

Environment Agency
Pension Fund

Closed Pension Fund

Annual Report and Financial Statements for the year
ended 31 March 2019



Environment Agency Closed Pension Fund Annual Report and Financial Statements 2018/19

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

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Chair's statement

As Chair of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Closed Pension Fund (the 'Fund'), I am pleased to present the Fund Annual Report and Financial Statements for the year ended 31 March 2019.

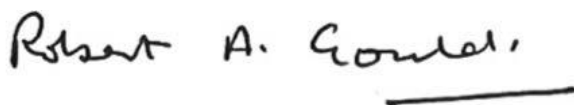
Our Annual Report and Financial Statements are prepared using the CIPFA guidance on narrative reporting and accounting disclosures for Local Government Pension Scheme (LGPS) pension funds, and I am pleased to say it is compliant with the CIPFA guidance.

Until water privatisation in 1989, the Water Authorities Superannuation Fund (WASF) served the former Regional Water Authorities in England and Wales and other bodies. At privatisation, WASF active members were transferred to other schemes. Only deferred and current pensioners were transferred into the Closed Fund.

During the year the total number of current pensioners and deferred members fell to 12,946 from 13,739 the previous year. At 31 March 2019, the net assets of the Fund are valued at £294m (2018: £276m) and the Fund's liabilities are £685m (2018: £730m). In order to match the duration of the funds 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 2019 the annualised investment rate of return was +9.4% (2018: +8.2%). Our last formal triennial valuation of the Fund on 31 March 2016 reflected a funding level of 31%. We expect the results from our March 2019 valuation to be available during the autumn of 2019. The estimated funding level as at 31 March 2019 is 43% (2018: 38%)

Since the Fund has no contribution income, the Government has, under Section 173 of the Water Act 1989, a statutory obligation to ensure that the Fund can always meet its pensions and other related liabilities. Deferred members, pensioners and their dependants 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 has, since 1 April 2006, received grant-in-aid from Defra. During the year payments amounting to £58.7m (2018: £63.4m) were received and used to meet the Fund's obligations to meet pensions and other liabilities.

Finally, I would like to take this opportunity to thank both my predecessor, Joanne Segars, for chairing the Pensions Committee so successfully and the Committee itself for its hard work and diligence over the last year. On behalf of the Pensions Committee, I also thank everyone involved, including our pension fund management team, employers and external contractors for helping the Committee manage the Closed Pension Fund. We will continue to keep you updated on our work through www.eapf.org.uk.



Robert Gould
Chair, Environment Agency Pensions Committee
17 July 2019

About the Environment Agency Pension Fund (EAPF)

EAPF background

With 5.8 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 employer 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 and the Pensions Act 2004.

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 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 came into force on 1 November 2016. 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.

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 from 1 April 2015.

The Fund Actuary sets each employer's contribution rates and our 'Grant in Aid' funding as part of the actuarial valuation of our assets and liabilities, which takes place every three years.

Changes to the Local Government Regulations during 2018/19

There were two amending regulations laid during 2018/19 by Ministry for Housing, Communities and Local Government (MHCLG) that made changes to the Local Government Pension Regulations 2013:

- The Local Government Pension Scheme (Amendment) Regulations 2018 (SI 2018 /493)
- The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 (SI2018/1366)

The key changes from these regulations included:

- The option for deferred members who left prior to 1 April 2014 to take payment of their deferred benefits from age 55 without the consent of their former employer.
- Extending the statutory underpin to members of other public service pension schemes who transferred into the LGPS.
- Aligning the terms and conditions of AVC contracts that were taken out before or after 1 April 2014 including changes to contribution limits, ability to defer payment and other minor clarifications.
- Giving the Secretary of State the general power to issue statutory guidance on the administration and management of the LGPS. This change enables MHCLG to provide statutory guidance in areas other than where the regulations specifically provide for it. Before preparing new guidance or revising existing guidance, MHCLG must consult with persons they consider to be appropriate.
- Equalising the pension payable to survivors of same sex marriages and civil partnerships with the pension payable to the widow of an opposite sex marriage.
- Admission agreements including ability to backdate an agreement prior to its completion.
- The requirement to pay an exit credit to Scheme employers leaving the scheme. An exit credit is the amount the administering authority is required to pay an exiting employer to meet the excess of assets in the fund relating to that employer over the liabilities.

Pensions Act 2014

During 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 has changed with the introduction of a new single tier state pension. The new system will apply to individuals who reach their State Pension Age on or after 6 April 2016. The changes to the State Pension also herald 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.

Other significant legislative changes affecting LGPS during 2018/19

There were no other significant legislative changes affecting the Closed Fund during 2018/19.

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 8 April 2019 of 2.4% (9 April 2018: 3.0%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2010:

| April | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------|------|------|------|------|------|------|------|------|------|------|
| % increase | 0.0 | 3.1 | 5.2 | 2.2 | 2.7 | 1.2 | 0.0 | 1.0 | 3.0 | 2.4 |

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 to 1 September 1989. During the year since 1 April 2018, the number of deferred members has fallen by 14.8% from 1,389 to 1,183 (2018: fell by 15.1%).

The number of pensions in payment fell by 4.8% from 12,350 to 11,763 (2018: fell by 4.4%). With no contributing members, this will be a similar pattern for the future. However, dependants' and deferred pensions coming into payment will serve to maintain the number of current pensioners.

The following tables illustrate the movement in number of pensioners and deferred members over the year.

| Movement in number of pensioners | Current pensioners | Deferred members | Total |
|-------------------------------------|--------------------|------------------|---------------|
| At 1 April 2018 | 12,350 | 1,389 | 13,739 |
| Adjustment for late notifications | 29 | (41) | (12) |
| Revised opening balance | 12,379 | 1,348 | 13,727 |
| | | | |
| Add: | | | |
| New pensioners | 163 | | 163 |
| New dependants pensions | 145 | | 145 |
| | | | |
| Less: | | | |
| Deaths/no longer eligible/suspended | (907) | (2) | (909) |
| Transfers to other schemes | | (1) | (1) |
| Deferred pensions into payment | | (162) | (162) |
| Commutated benefits | (17) | | (17) |
| | | | |
| At 31 March 2019 | 11,763 | 1,183 | 12,946 |

| Age profile of current pensioners at 31 March | | | | |
|--|---------------|--------------|---------------|--------------|
| | 2019 | | 2018 | |
| | No. | % | No. | % |
| Child dependants | 59 | 0.5 | 60 | 0.5 |
| Pensioners and spouses | | | | |
| Under 55 | 18 | 0.2 | 21 | 0.2 |
| 55-59 | 87 | 0.7 | 85 | 0.7 |
| 60-64 | 1,221 | 10.4 | 1,365 | 11.0 |
| 65-69 | 1,540 | 13.1 | 1,563 | 12.6 |
| 70-74 | 1,499 | 12.7 | 1,472 | 11.9 |
| 75-79 | 1,340 | 11.4 | 1,418 | 11.5 |
| 80-84 | 1,928 | 16.4 | 2,127 | 17.2 |
| 85-89 | 2,203 | 18.7 | 2,420 | 19.5 |
| 90-94 | 1,444 | 12.3 | 1,462 | 11.8 |
| 95-99 | 393 | 3.3 | 357 | 2.9 |
| 100-109 | 31 | 0.3 | 29 | 0.2 |
| Total | 11,763 | 100.0 | 12,379 | 100.0 |

| Age profile of current deferred members at 31 March | | | | |
|--|--------------|--------------|--------------|--------------|
| | 2019 | | 2018 | |
| | No. | % | No. | % |
| 45-49 | 31 | 2.6 | 62 | 4.6 |
| 50-54 | 269 | 22.7 | 335 | 24.9 |
| 55-59 | 627 | 53.0 | 752 | 55.8 |
| 60-64 | 198 | 16.7 | 156 | 11.6 |
| 65-69 | 38 | 3.2 | 29 | 2.2 |
| 70-74 | 17 | 1.5 | 11 | 0.8 |
| 75-79 | 3 | 0.3 | 3 | 0.2 |
| Total | 1,183 | 100.0 | 1,348 | 100.0 |

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 (LGPS) 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 here: 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 facilitate informed decision making, supported by appropriate advice, policies and strategies;
- understand and monitor risk;
- deliver our services through people who have the appropriate knowledge and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape; and
- 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.

Regulatory background

The Local Government Pension Scheme (LGPS) 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.

