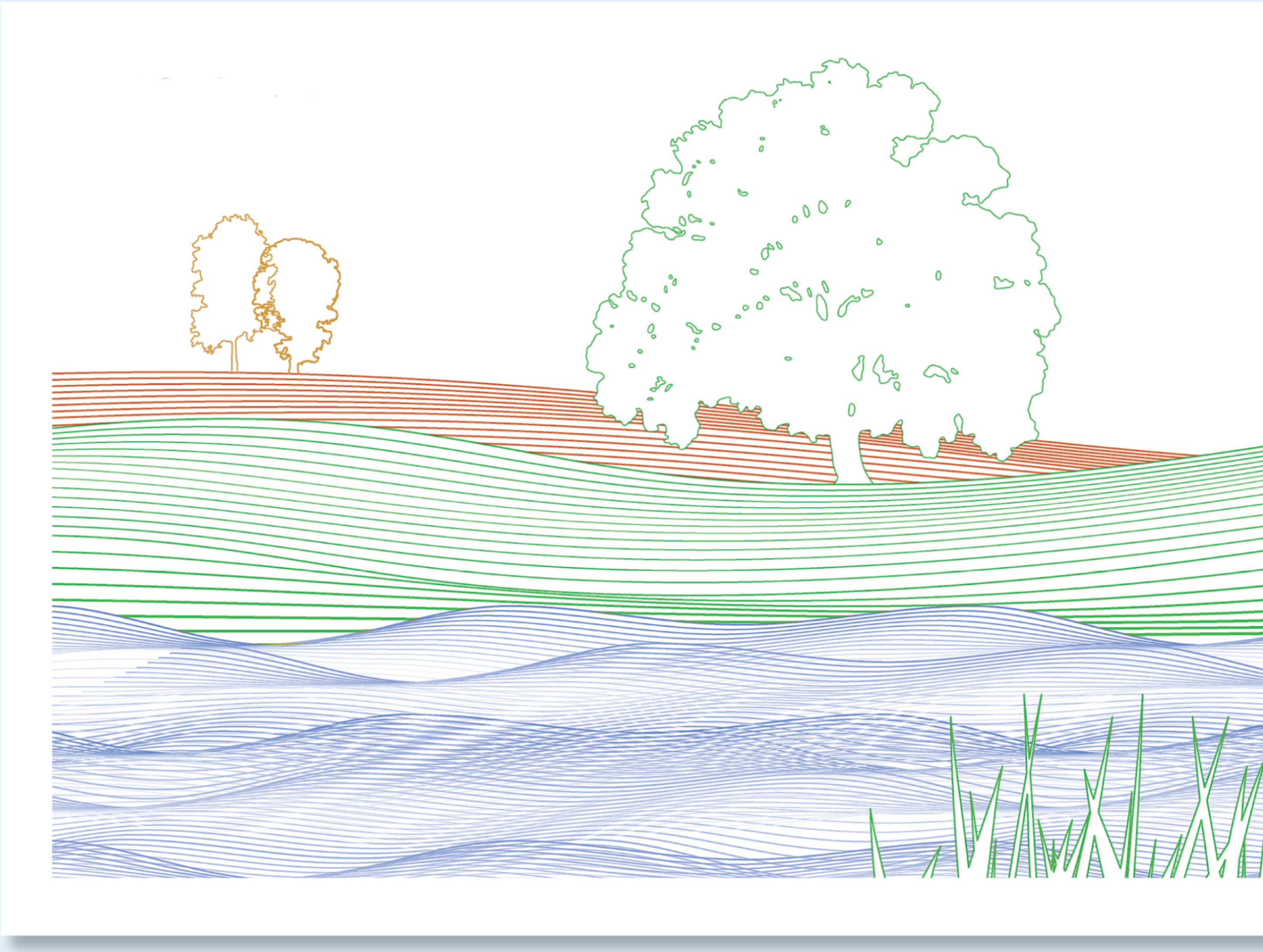
Active Pension Fund
Annual Report and Financial Statements
2012 - 2013



Environment Agency Active Pension Fund

Annual Report and Financial Statements 2012 - 2013

Annual Report presented to Parliament pursuant to Section 52 of the Environment Act 1995

Accounts presented to Parliament pursuant to Section 46 of the Environment Act 1995 as amended by the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003

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Chairman's statement

As Chairman of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Active Pension Fund ("the Fund"), I am pleased to present the Fund's Annual Report and Financial Statements for the year ended 31 March 2013.

This year's annual report and financial statements has been prepared using the new CIPFA guidance on narrative reporting and accounting disclosures for Local Government Pension Scheme (LGPS) Funds, and I am pleased to say they are compliant with the CIPFA guidance.

Over the last year, total membership of the Active Fund increased by 1,098 to 23,114 members. This relatively high growth is due to 1,231 new employees joining the Fund following increased recruitment within the Environment Agency. The membership comprises 11,379 employees, 6,624 deferred members and 5,111 pensioners. Over 92% of eligible Environment Agency employees continue to contribute to the Fund.

As at 31 March 2013 the net assets of the Fund had increased in value by £265m to £2,126m (2012: £1,861m). The Fund's liabilities increased in value to £2,528m (2012: £2,216m) this increase being largely due to decrease in gilt yields used to value the Fund's liabilities. The investment performance of the Fund was +14.2% (2012:+5.1%) which was -0.1% (2012: -0.2%) against the Fund's strategic benchmark. The average return for LGPS Funds for 2012-13 was +13.8%.

The most recent triennial valuation of the Active Fund on 31 March 2010 indicated a funding level of 94%. Our estimated funding level as at 31 March 2013 is 84% which remains as one of the highest in the LGPS.

Based on the results of the 2010 triennial valuation, our actuary recommended the Environment Agency's employer contribution rate, from 1 April 2011, remain at an equivalent rate of 16.5% of pay until 31 March 2014 to help meet the Active Fund's future liabilities. The contribution rate from 1 April 2014 will be reviewed following the results of the 31 March 2013 valuation. Preparatory work has commenced on our valuation and we aim to have final results available by the end of 2013.

The Committee has continued to discuss the Government's policy on public sector pensions and planned changes to the LGPS at its meetings. The Committee has made representations to Government through the consultation processes over the new LGPS which is due to come into effect from 1 April 2014. We currently expect the new LGPS Regulations to be in place by late summer and our project planning to implement the changes has commenced. The Committee understands the concern that members have about any future changes and we will keep Fund members informed of future developments via newsletters, road shows and the Fund's website www.eapf.org.uk.

Whilst improving the Fund's financial performance is paramount, during the year our innovative work in integrating financially material environmental issues into our investment strategy has been recognised particularly the publication of the Responsible Investment Review, published September 2012. The review was recognised in the inaugural *Responsible Investor Reporting Awards,* winning its category for excellence in responsible investment reporting. Reports from over 1,000 of the world's largest pension funds from Europe, North America, Australasia, Latin America and Africa were included in the analysis.

From 1 April 2013, the Fund welcomes Natural Resources Wales (NRW) as an employer within the Fund. Former employees of Environment Agency Wales (EAW) will continue their membership of the Fund through an admission agreement between the Fund and NRW that will protect the future pension provision of these members. This agreement ensures that future pension funding relating to these members will be met by NRW.

Finally, I would like to take this opportunity to thank everyone involved, both Environment Agency staff and external contractors, for helping the Committee to manage the Active Fund over the last year.

John Varley
Chairman
Environment Agency Pensions Committee
24 June 2013

Membership of the Pensions Committee for the year ended 31 March 2013

	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members				
John Varley (Chair)	01/11/09	3 yr 5 mth	30/09/15	2 yr 6 mth
Robert Light	07/07/09	3 yr 9 mth	30/06/15	2 yr 3 mth
Clive Elphick	01/09/12	0 yr 7 mth	31/07/14	1 yr 4 mth
Emma Howard Boyd	18/10/12	0 yr 6 mth	30/06/15	2 yr 3 mth
Executive members				
Mark McLaughlin	01/11/09	3 yr 5 mth	n/a	n/a
Jonathan Robinson	01/04/12	1 yr 0 mth	n/a	n/a
***Howard Pearce**	12/02/03	10 yr 2 mth	n/a	n/a
Kevin Ingram	07/07/09	3 yr 9 mth	06/07/15	2 yr 3 mth
Active member nominees				
Jackie Hamer	01/04/08	5 yr 0 mth	31/03/14	1 yr 0 mth
Stuart Martin	17/11/09	3 yr 5 mth	16/11/15	2 yr 7 mth
****Phil Chappell**	17/05/06	6 yr 11 mth	16/05/15	2 yr 1 mth
Simon Peate	07/07/11	1 yr 9 mth	06/07/14	1 yr 3 mth
Ian Woolven	18/10/12	0 yr 6 mth	17/10/15	2 yr 6 mth
*****Huw Williams**	06/07/10	2 yr 3 mth	17/10/12	n/a
Pensioner member				
Brian Engel	22/05/05	7 yr 11 mth	22/05/15	2 yr 1 mth
Deferred member				
John Kerr	09/02/10	3 yr 2 mth	08/02/16	2 yr 10 mth
Chief Executive - ex officio				
Paul Leinster	01/06/08	4 yr 9 mth	n/a	n/a

* Retired from the Environment Agency on 30 April 2013 and has been been replaced by Dawn Turner from 1 May 2013

** Retired from the Pensions Committee on 31 March 2013 and has been replaced by Colin Chiverton from 1 April 2013

*** Resigned from the Pensions Committee on 17 October 2012 and was replaced by Ian Woolven on 18 October 2012

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.

John Varley has been a member of the Committee since 2009 and its Chairman since 2012. In these roles he has undertaken actuarial and investment training. John has previously undertaken business finance courses as part of a Masters Degree at McGill University in Montreal and in programmes at the Institute of Management Development (IMD) in Lausanne. Previously, John chaired the Audit Committee of both the Countryside Agency and Commission for Rural Communities. In his current role as Director of Clinton Devon Estates, John chairs the Investment Committee and works closely with external fund managers in achieving investment objectives. John is also a trustee of the Clinton Devon Estates pension scheme.

Robert Light has been a member of the Committee since 2009 and chaired the Benefits Sub-Group since 2010. He has 20 years experience of the LGPS as a member of Kirklees Council and as leading member for 13 years. In addition, he has knowledge of the Firefighters Pension Scheme as a member for 15 years of the West Yorkshire Fire Service and a former Chair & Deputy Chair. Being a member of the Local Government Association (LGA) Board, he actively contributes to the development of policy on the LGPS. He was also a member of the Audit Commission which audited most LGPS Funds. He was also a contributing member to the West Yorkshire LGPS Fund.

Clive Elphick has been a member of the Committee and chair of the Investment Sub-Group since 2012. He attended the Committee for about a year before becoming a member. He has undertaken and is continuing to undertake actuarial and investment training. Clive is a CIMA qualified accountant and a former Group Financial Controller of United Utilities Group plc. He has also chaired the audit committee of a Department of State for five years. Clive has attended the three day LGPS Trustee Training Fundamentals course.

Emma Howard Boyd joined Jupiter in 1994 and has overall responsibility for the management and development of Jupiter's sustainable investment business. She is also responsible for Jupiter's corporate governance and engagement services for institutional clients and Jupiter's UK retail funds. She is a senior associate of the University of Cambridge's Programme for Sustainability Leadership and a Director of Aldersgate Group. She is also a member of the 30% Club Steering Committee, a cross-business initiative aimed at achieving 30% women on UK corporate boards by 2015 through voluntary, business-led change. During 2007, she was a member of the Commission on Environmental Markets and Economic Performance, set up by the UK Government to make detailed proposals specifically on enhancing the UK environmental industries, technologies and markets. She was Chair of UKSIF, the sustainable investment and finance association for eight years until March 2006 and a director of Triodos Renewables PLC for eight years until June 2012.

Mark McLaughlin is a CIPFA qualified accountant. He was a Director of Finance in Local Government and the Senior Civil Service before he joined the Environment Agency in 2009. Between 1998 and 2007 he was responsible for, and was Section 151 Officer for, two LGPS pension funds, the London Borough of Hammersmith and Fulham, and the London Borough of Enfield. Mark has been an active contributing member of the LGPS since 1987.

Jonathan Robinson is Director of Resources and Legal Services at the Environment Agency for England and Wales. He joined the Environment Agency in 2009. Jonathan is qualified as a solicitor in England and Wales, and barrister and solicitor in New Zealand. He has undertaken a range of training since joining the committee. Jonathan is also a member of the Benefits Sub-Group of the Pensions Committee.

Howard Pearce has been a member of LGPS since 1988 and has been Head of the Pension Fund Management Team and member of the Committee since 2003. Previously as Head of Corporate Planning for the National Rivers Authority (1989-1996) and Environment Agency (1996-2002) he was involved in the transfer and development of their pension fund management arrangements. Howard has received extensive training on pension fund governance, investments, benefits administration and communications to Fund members. He is a member of the DCLG LGPS Policy Review Group, Technical Group, Procurement Group, and Investment Regulations Review Group. During Howard's tenure he resolved the future funding of the Closed Fund and the membership of the Active Fund has doubled and its assets have nearly tripled to £2.1bn. He retired from the Environment Agency on 30 April 2013.

