our natural capital asset class are net nature positive and deforestation free • align with TNFD guidance and market best practice in disclosing the nature risks and impacts of our investment portfolio • align with the UK/EU taxonomy as data becomes more readily available and review our targets to ensure that our ambitious approach remains appropriate
Work with others so that the whole economy turns greener	
• invest across all sectors of the economy • use our shareholder power to drive change in companies we hold or held on our behalf help reduce emissions, value natural capital and build resilience	
Walk the talk – we get to net zero as a pension fund team	
• Get to net zero as a pension fund team by 2030 • Communicate with our members on how they can reduce their carbon footprint	

The suitability of different types of investment

The Fund may invest in any investment considered appropriate. However, after considering the exceptional nature of the Fund, specifically the grant in aid provided by Defra, the Government guarantee underpinning the Fund, and the low risk nature of the investment objective, it is currently invested in index linked government bonds and cash only. The Committee considers these classes of investment to be suitable in the circumstances of the Fund. The range of assets we choose to invest in are always reviewed as part of our investment strategy review process.

Costs are also an important consideration when assessing the suitability of investments. When considering costs and charges, both transparency and the need to control these are important. Recurring annual costs and charges are a drag on performance.

Sustainable Investments

We define sustainable investment as investments which address societal challenges but generate competitive financial returns. This includes for example, energy efficiency products, renewable energy, water and waste treatment and sustainable property, forestry or agriculture. We currently classify these holdings predominantly in line with FTSE classifications and set out our details methodology in our annual report.

A subset of these investments will directly tackle climate change – by providing lower carbon options or producing solutions to help adapt to climate change and build resilience.

Asset allocation

The Pensions Committee has translated its objectives into a suitable investment strategy for the Fund. The investment strategy takes due account of the specific liability profile of the Fund, together with the planned funding arrangements agreed with the Fund's Guarantor.

The strategy is consistent with the Committee's views on residual asset management on the appropriate balance between maximising the long-term return on investments and minimising volatility and risk. The Committee is adopting a low-risk approach by investing in index-linked government bonds. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. Thus the assets comprise:

- a portfolio of index-linked government bonds, intended to broadly reflect an estimate of the duration of the liabilities the Fund is exposed to;
- cash held at our custodian and administrator, sufficient to meet pension payments until the next grant in aid payment, together with a small reserve; and
- a small portfolio of legacy unquoted equities – the value of which has been written down to nil - which is managed internally and is currently being run down.

Managers and Mandates

We have appointed an investment manager (currently Sarasin & Partners LLP), authorised under the Financial Services and Markets Act 2000 to undertake investment business, to manage the portfolio of index-linked government bonds. Sarasin & Partners LLP invest the portfolio on a low cost, non-discretionary basis. We have, after seeking appropriate investment advice, given the manager specific directions as to the securities to be held.

Risk

We take the management of risk in our investments very seriously. However, because of the low risk nature of our investment approach the investment risks are considered low. The bonds are guaranteed by the UK Government and the returns are fixed in real (after inflation) terms. The current value of the bonds can change as long term real interest rates move, but this will be closely correlated to movements in the Fund's liabilities. There may be some mismatch between our assets and the liabilities these assets are intended to match but this is kept under review.

We provide a practical constraint on the Fund's investments deviating from the intended approach by specifying the particular bonds to be held.

The Fund is exposed to a number of other risks which pose a threat to the Fund meeting its objectives, such as changing demographics and custody and counterparty risk. The Committee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. In addition, the Committee has a process of regular scrutiny and audit of providers to the Fund.

We believe that climate change presents a systemic risk to the ecological, societal and financial stability of every economy and country on the planet, with the potential to impact our members, employers and all our holdings in the portfolio. As such, climate change is potentially a long term material risk for the Fund, and which could impact our members, and employers. Our Policy to Address the Impact of Climate change and the dedicated area of our website provide further details with regard to how we take the climate related financials risks into account. However, the scope to implement this within the Closed Fund is limited.

Liquidity and the realisation of investments

The Fund's investments are in UK government bonds that are widely traded and liquid and may be realised quickly if required.