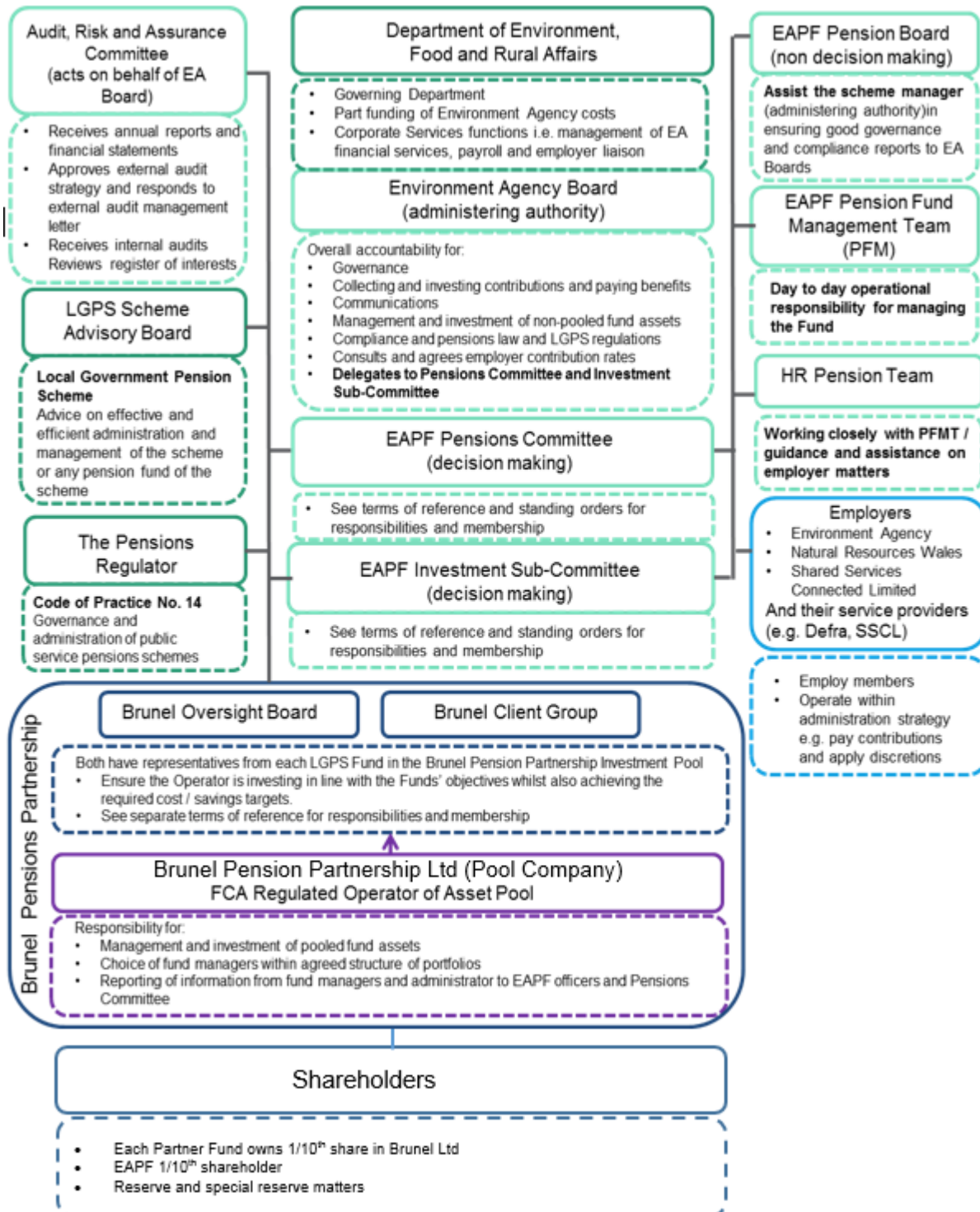
Our Governance Structure

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 was 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:



Key governance documents

The following are the key documents relating to the governance of the Fund. These can all be found here: www.eapf.org.uk/trustees/governance-policies

| Title | Description |
|---|---|
| The Environment Agency's Framework Document | This is issued to the Environment Agency by Defra and sets out the Environment Agency's responsibilities with respect to pensions. |
| The Pensions Committee, Investment Sub-Committee and Pension Board Terms of Reference and Standing Orders | 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. |
| Committee and Board Operational Guidance | Approved by the Pensions Committee, this provides more information relating to how the PC and Pension Board will operate and items of business they may wish to consider. |
| Statement 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 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. A copy of this can be found on page 21. |
| Training Policy | As approved by the Pensions Committee, this outlines the EAPFs approach to ensuring all key decision makers have the appropriate knowledge and skills. |
| 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. |

Committee members must declare any conflicts of interest prior to each quarterly meeting. These are recorded and held on the register of interest by our Secretariat. The Chair reviews the register annually and a further review is undertaken by Internal Audit as part of their annual pension compliance review.

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 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 MHCLG. |
| Understand and monitor risk. | A Risk Management Strategy is in place and integral to day to day management of the EAPF. An annual risk and compliance internal audit is carried out and reported to the Pension Board and Environment Agency Audit Risk and Assurance Committee. Ongoing consideration of key risks at PC and ISC meetings. |
| Deliver our services through people who have the appropriate knowledge 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 Training Policy is in place together with appropriate measures to ensure its objectives are being achieved. |
| 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 Training Policy and Conflicts of Interest Policy are both in place together with appropriate measures to ensure its objectives are being achieved. |

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:

- 4 Non-executive Board members of the Environment Agency, one of whom will be the Chair.
- 2 Executive members of the Environment Agency.
- 1 Non-Environment Agency Employer Representative member.
- 5 Active Scheme Member Representatives.
- 2 Pensioners or 1 Pensioner and 1 Deferred Member Representatives.

Membership of the Investment Sub Committee (ISC) will be appointed by the Environment Agency Board and will normally be 7 Committee Members as follows:

- 2 Non-Executive Environment Agency Board members (one of whom should be nominated as Chair of the ISC by the PC).
- 2 from the Executive Environment Agency and Employer Representative members (or deputies).
- 3 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

During the year, we had two changes in our Environment Agency Board appointed members. Karen Burrow's tenure on the Environment Agency Board ended on 31 July 2018 and she was replaced by Robert Gould on the Pensions Committee and Pension Board. Joanne Segars resigned from the Environment Agency Board in November 2018 and was replaced on the Pensions Committee and Pension Board by Caroline Mason. Robert Gould replaced Joanne Segars as Pension Committee and Pension Board Chair and as a member of the Investment Sub Committee.

We had one change to our Executive member nominees during the year. Ian Randall resigned on 31 October 2017 and was formally replaced by Phil Lodge from 16 May 2018. Phil Lodge was also appointed on to the Investment Sub Committee.

There was one change to our Active Member Representative nominees during the year. Marion Maloney resigned on 4 November 2018. Following an open interview process, Veronica James was appointed Active Member Representative in May 2019 and Greg Black was appointed Shadow Active Member Representative.

Will Lidbetter replaced Marion Maloney as an Active Member Representative on the Investment Sub Committee.

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

| As at 31 March 2019 | 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 | 0 yr 8 mth | 31/01/2021 | 1 yr 8 mth |
| Emma Howard Boyd | PC, ISC, PB | 18/10/2012 | 6 yr 8 mth | 18/09/2022 | 3 yr 3 mth |
| Maria Adebowale-Schwarte | PC, PB | 01/08/2016 | 2 yr 10 mth | 30/06/2022 | 3 yr 0 mth |
| Caroline Mason | PC, PB | 03/12/2018 | 0 yr 6 mth | 31/03/2021 | 1 yr 10 mth |
| Karen Burrows | PC, PB | 08/02/2016 | 3 yr 2 mth | 31/07/2018 | Tenure ended |
| Joanne Segars | PC, ISC, PB | 01/08/2017 | 1 yr 8 mth | 09/11/2018 | Resigned |

Administering Authority Executive Manager nominees

| | | | | | |
|---------------|---------|------------|-------------|-----|-----|
| Peter Kellett | PC | 01/02/2018 | 1 yr 2 mth | N/A | N/A |
| Phil Lodge | PC, ISC | 16/05/2018 | 0 yr 11 mth | N/A | N/A |

Non-Environment Agency Executive Employer representative

| | | | | | |
|--------------|-------------|------------|------------|------------|------------|
| Kevin Ingram | PC, ISC, PB | 07/07/2009 | 9 yr 9 mth | 06/07/2021 | 2 yr 3 mth |
|--------------|-------------|------------|------------|------------|------------|

Contributing member nominees and representatives

| | | | | | |
|-----------------|-------------|------------|------------|------------|-------------|
| Colin Chiverton | PC, ISC, PB | 01/04/2013 | 6 yr 2 mth | 31/03/2022 | 2 yr 10 mth |
| Ian Brindley | PC, ISC, PB | 01/11/2014 | 4 yr 5 mth | 31/10/2020 | 1 yr 7 mth |
| Will Lidbetter | PC, PB | 01/08/2016 | 2 yr 8 mth | 31/07/2019 | 0 yr 4 mth |
| Danielle Ashton | PC | 01/02/2018 | 1 yr 2 mth | 31/01/2021 | 1 yr 10 mth |
| Marion Maloney | PC, ISC | 15/12/2016 | 2yr 0 mth | 04/11/2018 | Resigned |

Pensioner members

| | | | | | |
|-------------|--------|------------|-------------|------------|------------|
| Peter Smith | PC, PB | 14/05/2015 | 3 yr 11 mth | 13/05/2021 | 2 yr 1 mth |
| Hywel Tudor | PC, PB | 14/05/2015 | 3 yr 11 mth | 13/05/2021 | 2 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 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).

Emma Howard Boyd is Chair of the Environment Agency. Emma has spent her 25 year career working in financial services, initially in corporate finance, and then in fund management, specialising in sustainable investment and corporate governance. As Director of Stewardship at Jupiter Asset Management until July 2014, Emma was integral to the development of their reputation in the corporate governance and sustainability fields. This work included research and analysis on companies' environmental, social and governance performance, engaging with companies at board level and public policy engagement. She currently serves on various boards and advisory committees including ShareAction (Chair of Trustees), Future Cities Catapult (Vice Chair), Menhaden Capital PLC the Aldersgate Group, the 30% Club Steering Committee, the Executive Board of The Prince's Accounting for Sustainability Project and the Carbon Trust Advisory Panel.