Dawn Turner is a CIMA qualified accountant. She is Head of Pension Fund Management following senior roles in Finance within the Environment Agency. She joined the Environment Agency in 1999 and has led major change projects in addition to her financial roles. Dawn has public and private sector experience as well as owning a successful retail company for 9 years. Her private sector experience includes floatation of fashion and household company Laura Ashley and merger of brewing and retail company Courages.

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.

Jackie Hamer has been an active member of the Fund since 1985, and an active member nominee since 2008. She has undertaken training on a range of pensions issues, including outsourcing, bulk transfers, cost sharing, funding strategies and investment strategy, as well as the 3 day LGPS Trustee Training Fundamentals course. As a lead lay negotiator within UNISON Jackie also has significant involvement with pension issues within the trade union movement, and has dealt with pension issues on behalf of her members.

Stuart Martin has been an active member of EAPF since 1999 and as a Scheme Members' Representative on the Pension Committee since 2009. He was employed by, what was then the Department of Health & Social Security for sixteen years, over five years of which he served as a National Insurance Inspector. More recently he was employed in the Payroll Department of the Environment Agency for eleven years. He is trained as a UNISON Pensions Advisor and since joining the Pension Committee has had training on a range of pension issues, including cost sharing; Active Fund funding strategy review; induction training on the new LGPS scheme; investment strategy; two day LGPS "Trustees" conference; asset allocation/investment strategy; and risk training. As a lead lay negotiator within UNISON, Stuart has also had significant involvement with pension issues within the trade union movement. He has dealt with, and resolved, pension issues on behalf of his members. Stuart also serves on the "Benefits sub-group" of the Pension Committee.

Huw Williams has been a member of the Committee since 2010 as a member representative. He has attended the Committee's induction training on the new LGPS. During 2011 he received some investment strategy training and spent 2 days at the LGPS "Trustees" conference. Huw has been a member of the pension scheme since 2007.

Simon Peate has been a member of the Committee since 2011. He has worked for the Environment Agency as an Environment Officer since 2001. Prior to this, over a period of 25 years, he held a number of senior management positions in the coal industry. He has been active in Unison since 2004 and is currently the Branch Secretary of the Environment Agency Midlands Branch. He is pensioner member of the British Coal Staff Superannuation and the Industry Wide Coal Staff Superannuation Schemes and an active member of the EAPF.

Phil Chappell has been a member of the Committee since 2006. He is a Regional Incident and Emergency Planning Manager in the Environment Agency and has been an active member of the LGPS for 25 years. To keep his knowledge up to date Phil has attended numerous training events and conferences on the LGPS and on pension fund investment and management over the last 6 years. He has been the Pensions Representative of Prospect Union's Environment Agency Branch since 2005.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in West Thames Area in the South East region of the Environment Agency and has been an active member of the LGPS for 27 years. Colin has attended the induction training events on the LGPS and will develop his knowledge on pension fund investment and management over time. He is the Pensions Representative of Prospect Union's Environment Agency Branch.

Brian Engel has been a member of the Committee since 2005, as the pensioner representative. He was a contributing member of the LGPS from 1975 and has been a pensioner since 2001. He qualified as a Chartered Civil and Structural Engineer and worked on the design and project management of a range of heavy civil engineering construction projects in both the private and public sector and the Waste Management field. Since joining the Committee he has attended courses and conferences and undertaken a range of training in the LGPS on governance, investments, and benefits administration.

John Kerr is a deferred member of the Environment Agency's Closed Fund following employment with the Anglian Water Authority. He joined the Committee in 2009 while chief executive of a law practice. With a broad knowledge of the financial and property markets and private sector pensions management experience, he represented two employers on their occupational pension schemes restoring low funding back to acceptable levels. In 2004 John oversaw an increase in the employees' contributions to their final salary scheme following extensive consultation and agreement. He has received training on many aspects of pension's management and investment regularly since 1989.

Ian Woolven has been a member of the Committee since 2012. He has been with the Environment Agency for 23 years and currently works in field services operations in the Solent and South Downs area. He has been a member of Unison for 22 years and is a Pensions Representative of Unison, the national representative for operations delivery, sits on the NNG and the regional health and safety representative. Since joining the Committee, he has received formal Pension Committee training and training on risk and valuations.

Professional advisers to the Committee

Actuarial Adviser	Hymans Robertson (Richard Warden)
Bankers	National Westminster Bank plc and Cater Allen Private Bank Ltd
Benefit Adviser	Hymans Robertson
Custodian	The Northern Trust Company
External Auditor	Comptroller and Auditor General
Fund Manager Selection Adviser	bFinance Ltd. (Sam Gervaise-Jones)
Investment Adviser	Mercer Investment Consulting (Nick Sykes)
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd. (Carolan Dobson)
Legal Adviser	Osborne Clarke (Mark Womersley)
Pensions Administrator	Capita

Report by the Pensions Committee

Governance

Chairman and members

There were two changes in Board appointed members during the year. Larry Whitty and Suzanne Warner both left the Committee during September 2012 and were replaced by Clive Elphick for an initial 2 year term and Emma Howard Boyd for an initial 3 year term. John Varley was appointed as Chair of the Committee with Clive Elphick taking over as Chair of the Investment Sub-Group. Robert Light continued as Chair of the Benefits Sub-Group.

There were no changes in executive members during the year to 31 March 2013. However, Howard Pearce retired from the Environment Agency on 30 April 2013 being replaced by Dawn Turner from 1 May 2013 and Kevin Ingram became the Natural Resources Wales representative from 1 April 2013.

Huw Williams resigned from the Committee in October 2012 and was replaced by Ian Woolven for an initial three year term. Phil Chappell left the Committee on 31 March and has been replaced by Colin Chiverton on 1 April 2013 for an initial three year term.

Committee governance

The Environment Agency is responsible for the administration of the Environment Agency Active and Closed Pension Funds and the disbursement of their benefits. The Board has assigned responsibility for pension's strategy, administration of both Funds' benefits and the investment and custody of both Funds' assets to the Pensions Committee and its sub-groups.

The Committee is supported by Investment and Benefits Sub-Groups, as well as by Environment Agency officers, external advisers, fund managers and fund administrators, who operate in accordance with the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007 (as amended), The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended), The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) together with saved provisions from earlier regulations.

The responsibilities and duties of the Board, Pensions Committee, Environment Agency officers and external administrators who are responsible for the management and investment of the Fund and the administration and disbursement of their assets are set out in the following governance documents:

1) Schedule 7 of the Environment Agency's Financial Memorandum
2) Pension Funds Governance Compliance Statement which includes:
   a. The Statement of Compliance which details the level of compliance with Government Guidance;
   b. The Pensions Committee Terms of Reference and Standing Orders which details the status, composition and responsibilities of Pensions Committee members; and
   c. Pension Funds Scheme of Delegation which prescribes the arrangements for, and limitations to, the delegation of powers and duties within the Environment Agency under The Local Government Pension Scheme (Administration) Regulations 2008 (as amended), and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 in its capacity as Administering Authority and encompassing the Employing Authority Discretions.

During the past year the Committee met on four occasions to fulfill its responsibilities as a sub-committee of the Environment Agency Board. There were also some training sessions which are detailed below in the section on Committee training. The Board appoints members in accordance with the Governance Compliance Statement. The Committee has delegated responsibility to manage the investment and administration of the Environment Agency's Pension Funds. The Committee's Investment Sub-Group and Benefits Sub-Group met on four occasions.

In December 2008 the Government issued statutory guidance on the preparation of Governance Compliance Statements. Our own statement, which incorporates the Pensions Committee Terms of Reference and Standing Orders and the Pension Funds Scheme of Delegation, demonstrates our compliance with this guidance. The Statement of Compliance with Government guidelines has been updated this year and may be found at page 34.

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 Chairman reviews the register annually and a further review is undertaken by Internal Audit as part of their annual pension compliance review.

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 Committee seeks to ensure that membership is both capable and experienced and will provide/arrange training for its members so that they can acquire and maintain an appropriate level of expertise, knowledge and skills.

The Committee's training strategy currently takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and the role of trustees, the principles of scheme funding and investment and the management and administration of pension scheme benefits. Following the issue of CIPFA guidance "Pensions Finance Knowledge and Skills Frameworks", the training strategy seeks to ensure that it will fully reflect how the recommended knowledge and skills level requirements set out in the CIPFA guidance are to be acquired.

The training needs of Pension Committee members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. Within this flexible framework the following structure is operated. New members receive a comprehensive Pensions Committee Handbook and a half-day induction session before attending their first meeting. They are also given the opportunity to attend more specialist courses on specific core competencies, presented by our actuary and investment consultants as well as regional pension briefings for Environment Agency employees presented by Capita and Human Resources (HR) staff.

In each subsequent year of membership they are expected to undertake two to three days' training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A detailed log of all training undertaken and planned by Committee members is maintained and is presented in the following table. During 2012-13, three training sessions were carried out covering risk training on the 2013 valuation, 2013 funding strategy statement and bulk transfers and admitted bodies.

Committee training log

Member name	Training log
John Varley (Chairman) Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks (and LDI) 2012 Investment risks - fund manager selection 2012 LGPS Fundamentals training Day 1 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 LGPS Fundamentals training Day 2 and 3 2013 Risk training – 2013 funding strategy statements
Robert Light (Board Member) Appointed to PC: 07/07/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Clive Elphick (Board Member) Appointed to PC: 01/09/2012	2012 Half day induction training 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 LGPS Fundamentals training Day 1-3 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Emma Howard Boyd (Board Member) Appointed to PC: 18/10/2012	2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson

Member name	Training log
Phil Chappell (Member nominee) Appointed to PC: 17/05/2006	2006 6 days EA PC Induction training, special PC meeting for briefing on New Look LGPS, annual LGPS Trustees Conference, LGE Trustee Fundamentals 2007 2 day actuarial valuation training 2008 1 day training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Stuart Martin (Member nominee) Appointed to PC: 17/11/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Half day PC induction training on the new LGPS 2011 Investment strategy 2011 2 day LGPS “Trustees” conference 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Jackie Hamer (Member nominee) Appointed to PC: 01/04/2008	2008 1 day PC induction training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 TUC Trustee training 2012 Fair Pensions training 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Ian Woolven (Member nominee) Appointed to PC: 18/10/2012	2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson
Simon Peate (Member nominee) Appointed to PC: 07/07/2011	2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2012 Half day induction training 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Brian Engel (Pensioner nominee) Appointed to PC:22/05/2005	2005 3 days EA PC induction training and LGPS trustee fundamentals course 2006 Half day Defra seminar on changes to the LGPS 2006 1 day special PC meeting for briefing on New Look LGPS 2007 1 day Hymans Robertson actuarial valuation training. Other needs LGPS changes 2008 1 day training on the new LGPS 2008 2 day 6^{th} Annual LGPS Trustees’ Conference 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy

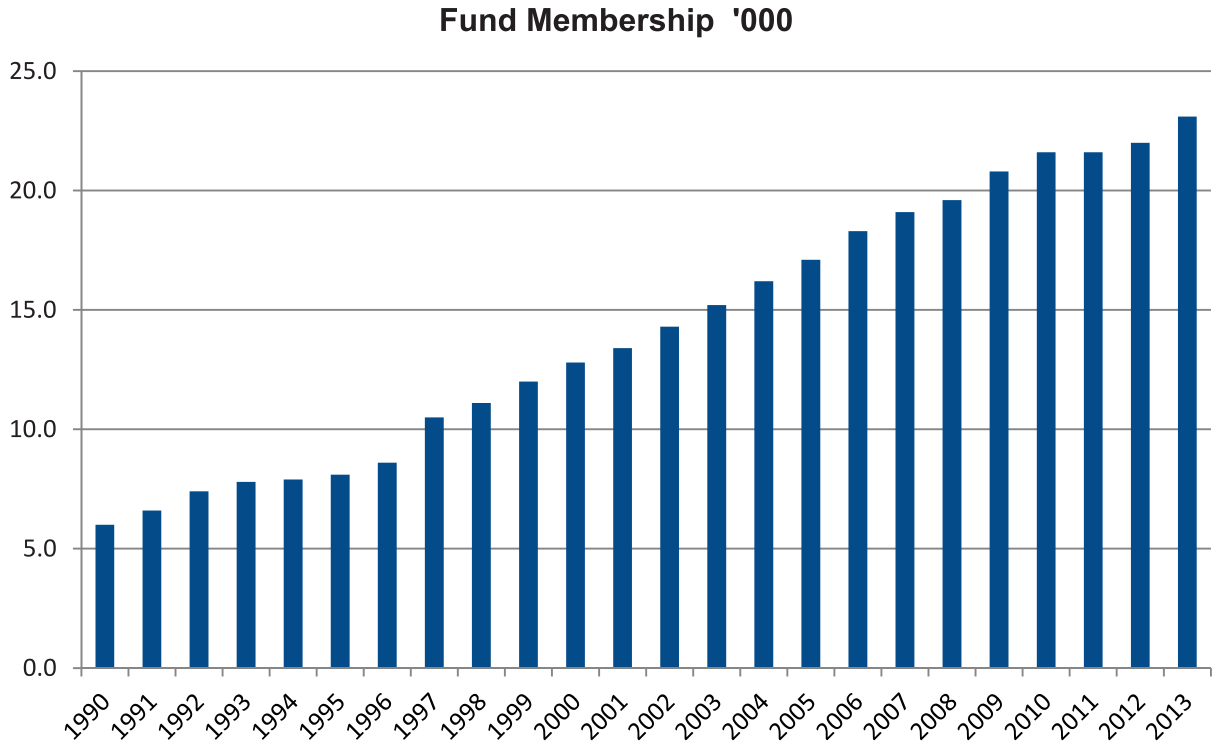
Member name	Training log
	2011 Strategic asset allocation/investment strategy 2012 LGPS Trustees Annual Conference 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
John Kerr (Deferred Member nominee) Appointed to PC: 09/02/2010	2011 Half day training on the new LGPS 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Risk training 2013 valuations 2012 Bulk transfers and admitted bodies
Mark McLaughlin Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Jonathan Robinson Appointed to PC: 01/04/2012	2012 PC induction training 2012 Risk training 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Hymans Robertson Pensions Committee Training Day 2013 Risk training – 2013 funding strategy statements 2013 Pension Committee Training day Hymans Robertson
Kevin Ingram Appointed to PC: 07/07/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements
Howard Pearce Appointed to PC: 12/02/2003	2004 3+ days CPD on LGPS changes, investment strategy and SRI. 2005 3+ days CPD on LGPS changes, investment strategy and SRI. 2006 4+ days CPD on LGPS changes, actuarial and investment 2007 4+ days CPD on LGPS changes, actuarial and investment 2008 1 day visit to, and refresher on, the work of Capita 2008 Specialist fund investment, accounting and benefits administration training 2009 1 day Hymans Robertson training on outsourcing/pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2010 Investment strategy reviews 2011 Investment strategy 2011 Strategic asset allocation/investment strategy 2012 Investment risks and LDI 2012 Investment risks - fund manager selection 2012 Risk training – 2013 valuations 2012 Bulk transfers and admitted bodies 2013 Risk training – 2013 funding strategy statements