Stewardship and the exercise of our rights as owners

As the Fund invests in index linked government bonds there are no voting rights or issues of stewardship matters to consider. Similarly, social, environment and governance considerations are of limited relevance.

Collaboration

The combined EAPF actively engage in collaboration with other pension funds, investors, asset managers, advisers, industry bodies and associated organisations to share best practice, improve efficiencies, promote product development and save money.   We actively participate in the Cross-Pool Group and its subgroups, of which we lead the sub-group on responsible investment, to be resource efficient and share best practice.

The Cross Pool (RI) Group's purpose is to provide practical support and tools to assist nominated leads to co-ordinate the implementation of the consideration of RI (including ESG integration and stewardship), risks and communications for the pool and the Funds within each pool, whilst recognising the diversity in the approaches by Funds and pools.

To deliver our Responsible Investment policies we work closely with organisations including the UNPRI, IIGCC (institutional Investors Group on Climate Change), UKSIF (UK Sustainable Investment and Finance Association), and the CDP (Carbon Disclosure Project). We also share our understanding and experience through speaking at investment industry events and publishing articles on-line.

The Environment Agency Active Pension Fund is active in supporting a number of responsible investment initiatives:

- The Fund is a signatory to the UK Stewardship code and a member of the 30% Club Investor group.
- EAPF co-founded the Transition Pathway Initiative (TPI), supports Climate Action 100+ and is committed to supporting the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD).
- We have a focus on plastics with our approach in this area aligned with the Defra 'A Green Future' plan and EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas.

Implementation: Approach to Asset Pooling

We have worked with nine other Administering Authorities to implement the UK Government's requirement to pool the management and investment of our assets with other LGPS Funds, and have established the Brunel Pension Partnership and its operator, Brunel Pension Partnership Ltd. (Brunel Ltd). Brunel Ltd was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities (including the EAPF) and obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor.

The arrangements for asset pooling for the Brunel Pension Partnership pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Importantly, Brunel Ltd has met the Government's requirement for the pool to become operational from April 2018 and the transition of assets to start.

Investment assets are expected to be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and March 2020 in accordance with a timetable that has been agreed across the partnership.
Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

The EAPF, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Brunel Ltd will be responsible for implementing the detailed Strategic Asset Allocations of its ten Client Funds by providing and implementing a suitable range of outcome focused investment 'portfolios'. In particular, it will research and select the professional external investment managers responsible for making the day to day investment decisions at the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator, as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS and as above will delegate to its chosen sub managers.

The EAPF is a client of Brunel Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The governance of the Brunel Pension Partnership is of utmost important to us to ensure our assets are invested well and our needs and those of our beneficiaries are met. Governance controls exist at several levels within the partnership.

- As shareholders in Brunel Ltd we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are reserved matters requiring the consent of all shareholders.

- An Oversight Board, made up of representatives from each of the Administering Authorities and two Fund member representatives, has been established. Acting for the Administering Authorities, it has a primary monitoring and oversight function. Meeting quarterly, it can request papers from Brunel Ltd or interrogate its management. However, it cannot take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities, but also drawing on finance and legal officers from time to time. It will have a leading role in reviewing the implementation of pooling by Brunel Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors.

- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, with cover areas such as training and competency, policy and process documents, and internal controls.

Following the completion of the transition plan outlined above, it is envisaged that all of our assets will be invested through Brunel Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by Brunel Ltd These assets are expected to be managed in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Approved by the Pensions Committee on 27 June 2023.

Annex 4 – Communications Policy Statement

Introduction

The Environment Agency Pension Fund (EAPF) is part of the Local Government Pension Scheme (LGPS). The Active Fund has three employers – the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Limited (SSCL).

The Active Fund is open to all members of the Environment Agency and to those employees of NRW and SSCL who transferred from the EA on their relevant vesting day. It has 12,962 contributing members, 8,410 deferred members and 8,082 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no contributing members, 692 deferred members and 9,324 pensioners. This Communications Policy Statement is effective from 27 June 2023.