Maria Adebowale-Schwarte is a place making and urban renewal strategist, focusing on place led prosperity, green spaces, cross-sector collaboration and philanthropy. She is the Founding Director of Living Space Project, an urban place making think tank and consultancy that works with charitable foundations, government, the social, community, public and private sector. Maria is also a philanthropy and grant making advisor, and has advised funding programmes run by the Big Lottery, NESTA, Artists Project Earth and Natural England. Maria has received training on many aspects of pension's management and investment, and has assisted in the development of an equitable investment portfolio for the Local Trust. Maria joined the Pensions and Investment Committee in 2016 when she was appointed on to the Environment Agency Board and is also a member of the Board's Environment and Business Committee.

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.

Peter Kelleff 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 an active member of the EAPF.

Kevin Ingram has been a member of the Fund since 2007. He is a qualified accountant (ACA) with a background in audit and financial management in both the public and private sectors. From 1 April 2013 Kevin has taken on the role of Executive Director of Finance and Corporate Services for Natural Resources Wales. Kevin has been a member of the Committee since 2009 and during this period has received training on the LGPS and pension fund management.

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 LGPS for 28 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.

Ian Brindley has been a member of the local government scheme since 1987, and a member of the Committee since 2014. He is also a scheme member representative on the Brunel Oversight Board. He is employed by the Environment Agency as a team leader. He has received training in many areas of pensions and investment, completing courses provided by the Environment Agency, the Local Government Association, Unison and other third party providers. Ian is active in the responsible investment arena, engaging with companies to drive improvements in their environmental, societal, governance and financial performance. Ian has been treasurer of his local Unison branch since 1997.

Danielle Ashton has been a member of the LGPS for 20 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 soil issues. She has attended a series of induction training events over the last year run by the LGPS and will continue to develop her knowledge on pension management and investment.

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 information sharing issues and Open Data. 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. Peter is currently the Chairman of The Rechabite Friendly Society which trades as Healthy Investment.

Hywel Tudor is a deferred and pensioner member of the EAPF having previously worked for the NRA and Environment Agency in Wales. Hywel became a member of the Pensions Committee and Pension Board in 2015, and has since attended the three day LGPS Trustee Training Fundamentals course, and other pension training. A qualified accountant (FCMA, CGMA) with senior experience in the public, private and charity sectors, he is currently Director of Finance & Resources for the Arts Council of Wales. He is also a member of the Pension Trustee Board for the Arts Council Retirement Plan, a role held for over 15 years.

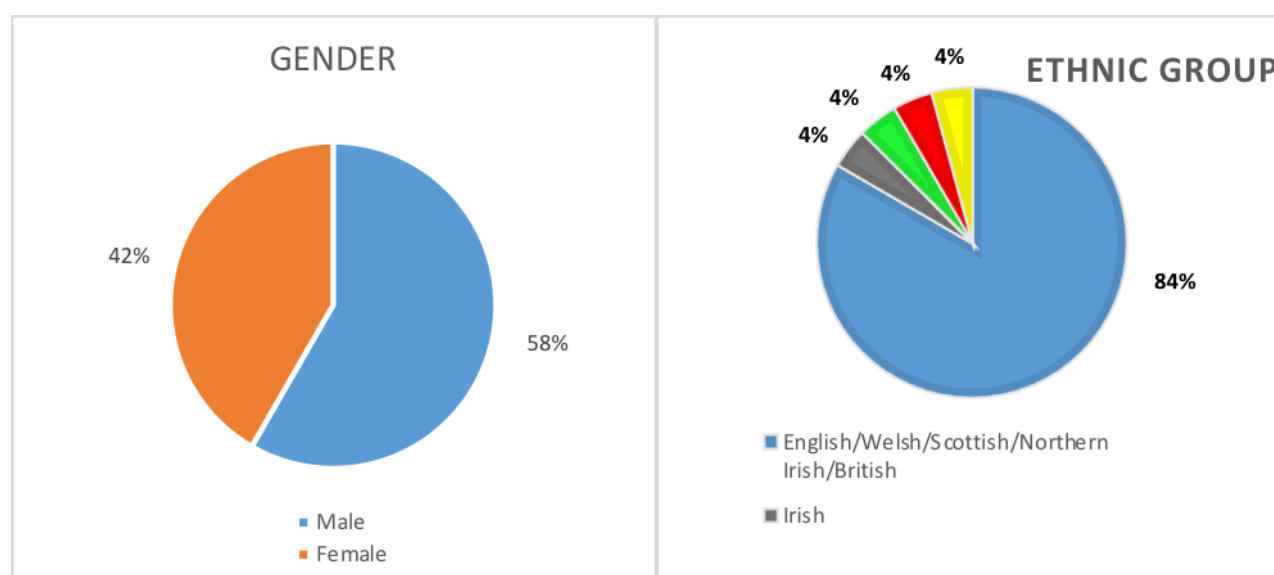
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

During the past year the Pensions Committee met on 4 occasions. The Investment Sub-Committee met on 6 occasions and the Pensions Board on 1 occasion.

| Committee members | 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) | 2/2 | 3/3 | 1 | 6 |
| Emma Howard Boyd | 4 | 6 | 1 | 11 |
| Karen Burrows | 1/1 | - | - | 1 |
| Maria Adebowale-Schwarte | 3 | - | 0 | 3 |
| Joanne Segars (Chair) | 2/2 | 2/3 | - | 4 |
| Caroline Mason | 1/2 | - | 1 | 2 |
| Executive members | | | | |
| Peter Kellett | 4 | - | - | 4 |
| Kevin Ingram | 3 | 3 | 1 | 7 |
| Active members | | | | |
| Colin Chiverton | 3 | 5 | 1 | 9 |
| Ian Brindley | 4 | 5 | 1 | 10 |
| Will Lidbetter | 4 | 1/1 | 1 | 6 |
| Marion Maloney | 2/2 | 3/3 | - | 5 |
| Danielle Ashton | 4 | - | - | 4 |
| Phil Lodge | 4 | 5 | - | 9 |
| Pensioner members | | | | |
| Peter Smith | 4 | - | 1 | 5 |
| Hywel Tudor | 4 | - | 1 | 5 |

Diversity

The fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of [UK] listed companies, and promotes wider diversity and inclusion in the companies in which we invest. To demonstrate best practice in the Fund's own approach, we have disclosed our own performance on diversity below relating to combined personnel within the Pension Committee, Pension Board and Officers.



Pensions Committee business 2018/19

The Pensions Committee made a number of 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) Implementation of the Government's requirement to pool our assets with other LGPS Funds.

Along with nine other Administering Authorities, we established the Brunel Pension Partnership in 2017 to implement the Government's requirement to pool the management and investment of our assets with other LGPS Funds. Our pooling company, the Brunel Pension Partnership Ltd (Brunel Ltd) became operational in April 2018. We own a 1/10th shareholding in Brunel Ltd.

During 2018/19, we started to transition the management of our Active Fund assets to Brunel Ltd. This has been a huge governance, investment and operational challenge for officers, Pensions Committee and the Fund in general. More information can also be found on the [Brunel Ltd website](#).

The ongoing transition and management of our assets will continue to be a key focus for the Committee during 2019/20.

As part of the EAPF, the Closed Fund is part of the pooling arrangements through Brunel although no asset transition has yet been planned.

- (b) Continuing the development, engagement and promotion of our Responsible Investment approach which remains at the core of the EAPF.

Brunel is a key partner in helping us to manage our investments responsibly and develop debate on this issue more broadly. As part of this work, we continued to promote and expand the work of the Transition Pathway Initiative (TPI), which we co-founded in 2016 and which goes from strength to strength. More details on our responsible investment approach can be found at www.eapf.org.uk.

- (c) Funding level - with our Active Fund funding level amongst the best in the LGPS, we continued to closely monitor our investment performance and plan for the triennial valuation of the Closed and Active Funds at 31 March 2019. As part of this work, we monitored the potential impact from Brexit, forthcoming government reviews and legal cases.
- (d) We continued to improve our member annual benefit statement delivery and member communications in general through our ongoing commitment to Customer Service Excellence (CSE). We rolled out improvements to www.eapf.org.uk.
- (e) Defra Corporate Service review – Over 950 Environment Agency corporate services staff transferred to the Defra on 31 October 2017 as part of the Defra led corporate services review. We have been working a number of stakeholders to prepare for the members 'bulk transfer' of pension benefits from the Active Fund. This will be completed during 2019/20.

Committee training

As an administering authority of the LGPS, the Committee recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge those responsibilities. The Pensions Committee seeks to ensure that its membership is both capable and experienced and provides training so the members can acquire and maintain an appropriate level of expertise, knowledge and skills.

We have a training policy which addresses the strategy for the Pensions Committee and senior officers responsible for the management of the fund. The strategy adopts the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The Pensions Committee's training policy was updated in March 2016. Following the implementation of the local Pension Boards CIPFA extended their framework to include the knowledge and skills required for the Pension Board members to exercise their functions under the Pensions Acts 2004 (as amended by the Public Services Pension Act 2013).

The training needs of Pensions Committee members and Pension Board members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. We also provide for our fund members knowledge of their Pension Scheme and run a series of webinar briefings for employees presented by Pension Fund officers, our third party administrator Capita and Human Resources (HR) staff.

In each year Pensions Committee members are expected to undertake two to three days' training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. Our training log system provides an individual certificate of Knowledge and Understanding. These certificates are published on our website and show the full training log throughout membership of the Pensions Committee for each individual member during the last financial year.

We held 2 specific Pensions Committee trainings days, one in September 2018 and another in March 2019. These focused on responsible investment, actuarial valuation, cyber-crime, cost transparency and liability driven investment. We also provided additional training through Committee meetings, as required, and supplemented this through external training events and conferences. We have summarised these in the following tables.