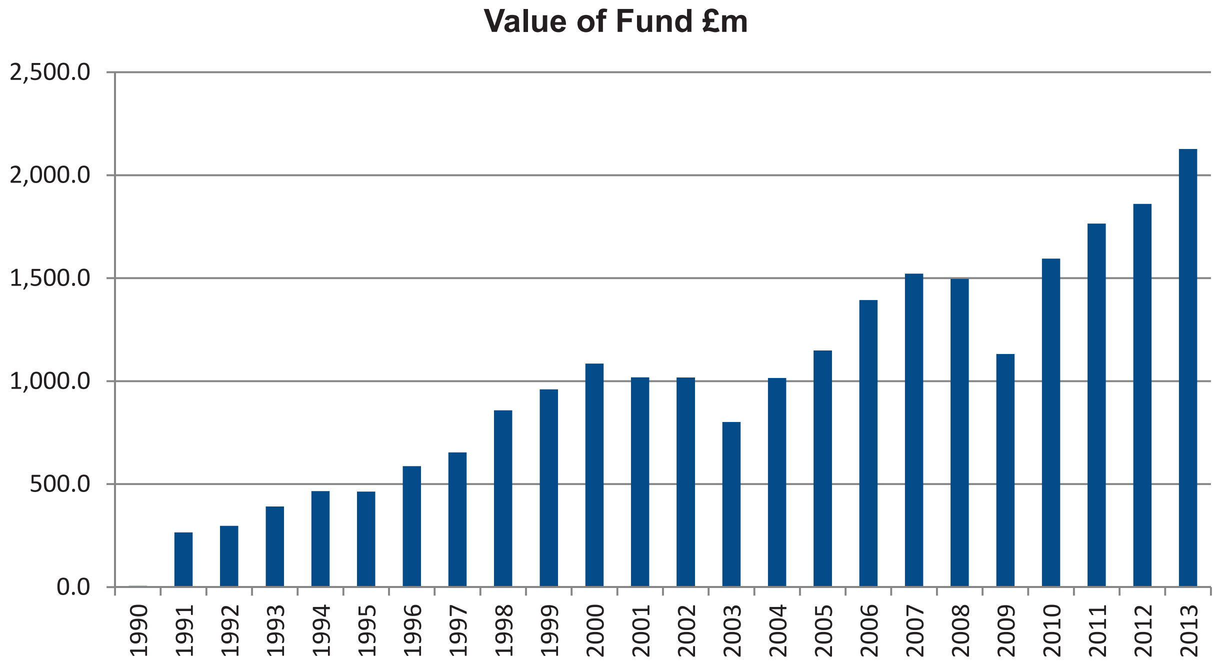
Members' attendance at Committee meetings through the year

	Pensions Committee Meeting	Pensions Committee training	Investment Sub Group	Benefits Sub Group	TOTAL
Number of meetings	4	3	4	4	15
Board members					
John Varley (Chair)	4	3	4	0	11
Robert Light	4	3		4	11
Larry Whitty	1		1	0	2
Suzanne Warner	1				1
Clive Elphick	4	3	3		10
Emma Howard Boyd	2	3			5
Executive members					
Mark McLaughlin	4	3	3	2	12
Jonathan Robinson	3	3		1	7
Howard Pearce	4	3	4	4	15
Kevin Ingram	3	3			6
Active members					
Phil Chappell	3	3	3		9
Jackie Hamer	4	3	3		10
Stuart Martin	3	3		2	8
Simon Peate	3	3			6
Huw Williams	1				1
Ian Woolven	3	3			6
Pensioner member					
Brian Engel	4	3		4	11
Deferred member					
John Kerr	3	2		3	8
Chief Executive - ex officio attendee					
Paul Leinster	0	0			0

Note – shaded areas above indicate non-membership of that sub-group

Fund membership and value of Fund





Pension Fund membership

Unless they have elected in writing not to be members, all full and part-time employees of the Environment Agency, whether permanent or temporary (over 3 months), become active members of the Fund. The 12 months ended 31 March 2013 have seen a 7.1% increase in the Fund's active membership (2012: decrease of 3.0%), which has occurred mainly due to increased recruitment levels within the Environment Agency. There was also an increase of 3.1% in deferred members and 3.8% increase in pensioners.

Movement in number of members and pensioners	Active members	Deferred members	Current pensioners	Total
At 1 April 2012	10,628	6,425	4,924	21,977
Adjustment for late notifications	27	(2)	14	39
Revised opening balance	10,655	6,423	4,938	22,016
Add:				
New active members	1,231	-	-	1,231
New deferred members	-	340	-	340
New pensioners	-	-	220	220
New spouses pensions	-	-	53	53
New children's pensions	-	-	5	5
	1,231	**340**	**278**	**1,849**
Less:				
Deferred benefits	(337)	-	-	(337)
New retirement pensions	(150)	(70)	-	(220)
Deaths in service	(3)	-	-	(3)
Refunds of contributions	(13)	(1)	-	(14)
Options pending	(3)	-	-	(3)
Transfers out	(1)	(64)	-	(65)
Deaths in deferment	-	(3)	-	(3)
Commutation of pension	-	(1)	(1)	(2)
Death in retirement	-	-	(88)	(88)
Suspended/Ineligible pensions	-	-	(16)	(16)
	(507)	**(139)**	**(105)**	**(751)**
At 31 March 2013	**11,379**	**6,624**	**5,111**	**23,114**

Based on data supplied by Capita as at 2 April 2013.

Age profile of active members at 31 March	2013		2012	
	No.	%	No.	%
15 – 19	6	0.1	2	0.1
20 – 24	293	2.6	181	1.7
25 – 29	1,087	9.6	1,019	9.6
30 – 34	1,839	16.2	1,747	16.4
35 – 39	1,812	15.8	1,695	16.0
40 – 44	1,707	15.0	1,713	16.1
45 – 49	1,720	15.1	1,564	14.7
50 – 54	1,317	11.6	1,246	11.7
55 – 59	1,034	9.1	970	9.1
60 – 64	506	4.3	460	4.3
65 – 69	57	0.5	30	0.2
70 – 74	1	0.1	1	0.1
Total	**11,379**	**100.0**	10,628	100.0

Age profile of deferred members at 31 March	2013		2012	
	No.	%	No.	%
15 – 19	0	0	2	0.1
20 – 24	27	0.4	45	0.7
25 – 29	424	6.4	473	7.4
30 – 34	1,026	15.4	1,063	16.5
35 – 39	1,191	18.0	1,170	18.2
40 – 44	1,305	19.7	1,285	20.0
45 – 49	1,278	19.3	1,153	17.9
50 – 54	769	11.6	676	10.5
55 – 59	488	7.4	458	7.1
60 – 64	101	1.5	85	1.3
65 – 69	8	0.1	9	0.1
70 – 74	4	0.1	4	0.1
75 – 79	3	0.1	2	0.1
Total	**6,624***	**100.0**	6,425*	100.0

*The figure for deferred members includes 332 cases (2012: 334) where there is no entitlement to a deferred pension only to a refund of contributions. These are former employees whom we are unable to trace, with refunds being paid as and when contact is made with them.

Age profile of current pensioners at 31 March	2013		2012	
	No.	%	No.	%
Child dependants	51	1.0	58	1.2
Pensioners and spouses				
Under 50	64	1.2	66	1.3
50 – 54	67	1.3	69	1.4
55 – 59	326	6.3	401	8.1
60 – 64	1,206	23.6	1,277	25.9
65 – 69	1,544	30.2	1,394	28.2
70 – 74	955	18.7	881	18.0
75 – 79	571	11.2	505	10.3
80 – 84	260	5.1	223	4.5
85 – 89	66	1.3	49	1.0
90 – 94	1	0.1	1	0.1
Total	**5,111**	**100.0**	4,924	100.0

Total membership	**23,114**	**21,977**

Based on data supplied by Capita as at 2 April 2013.

Summary of active member retirements	2013	2012
Ill Health Retirements (all ages) Tier 1	14	7
Ill Health Retirements (all ages) Tier 2	1	1
Ill Health Retirements (all ages) Tier 3	6	4
Early Retirements - efficiency/redundancy over age 55	21	204
Early Retirements – with employer consent	2	0
Flexible retirements - over age 55	28	19
Early Retirements - age 60 and under age 65	45	64
Normal Retirements - age 65	6	31
Late Retirements - over age 65	27	17
Total retirements	**150**	347

Benefit administration

Administration

The Environment Agency is responsible for administering the current and future pension benefits for over 23,000 members of the Active Pension Fund.

While the Committee (and Benefits Sub-Group) provides strategic direction and regular oversight, day-to-day pension fund administration is delivered through our third party pension administrator, Capita (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. Capita is the largest UK third party administrator and were awarded a new contract by the Environment Agency in 2010 following an EU procurement exercise.

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 pay slips, making lump sum and pension payments, fraud prevention and debt collection, undertaking all HMRC returns, producing audited annual accounts 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 20,980 Fund member requests/queries and for paying pensions to over 5,000 pensioners during the year. Over the year, Capita achieved the required service levels for 99% of casework processed.

The 5 largest case types processed by Capita for the Active Pension Fund during 2012-13 were:

Case type	2013	2012
Joiners	1,267	490
Transfers into the Fund	646	214
Retirement estimates	394	480
Leavers with deferred pensions	292	447
Retirements	266	518

The total number of staff allocated by Capita to the EAPF administration contract is 23, of which 12 deal solely with pension benefits administration. Based on a membership of 41,775 across Active and Closed Funds at 31 March 2013, this represents an average of 3,481 members per administrator. This compares well with the CIPFA LGPS average of 3,700 (2012).

Active Fund administration costs for the year to 31 March 2013 were £510k (2012: £520k) including member communications and postage costs. Across both Active and Closed Funds, this is equivalent to £25.80 per member. We are investigating appropriate cost benchmarks and will aim to include these in future reports.

Natural Resources Wales (NRW) as admitted body within the EAPF

Wales has formed its own environmental body from 1 April 2013 called Natural Resources Wales (NRW). It includes staff from Environment Agency Wales (EAW), Countryside Council for Wales and Forestry Commission Wales and it has become an admitted body within the EAPF from 1 April 2013. This admission only includes the existing Environment Agency Wales (EAW) employees who were transferred to NRW on 1 April as well as existing EAW deferred and pensioner members. The past and future pension benefits for these members are being funded by NRW through the EAPF admission agreement as the EAPF becomes a multi employer fund for the first time.

Internal controls

The Environment Agency system of internal control 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 2013. In accordance with LGPS and Treasury guidance and best practice, no significant issues have been identified throughout the year.

One independent review by Environment Agency Internal Audit on the adequacy and effectiveness of internal controls conducted in accordance with Government Internal Audit Standards was carried out during the year.

This Pension Fund compliance audit concluded that the governance framework in place to manage the Fund is well designed, covers all the main areas of activity and meets all statutory requirements.

The Pension Fund risk audit in 2012 evaluated the overall pension funds' risk management process and specific risks covering funding, investment, regulation and administration controls including Environment Agency internal administration such as the maintenance and supply of current employee pension data to Capita. This audit indentified that good risk management processes are embedded in work practices and a broad range of mitigations are in place including timely engagement with regulatory networks and detailed monitoring of 3rd parties. Progress is continuing during 2013 to implement the audit recommendations that identified areas where the Environment Agency can improve its internal administration delivery.