We have an agreed strategy for implementing a move to more electronic communication which continues to evolve. These developments are reflected in this policy statement. **In particular, we refreshed our website www.eapf.org.uk** which continues to evolve. It provides a knowledge centre with plenty of resources such as factsheets, guides, videos and presentations, as well as news from the fund for members. Further information with details of any employer related aspects of pensions such as policies on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

Any enquiries in relation to this Communication Policy Statement should be sent to:

Pensions Engagement Specialist
Horizon House
Deanery Road
Bristol, BS1 5AH
Email: info@eapf.org.uk
Tel: 07717347010

Objectives

We've identified a number of key objectives relating to how we communicate with our stakeholders, and these are:

- Communicate in a clear, concise manner
- Promote the Scheme as a valuable benefit and provide information so members can make informed decisions about their benefits
- Provide a service that is valued by all members, responding to their personal circumstances and supporting them in their decision making process.
- Look for efficiencies in delivering communications through greater use of technology and partnership working including the associated carbon reduction and contribution towards our net zero
- Ensure we use the most responsible and appropriate means of communication, taking into account the different needs of different stakeholders
- Regularly evaluate the effectiveness of communications and shape future communications appropriately

Regulatory framework

Since 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities "prepare, maintain and publish a written statement

setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities."
Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

This regulation applies to the written statement prepared and published by an administering authority under regulation 106B of the Local Government Pension Scheme Regulations 1997.

The authority;

- Must keep the statement under review.
- Make such revisions as are appropriate following a material change in its policy
- If revisions are made, publish the statement as revised.

The matters are;

- The provision of information and publicity about the Scheme to members, representatives of members and employing authorities.
- The format, frequency and method of distributing such information or publicity.
- The promotion of the Scheme to prospective members and their employers.

As a provider of an occupational pension scheme, we're also obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. The disclosure requirements are prescriptive, concentrating on time-scales rather than quality. A summary of our expected timescales for meeting the various disclosure of information requirements is set out in the section on performance measurement of this document, alongside those defined by the Disclosure Regulations.

Communication will always be in accordance with the provisions of General Data Protection Regulation (GDPR).

Representation

The EA performs the roles of Administering and Employing Authorities with the Pensions Committee and Pension Board, supported by the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's HR Pensions team performs the role of Employing Authority. The day-to-day administration of the funds is outsourced to Capita.

The Pensions Committee is a sub-committee of the EA Board with 14 members made up of 4 Board members, 2 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, with 2 member nominees for pensioners and deferred members. The Committee is supplemented by an Investment Sub Group where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group.

The Pension Board consists of 10 members, and includes members of the Pensions Committee less the 2 Executive Directors members of the Environment Agency and 2 Active Scheme members.

Responsibilities and resources

The EAPF is responsible for the administration of the Fund is carried out by Capita for the day-to-day administration of the Local Government Pension Scheme (LGPS) on our behalf. Overall responsibility for communications rests with the Pensions Committee and Pension Board supported by the Pension Fund Management team, the Defra Employee Benefits and Pensions team and Capita.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Technical Consultants and Communications team, with support from the Defra Employee Benefits and Pensions team.

One or more of these groups is also responsible for arranging all forums, workshops and meetings covered within this statement. Either the EAPF or Capita arranges design work and printing.

Where appropriate we may use external consultants to assist with the preparation and design or with the translation into Welsh of communications.

Our expenditure on our hard copy and electronic communications is inclusive in our administration contract but we estimate that it currently equates to approximately £3.00 per member.

Communication with key audience groups

Our audience

As an LGPS Administering Authority, we communicate with a number of stakeholders. For the purposes of this communication policy statement, we're considering our communications with the following audience groups:

- Contributing members
- Deferred members
- Pensioner members
- Prospective members
- Employing authorities – HR & Payroll
- The EA Board and Executive managers
- Pensions Committee members
- Pension Board members
- Recognised Trades Union representatives
- Pensions staff and HR
- Fund administrator

How we communicate

General communication

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use. The updates to the website in 2021 have improved members experience with huge improvements to the navigation of the site, as well as giving it a fresh look and feel. This look and feel have been incorporated into an updated branding guide, and being applied across the updated online platform, as well as being added to new documents we produce.