Investment strategy review and procurement management will be an important theme in 2019/20.

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 | Osborne Clarke |
| Pensions Administrator | Capita Employee Services |

| PC Training Log 2018/19 | Investment Pooling (Pension Legislative & governance context) | Investment Pooling (Private Markets) | Asset Pooling and EAPF Governance | Asset Pooling (Low Volatility Equity) | Responsible Investment (Regulatory Environment & Climate Risk) | Actuarial Valuation |
|---|--|---|-----------------------------------|--|---|---------------------|
| EA Board members | | | | | | |
| Robert Gould – PC Chair (from 3 December 2018) | | ✓ | | ✓ | | ✓ |
| Emma Howard Boyd - ISC Chair | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Maria Adebowale-Schwarte | ✓ | ✓ | | | | ✓ |
| Caroline Mason (from 3 December 2018) | | | | | | ✓ |
| Karen Burrows (to 31 July 2018) | ✓ | | | | | |
| Joanne Segars (to 9 November 2018) | ✓ | | ✓ | | ✓ | |
| Executive members | | | | | | |
| Kevin Ingram Natural Resources Wales | ✓ | ✓ | | ✓ | | ✓ |
| Peter Kellett | ✓ | ✓ | | | | ✓ |
| Phil Lodge | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Active member nominees | | | | | | |
| Danielle Ashton | ✓ | ✓ | | | ✓ | ✓ |
| Colin Chiverton | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ian Brindley | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Marion Maloney (to 4 November 2018) | ✓ | | ✓ | ✓ | ✓ | ✓ |
| Will Lidbetter | ✓ | ✓ | | | ✓ | ✓ |
| Pensioner members | | | | | | |
| Peter Smith | | ✓ | | | ✓ | ✓ |
| Hywel Tudor | ✓ | ✓ | ✓ | | ✓ | ✓ |

| PC Training Log 2018/19 | Financial Markets | Securities/Stock Lending | Cyber Security | Liability Driven Initiative | Cost Transparency | Communications Strategy | Wider Pension Conferences & Training |
|--|-------------------|--------------------------|----------------|-----------------------------|-------------------|-------------------------|--------------------------------------|
| EA Board members | | | | | | | |
| Robert Gould – PC Chair (from 3 December 2018) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Emma Howard Boyd - ISC Chair | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Maria Adebowale-Schwarte | | | | | | | |
| Caroline Mason (from 3 December 2018) | | | ✓ | ✓ | ✓ | ✓ | |
| Karen Burrows (to 31 July 2018) | | | | | | | |
| Joanne Segars - PC Chair (to 9 November 2018) | | | | | | | |
| Executive members | | | | | | | |
| Kevin Ingram Natural Resources Wales | | ✓ | | | | | |
| Peter Kellett | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Phil Lodge | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Active member nominees | | | | | | | |
| Danielle Ashton | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Colin Chiverton | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Ian Brindley | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Marion Maloney (to 4 November 2018) | | | | | | | ✓ |
| Will Lidbetter | ✓ | ✓ | | | | | |
| Pensioner members | | | | | | | |
| Peter Smith | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Hywel Tudor | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

From April 2015, the Department for Communities and Local Government introduced new governance arrangements 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:

- 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

Membership of the EAPF Pension Board is normally the members of the Pensions Committee less the 2 Executive members of the Environment Agency and 2 Active Scheme Members. The Pension Board is therefore the 10 remaining Pensions Committee Members as follows:

Employer Representatives

- 4 Non-Executive Environment Agency Board members.
- 1 Non-Environment Agency Employer Representative (or deputies).

Member Representatives

- 3 Active Scheme Member Representatives.
- 2 Pensioner or 1 Pensioner and 1 Deferred Scheme Member Representatives.

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

Pension Board business 2018/19

The Pension Board met once during 2018/19 (on 27 March 2019) after the Pensions Committee meeting. In addition, some or all of the Pension Board members participated in meeting reviews at the end of all four Pensions Committee meetings and 6 Investment Sub-Committee meetings during 2018/19.

The effectiveness of the Committee and Investment Sub Committee was the main item of business at the 27 March 2019 meeting. Key conclusions during 2018/19 relating to the effectiveness of the Pensions Committee and Investment Sub-Committee meetings included:

- welcoming the evolution of the Committees' approach over the last 12 months in its scrutiny and challenge of the new asset pooling arrangements with Brunel Pensions Partnership Ltd, including use of a working group and telephone meetings for the Investment Sub-Committee where urgent matters required consideration.
- recognising the positive impact from the expertise of officers and the range of professional advisors appointed to help the Committees understand complex investment, legal and governance issues during a year of drastic change for the Fund, including major changes in the Pension Fund Management Team and the ongoing transition to asset pooling.

- recognising a high level of engagement and interaction by Committee members, including an appropriate amount of challenge where key decisions were being made.
- noting a review of several governance documents including the business plan and risk register had been undertaken, following a recommendation by the Pension Board. The Pension Board considered that that the updated versions of these documents were now more dynamic and able to adapt to changes.
- recognising the extremely useful training provided to Committee members, including separate training days and training on topical subjects delivered as part of meetings.
- welcoming the regular effectiveness review by Aon, the Fund's Governance and Risk Adviser, including the survey to all Committee and Board members which would be circulated for completion early in the 2019/20 fund year.

The Board did highlight the following as areas that should remain high on the agenda for the Committee going forward:

- development of the EAPF's responsible investment policy and approach, and in particular, how this should adapt to the asset pooling environment.
- reflection on what further action can be taken by the EAPF, as an exemplar and advocate on climate change issues, both within the LGPS and with the wider financial industry.
- consideration of the cumulative impact of changes in risk, and where this might result in different overall level of risk compared to focusing on just individual risks, and how this is identified and communicated to the Committee.

At the March 2019 meeting, the Board also spent time considering its own role including its own effectiveness in assisting the administering authority in its responsibilities managing the EAPF. The Board recognised it was different in nature to other LGPS local pension boards, due to the overlap in membership between the Board and the Committee. Other LGPS Pension Boards provide a facility for the "members' voice" which often did not exist on the Committee or equivalent; whereas the EAPF already had this due to the high level of scheme member representation on the Committee.

The Pension Board considered alternative options to the structure of the Pension Board, albeit recognising that they would likely require changes in legislation. The Pension Board concluded that, within the existing structure, they were currently and could continue to provide additional value by meeting at least once each year, with the ongoing approach of Board members being part of meeting reviews at the end of each Committee meeting.

The Pension Board recognised that, where they felt time should be spent on a particular area of concern, there was sufficient flexibility to have additional Pension Board meetings to allow that to happen.

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 25 March 2015. It was effective from 1 April 2015 and is reviewed at least annually as part of the annual report and financial statement 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 and 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 7 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 1 Non EA Employer Representative, 5 Active Scheme Member Representatives and 2 Pensioner or 1 Pensioner and 1 Deferred Member Representatives. The ISC includes 3 Scheme Member Representatives and potentially the 1 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). | <p>The Pension Board is a non-decision making body responsible for assisting the administering authority in:</p> <ul style="list-style-type: none"> 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. <p>Membership of the Pension Board comprises of 10 members of the Pensions Committee which excludes the 2 Executive Directors members of the Environment Agency and 2 Active Scheme Members.</p> <p>Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.</p> |

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards

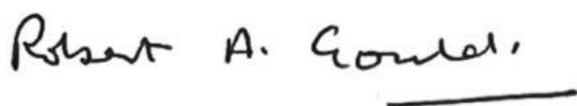
| Statutory Guidance Governance Standards and Principles | Our compliance status | Evidence of compliance and justification for non-compliance |
|--|-----------------------------|--|
| A – Structure | | |
| a) The management of the administration of benefits and strategic management of fund assets clearly 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 | <p>Our PC has 14 members, appointed by the EA Board and includes:</p> <ul style="list-style-type: none"> 4 Non-Executive EA Board members 2 EA Executive members 1 Non-EA Employer Representative 5 Active Scheme Member Representatives 2 Pensioner or 1 Pensioner and 1 Deferred Member Representatives. <p>3 Scheme Member Representatives and the 1 Non EA Employer Representative are also members of the Investment Sub-Committee (ISC)</p> |
| 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 7 scheme member representatives on it, including 5 active scheme member representatives and 2 pensioner/deferred member representatives, ideally one of each. Our ISC includes 3 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 and audited annually. |

| D – Voting | | |
|---|-----------|--|
| 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 Training 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 4 times a year, for normal business and at least once for briefing or training. 8 of the 14 PC members (including at least 1 Board member, 1 EA executive member and 1 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 4 times a year before the PC so it can report to and make recommendations to the full PC. 4 members (including at least 1 Board Member, 1 EA executive member and 1 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 | <p>We have 7 'lay' members on our main PC, comprising 5 active scheme member representatives and 2 pensioner/deferred member representatives.</p> <p>Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM but do 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 regional or webinar pension briefings each year.</p> <p>We also organise an annual briefing for deferred and pensioner members. The briefings are</p> |

| | | |
|---|-----------|--|
| | | generally presented by Capita (Pension Fund Administrator), with administering authority or HR staff. PC members chair or attend some briefings. |
| 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 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
17 July 2019



Sir James Bevan
Accounting Officer
Environment Agency
16 July 2019

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 three 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 23 March 2017 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 20 September 2018 and is reproduced in Annex 3 to these financial statements.

Custody arrangements

State Street Bank & Trust Company ('State Street') were appointed as the Funds Global Custodian from 1 April 2018 (replacing Northern Trust). 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 'A' 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 'AAA' by Moody'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 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. Hymans have estimated that the Fund could reach the point of being regarded as 'self-sufficient' by 2028.