Data quality

Good quality data is vital to the efficient and accurate payment of retirement benefits and general administration of the Active Pension Fund. This is achieved primarily through the use of electronic interfaces between the Environment Agency and Capita on a weekly and monthly basis.

Guidance issued by the Pensions Regulator (tPR) recommends that the Fund regularly assess the quality of EAPF member data.

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

Data quality testing has been carried our for the Active Fund during 2012-13 and a certificate issued reflecting compliance with tPR guidance. Our post June 2010 data is 99.6% (2011-12: 100%) with pre June 2010 data at 96.2% (2011-12: 96.2%). 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 "Conditional data" has also been reviewed with positive results and both these tPR data checks are tested on an annual basis.

Data security

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

Ownership and accountability for the transmission of Environment Agency employees' pensions related data to Capita is assigned to the human resources and payroll functions. This is mainly through the secure transmission of monthly and weekly electronic data interface files.

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.

Changes to the Local Government Regulations during 2012-13

Local Government Pension Scheme (Miscellaneous) Regulations 2012 (SI 2012/1989) – applicable from 1 October 2012

The above regulations were issued to stakeholders on 10 August 2012 by the Department for Communities and Local Government (DCLG) and came into force on 1 October 2012, although a number of regulations have effect from earlier dates. The Statutory Instrument amended the following regulations: -

- LGPS (Benefits, Membership & Contributions) Regulations 2007;
- LGPS (Administration) Regulations 2008;
- LGPS (Transitional Provisions) Regulations 2008; and
- Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006.

  The Statutory Instrument contained a number of minor a corrective amendments and changes required due to the over-riding Auto Enrolment legislation. In addition, further amendments allowed for: -

- extension of the time limits to purchase additional survivor benefits;
- clarification that the Administering Authority may make a scheme employer discretion where the scheme employer no longer exists;
- strengthening of Admission Agreements; and
- bringing forward the date by which Annual Benefit Statements must be issued to 30 September following the end of the scheme year.

Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013
The above regulations were issued to stakeholders in February 2013 by DCLG and came into force on 1 April 2013.

The Statutory Instrument increases the maximum proportion of a local government pension fund which can be invested in contributions to partnerships from 15% to 30% from 1 April 2013.

Government Pensions Reform – 2014 LGPS CARE Scheme
Since Lord Hutton's review on public sector pension reform, there have been significant changes proposed for the LGPS from 1 April 2014. The most fundamental of these include moving to a career average pension scheme and the normal retirement age being linked to an increased state pension age. Employers and Trade Unions have been receptive to the proposals in an effort to secure the long-term viability of the scheme and a 'Heads of Agreement' framework was created to enable work to commence on the high level proposals.

An informal consultation took place in the summer of 2012 where these key principals have been accepted by the majority of parties, followed by statutory formal consultations by Department for Communities and Local Government (DCLG) in December 2012 and March 2013 with the intention of having the new LGPS legislation in place by the summer of 2013. We still await the final outcome and will continue to keep members informed through newsletters and www.eapf.org.uk. The timescale for having these regulations in place in time for introducing the new scheme by April 2014 are challenging.

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).

This change applied to EAPF pensions from April 2013 and pensions in payment and deferred pensions were increased by 2.2% with effect from 8 April 2013 (9 April 2012: 5.2%). Any pension which had been in payment for less than a year was increased by a proportionate amount depending upon the number of months it has been in payment.

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1990:

Year (April)	Rate of Increase %	Year (April)	Rate of Increase %	Year (April)	Rate of Increase %
1990	7.6	1998	3.6	2006	2.7
1991	10.9	1999	3.2	2007	3.6
1992	4.1	2000	1.1	2008	3.9
1993	3.6	2001	3.3	2009	5.0
1994	1.8	2002	1.7	2010	0.0
1995	2.2	2003	1.7	2011	3.1
1996	3.9	2004	2.8	2012	5.2
1997	2.1	2005	3.1	2013	2.2

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 or in care homes as well as those where power of attorney is held by a third party. 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 is one suspected fraud being investigated in the Active Fund as a result of the 2012 NFI review. Our monthly mortality checks are in place to help reduce potential fraud on the Fund.

Communications

Our summary statement of policy on communications can be found at Annex 7.

In 2012-13 our focus continued on ensuring that members were well informed about their benefits from the EAPF and the current changes in public sector pensions. In addition, progress was made in implementing our e-communications strategy through increased use of our Pension Fund website www.eapf.org.uk. Details of specific communications for the year and some of our plans for 2013-14 are shown below:

www.eapf.org.uk and EAPF Online – Our static website was completely refreshed in August 2012 and released with new EAPF member information guides added. Our interactive site "EAPFOnline" was launched in September 2012 allowing members secure online access to personal pension information and calculations. There are now around 6,000 members who have registered for access, including over 3,000 pensioners. We will continue to develop www.eapf.org.uk further during 2013 to improve communications to all members.

Removal of pension pay slips – Our pensioners can now view their pension pay slip through "EAPFOnline" as the Committee worked to remove the issuing of monthly pay slips for all pensioners to bring environmental and financial benefits to the Fund. Around 85% of Active Fund pensioners agreed to give up a regular monthly pay slip, and the Pensions Committee would like to thank all those who have supported this move.

Review of public sector pensions – Members have been kept regularly informed on the progress towards the Government's public sector pension reform. Updates have been issued in our 'Your pension' newsletters throughout the year, with other notices and links added to our website. This will continue to be an important part of our communication work for 2013-14 as the Government's plans for the new LGPS to be implemented from 1 April 2014.

Short Guide and Member Guide – These key member guides provide summary and comprehensive information about LGPS benefits and were reviewed and updated as necessary during the year. The short guide is mailed to all new starters at the Environment Agency and both guides are available at www.eapf.org.uk .

Your pension – issue 9 - This was issued in September 2012 to all members providing updates on public sector pension reform, tax relief changes and automatic enrolment. It also highlighted the launch of the interactive EAPFOnline.

Your pension – issue 10 – This was issued in March 2013 to all members providing updates on changes to public sector pensions including the latest LGPS consultation and progress on the pension pay slip exercise.

Annual Benefit Statements – These were issued to all active and deferred members in July 2012. The 2013 benefit statements for active and deferred members will be issued around the end of July.

Fundfare 2012 – This was issued to all active, deferred and pensioner members in October 2012 summarising the Fund's Annual Report and Financial Statements as at 31 March 2012 and providing information on other pension related matters. Fundfare 2013 will be issued to all members in autumn 2013.

Topping up your LGPS pension – This booklet details the options available to members for increasing their Fund benefits through means such as Additional Regular Contributions (ARCs) and Additional Voluntary Contributions (AVCs) and was updated as necessary during the year.

Pension briefings - The pension administration contract with Capita includes the provision of annual presentations for employees and HR staff on pensions and related matters in our Regions and at Head Office. These are known as Pension briefings and took place between May and September 2012 focusing on those who had recently started, those who had opted out and those who may be considering opting out of the Fund. Pension briefings for our pensioner and deferred members took place in York and Bristol in October 2012. For 2013 we plan to hold briefings between September and November which will focus on the planned changes to the LGPS. We will also hold combined briefings for deferred and pensioner members in Peterborough and Southampton.

Our Environment Agency Pension Funds static website www.eapf.org.uk provides our members with access to an increasing range of information. We aim give members a better understanding of the benefits of the national Local Government Pension Scheme (LGPS) and the Environment Agency Pension Funds. To that end we have developed and published more factsheets and short guides covering various aspects of the LGPS. Topics include:

- The latest contribution bands;
- Transferring benefits in or out of the EAPF;
- A summary of the key benefits of membership;
- Things members should consider before opting out;
- Final pay protections;
- Reductions that apply for early payment of pension;
- The key points about flexible retirement;
- The latest tax controls on pensions;
- How pension increases are applied in the LGPS; and
- A guide to the Internal Dispute Resolution Procedure.

Accessibility - key pension publications for members are provided in bilingual versions in order to satisfy the Environment Agency's Welsh Language Scheme. Electronic versions are available at www.eapf.org.uk.

Complaints

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

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

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

In 2012-13 Capita processed 20,980 cases (2011-12: 15,685) of which 36 (2011-12: 14) formal complaints from members were received and these have all been resolved. There were 4 cases raised and under Stage 1 of the IDRP during the year with 2 awaiting resolution. One case went to Stage 2 and has been resolved. No cases went to the Pensions Ombudsman.

Pension Fund investment

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 and is reproduced in Annex 2 to this document.

Investment limits

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1 January 2010 require the Environment Agency to invest in accordance with its investment policy, any Fund money that is not needed immediately to make payments from the Fund.

Although it may vary the types of investment, the Environment Agency's policy must be formulated with a view to the advisability of investing Fund money in a wide variety of investments; and the suitability of types of investments and particular investments.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 prescribe extended limits (Schedule 1 Column 2) on the type and extent of investments which the Environment Agency may pursue. The total value of the Fund's investments can be no more than the percentages shown below:

5%

- a single sub-underwriting contract, i.e. a contract with a person who is underwriting a share issue to acquire the shares from him/her if that is what he/she requires, but with the total value of all sub-underwriting contracts not exceeding 15%; and
- as a limited partner in any single partnership (but not exceeding more than a total of 30% in such partnerships).

10%

- total deposits with any single bank, or similar institution except the National Savings Bank; and
- any single holding unless the investment is made by an external investment manager in a unit trust scheme.

15%

- total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange.

35%

- all investments in unit trust schemes managed by any one body;
- all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
- all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
- the value of any single insurance contract; and
- all securities transferred under stock lending arrangements.

Statement of Investment Principles

All LGPS Funds are required to publish a Statement of Investment Principles. The current Statement of Investment Principles was adopted by the Committee on 17 June 2013 and is reproduced in Annex 3 to these financial statements.

Responsible investment and Environmental Overlay Strategy

We have updated our Corporate Governance Strategy to incorporate it within our Responsible Investment Strategy (Annex 5). Together with the Committee's Environmental Overlay Strategy (Annex 6), this is applied across the whole Fund and set out the principles that the Committee expects us and our Fund managers to follow. In line with our fiduciary duty, we require our fund managers to take account of financially material environmental risks and to seek out investment opportunities to enhance their prospective investment performance.

The Fund has continued to support the work of the United Nations Principles for Responsible Investment (UNPRI) and is delighted that all of our asset managers and principal investment and actuarial advisers are co-signatories. We continue to work collaboratively with other asset owners and managers, particularly supporting initiatives aimed at improving reporting, including the Carbon Disclosure Project, Forestry Footprint Disclosure Project and the Water Disclosure Project. Institutional Investors Group on Climate Change is a key partner as we continue to integrate climate change into our investment strategy. Further information on responsible investment is included in Annex 5 and at www.eapf.org.uk.

Investment strategy

Although the management of the Fund's investments is vested in the Environment Agency, responsibility for altering its investment policy is delegated to the Committee.

The investment strategy developed by the Committee aims to maximise the return of the Fund, within an acceptable level of risk, by diversifying its investments throughout world markets. For 2012-13, the Committee has been implementing a new investment strategy, which includes a more flexible approach to asset allocation, within strict guidelines, and set out in an investment strategy framework. This new strategy is outlined in the Statement of Investment Principles in Annex 3.

Considerable progress towards the new strategy has been made in course of the year. The strategic bond allocation has been moved to 20% corporate bonds and 8% index linked gilts. The new strategy makes a material commitment to real assets of 9% of the Fund, however, because of the need to search for the best manager to invest this commitment, the manager was only appointed at year end. As a result the allocation to property was kept at 5% and the equity allocation increased by 4% temporarily. The total strategic public equity allocation was set at 58% but increased to 62% temporarily. Holdings were reorganised within equities, with a core allocation to global equity mandates of 43% (which include UK and emerging markets) and separate strategic allocations to UK equities of 13% and emerging markets equities of 6%. The latter when combined with holdings within global mandates should take our total exposure to emerging markets to around 10%. Finally there is a 5% allocation to private equity. The Committee believes that this diversification of the Fund's assets will reduce risk whilst enhancing potential returns.

Within equities, significant allocations have been made to "alternative beta" approaches that do not use the usual market capitalisation weighted benchmarks, as it is expected these will offer superior long-term risk adjusted returns. These include the appointment of two new low volatility managers, an investment in L&G RAFI 3000 index (an index weighted by fundamental rather than market value) and the new capped benchmark for active UK equities. With these allocations, together with the commitments to real assets and to areas such as unconstrained bonds, the Fund is seeking to find areas that offer returns close to those on equities but with significantly reduced risk.

To maintain the percentage of the quoted equity and bonds close to the target percentages, the Fund has adopted a rebalancing programme that automatically brings the Fund back in line with the agreed allocation if market movements change the asset allocation within the Fund. This programme was active on several occasions during the year. The Fund also manages overseas currency risks relative to pounds sterling by using a passive currency hedging overlay strategy for 60% of the overseas currency exposure. This strategy is intended to reduce risks long-term without affecting returns. It is currently under review together with other approaches to managing and hedging risks.

Custody arrangements

The Northern Trust Company ("Northern Trust") acts as global custodian on behalf of the Fund's assets. All assets are held in the name of Nortrust Nominees. Where the assets held are unit linked insurance contracts or other collective investment vehicles, the underlying assets are held by the relevant insurance company or collective investment vehicle.