We introduced a platform for creating documents called Turtl in early 2022, which can create 'ebooks' rather than pdf's which are more visually appealing, as well as being more accessible. We are migrating the most popular documents on to Turtl and will continue to, as we've received positive feedback on the documents that are available in this format.

So far, since February 2022 we've converted the following into Turtl format - the New starter guide, Topping up my LGPS pension factsheet, the EAPF Pensions Committee recruitment leaflet and annual Spotlight publication.

We've also recently completed the build of our Brief Scheme Guide and How much will I pay into the LGPS factsheet, and we are now currently converting the Full Scheme Guide into Turtl format.

The analytics available from this are also really useful in identifying the content that is viewed the most. The updates to the website, portal and new documents ensures compliance with current accessibility standards, as well as being up to date with technology and demands in the digital area.

Both our public facing website and web portal facility, EAPF Online are 'device enabled' which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools in their own time.

We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

We deliver tailored, themed topic webinars and consult with members and Fund employers on content and introducing new sessions which are informed through customer surveys and focus groups.

These sessions are supported by newsletter, E Shots, and promotion through our Fund employers' internal communication channels. They're also recorded to enable members who miss them to view them on our website at their own leisure. Members are based nationwide across England & Wales, so it provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.

Delivering webinars allows us to:

- Reach a wider audience nationwide
- Remove the need for travel and time out of the office
- Deliver more sessions based on demand and more choice

Our annual pension benefit statements were issued to 100% of our active and deferred members within the statutory 31 August 2022 deadline.

Following our Process to Report Breaches of the Law, we made no reports to the Pensions Regulator during 2022/23.

Our Communications strategy

As part of our long-term strategy, 2022 saw us continue our move to digital communications by using our five segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

- Adventure
- Protection
- Relaxed
- Detail and focus
- Companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We've completed four years of digital campaigns with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We're able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

We monitor the feedback from members carefully and will continue to collate responses to enable us to focus our messaging.

Our 2022 campaigns

Our campaign activity continues to adapt appropriately following changes to our working practices brought about by Covid-19. We have continued to keep communications relevant, engaging and succinct. We ask for feedback and we review our successes and areas for improvement continuously.

As part of moving our deferred members annual statements to a digital default, we provided more campaigns to our deferred members in 2022. As a result, we saw a 44% increase in deferred member portal registrations in 2022 when compared with 2021. With the rise in living costs in mind, we targeted deferred members who are over their Normal Pension Age to let them know that they can access their benefits immediately. We saw around 24% take this up. This will become a regular campaign to our deferred members in an effort to keep them engaged with their deferred pension.

We continue to use Pensions Awareness Week as an opportunity to engage with members on various pension topics. This is a regular September feature, which in 2022 tied in an awareness of the rise in living costs with the importance of making provision for your future. The national campaign included a YouTube video with a well known TV chef and Grime artist, Big Zuu – who rapped about the importance of giving your pension some attention! We shared this within our campaigns too, as it was a great platform for pensions to appeal to people of all ages. It was well received as it was also included in the member webinars. Throughout the awareness week, we also shared updates and information on key pension topics - including reminders about digital benefits statements, information about the 50:50 section, our funding performance, investment approach, a pensions committee vacancy, and the booking links for upcoming webinars and Annual General Meeting (AGM).

Further details on our publications and other services from the Fund can be found at www.eapf.org.uk

Accessibility

We do not have a policy of automatically translating our material into community languages. We do want to communicate with minority communities, so we aim to use plain English for our printed and online materials. We believe this is the most effective way to communicate with people for whom English is not their first language but we'll arrange translation on request.

New requirements were introduced in 2020 for public sector bodies to ensure that their websites are fully accessible and meet the international WCAG 2.1AA standards. Our website meets most of these standards and we have identified any areas on the site which aren't fully accessible in our Accessibility statement. We are continuing to make improvements to the Hartlink Online Portal following an accessibility audit done in 2021. Once these amendments are made, we can progress to the public website accessibility improvements. We do provide the opportunity for visitors to the site to request documents that aren't accessible, in any alternative format. To date we have only received one request to access an alternative version of pension forms.