Portfolio analysis

Distribution of investment assets by market value as at 31 March 2019:

| | Sarasin & Partners LLP £m | Cash & Other £m | Total Fund £m | % of Net investment assets |
|------------------------------|------------------------------|--------------------|------------------|----------------------------|
| UK Index linked gilts | 273.8 | | 273.8 | 93.1 |
| Cash | | 19.9 | 19.9 | 6.8 |
| Accrued income | | 0.3 | 0.3 | 0.1 |
| Net investment assets | 273.8 | 20.2 | 294.0 | 100.0 |

Distribution of investment assets by market value as at 31 March 2018:

| | Sarasin & Partners LLP £m | Cash & Other £m | Total Fund £m | % of Net investment assets |
|------------------------------|------------------------------|--------------------|------------------|----------------------------|
| UK Index linked gilts | 257.7 | | 257.7 | 93.3 |
| Cash | | 18.1 | 18.1 | 6.6 |
| Accrued income | | 0.3 | 0.3 | 0.1 |
| Net investment assets | 257.7 | 18.4 | 276.1 | 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 2019 was +5.7% (2018: +0.8%) against a benchmark return of +5.7% (2018: 1.2%). Over the three years to 31 March 2019 the annualised rate of return was +9.4% (2018: +8.2%) against a benchmark return +10.5% (2018: +9.3%).

Pension Fund administration

Administration arrangements

The Environment Agency is responsible for administering the current and future pension benefits for over 12,900 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 Employee Benefits (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 34,018 (2018: 27,619) Active and Closed Fund member requests/queries and for paying pensions to over 11,700 Closed Fund pensioners. Over the year, Capita achieved the required service levels for 96% of all casework processed.

The 5 largest case types processed by Capita for the Closed Pension Fund during 2018/19 were:

| Case Type | 2019 | 2018 |
|----------------------------------|------|------|
| Death of pensioner | 216 | 414 |
| Death of spouse | 275 | 278 |
| Retirements | 187 | 265 |
| Transfer Out quotes/finalisation | 24 | 49/6 |
| Changes of address | 146 | 161 |

Closed Fund administration costs for the year to the 31 March 2019 were £452k (2018: £540k) including member communications and postage costs. We benchmark our Fund administration costs annually through the public accounting body CIPFA. For 2018/19 the CIPFA average was £21 per member. Across both our Active and Closed Funds, our average cost for 2018/19 was £23 (2017/18: £24) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 16 deal solely with pension benefits administration. Based on a membership of 39,281 across both the Active and Closed Funds at 31 March 2019, this represents an average of 2,455 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery. For example, in all 9 industry standard performance indicators measured by CIPFA for 2017/18, we achieved an average of 96% compared to the average of 89% across the range of those indicators. The CIPFA 2018/19 figure will not be available until the autumn of 2019.

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 2019, in accordance with LGPS and Treasury guidance and best practice.

The Environment Agency Internal Audit Team tested our compliance, adequacy and effectiveness of internal controls and Pension Fund risks which was conducted in accordance with Government Internal Audit Standards during the year.

The Pension Fund Internal Audit concluded that we complied with the provisions of the Environment Agency Framework Document and with the requirements from the Pensions Regulator's public sector Code of Practice. We also received positive assurance on our risk management process and our approach to the mitigation actions of Pension Fund risks.

Capita produce an audited AAF 01/06 and ISAE 3402 Assurance Report on internal controls which is reviewed annually by Officers, internal and external auditors.

Data quality

Good quality data is vital to the efficient and accurate payment of retirement benefits and general administration of member records. 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 the 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 November 2018 certificates showed our post June 2010 data as 99%, with pre June 2010 data at 95%. The missing data for both categories relates to members moving house and not informing our administrators. We are carrying out an exercise to trace these members and will update their records accordingly.

More member specific data called 'Scheme Specific Data' has also been reviewed with positive results, and is reviewed on a regular basis. We continue to work with The Pensions Regulator (TPR) and the Scheme Advisory Board (SAB) on the methodology of reporting.

Data security

The Environment Agency Pension Fund and Pensions Committee take data security very seriously.

Capita hold member data in line with the requirements of the Data Protection Act and complies with the Cabinet Office Security Policy Framework. All Capita employees are required to undertake annual data protection training which covers 'Personal Data' and actions required to protect this data. Capita are managing Information security and cyber risks through adherence to Capita Group policy requirements and Baseline Information Security Standards.

We had no incidents involving loss of personal data in 2018/19 which were required to be reported to the Information Commissioner.

National Fraud Initiative/mortality checks

The Fund has a formal policy and procedure for handling frauds 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.

As a general principle, where we investigate cases and fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, where necessary, take legal action or involve the police. There are no reported cases for 2018/19.

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 totally 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.

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 at a time of their choosing.

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 have introduced tailored, topic based 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, a poster campaign, E Shots and promotion through our Fund employers' internal communication channels. The EAPF has successfully transitioned to using webinars. 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.

Webinars allow 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

All topics are recorded and the recorded presentation slides are made available on our website.

As part of our long term strategy, 2018 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and personalised to our members.

Our segmented groups are:

- Spontaneous spender – adventure
- Pension Sceptic – protection
- Assured saver – relaxed
- Responsible worrier – detail and focus
- Mature planner – companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We have completed two 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 are 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.

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

To read our full Communications Policy Statement please see annex 4.

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 he feels this is justified.

In 2018/19 Capita received 27 (2017/18: 9) formal complaints from Closed Fund members and these have all been resolved. The increase in complaints is largely attributed to staff attrition, and the loss of experienced staff in early to mid-year leading to a drop off in timeliness of response times. 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
- 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 MHCLG.

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.

This Annual Report and Financial Statements are available on the Pension Funds' website and 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 Fund has increased by £18.0m to £294.3m (2018: increased by £3.8m to £276.3m).

There was a continuing decrease in pensioners and deferred members and all the beneficiaries or their spouses who ceased pensionable employment before 1 April 1974.

Retirement benefits payable in the year to 31 March 2019 have decreased from £59.9m in 2018 to £56.2m in 2019 and transfers to other schemes were £0.3m in 2018 and fell to £0.1m in 2019.

In overall terms the net additions from dealings with pensioners and deferred members after grant-in-aid funding in the year was £2.3m (2018: £3.1m). 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 2018/19

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 March 2017. 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 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £219 million, were sufficient to meet 31% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £492 million.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report dated 31 March 2017.

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 2016 valuation were as follows:

| Financial Assumptions | 31 March 2016 | |
|-----------------------------------|-------------------|----------------|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 2.2 | 0.4 |
| Price inflation/Pension increases | 1.8 | - |

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 2013 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 0.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are as follows:

| Pensioners | Males | Females |
|--------------------|------------|------------|
| Current Pensioners | 20.6 years | 22.7 years |
| Future Pensioners* | 21.1 years | 23.3 years |

*Members are assumed to be age 55 at the valuation date

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Environment Agency, the administering authority to the Fund.

Experience over the period since 31 March 2016

Investment returns in the year to 31 March 2019 were estimated to be 6.0% and the Fund assets had a market value of £294.0m as at 31 March 2019. Liabilities were estimated to be £685.4m on an ongoing funding basis as at 31 March 2019, implying that the Fund's assets were sufficient to meet 43% of the liabilities accrued up to that date.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Peter MacRae FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
15 May 2019

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament, the Board of the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs

Opinions on the financial statements

I certify that I have audited the financial statements of the Environment Agency Closed Pension Fund for the year ended 31 March 2019 under the Environment Act 1995. These financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

In my opinion:

- the financial statements presents a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of the fund's assets and liabilities; and
- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Framework Document issued by Defra, and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income 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 of opinions

I conducted my audit in accordance with International Standards on Auditing (UK). My responsibilities under those standards are further described in the Auditor's responsibility for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Environment Agency Closed Pension Fund in accordance with the ethical requirements that are relevant to my audit and 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

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Environment Agency Closed Pension Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Accounting Officer of the Environment Agency and the Pensions Committee

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 preparing the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibility for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Environment Agency Act 1995.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Environment Agency Closed Pension Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

In addition, 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.

Other information

The Accounting Officer and Pensions Committee are responsible for the other information. The other information comprises information included in the annual report, other than the financial statements and my auditor's certificate thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, 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, 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.

Opinions on other matters

In my opinion:

- in the light of the knowledge and understanding of the Environment Agency Closed Pension Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; 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

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 to be audited 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.

Report

I have no observations to make on these financial statements.

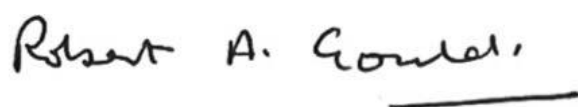
Gareth Davies
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Date: 19 July 2019

Financial statements for the year ending 31 March 2019

| | Notes | 2019 £000 | 2018 £000 |
|---|-------|-----------------|-----------------|
| Fund account | | | |
| Dealings with members, employers and others directly involved with the Fund | | | |
| Grant-in-Aid | | 58,678 | 63,353 |
| | | 58,678 | 63,353 |
| Benefits and other payments | | | |
| Benefits payable | 7 | (56,227) | (59,944) |
| Payments to and on account of leavers | 8 | (102) | (299) |
| | | (56,329) | (60,243) |
| Net additions from dealings members | | 2,349 | 3,110 |
| Management expenses | 9 | (737) | (993) |
| Return on investments | | | |
| Investment income | 10 | 1,431 | 1,592 |
| Profit and loss on disposal of investments and changes in the market value of investments | 11 | 14,924 | 82 |
| Net returns on investments | | 16,355 | 1,674 |
| Net increase in the Fund during the year | | 17,967 | 3,791 |
| Opening net assets of the Fund at 1 April | | 276,305 | 272,514 |
| Net assets of the Fund at 31 March | | 294,272 | 276,305 |
| Net assets statement | | | |
| Investment assets | 11 | 294,050 | 276,131 |
| Current assets | 17 | 1,370 | 1,414 |
| Current liabilities | 18 | (1,148) | (1,240) |
| Net assets of the Fund at 31 March | | 294,272 | 276,305 |

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 35 to 36, dated 15 May 2019, is based on a valuation as at 31 March 2016. The notes on pages 41 to 54 form part of these financial statements.