As part of its normal procedures Northern Trust holds all assets in safe custody, collects dividend income and interest, provides data for corporate actions, liaises closely with the investment managers and reports on all activity during the period.

Northern Trust is a strong company that is 'AA-' rated by Standard and Poor's. Also the Fund's assets are not held in the name of Northern Trust and so are segregated from those of Northern Trust, safeguarding them in the event of a failure by Northern Trust. Cash held by the Fund at Northern Trust in sterling, euros and dollars is invested in Northern Trust Global Cash Funds, which would not be affected in the event of a failure by Northern Trust. Only small amounts of cash are left on deposit at Northern Trust. The Northern Trust Global Cash Funds are rated 'Aaa' by Moody's and are invested in short-term money instruments to preserve capital and liquidity. These cash funds are also closely monitored by Environment Agency officers.

Regular service reviews are held with Northern Trust to ensure continuous monitoring of service commitments. Other procedures and controls are reviewed by an independent reporting accountant in accordance with the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements No. 16 (SSAE 16) and in accordance with International Standard on Assurance Engagements 3402 (ISAE 3402).

Investment management

The Fund's investment managers implement the Committee's investment strategy. Each manager of a segregated portfolio has full discretion in the management of their portfolios, subject to complying with statutory limits and the Statement of Investment Principles, and is required to take due regard of the Active Fund Responsible Investment policy and the Environmental Overlay Strategy.

The Committee has set the overall investment objective for the Fund in the light of the triennial actuarial valuation. It has considered the Fund's net contribution inflows and the maturity profile of its liabilities.

The Fund does not support or directly engage in stock-lending in its segregated portfolios, but stock lending may occur in the pooled funds in which the Fund invests, which are outside our control.

Fund benchmark

The Committee has set the following strategic benchmark for the Fund:

Asset Class	Index	Weight from 30 Sept 2012	Weight before 30 Sept 2012
UK equities	FTSE All Share*	13%	23.6%
Global equities	FTSE All World*	43%**	
Emerging market equities	FTSE Emerging Markets	6%	
Overseas equities	FTSE All World ex UK*		39.4%
Index-linked gilts	FTSE-Actuaries UK Index-Linked Gilts over 15 years***	8%	13.5%
Corporate bonds	iBoxx Sterling all non-gilt	20%	13.5%
Private equity	MSCI World	5%	5.0%
Property	IPD UK Monthly	5%	5.0%

* The UK equities within global portfolios are now treated as part of the global equity allocation so we no longer use an "ex-UK" benchmark.

** The allocation to global equities contains a temporary 4% allocation pending investment in the real assets as planned under the investment strategy.

*** Changed from FTSE-Actuaries UK Index-Linked Gilts over 5 years on 30 September 2012.

Fund managers

Responsibility for managing the Fund's investments has been allocated to 13 managers. Our managers, their investment styles and the division of the portfolio is as follows:

Manager	% of Portfolio	Investment style
Legal & General Investment Management	36.2	Passive index tracking Funds
Royal London Asset Management	9.6	Active Sterling Corporate Bonds
Generation Investment Management	7.7	Active Global Equities
Standard Life Investments	7.7	Active UK Equities
Sarasin & Partners	7.2	Active Global Equities
PIMCO Funds: Global Investor Series	6.0	Global Unconstrained Bonds, hedged to £
Robeco Alternative Investment	4.4	Active Private Equity
Quoniam Asset Management	4.2	Low Volatility Global Equities
Robeco Institutional Asset Management	4.2	Low Volatility Global Equities
Comgest Asset Management	4.0	Active Emerging Markets Equities
First State Investments	3.0	Active Emerging Markets Equities
Impax Asset Management	2.9	Active Global Equities
Aviva Investors	2.8	Active UK Property Funds
AVC investments and cash	0.1	Other
Total	**100.0**	

In September 2012 we terminated our active currency management mandate with Informed Portfolio Management, and the assets were transferred to a new Emerging Market pooled fund run by First State Stewart. We also transferred funds from our index linked mandate to our corporate bond manager RLAM. In December we placed £100m in the PIMCO unconstrained bond fund, and re-organised our passive index funds at L&G, including making a £90m allocation to a fund based on the FTSE RAFI 3000 index, an equity index with weights based on "fundamental factors rather than market capitalisation. In March we transferred funds from passive global equities to two new "low volatility" global equity mandates at Quoniam and Robeco. At the year-end we terminated our mandate with Aviva, and have appointed The Townsend Group to take over their assets as part of a broader real assets portfolio for 2013-14 onwards.

Manager benchmark

Each manager has been set a specific benchmark that reflects the asset class being managed. The benchmarks of the managers are:

Passive Management	Asset Class	Benchmark
Legal & General	UK equities	FTSE All Share
Legal & General	Global equities	FTSE Developed World Index*
Legal & General	Global equities	FTSE RAFI 3000 index
Legal & General	UK index-linked gilts	FTSE-A UK Index-Linked Gilts over 15 yrs**
Legal & General	Corporate bonds	iBoxx Sterling Non Gilts
Legal & General	£UK cash	7 Day Libid

* Allocation to global equities consists of regional funds managed to their specific benchmarks

** Changed from FTSE-Actuaries UK Index-Linked Gilts over 5 yrs on 30th September

Active Management	Asset Class	Benchmark
Royal London	Corporate bonds	iBoxx Sterling Non Gilts
PIMCO	Global bonds	1 month Sterling Libor
Standard Life	UK equities	Customised capped Index*
Sarasin	Global equities	MSCI All Country World
Impax	Global equities	MSCI All Country World
Generation	Global equities	MSCI All Country World
Robeco (Low Volaility)	Global equities	MSCI All Country World
Quoniam	Global equities	MSCI All Country World
Comgest	Emerging market	MSCI Emerging Markets
First State Stewart	Emerging market	MSCI Emerging Markets
Aviva	Property	IPD UK Monthly
Robeco (private equity)	Private equity	Higher of 10% IRR or MSCI World + 5%**

* Customised benchmark from January 2012, using similar constituents and methodology to the FTSE All Share but with individual constituents capped at 2%.
**Benchmark and target adjusted for performance monitoring purposes as measured differently to the other main asset classes and managers.

Performance target

Each segregated manager has been set a performance target over three-year rolling periods as follows:

Legal & General	to match their benchmarks
Quoniam	to beat their benchmark with lower volatility
Robeco (low volatility equities)	to beat their benchmark with lower volatility
Aviva	to beat their benchmark by 1% per annum
Royal London	to beat their benchmark by 1% per annum
Standard Life	to beat their benchmark by 2% per annum
Sarasin	to beat their benchmark by 2% per annum
Impax	to beat their benchmark by 3% per annum
Generation	to beat their benchmark by 3% per annum
Comgest	to beat their benchmark by 3% per annum
Robeco (private equity)	to beat their benchmark by 5% per annum

Pooled funds do not usually have outperformance target as such, however our internal expectation of PIMCO and First State is that they should outperform by 3% over the medium to long-term.

Financial performance

The total return of the Fund over the year and over three years to 31 March 2013 is as follows:

Financial performance	2013	2012
1 year		
Fund performance %	+14.2	+5.1
Benchmark performance %	+14.3	+5.3
Active Fund Relative performance %	-0.1	-0.2
Average LGPS Fund performance %	+13.8	+2.6
Relative performance %	+0.4	+2.5
3 year		
Fund performance %	+8.9	+16.1
Benchmark performance %	+9.3	+16.5
Active Fund Relative performance %	-0.4	-0.4
Average LGPS Fund performance %	+8.1	+14.5
Relative performance %	+0.8	+1.6

Details of financial performance by fund managers is available on page 23.

Funding level

The historical funding level and asset allocation for the last four triennial valuations and for comparison estimated 2012 and 2013 are shown in the tables below:

Valuation results	2001	2004	2007	2010	Estimated 2012	Estimated 2013
Value of assets £m	937	983	1,521	1,589	1,917	2,118
Value of liabilities £m	840	1,050	1,455	1,684	2,287	2,528
Funding level %	112	94	105	94	84	84
Asset allocation (%)	**2001**	**2004**	**2007**	**2010**	**2012**	**2013**
Equities	86	71	67	58	59	63
Bonds	8	15	9	12	14	20
Gilts	2	7	14	15	14	9
Property	0	0	5	3	3	3
Private equity	0	0	2	5	5	4
Cash	4	7	3	7	5	1
Total	**100**	**100**	**100**	**100**	**100**	**100**

The funding level of the Active Fund is estimated at 84% at 31 March 2013, the same level as last year. Although the value of assets increased significantly over the year, real yields on Index linked government bonds, which are used to value our liabilities, continued to fall. This fall has lead to a significant increase in the current value of our liabilities.

It is very important that it is recognised that the funding level will vary over different time periods, as value of the Fund's assets changes, and the value of the Fund's liabilities is sensitive to financial and other assumptions used, as well as the maturity of the Fund. The Active Fund Funding Strategy recognises that the funding objective is to achieve and maintain assets equal to 100% or more of the present value of projected accrued liabilities over the long-term. In the short-term, recent events demonstrate that the funding level can be very sensitive to changes in the real yield on index linked gilts as well as to the level of the equity markets.

The Active Fund also has positive cash flows, which should continue for around 12 years, as the employer and members' contributions should continue to exceed Fund outgoings, which gives the Fund time to build its Fund level. The future size of the Active Fund will also be affected by the long-term return of the fund's assets, which should be related to the amount of risk the Fund is prepared to take, as over the long-term investing in riskier assets should yield higher returns.

Awards

We continue to be at the forefront of the movement to embrace responsible investment, and are pleased that the work of the Pension Fund has been recognised again this year, and our investment strategy continues to demonstrate our commitment as a responsible investor.

July 2012 – Engaged Investor Trustee Awards 2012 - Best Scheme Governance (Public Sector – Winner)
The EAPF won this award which was open to all public sector funds. In the last six years we have been successful three times and been highly commended once. We are delighted to be recognised once again by this prestigious publication.

In addition to winning this award, we were shortlisted for the following;

- June 2012 – Financial Times/International Finance Sustainable Finance Awards 2012 – Sustainable Investor of the Year
- September 2012 – Professional Pensions – Pension Scheme of the Year 2012 – Pension Scheme of the Year (Over £1 billion to £2.5 billion)
- December 2012 – LGC Investment Awards

Following the implementation of our investment strategy, we have gone on to win further awards and achieved further recognition for our work in 2013, a full list of which can be found at www.eapf.org.uk.

The table below shows the performance of the total Fund and the individual managers

Manager	Date appointed / (closed)	Value at 31 Mar 2013	Fund	Asset class / Mandate	Benchmark	2012/13 Performance				2011/12 Performance		
						Target	Fund return	Benchmark return	Relative to benchmark	Fund return	Benchmark return	Relative to benchmark
		£m	%			%	%	%	%	%	%	%
Bonds												
Index Linked Gilts												
Legal & General	Nov-07	186.3	8.8	UK Index Linked Gilts (passive)	FTSE Index Linked Gilt > 15 Year	+0.0	+13.8	+13.9	-0.1	+21.4	+21.1	+0.3
Corporate Bonds												
Royal London	Jul-07	203.6	9.6	Corporate Bonds (active)	iBoxx £ Non Gilt all bonds	+1.0	+15.5	+12.0	+3.5	+9.5	+8.8	+0.7
PIMCO	Dec-12	127.9	6.0	Global Unconstrained Bonds, hedged to £	1 Month Sterling LIBOR	+3.0	n/a	n/a	n/a	n/a	n/a	n/a
Legal & General	Nov-09	88.7	4.2	UK Corporate Bonds (passive)	iBoxx £ Non Gilt all bonds	+0.0	+12.2	+12.2	+0.0	+8.8	+8.8	+0.0
Equities												
UK Equities												
Standard Life	Apr-05	162.6	7.7	UK Equity (active)	Customised FTSE All Share capped at 2%	+2.0	+21.5	+19.2	+2.3	+1.6	+3.4	-1.8
Legal & General	Nov-07	129.9	6.1	UK Equity (passive)	FTSE All Share	+0.0	+16.7	+16.8	-0.1	+1.5	+1.4	+0.1
Global Equities												
Quoniam	Mar-13	89.0	4.2	Global Equity (low volatility)	MSCI AC World GD (part hedged to £)	> 0	n/a	n/a	n/a	n/a	n/a	n/a
Robeco	Mar-13	88.3	4.2	Global Equity (low volatility)	MSCI AC World GD	> 0	n/a	n/a	n/a	n/a	n/a	n/a
Legal & General	Nov-07	259.4	12.2	Global Equity (passive)	FTSE All World	+0.0	+17.8	+16.9	+0.9	+0.1	-0.3	+0.4
Legal & General	Dec-12	103.3	4.9	Global Equity (passive)	FTSE RAFI 3000 All World	+0.0	n/a	n/a	n/a	n/a	n/a	n/a
Sarasin & Partners	Apr-05	153.8	7.2	Global Equity (active)	MSCI AC World	+2.0	+16.8	+16.3	+0.5	-1.0	-0.4	-0.6
Generation	Aug-08	164.3	7.7	Global Equity (active)	MSCI AC World	+3.0	+24.1	+16.3	+7.8	+0.0	+0.9	-0.9
Impax	Aug-08	60.7	2.9	Global Equity (active)	MSCI AC World	+3.0	+14.7	+16.3	-1.6	-10.5	-0.4	-10.1
Emerging Markets Equities												
Comgest	Nov-10	85.2	4.0	Emerging Markets Equity (active)	MSCI Emerging Market TR GD	+3.0	+9.8	+7.3	+2.5	-4.3	-8.2	+3.9
First State	Oct-12	63.5	3.0	Emerging Markets Equity (passive)	MSCI Emerging Market ND	+0.0	n/a	n/a	n/a	n/a	n/a	n/a
Alternatives												
Robeco	Aug-05	94.4	4.4	Private Equity (active)	MSCI World (Gross)	+5.0	n/a	n/a	n/a	n/a	n/a	n/a
Aviva	Jul-05	59.7	2.8	UK Property Funds (active)	IPD UK Monthly Property	+1.0	-0.2	+2.6	-2.8	+4.9	+6.6	-1.7
Cash & Other												
IPM	(Oct-12)	-		Active Currency	FTSE 100 (Total Return)	+6.0	n/a	n/a	n/a	-1.7	+1.2	-2.9
Legal & General	Nov-09	-		UK Cash Fund	7 day LIBID	+0.0	n/a	n/a	n/a	+0.7	+0.6	+0.1
AVC & other net assets		1.0	0.1									
Total Fund		**2,121.6**	**100.0**		**Strategic Benchmark**	**+0.9**	**+14.2**	**+14.3**	**-0.1**	**+5.1**	**+5.3**	**-0.2**

Notes:

These performance numbers are based on mid price valuations and the performance relative to benchmark is shown as Fund return less Benchmark return (arithmetic basis).