Performance measurement

To measure the success of our communications with contributing, deferred and pensioner members, we measure open and click through rates, as well as conversion rates. We also use the following methods:

Timeliness

We'll measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide E Shot Introduction to the EAPF & video	New joiners to the LGPS New joiners to the LGPS	Within two months of joining Within 2 months of joining	Within two weeks of joining the LGPS Within 1 month of joining the LGPS and on receipt of email address
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	31 August each year	31 August each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at normal pension age)	Contributing members retiring	Within one month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within five days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners & contributing members	Within three months of request	Within two months
Transfers out	Leavers & deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within five working days
Changes to scheme rules	Contributing & deferred & pensioner members, as required	Within three months of the change coming into effect	Within three months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within two months of request	Within two working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date
Scheme short guide	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS

Quality

We make use of a range of mechanisms to monitor the quality of our communications which include surveys, focus groups and website activity. All our publications on our website include invitations for comment on content and offer suggestions for future editions and contact details are provided.

The EAPF are committed to quality of information and quality of service. We obtain feedback from members through satisfaction surveys which are sent on completion of pension administration tasks.

We review the feedback fortnightly and respond directly to this where necessary. This gives us the opportunity to identify any problematic trends and provide real-time learning from our members experiences, which helps us make any necessary process improvements.

Results

We'll publish an overview of how we're performing within our annual report and financial statements and in our annual Spotlight which is available on our website. Full details will be reported regularly to our Pensions Committee.

We report to our Pension Committee quarterly, and provide a communications update annually.

Carbon reduction through digital communications

On completion of 'digital first' we anticipate reducing paper waste by 193,700 pages per annum for project based bulk communications such as statements and newsletters, along with an estimated 100,000+ pages per annum from Capita (this represents written correspondence from the Operational team).

Our refreshed website is now more efficient, and therefore produce lower emissions. Users will spend less time finding what they're looking for with the improved navigation. The videos are hosted on a more efficient shared platform. The site is also cloud based which is again, more efficient.

The switch to digital communications will significantly reduce our carbon footprint as part of our commitment to become a digital first fund.

Our Communication Policy is aligned to the EA and EAPF net zero ambitions. Following a competitive tender exercise to identify an administrator for the Fund, Capita were successful in their tender. The new contract terms include a 'Gain Share' mechanism, where they are rewarded financially for a reduction in carbon emissions, using defined metrics. The Fund will report on progress, based on the metrics outlined below;

- The amount of Co2 that is saved by providing annual pension statements, via the online portal rather than printing and posting
- Electronic newsletters and online administration
- The efficiency of new website vs the old website
- The efficiency of the new online platform (when it's complete) compared with the current platform

Protecting member data

The Environment Agency Pension Fund (EAPF) is a Data Controller under the General Data Protection Regulations (GDPR). This means we store, hold and manage personal data in line with statutory requirements to enable us to provide members with pension administration services. To enable us to carry out our statutory duty, we're required to share information with certain bodies, but will only do so in limited circumstances.

For more information about how we hold data, who we share it with and what rights our members' have to request information from the Fund, please read our full privacy policy.

We've also produced a helpful GDPR Q&A factsheet that you can download.

Review process

We'll review our communication policy to ensure it meets audience needs and regulatory requirements at least every two years. **A current version of the policy statement is always available at www.eapf.org.uk/policies**

Paper copies are available on request.

Approved by the Pensions Committee on 27 June 2023 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

Pension Fund Management
Environment Agency
Horizon House
Deanery Road
BRISTOL
BS1 5AH

Tel: 07341 096805
Email: **info@eapf.org.uk**

Enquiries concerning the Environment Agency Pension Scheme or entitlement to benefits should be addressed to:

Environment Agency Pensions Team
Capita
11b Lingfield Point
DARLINGTON
DL1 1AX

Tel: 0800 121 6593
Email: **info@eapf.org.uk**

The Annual Report and Financial Statements are also available on our website at www.eapf.org.uk

www.gov.uk/government/publications

E02918117
978-1-5286-4147-0