Robert Gould
Chair
Environment Agency Pensions Committee
17 July 2019



Sir James Bevan
Accounting Officer
Environment Agency
16 July 2019

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 2019, total membership of the Fund is 12,946, represented by 11,763 current pensioners and 1,183 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 2018/19 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.

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 generally 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 accruals 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 on 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 are now attributing this 80%/20% respectively to better reflect the time spent administering each Fund, as shown below. This apportionment is considered annually.

| Apportionment of common expenditure | 2018/19 AF/CF % | 2017/18 AF/CF % |
|--|--------------------|--------------------|
| Custodial arrangements | 80/20 | 80/20 |
| Environment Agency Pension Fund Management | 80/20 | 60/40 |

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 capital distributions of residual private equity holdings being liquidated is included as a realised gain in the changes in market value.

Income from previously held overseas investments is recorded net of any withholding tax where this cannot be recovered.

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 accruals 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. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. 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.

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).

Exchange rates

Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Cash deposits and instruments

Cash comprises cash in hand and on deposit, including any amounts held by the Fund's external investment manager.

Adoption of new accounting standards

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' is the new reporting standard for financial instruments and became effective on 1 January 2018. IFRS 9 has replaced previous financial instrument standards and interpretations covered by IAS 39 Financial Instruments: Recognition and Measurement, bringing together all aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Fund has applied IFRS 9 for the first time in 2018/19.

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 a new 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 costs 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from contracts with customers became effective on 1 January 2018. The standard's core principle is that an entity will recognise revenue when it transfers goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

HM Treasury guidance expands the definition of a contract under IFRS 15 to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of

National Statistics. Under this expanded definition Grant-in-Aid is seen to not be akin to revenue and therefore IFRS 15 does not apply.

Standards likely to affect future financial statements

Standards likely to affect future financial statements include:

IFRS 16 Leases (effective for the periods beginning on or after 1 January 2020). The new standard replaces IAS 17 Leases and introduces a new single accounting approach for lessees for all leases (with limited exceptions). As a result, there is no longer a distinction between operating leases and financial leases, and lessees will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. As the Fund does not hold any leases this new standard will not apply.

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 and in accordance with IAS19. 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 2019 or 31 March 2018 for which there is a significant risk of material adjustment.

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 17 June 2019 and Audit and Risk Assurance Committee on 19 June 2019. The financial statements are signed under delegated authority of the Board. These will also be noted at a meeting of the Board on 9 October 2019. There are no adjusting events that need to be recognised in the financial statements after the net asset statement date.

7. Benefits payable

| | 2019 £000 | 2018 £000 |
|------------------------------------|---------------|---------------|
| Retirement and dependants pensions | 54,108 | 57,528 |
| Lump sum retirement grants | 2,096 | 2,395 |
| Lump sum death grants | 23 | 21 |
| Total | 56,227 | 59,944 |

8. Payments to and on account of leavers

| | 2019 £000 | 2018 £000 |
|---------------------------------------|--------------|--------------|
| Individual transfers to other schemes | 102 | 299 |
| Total | 102 | 299 |

9. Management expenses

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Administration expenses | | |
| Scheme administration | 452 | 540 |
| | | |
| Oversight and governance costs | | |
| Environment Agency Pension Fund Management | 104 | 326 |
| Specialist advice | 98 | 46 |
| External audit | 27 | 24 |
| | 229 | 396 |
| Investment management expenses | | |
| Management fees | 30 | 27 |
| Custody fees | 26 | 30 |
| | 56 | 57 |
| Total | 737 | 993 |

External audit does not include any fees in respect of non-audit services for 2018/19 or 2017/18. The investment management expenses include £nil (2018: £nil) in respect of transaction costs.

10. Investment Income

| | 2019 £000 | 2018 £000 |
|--------------------------------|--------------|--------------|
| Income from index linked gilts | 1,340 | 1,537 |
| Interest on cash deposits | 91 | 55 |
| Total | 1,431 | 1,592 |

11. Investments movement summary

| | Market value at 01.04.18 £000 | Purchases at cost £000 | Sales proceeds £000 | Change in market value £000 | Market value at 31.03.19 £000 |
|-------------------------------|--|-------------------------------|----------------------------|--|--|
| Index linked gilts | 257,689 | 1,219 | (1) | 14,906 | 273,813 |
| Cash deposits and instruments | 18,099 | - | - | 18 | 19,888 |
| Accrued income | 343 | - | - | - | 349 |
| Net investment assets | 276,131 | 1,219 | (1) | 14,924 | 294,050 |

| | Market value at 01.04.17 £000 | Purchases at cost and derivative payments £000 | Sales proceeds and derivative receipts £000 | Change in market value £000 | Market value at 31.03.18 £000 |
|-------------------------------|--|---|--|--|--|
| Index linked gilts | 255,941 | 173,608 | (171,970) | 110 | 257,689 |
| Cash deposits and instruments | 15,533 | - | - | (28) | 18,099 |
| Accrued income | 464 | - | - | - | 343 |
| Net investment assets | 271,938 | 173,608 | (171,970) | 82 | 276,131 |

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.

Unquoted investments were written down to £nil in 2007 as they were not considered to be readily marketable, although further returns of capital arise as residual holdings are liquidated. During the year capital distributions of £nil (2018: £1k) were received from funds in which the Fund was a limited partner.

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 | 2019 | | 2018 | |
|---|------|------|------|------|
| | £m | % | £m | % |
| UK Government 0.125% Index Linked Gilt 2029 | 69.7 | 23.7 | 65.3 | 23.6 |
| UK Government 1.25% Index Linked Gilt 2032 | 58.3 | 19.8 | 54.4 | 19.7 |
| UK Government 2% Index Linked Gilt 2035 | 49.5 | 16.8 | 46.6 | 16.8 |
| UK Government 0.125% Index Linked Gilt 2044 | 42.2 | 14.3 | 40.0 | 14.5 |
| UK Government 1.25% Index Linked Gilt 2055 | 41.2 | 14.0 | 39.2 | 14.2 |
| SSGA Offshore GBP D Class Cash Instrument | 18.8 | 6.4 | - | - |
| Northern Trust GBP cash held | - | - | 17.9 | 6.5 |

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 2019 | 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 | 273,813 | - | - |
| Cash deposits and instruments | 19,888 | 939 | - |
| Other investment balances | - | 349 | - |
| Debtors (excluding VAT) | - | 97 | - |
| | | | |
| Financial liabilities | | | |
| Creditors (excluding PAYE) | - | - | (563) |
| Net assets of the Fund | 293,701 | 1,385 | (563) |

| 31 March 2018 | 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 | 257,689 | - | - |
| Cash deposits and instruments | 18,099 | 1,033 | - |
| Other investment balances | - | 343 | - |
| Debtors (excluding VAT) | - | 142 | - |
| | | | |
| Financial liabilities | | | |
| Creditors (excluding PAYE) | - | - | (612) |
| Net assets of the Fund | 275,788 | 1,518 | (612) |

b) Net gains and losses on financial assets

| | 2019 £000 | 2018 £000 |
|-------------------------------------|---------------|--------------|
| Financial assets | | |
| Fair value through profit and loss | 14,924 | 82 |
| Total change in market value | 14,924 | 82 |

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.

| 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 | Not required | Not required |

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 has 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.

| Values at 31 March 2019 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £000 |
|--|---------------------|-------------------------|--------------------------------------|----------------|
| | Level 1 £000 | Level 2 £000 | Level 3 £000 | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 19,888 | 273,813 | - | 293,701 |
| Net financial assets at fair value | 19,888 | 273,813 | - | 293,701 |
| Financial assets held at amortised cost | | | | 1,385 |
| Financial liabilities held at amortised cost | | | | (563) |
| Non-financial instruments | | | | (251) |
| Total net assets of the Fund | | | | 294,272 |

The fair value hierarchy for index linked gilts has been revised in 2019 to level 2, as their value is based on unobservable inputs. Accordingly the index linked gilts for 2018 of £257,689,000 have been reclassified to level 2 from level 1. Further, cash deposits and instruments are now considered to be held at fair value under IFRS 9, and have been classed as level 1 investments as they are so liquid. In

2018, these were recorded as a financial asset at amortised cost of £18,099,000, and therefore the 2018 comparatives have been reclassified to follow the 2019 revised position.

| Values at 31 March 2018 (restated*) | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £000 |
|---|---------------------|-------------------------|--------------------------------------|----------------|
| | Level 1 £000 | Level 2 £000 | Level 3 £000 | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss* | 18,099 | 257,689 | - | 275,788 |
| Net financial assets at fair value* | 18,099 | 257,689 | - | 275,788 |
| Financial assets held at amortised cost* | | | | 1,518 |
| Financial liabilities held at amortised cost | | | | (612) |
| Non-financial instruments | | | | (389) |
| Total net assets of the Fund | | | | 276,305 |

* Refer to page 48 for details of the reclassification.