No performance figures are applicable for new mandates appointed during the year which includes PIMCO global unconstrained bonds, Quoniam and Robeco low volatility global equities and First State emerging markets equities.

Standard Life's benchmark is a customised index similar to the FTSE All Share Index but with constituent weights capped at 2%.

No performance figures are applicable for the L&G RAFI 3000 mandate as this was only funded from the L&G passive global equity funds on 12 December 2012.

Robeco's return is included in Total Fund performance but excluded from this table as it is measured differently to the main asset classes and managers above who manage over 95% of the Fund's assets.

The IPM Active Currency mandate was terminated on 1 October 2012 so there are no performance figures for the year to 31 March 2013.

With effect from 1 October 2012 the Strategic Benchmark of the Fund was revised to:

13.0% FTSE All Share GD, 43% FTSE All World GD, 6% FTSE Emerging Markets GD, 8.0% FTSE Actuaries ILGs > 15 Years, 20% iBoxx Sterling All Non-Gilts, 5% IPD UK Monthly Property and 5% MSCI World GD.

Portfolio analysis

Distribution of net assets by market value as at 31 March 2013

	Legal & General	Royal London	Generation	Standard Life	Sarasin & Partners	PIMCO	Robeco Private Equity	Quoniam	Robeco Low Volatility Equity	Comgest	First State	Impax	Aviva	Cash/Other	PASCO	Total	% of Fund
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Overseas equities (including pooled)	329.3		143.5		140.6			77.6	81.4	80.6	63.5	51.0				**967.5**	45.6
North America	*191.8*		*103.2*		*78.8*			*26.9*	*41.7*	*3.9*		*25.7*				***472.0***	*22.2*
Emerging Markets and other areas	*8.6*		*0.8*		*13.3*			*13.7*		*50.2*	*63.5*	*0.9*				***151.0***	*7.1*
Europe	*64.8*		*32.3*		*46.6*			*18.2*	*10.5*	*5.9*		*17.1*				***195.4***	*9.2*
Asia Pacific	*28.0*		*7.2*					*5.9*	*21.5*	*20.6*		*4.8*				***88.0***	*4.2*
Japan	*36.1*				*1.9*			*12.9*	*7.7*			*2.5*				***61.1***	*2.9*
UK equities	162.5		7.5	161.2	10.7			9.5	6.7	4.1		7.6				**369.8**	17.4
UK fixed interest	186.3	137.7														**324.0**	15.3
Pooled fixed interest	88.7	7.6				127.9										**224.2**	10.6
Private equity							94.1									**94.1**	4.4
Pooled property													57.5			**57.5**	2.7
Overseas fixed interest		53.7														**53.7**	2.5
Cash	0.8	0.2	12.9	(0.1)	2.0		0.3	0.9		0.6		2.7	2.1	6.6		**29.0**	1.4
Other net investments	0.9	4.4	0.4	1.5	0.5			0.2	0.2			(0.6)	0.1	0.2		**7.8**	0.4
AVC investments														7.4		**7.4**	0.3
Derivatives								0.8							(14.2)	**(13.4)**	(0.6)
Total	**768.5**	**203.6**	**164.3**	**162.6**	**153.8**	**127.9**	**94.4**	**89.0**	**88.3**	**85.3**	**63.5**	**60.7**	**59.7**	**14.2**	**(14.2)**	**2,121.6**	**100.0**

Top 20 holdings of the Fund

Holding	Asset class	2013 £m	% of Fund
L&G Developed World North America Equity Index	Pooled equities - Global	146.2	6.9
PIMCO Global Investors Unconstrained Bond Fund	Pooled fixed interest - UK corporate bonds	127.9	6.0
L&G FTSE RAFI All World 3000 Equity Index	Pooled equities - Global	103.3	4.9
L&G Investment Grade Corporate Bond All Stocks Index	Pooled fixed interest - UK corporate bonds	88.7	4.2
First State Global Emerging Markets SU-B	Pooled emerging markets equity	63.5	3.0
L&G World (ex UK) Equity Index	Pooled equities - Global	43.9	2.1
L&G Developed World Japan Equity Index	Pooled equities - Global	24.5	1.2
L&G UK Equity Index	Pooled equities - Global	23.2	1.1
L&G Developed World Japan Equity Index	Pooled equities - Global	21.6	1.0
UK Government 1.25% index-linked 22/11/55	Fixed interest - UK index linked gilts	17.6	0.8
UK Government 1.125% index-linked 22/11/37	Fixed interest - UK index linked gilts	17.0	0.8
UK Government 2.00% index-linked 26/01/35	Fixed interest - UK index linked gilts	16.5	0.8
UK Government 1.25% index-linked 22/11/32	Fixed interest - UK index linked gilts	16.5	0.8
UK Government 0.75% index-linked 22/11/47	Fixed interest - UK index linked gilts	14.0	0.7
UK Government 4.125% index-linked 22/07/30	Fixed interest - UK index linked gilts	13.8	0.7
Union Investment Lux SA Quoniam Select Em Markets Min Risk	Equities - Emerging Markets	13.7	0.6
UK Government 0.5% index-linked 22/03/50	Fixed interest - UK index linked gilts	13.6	0.6
UK Government 0.625% index-linked 22/03/40	Fixed interest - UK index linked gilts	13.5	0.6
UK Government 0.625% index-linked 22/11/42	Fixed interest - UK index linked gilts	13.4	0.6
UK Government 0.375% index-linked 22/03/62	Fixed interest - UK index linked gilts	13.3	0.6
Total		**805.7**	**38.0**

Geographical distribution of quoted and pooled equity investments

	2013 £m	% of total equity	2012 £m	% of total equity
North America	472.0	35.3	377.1	34.8
United Kingdom	369.8	27.6	313.4	29.0
Europe (excluding UK)	195.4	14.6	195.8	18.1
Emerging Markets & other areas	151.0	11.3	75.3	7.0
Asia Pacific (excluding Japan)	88.0	6.6	77.0	7.1
Japan	61.1	4.6	43.3	4.0
Total	**1,337.3**	**100.0**	1,081.9	100.0

Top 10 Global equities by sector

Sectors	2013 £m	% of Fund	Sectors	2012 £m	% of Fund
Industrial Goods & Services	130.5	6.2	Industrial Goods & Services	120.5	6.5
Healthcare	105.7	5.0	Oil & Gas	66.1	3.6
Technology	74.8	3.5	Healthcare	56.9	3.1
Food & Beverages	60.6	2.9	Technology	48.6	2.6
Oil & Gas	54.2	2.6	Banks	45.1	2.4
Banks	51.3	2.4	Food & Beverages	39.9	2.1
Insurance	49.4	2.3	Basic Resources	39.6	2.1
Retail	47.7	2.2	Personal & Household Goods	36.7	2.0
Personal & Household Goods	47.1	2.2	Retail	36.3	2.0
Telecommunications	41.2	1.9	Insurance	30.4	1.6
Total	**662.5**	**31.2**	Total	520.1	28.0

Note: The relative movements in this table are largely due to market movements from global economic conditions rather than any shift in strategic investment.

Top 10 UK equity holdings

Company	2013 £m	% of UK equity	Company	2012 £m	% of UK equity
Standard Chartered	12.9	3.5	HSBC Holdings	14.1	4.5
HSBC Holdings	12.7	3.4	Standard Chartered	13.0	4.2
BP	8.9	2.4	BP	11.0	3.5
Vodafone	8.8	2.4	BG Group	10.6	3.4
BG Group	8.0	2.2	Vodafone	9.9	3.2
GlaxoSmithKline	7.6	2.1	GlaxoSmithKline	9.2	2.9
Rio Tinto	7.6	2.0	Rio Tinto	8.2	2.6
Barclays	7.3	2.0	British American Tobacco	7.6	2.4
Diageo	7.2	1.9	Royal Dutch Shell (‘B’ Ordinary)	7.4	2.3
Prudential	6.7	1.8	Royal Dutch Shell (‘A’ Ordinary)	6.9	2.2
Total	**87.7**	**23.7**	Total	97.9	31.2

Top 10 global equity holdings

		2013				2012	
Company	**Country**	**£m**	**% of global equity**	**Company**	**Country**	**£m**	**% of global equity**
Unilever NV	Netherlands	10.3	1.1	Henry Schein Inc	United States	7.7	1.0
Qualcomm Inc	United States	9.8	1.0	Danaher Corp	United States	7.0	0.9
Henry Schein Inc	United States	8.7	0.9	Unilever NV	Netherlands	6.9	0.9
Becton Dickinson & Co	United States	8.5	0.9	Becton Dickinson & Co	United States	5.9	0.8
Danaher Corp	United States	8.3	0.8	eBay Inc	United States	5.8	0.7
Waters Corp	United States	7.2	0.7	Legrand SA	France	5.3	0.7
Legrand SA	France	7.0	0.7	International Business Machines Corp	United States	5.2	0.7
Novo-Nordisk	Denmark	6.8	0.7	Novo-Nordisk	Denmark	4.8	0.6
MISCI Inc	United States	6.7	0.7	Pentair Inc	United States	4.7	0.6
Svenska Cellulosa	Sweden	6.3	0.6	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	4.5	0.6
Total		**79.6**	**8.1**	Total		57.8	7.5

Responsible investment

The Environment Agency Pension Fund seeks to manage its investments in a financially robust and environmentally responsible way.

The Committee's Responsible Investment Policy and Environmental Overlay Strategy apply across all of the Fund's mandates and we monitor and report on the progress of its implementation every quarter.

United Nations Principles of Responsible Investment

We continue to be an active member of the United Nations Principles for Responsible Investment (UNPRI), which is an investor initiative in partnership with United Nations Environment Programme (UNEP) Finance Initiative and the UN Global Compact. The principles reflect the view that environmental, social and corporate governance (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.

We have supported the UNPRI in the review of the reporting framework and participated in the pilot project in 2012. We utilised the new UNPRI reporting framework in the publication of the Responsible Investment Review, published September 2012. We were delighted that the review won the inaugural *Responsible Investor Reporting Awards,* which recognise excellence in responsible investment reporting. We will submit our progress report in implementing the principles later in 2013-14 and will be available at www.eapf.org.uk.

UK Stewardship Code

We updated our Statement of Compliance with the UK Stewardship Code in December 2012 to reflect the updated guidance published by the FRC. As assessment of our co*mpliance with the supporting statements has been undertaken by the Environment Agency's Internal Audit* team. We continue to promote the effective implementation of the UK Stewardship Code in the fund management industry and for more asset owners to draft their own statement. A copy of our statement is in Annex 4 and is available at www.eapf.org.uk.

Climate change

In 2010, we partnered with other asset owners globally, as part of the Mercer-led research considering the implications of climate change scenarios on strategic asset allocation. We integrated the findings into our own review of our strategic asset allocation to inform the development of a robust portfolio, where the investment strategy is positioned to reduce risk and maximise investment opportunities presented by climate change. The allocation to sustainable real assets was a key development in this area.

We continue to support the Institutional Investor Group on Climate Change (IIGCC), particularly in public policy engagement and implementation of investment principles in support of the 2011 Global Investor Statement on Climate Change, which stressed the urgent need for policy action to stimulate private sector investment in climate change solutions, create jobs, and is essential for ensuring the long-term sustainability and stability of the world economic system.