14. Nature and extent of risks arising from financial instruments

Risk and risk management

The investments of the Fund are sufficient to meet one year's liabilities, but also provide a mechanism for the Fund to becoming self-funding in due course. Investments are held to match a proportion of the liabilities and not to generate excess return or material risk.

Considerations of investment risk are integrated into the Fund's Investment strategy, responsibility for which rests with the Pension Fund Committee. In addition, the Fund maintains a Register of risks which includes investment risks, and the Fund, working with its advisers, regularly monitor investment risks within the Fund, enabling the Pensions Committee to consider risk as required.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. All securities investments present a risk of loss of capital. The Fund is exposed to market risk from its investment holdings. However, the Fund only holds a single class of low risk assets, which provide a match to long term liabilities, so long term risks are low, and short term risks are only relevant in the context of maintaining sufficient assets to meet the next year's liabilities.

Market risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

| Asset class | 1 year expected volatility % (+/-) | % of Fund |
|----------------------------------|------------------------------------|--------------|
| UK index linked gilts(long term) | 9.2 | 93.1 |
| Cash | 0.5 | 6.9 |
| Total fund volatility | 8.5 | 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 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):

| | 31 March 2019 | 31 March 2018 |
|------------------------------------|---------------|---------------|
| Total net investment assets (£000) | 294,050 | 276,305 |
| Percentage change (%) | 8.5 | 8.6 |
| Value on increase (£000) | 319,044 | 300,067 |
| Value on decrease (£000) | 269,056 | 252,543 |

Interest rate risk

The principal investments of the Fund are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risks form the majority of the market risk the Fund is exposed to. Most of the investment assets of the Fund are exposed to changes in 'real' yields rather than nominal yields. There is a small exposure to short term interest rate arising from the cash holding, where changes in interest rates will change the income received from cash, however, capital values will not be affected.

More significantly, the Fund's liabilities are also estimated using long term real interest rates. The interest rate exposure in the Fund's liabilities is materially greater than, and in an opposite direction to, the exposures in our fixed interest portfolios. Thus the overall impact of interest rate movements on the funding level of the Fund is significantly different from that implied below. Effectively, the Fund's holdings of fixed income assets provide a partial hedge to the interest rate risk in our liabilities. The Fund monitors this position through regular estimation of its funding position which includes sensitivity analysis of these risks.

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

This interest rate exposure has to be multiplied by the modified duration of the investments to obtain the risk to capital values.

The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The table below shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

| | As at 31 March 2019 £000 | As at 31 March 2018 £000 |
|--|-----------------------------|-----------------------------|
| Holdings of fixed interest securities | 273,813 | 257,689 |
| Estimated duration of assets | 18.8 | 19.4 |
| Change in value of fund if rates rise 1% | (51,477) | (49,992) |
| Change in value of fund if rates fall 1% | 51,477 | 49,992 |

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 Fund has no material exposure to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP).

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. Furthermore, the majority of the Fund's investments are in British Government securities with minimal credit risk.

Credit risk also arises inevitably with transactions and trading. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

To minimise credit risk exposure in our cash holdings, most of our cash is held in a 'Aaa' rated money market fund run by our custodian Northern Trust – this fund invests in a wide range of cash instruments and has limited exposure to any individual institution, Furthermore, it is legally separate from our custodian, which should safeguard our investment in the case of the default of the custodian.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default in cash deposits or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £20.8m (31 March 2018: £19.1m).

This was held with the following institutions:

| Summary | Ratings by Moody's | Balances as at 31 March 2019 | Balances as at 31 March 2018 |
|-------------------------------|--------------------|---------------------------------|---------------------------------|
| | | £000 | £000 |
| Money market funds | | | |
| Northern Trust | Aaa-mf | | 18,099 |
| State Street | A3 | 19,888 | - |
| Bank current accounts | | | |
| National Westminster Bank Plc | A1 | 939 | 1,033 |
| Total | | 20,827 | 19,132 |

Liquidity risk

Liquidity risk represents 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 the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings. The Fund defines liquid assets as those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the Fund has no material exposure to illiquid assets. Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy. All financial liabilities at 31 March 2019 are due within one year.

Refinancing risk

The key risk is that the EAPF will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavorable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

15. Funding arrangements

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 2016. The next valuation will take place as at March 2019.

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 six months' expected benefit expenditure.

At the 2016 actuarial valuation, the Fund was assessed as 31% funded (19% at the March 2013 valuation). This corresponded to a deficit of £492m (2013 valuation: £694m) 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 two year period ending 31 March 2020 and are shown in the table below:

| Year | Projected payments due £000 |
|---------|--------------------------------|
| 2018/19 | 67.1 |
| 2019/20 | 63.1 |

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 accrual benefit method. The principal assumptions were:

Financial assumptions

| | % | Descriptions |
|-----------------------------------|-----|--|
| Investment return (Discount rate) | 2.2 | Yield on long term fixed interest Government bonds |
| Retail price inflation (RPI) | 2.9 | The difference between yields on fixed and index-linked Government bonds at the valuation date less 0.3% p.a. in respect of the inflation risk premium |
| Pension increases | 1.8 | CPI (assumed to be 1.0% less than RPI with the adjustment applied geometrically) |

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2013 model assuming that the current rate of improvement has reached a peak and will converge to the long term rate of 0.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| Pensioners | Males | Females |
|--------------------|------------|------------|
| Current pensioners | 20.6 years | 22.7 years |
| Future pensioners* | 21.1 years | 23.3 years |

* Figures assume members aged 55 as at the last formal valuation date.

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 15). The actuary has also used 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, is estimated to be £586m (2018: £636m). 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 funding purposes and setting contributions payable to the Fund.

| Assumptions used Year ended 31 March 2019 | % p.a. |
|---|--------|
| Pension increase rate | 2.6 |
| Discount rate | 2.9 |

17. Current assets

| | 2019 £000 | 2018 £000 |
|--------------------------------------|--------------|--------------|
| Cash at bank | 939 | 1,033 |
| Debtors | | |
| VAT debtor | 334 | 239 |
| Overpaid pensions due to be returned | 97 | 76 |
| Due from the Active Pension Fund | - | 66 |
| Total | 1,370 | 1,414 |

18. Current liabilities

| | 2019 £000 | 2018 £000 |
|--|--------------|--------------|
| Creditors | | |
| PAYE | 585 | 628 |
| Administration and investment expenses | 481 | 511 |
| Amount due to Active Fund | 25 | - |
| Benefits payable | 57 | 101 |
| Total | 1,148 | 1,240 |

Analysis of creditors

£25k is due to the Environment Agency Active Fund (2018: £66k due from the Environment Agency Active Fund) in respect of administration expenses and VAT reclaimed.

19. Related party transaction

During the year ended 31 March 2019 there have been the following related party transactions:

- Pensions administration costs of £104k (2018: £326k) were recharged to the Closed Pension Fund by the Environment Agency. The decrease to the prior year, is in the main due to a change in cost allocation between the Active Pension Fund and the Closed Pension Fund. Cost allocations have changed from 60%/40% (2017/18) to 80%/20% (2018/19) respectively;
- £25,000 is due to the Environment Agency Active Fund (2018: £66,000 due to the Environment Agency Closed Fund) in respect of administration expenses and VAT reclaimed. The Active Fund is a sister scheme to the Closed Fund and further details about this fund are shown in Annex 4 on page 76;
- One member of the Committee is in receipt of pension benefits from the Closed Fund; and
- Benefits payable exclude £8.2m (2018: £9m) for historical unfunded pensions liabilities of the Environment Agency in respect of compensatory added years and water company pension scheme charges paid via the pensions administrator. This has been recharged to the Environment Agency and funded by Grant-In-Aid from Defra.

20. Contingent liabilities

There are no contingent liabilities as at 31 March 2019 (2018: £nil).

21. Contingent assets

There are no contingent assets as at 31 March 2019 (2018: £nil).

22. Impairment losses

For the year to 31 March 2019 the Fund has recognised an impairment loss of less than £0.1m (2018: 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 audit certificate.

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

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 23 March 2017.

Fund history

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

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 accruals of future service. The Fund's liabilities are statutorily guaranteed by the Department for the Environment, Food and Rural Affairs 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 2016, the Fund's membership consisted of 13,511 pensioners and 2,139 deferred pension members whose benefits have yet to come into payment. The average age of members in receipt of pensions in payment was around 77 years, and 57 years for deferred pensioners.

Around 50% of the liabilities are expected to be discharged over the next 6-7 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 2029.

The discounted mean term of the liabilities – a measurement of duration that can be useful in matching liabilities to bond durations – was 9.2 years as at 31 March 2016 and will fall only gradually over time.

As at 31 March 2016, the Fund's assets were £219m (£166m at 31 March 2013) and the value placed on the liabilities (discounted in line with the minimum risk return available on UK government bonds) was £711m (£860m) resulting in a funding level of 31% (19%) and a deficit of £492m (£694m). Benefit expenditure flowing out of the Fund is running at around £66m per annum.

All these figures exclude the additional 'unfunded' pension payments of around £10m 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

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

Reviews of FSS

The FSS applies with effect from 31 March 2017 for lump sum contributions payable in the Fund's financial year 2017/18 and thereafter. The principles documented herein have been used for the actuarial valuation as at 31 March 2016.

The FSS is reviewed in detail at least every three years alongside the triennial valuation being carried out, with the next valuation as at 31 March 2019 due to be completed by 31 March 2020. 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?

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

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 least every three years. Unlike other LGPS funds there is no requirement to certify contribution rates as the Fund has no contributing employers.

At each triennial 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 2016, the assets held by the Fund were only sufficient to cover 31% of its liabilities (19% in 2013). Without the GiA payments made by the Guarantor, the Fund would expect to be exhausted by 2019.

The accrued liabilities are the future payments of pensions and lump sums, allowing for annual increases on pensions in payments 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.

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 1.8% p.a. at the 2016 valuation.

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 2016 this return is expected to be 2.2% p.a., leading to a real assumed return of 0.4% p.a. relative to CPI.

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 Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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.

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 of Communities & Local Government (DCLG) 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 to be excluded from most aspects of the Section 13 analysis.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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**; and*

*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 triennial 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?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and Pensions Committee level with council tax raising authorities and with corresponding 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 9 March 2017 for comment;
- b) Comments were requested within 14 days;
- c) Following the end of the consultation period the FSS was updated where required and then published on 23 March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on our website, at www.eapf.org.uk
- 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 triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- Trivial amendments would be simply notified at the next round of Fund communications,
- Other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant 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 Statement of Investment Principles/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 web 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 Statement of Investment Principles/Investment Strategy Statement (SIP/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.
8. Prepare and maintain a FSS and a SIP/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 SIP/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.
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 SIP/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 SIP/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. The Ministry of Housing, Communities and Local Government (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. | <p>The focus of the actuarial valuation process is on real returns on assets, net of price increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Investment in index-linked bonds also helps to mitigate this risk.</p> <p>The Fund holds liquid assets that can be used to pay benefits if GiA payments are inadequate in any given year</p> |
| 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. | <p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p> |

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 | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Pensions Committee Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p> |

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 from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. An inflation risk premium was then applied to the market-implied RPI, by means of a 0.3% deduction to allow for market distortions. 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, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target and GiA projections (all other things being equal). (Note that the reduction is applied in 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 the 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.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 0.5% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy slightly (by around 0.1-0.2 years), which reduces the funding target and GiA projections (all other things being equal). The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2019.

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 14,000 members and assets of approximately £280m as at 31 March 2018. 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 governs 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 20 September 2018, 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 Policy and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics as appropriate.

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 safekeeping of the directly held assets of the Fund and who works in close liaison with each fund manager. Note that on the 1 April 2018 we transitioned our custodian relationship from Northern Trust to State Street.

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 Communities and Local Government's 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 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 make our collective investments work as hard as possible to meet our funds' objectives: we will provide the right structure of sub funds 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 within the Brunel Pension Partnership through reduction in fees and avoidance of cost through increased resilience and sharing our peoples' strengths, knowledge and expertise. |
| 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. |

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.

Being responsible investors to EAPF is to;

- Consider a wide range of issues e.g. environmental or social impacts and what financial impact they could have both in the short and long term.
- Look to work with and influence others.
- Act as good owners of the companies, assets and funds in which we invest.
- Operate in an open and transparent way.

Our fiduciary duty is to act in the best long term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision making process. Full details are contained in our **Responsible Investment Policy**, and other associated policies, notably our **Policy to Address the Impacts of Climate Change**. Both the Brunel Pension Partnership and the Fund's

underlying investment managers are expected to comply with these policies when implementing the mandates on our behalf.

The Brunel Pension Partnership Investment Principles clearly articulate our commitment, and that of each Fund in the Partnership and its operator (Brunel Ltd), to be responsible investors and as such recognise that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the potential principal benefits, outlined in the Brunel Pension Partnership business case, achieved through scale and resources arising from pooling is the improved implementation of responsible investment and stewardship.

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and which includes an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives. More information is on the [Brunel website](#).

Both our Pensions Committee and Pension Board have member representatives who actively engage with beneficiaries and other stakeholders to ensure the fund is aware and can respond effectively to all member concerns. We also actively use our website, newsletters and member webinars to engage directly. We also respond, track and report all member and stakeholder enquires as part of standard quarterly reporting. The fund is accredited with Customer Service Excellence which requires high standards of stakeholder engagement.

We became the first Local Government Pension Scheme (LGPS) signatory of the UNPRI in July 2006 and Brunel Ltd was the first asset pool in April 2018. The UNPRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary duty. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Investment objectives

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 23 March 2017. 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.

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.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities. The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Our wider definition of sustainable investments includes:

- a) Social investments and those with significant revenues (in excess of 20%) involved in energy efficiency, alternative energy, water and waste treatment, public transport together,
- b) property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and
- c) companies (often equities and bonds) with a progressive environmental, social or governance practices that may enhance investor value.

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 financial 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 engages 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 UN Principles for Responsible Investment, 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 online.

EAPF 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 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. Regular reports have been made to Government on progress towards the pooling of investment assets, and Brunel Ltd has received positive feedback on its progress so far.

It is anticipated that investment assets will 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 will be agreed across the partnership, starting with passive equities. 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 is sponsoring 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 will be 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 will set 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 managed through Brunel.

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision making and disclosure. Evidence is contained within the documents referenced in our Annual Report and Financial Statements and on our website at www.eapf.org.uk

Approved by the Pensions Committee on 20 September 2018 and will be reviewed in 2019.

Annex 4 – Communications Policy Statement

Introduction

The Environment Agency Pension Funds (EAPF) are part of the Local Government Pension Scheme (LGPS), and 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 10,932 contributing members, 8,463 deferred members and 6,940 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, 1,183 deferred members and 11,763 pensioners. This Communications Policy Statement is effective from 17 June 2019.

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 have developed our website www.eapf.org.uk to provide a knowledge center 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:

Pension Fund Management
Horizon House
Deanery Road
Bristol, BS1 5AH
Email: info@eapf.org.uk
Tel: 0203 025 4205

Objectives

We have 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 supports them in their decision making process.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
- Look for efficiencies in delivering communications through greater use of technology and partnership working
- Regularly evaluate the effectiveness of communications and shape future communications appropriately

Regulatory framework

With effect from 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 on any of the matters mentioned in paragraph (3)
- 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 are 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, alongside those defined by the Disclosure Regulations.

Communication will always be in accordance with the provisions of Data Protection legislation.

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 but Capita carries out 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 HR Pensions' team and Capita.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Capita's Technical Consultants and Communications team, with support from the HR Pensions' teams.

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 are considering our communications with the following audience groups:

- Contributing members
- Deferred members
- Pensioner members

- Prospective members
- Employing authorities – Human Resources & 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 totally 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. 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 at a time of their choosing. 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 have introduced tailored, topic based 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, a poster campaign, E Shots and promotion through our Fund employers' internal communication channels. The EAPF has successfully transitioned to using webinars. 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.

Introducing 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

All topics are recorded and the recorded presentation slides are made available on our website.

Our Communications strategy

As part of our long term strategy, 2018 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and personalised to our members.

Our segmented groups are:

Spontaneous spender – adventure
Pension Sceptic – protection
Assured saver – relaxed
Responsible worrier – detail and focus
Mature planner – companionship

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We have completed two 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 are 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.

Here's an example

We regularly receive feedback from members asking us to reduce the amount of paper used, so we've listened and as part of our recent developments to EAPF Online, we introduced a new online nomination form in February 2019. This has made it easier for our members to access the form at a time that suits them, reduced the amount of paper being used and simplified administration.

To make our members aware of our new online form, we created an email campaign called 'Looking after your loved ones' (LAYLO) using different tailored content aimed at two different segments, registered and non-registered members.

Our campaign objectives were to:

- Raise awareness that the Fund provides family protection
- Encourage members to log in and complete a nomination form
- Drive members to our public website for more information

Within the first week of campaign, it had a real positive effect in driving members to the online portal as we received 352 web nomination forms and 526 new registrations during our short campaign period. It also increased new visitors and views to our website pages on family protection with 500 views in a 1 week campaign period. This is a fantastic result which demonstrates how listening, monitoring and focusing on member feedback works.

Accessibility

In accordance with the Welsh Language Act 1993, we provide key publications for pension scheme members in Wales in bilingual versions.

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 will arrange translation on request. Our website is compliant with Shaw Trust's usability standards.

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 will measure against the following target delivery timescales:

| Communication | Audience | Statutory delivery period | Target delivery period |
|-----------------------------------|-------------------------|------------------------------|--|
| Scheme short guide | New joiners to the LGPS | Within two months of joining | Within two weeks of joining the LGPS |
| E Shot Introduction to the EAPF & | New joiners to the LGPS | Within 2 months of joining | Within 1 month of joining the LGPS and on receipt of email |

| | | | |
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| video | | | 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 |

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 and our website include invitations for comment on content and offer suggestions for future editions and contact details are provided.

The EAPF are accredited with the Customer Service Excellence® standard which tests in great depth those areas that research has indicated are a priority for customers, with particular focus on delivery, timeliness, information, professionalism and staff attitude. There is also emphasis placed on developing customer insight, understanding the user's experience and robust measurement of service satisfaction.

Capita became the first pension administration provider to be awarded the Investors in Customers (IIC) accreditation. Comments received in the past have provided many useful suggestions that we have been able to incorporate in later publications.

Results

We will publish an overview of how we are 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.

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 are 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 have also produced a helpful [Q&A factsheet](#).

Review process

We will 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. Paper copies are available on request.

Approved by the Pensions Committee on 17 June 2019 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: 0203 025 4205
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 at our website: www.eapf.org.uk

www.gov.uk/government/publications

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