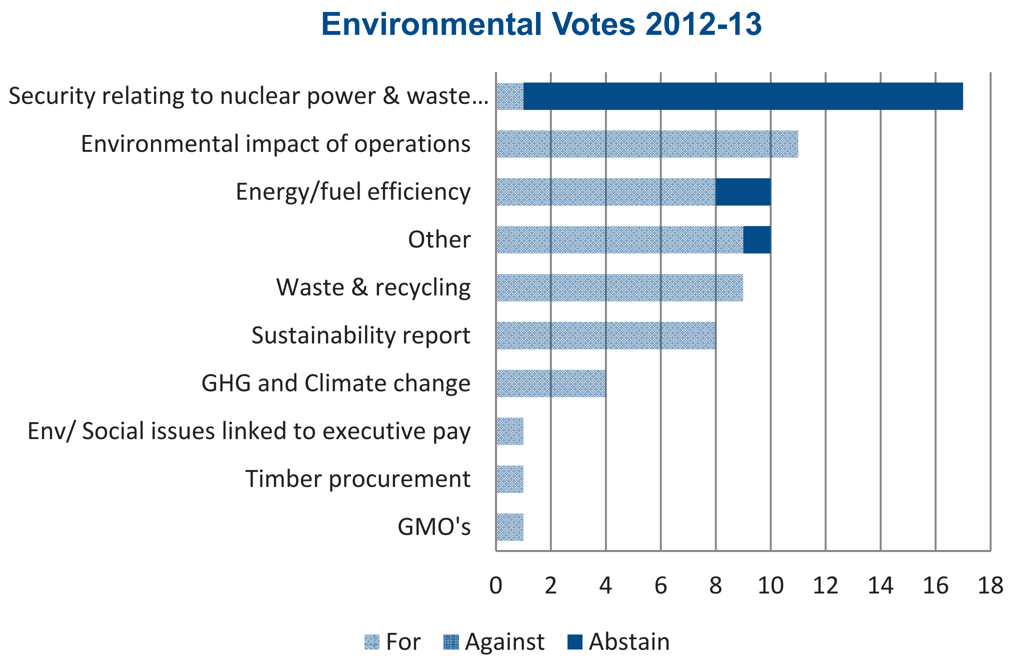
Class actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. We have retained Northern Trust to monitor these class actions and to recover for the Fund any monies due, although the total involved is currently not significant. The total amount received for the year 2012-13 was £17k. We also received a cheque for $800 from F&C in respect of a claim against Royal Dutch Shell.

Voting on environmental resolutions

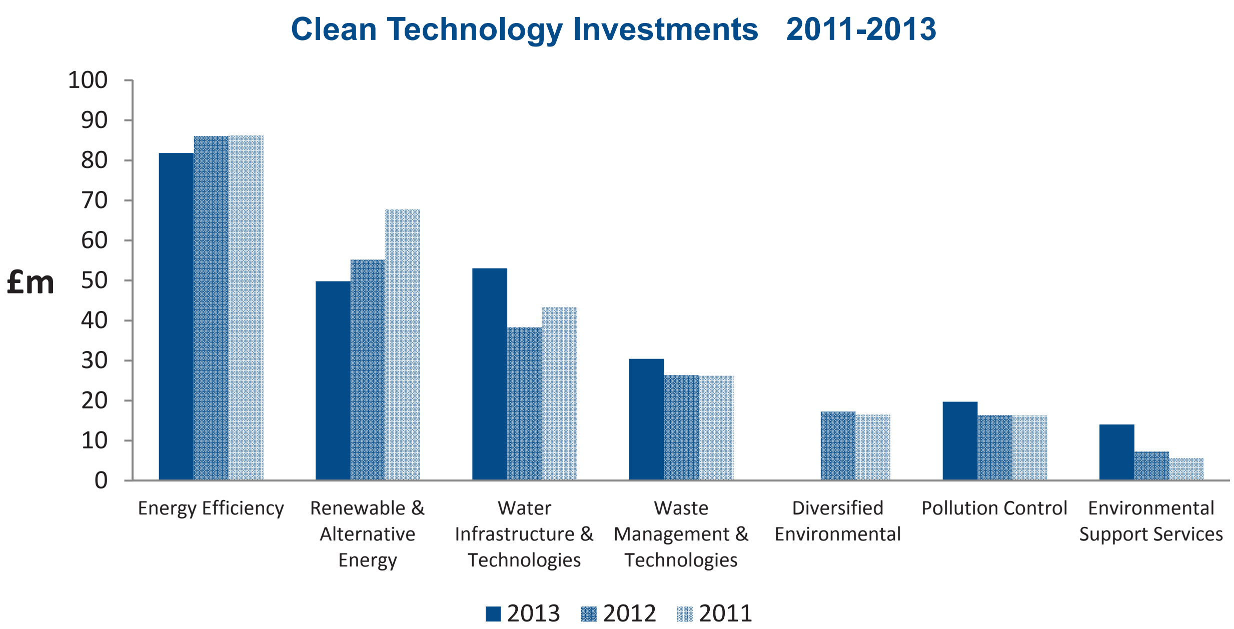
We aim to vote the Fund's shares in all markets and estimate this to be in excess of 40,000 votes per annum. To come to a view on each one requires very detailed knowledge of the company's management, its sector and the regulatory environment in the country it which it operates. Due to the complexity and volume of work, the Committee delegates all voting to our external fund managers (or specialist provider for our passive investments). Our fund managers vote at their discretion and must confirm that they subscribe to the principles of good corporate governance and, when exercising their vote, take this into account.

For all environmental resolutions in the UK, Europe and North America and, where practical, world-wide, we have voted on 72 environmental shareholder resolutions. This is a slight decrease (8%) on the same period last year. As these are shareholder resolutions, a vote for the resolution or to abstain is against the management recommendation. In total, 100% of our votes were against management, comprising 74% of votes for the resolution and we abstained for the remaining 26%. A breakdown is presented below and our voting record on environmental resolutions is available at www.eapf.org.uk.



Maximising investment returns by investment in clean technologies

Our investment in green and clean technology* has remained stable at circa £250m, representing a small decrease in the proportion of the Fund at 12%. We anticipate that the allocation to sustainable real assets will increase this proportion as it is drawn down and invested. Our target for 2015 is to be able to demonstrate that 25% of the Fund is invested in clean and green technology investments. A breakdown of the current investment against previous years is illustrated below.



*We use the FTSE Environmental Markets classification and with the help of Impax Asset Management (our global equity manager who focuses on environment technologies) to analyse our public and private equity holdings including the pooled funds.

Minimising financial risks from environmental issues

We believe that well governed companies reduce the risk to shareholder value and will, over time, produce more sustainable returns compared to poorly governed companies. All our equity fund managers regularly engage with companies either directly or through a specialist provider, to assess policies, processes and practices. Our fund managers undertook 219 ESG corporate engagements and there were an additional 760 via our specialist provider, Hermes Equity Ownership Services. It is important to recognise that although our Fund value is £2.1bn; our largest equity shareholding represents only 0.01% of the total shares issued for that company so working in collaboration with other investors is the most effective means of influencing company behaviour and protecting shareholder interests. In 2012-13 we supported a number of collaborative engagements; the main areas are detailed below;

- ***Carbon Disclosure Project*** aims to improve corporate disclosure on material carbon and engaged with a total of 6000 companies on levels of carbon disclosure. We focused on 13 companies that are held in our portfolio and are part of our ongoing engagement programme via our managers.
- ***Water Disclosure Project*** aims to improve corporate disclosure on material water use, disposal and risks. It engaged with a total of 425 companies on levels of water disclosure. We focused on 6 companies that are held in our portfolio and are part of our ongoing engagement programme via our managers.
- ***Forestry Footprint Disclosure* Project** aims to **i**mprove corporate disclosure on material impacts on forestry including use of raw materials and clearance for agriculture. It engaged with 450 companies on levels of forestry disclosure. We focused on 17 companies that are held in our portfolio and are part of our ongoing engagement programme via our managers.
- We also continued our support for improved disclosure through the ***Sustainable Stock Exchanges initiative*** and non-reporting signatories to the ***Global Compact.***

Private equity

Robeco, our private equity manager, undertakes an annual survey of the underlying funds in which we invest against a wide range of governance, social and environmental criteria. It is a pre-requisite of investment that the funds sign up to the Robeco Sustainable Private Equity (RSPE) programme developed by Robeco with its investment partner, the Dutch bank Rabobank. The average ESG score for 2012 is 72.7% up from 63.9% in 2007, despite increasing the thresholds for each criteria making it harder to score well and allowing better differentiation in performance.

Real assets

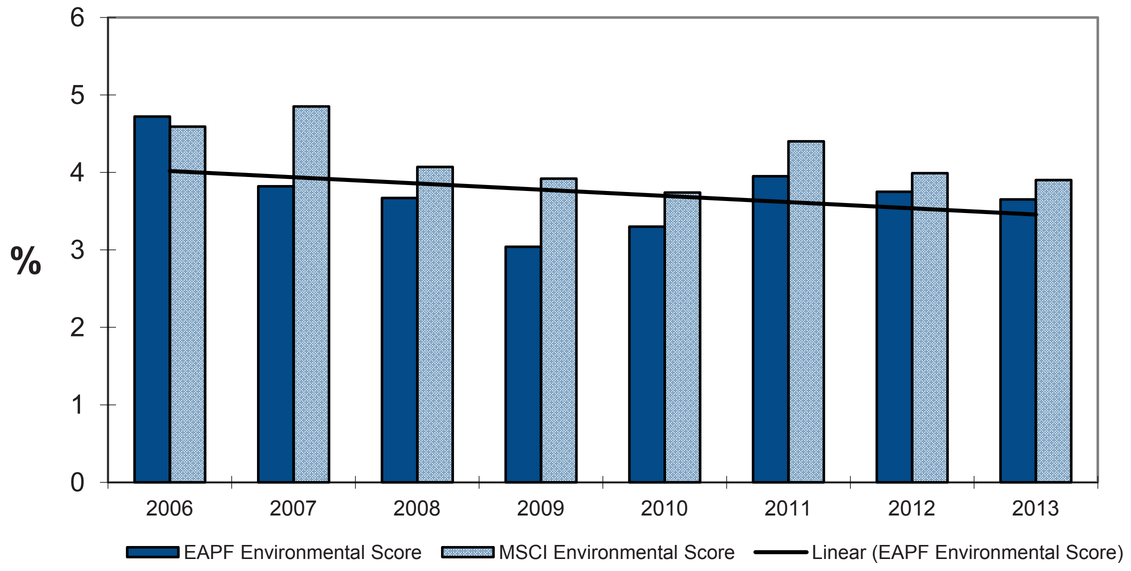
Climate change is likely to create a more uncertain investment environment in the next 20-30 years. The Fund has undertaken a climate change scenario analysis of the new investment strategy based on our current and potential future asset allocation. The reduction of equity risk, a continued focus on ESG analysis and sustainably themed equities, and diversification of the Fund's investments into new asset classes (infrastructure, timberland and farmland) are viewed positively in respect of reducing climate change risks to the Active Fund.

Monitoring the environmental footprint of our investments

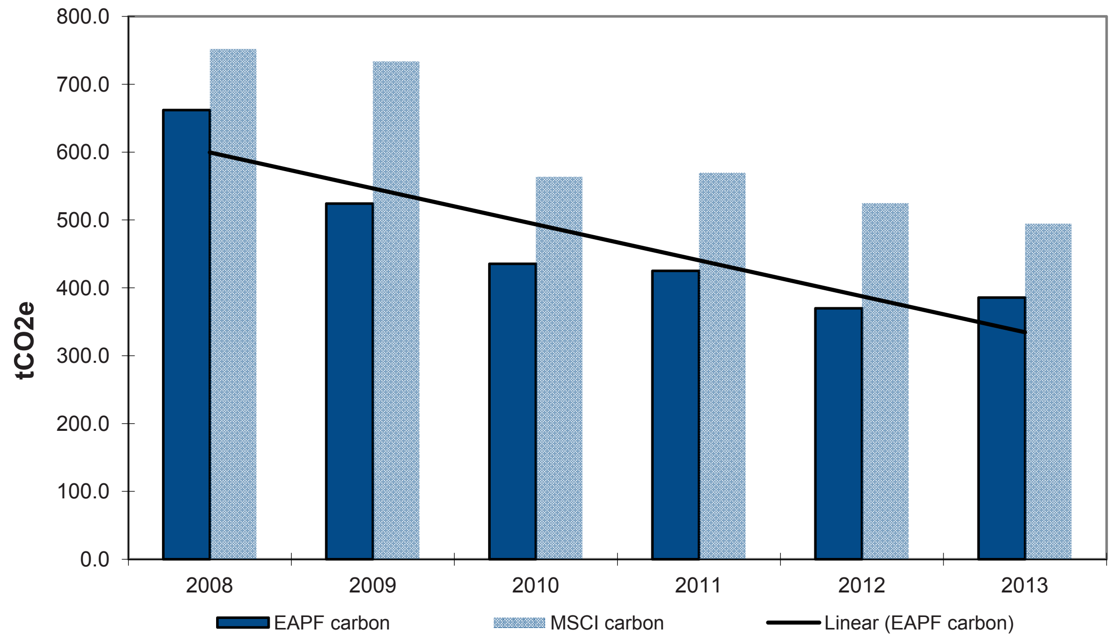
Environmental and Carbon foot printing for the active equities and bonds looks at companies' environmental impacts, for example, the amount of raw materials, water and energy used and the waste and carbon emitted. The footprint for each equity manager, in relation to the EAPF, is compiled by allocating a proportion of the environmental impact of each company, relative to the amount of stock that is held. Similarly, we have evaluated the environmental impact of our combined active equity holdings compared to the benchmark. A result of the changes to the investment strategy, most notably a significant increase in our exposure to emerging markets; we have changed the benchmark for 2013 to the MSCI All Country World. The historic data has not been rebased as the MSCI World Developed Countries Index was an appropriate benchmark for previous years.

The Fund's environmental footprint for combined active equities was 4.7% more efficient than of the benchmark and the Fund's carbon foot print was 26.1% more efficient than the benchmark on 31 March 2013. For active UK active bonds the portfolio was 42.0% (Environment) and 51.0% (Carbon) more efficient than the IBOXX benchmark. We have also undertaken preliminary foot printing with our new global credit manager and are working with them on developing an appropriate methodology to measure performance.

Environmental Footprint 2006 - 2013



Carbon Footprint 2006 - 2013



The financial statements

Foreword to the financial statements

The Environment Agency Active Pension Fund ("the Fund") is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the LGPS (Benefits, Membership and Contributions) Regulations 2007(as amended), the LGPS (Transitional Provisions) Regulations 2008 (as amended), the LGPS (Administration) Regulations 2008 (as amended) ("the 2007 regulations") and the LGPS Regulations 1997 and earlier regulations (saved provisions).

Being part of the LGPS the members of the Fund are contracted out of the State Second Pension Scheme ("S2P") and the Fund is a Registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004. Full tax relief is granted on members' and the Environment Agency's contributions paid to the Fund and on all United Kingdom investment income other than dividends arising from UK equities.

Roles and responsibilities of the Pensions Committee

With a membership of nominated Environment Agency Board members, senior officers, member nominees, a pensioner member nominee and a deferred member nominee, 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 has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- followed applicable accounting standards, in particular the in particular the new CIPFA guidance on narrative reporting and accounting disclosures for LGPS Funds.

The Committee and Accounting Officer are responsible for keeping proper accounting records which disclose, with reasonable accuracy, at any time, the financial position of the Fund and to enable it to ensure that the financial statements comply with Schedule 7 to the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Local Government Pensions Unit at DCLG.

The Committee and Accounting Officer are responsible for keeping records of contributions received in respect of active members of the Fund and for ensuring that contributions are made to the Fund in accordance with the Pensions Act 1995, the 2008 regulations and with the recommendations of the Consulting Actuary.

The Committee and Accounting Officer are 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 is available on the Pension Fund's website and the Environment Agency's website. The maintenance and integrity of the website 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.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Summary of the financial statements

The financial statements have been prepared on a market value basis.

Contribution income has fallen by £16.8m to £68.3m (2012: fallen by £19.5m to £85.1m). The decrease for the year ended 31 March 2013 was due to no advance contributions being paid in the year in contrast with the prior year when £20.9m was paid. The 12 months ended 31 March 2013 have seen a 7.1% increase in the Fund's active membership (2012: decrease of 3.0%), which has occurred mainly due to higher recruitment levels.

Net income from all transfer values received in the year has increased by £4.4m to £5.8m (2012: decreased by £2.6m to £1.4m), due to higher recruitment levels meaning more new joiners have transferred in benefits during the year.

Retirement benefits and other payments made to or in respect of members during the year have decreased by £5.9m to £61.2m (2012: increased by £10.4m to £67.1m).

In overall terms the net additions from dealings with members during the year have decreased by £5.7m to £9.7m (2012: decreased by £29.5m to £15.4m).

The value of the net assets of the Fund at 31 March 2013 has increased by £265.0m to £2,125.7m (2012: increased by £95.8m to £1,860.7m). This is primarily due to an increase in the market value of its investments.

Governance Compliance Statement

Introduction

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (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:

1. whether the administering authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;
2. if it does—
    a. the terms of reference, structure and operational procedures of the delegation; /
    b. the frequency of any committee or sub-committee meetings; and
    c. whether the committee or sub-committee includes representatives of employing authorities (including non-Scheme employers) or members, and if so, whether those representatives have voting rights;
3. the extent to which a delegation, or absence of delegation, complies with guidance given by the Secretary of State and, if it does not comply, the reason for not complying.

The first such statement was required to be published on or before 1 April 2006.

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 13 March 2012 and will be reviewed again in 2013.

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) and its Sub-Groups are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC has 15 members, appointed by the EA Board and includes: 4 Non-Executive EA Board members 4 Executive members 5 EA Employees (Trades Union nominees) 1 Pensioner nominee 1 Deferred member nominee. 2 Employee nominees are also members of the Investment Sub-Group (ISG) 1 Employee nominee and the deferred and pensioner nominees are members of the Benefits Sub-Group (BSG).
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chairman of the Pensions Committee reports to each EA Board meeting. Reports of the ISG and BSG meetings are circulated to all PC members. Recommendations from the ISG and BSG are presented to the main Committee.
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 ISG and BSG comprises members of the main PC.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
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 is currently a single employer fund and the EA is represented on the main PC, the ISG and BSG. It is likely we will become a multi-employer fund in 2013 arising from the splitting off of the EA Wales into the Natural Resource Body for Wales. The current representation of EA Wales on the PC will be reviewed in order to accommodate this change.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	The main PC has 11 scheme members on it, including 5 EA Employees (Trades Union nominees), 1 pensioner nominee and 1 deferred member nominee. Our ISG includes 2 EA Employees (Trades Union nominees) and our BSG includes 1 EA Employee (Trades Union nominees) and 1 deferred member and 1 pensioner nominee. Our deferred member and pensioner nominees are members of our decision-making main PC.
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISG and all relevant main PC meetings. Our other professional advisers also regularly attend our PC, ISG and BSG meetings.
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC, ISG and BSG meetings as needed. This includes our actuary, legal adviser, investment consultants, pension fund administration consultants, and external auditors.
b) 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, ISG and BSG 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 induction training and a handbook that describes the role of the PC, ISG and BSG. Our PC members understand that their primary fiduciary duty of care is our Funds' beneficiaries, 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

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
		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.
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, ISG & BSG meetings. A register of interests is also maintained and audited annually.
D – Voting		
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main Committee and BSG and ISG.
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 strategy which is reviewed regularly. We provide induction training and a member's handbook. 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. Members of the main PC, the ISG and BSG are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC, ISG and BSG training is met from the pension funds 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	All PC, ISG & BSG members have equal access and rights.
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. 7 of the 15 PC members (including at least 1 Board member and 1 employee nominee) 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 ISG and BSG meetings are synchronised to meet 4 times a year before the PC so they can report to and make recommendations to the full PC.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have 7 "lay" members on our main PC, comprising 5 employee nominees, 1 pensioner nominee and 1 deferred member nominee. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM. We do not feel this is necessary as we hold annual briefings which provide a forum for Fund members and stakeholders to be informed about changes to the LGPS and to allow them to ask questions. All active Fund members are invited to attend regional pension briefings each year at different locations around England and Wales. We also organise

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
		an annual briefing for deferred and pensioner members. The briefings are presented by Capita (Pension Fund Administrator), with either administering authority or HR staff also in attendance. 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, ISG and BSG receive the same agenda and papers containing information and advice for each meeting. Members of the PC who are not members of the ISG or BSG can request full ISG or BSG papers and they also receive summary reports of all meetings. All our PC, ISG and BSG members can ask questions of our professional advisers who attend the PC, ISG or BSG 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, ISG and BSG 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. Our BSG & ISG review their risk register at all meetings. The PC carries out annual reviews of Fund performance, key strategic risks, and our statutory governance 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 on our website, and it is available in hard copy from our Pension Fund Management Team. It is also published in our Annual Report & Accounts. We have an agreed procedure for our recognised Trades Unions to nominate new employee nominees to our PC when vacancies arise. We have also advertised in pensioners' and deferred members' newsletters for nominees when vacancies arose.

Signed on behalf of the Environment Agency

John Varley
Chairman
Environment Agency Pensions Committee
24 June 2013

Paul Leinster
Accounting Officer
Environment Agency
24 June 2013

Statement by the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012-13.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated 17 March 2011. In summary, the key funding principles are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable the Environment Agency's employer contributions to be kept as stable as possible and at reasonable cost to the Environment Agency;
- manage the Environment Agency's, as the employer, liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The FSS sets out how the administering authority seeks to balance the aims of securing the solvency of the Fund and keeping employer contributions stable. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is a better than 67% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,589 million, were sufficient to meet 94% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £95 million.

The Environment Agency's contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

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 2010 valuation were as follows:

Financial Assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.1%	3.1%
Pay Increases*	4.8%	1.8%
Price Inflation / Pension Increases	3.0%	-

* plus an allowance for promotional pay increases. Short-term pay growth was assumed to be 1% p.a. for 2010/11 and 2011-12, reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current Pensioners	21.3 years	23.3 years
Future Pensioners	23.3 years	25.2 years

A copy of the Funding Strategy Statement is included within the Fund's Annual Report.

Experience over the year since April 2012

The Pensions Committee monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. Investment returns for the year to 31 March 2013 were +14.2% and assets had a market value of £2,122m as at 31 March 2013. Liabilities were estimated to be £2,528m on an ongoing funding basis as at 31 March 2013, implying that the Fund's funding level (excluding the effect of any membership movements) has remained at 84% over the year.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Steven Scott
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
29 May 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

The Comptroller and Auditor General's statement about contributions to the Houses of Parliament, the Board of the Environment Agency and the Secretary of State for Environment, Food and Rural Affairs.

I have examined the summary of contributions to the Environment Agency Active Pension Fund for the year ended 31 March 2013 which is set out on page 41.

Respective responsibilities of the Environment Agency, its Pensions Committee and the auditor

The Pensions Committee and Accounting Officer are responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the Environment Agency in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and the recommendations of the Consulting Actuary.

It is my responsibility to provide a Statement about contributions as reported in the attached summary of contributions payable for the Fund year ended 31 March 2013 and to report my opinion to you.

Scope of work on Statement about contributions

My examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and the recommendations of the Consulting Actuary.

Statement about contributions

In my opinion, contributions for the Fund year ended 31 March 2013 as reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and with the recommendations of the Consulting Actuary.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SWIW 9SP

27 June 2013

Summary of contributions payable in the year

During the year, the contributions payable to the Scheme in accordance with the Local Government Pension Scheme Regulations 1997 (as amended) by the Employee and Employer for the year ended 31 March 2013 were as follows:

	Notes	Employee £'000	Employer £'000
Required by the LGPS regulations			
Normal contributions		22,140	43,806
Contribution to fully fund bulk transfer		-	21
Special contributions to fund early retirements		-	714
		22,140	**44,541**
Other contributions payable			
Purchase of added years		606	-
Additional voluntary contributions (AVCs)		1,021	-
		1,627	-
Sub-totals		**23,767**	**44,541**
Total employee and employer contributions (as per Fund account)	7		68,308

Signed on behalf of the Environment Agency

John Varley
Chairman
Environment Agency Pensions Committee
24 June 2013

Paul Leinster
Accounting Officer
Environment Agency
24 June 2013

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.

I certify that I have audited the financial statements of the Environment Agency Active Pension Fund for the year ended 31 March 2013 under the Environment Act 1995. These comprise the Fund Account, the Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer of the Environment Agency, the Pensions Committee and the auditor

As explained more fully in the section entitled roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pension committee are responsible for preparing the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

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 conform to the authorities which govern them.

Opinions on the financial statements

In my opinion:

- the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities; and

- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related LGPS regulations and guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SWIW 9SP
27 June 2013

Financial statements for the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Fund account			
Contributions and transfers			
Contributions	7	68,308	85,145
Transfer values received	8	5,797	1,354
Other income	9	-	1
		74,105	86,500
Benefits and other payments			
Benefits payable	10	(61,193)	(67,082)
Payments to and on account of leavers	11	(1,933)	(2,613)
Administration expenses	12	(1,304)	(1,427)
		(64,430)	(71,122)
Net additions from dealings with members		**9,675**	15,378
Return on investments			
Investment income	13	32,489	33,077
Taxes on income	14	(799)	(999)
Change in market value of investments	16 (a)	231,902	55,528
Investment expenses	15	(8,328)	(7,247)
Net returns on investments		**255,264**	80,359
Net increase in the Fund during the year		**264,939**	95,737
Opening net assets of the Fund at 1 April		1,860,722	1,764,985
Net assets of the Fund at 31 March		**2,125,661**	1,860,722
Net assets statement			
Investment assets	16 (c)	2,142,540	1,865,701
Investment liabilities	16 (c)	(20,941)	(10,258)
Current assets	21	8,561	7,854
Current liabilities	22	(4,499)	(2,575)
Net assets of the Fund at 31 March		**2,125,661**	1,860,722

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 Scheme year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on page 38 and these financial statements should be read in conjunction with it. The Actuary's statement dated 29 May 2013 is based on a valuation as at 31 March 2010. The notes on pages 44 to 66 form part of these financial statements.

John Varley
Chairman
Environment Agency Pensions Committee
24 June 2013

Paul Leinster
Accounting Officer
Environment Agency
24 June 2013

Notes to the financial statements

1. Description of the Fund

The Environment Agency Active 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 Funding Strategy Statement (Annex 2).

General

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

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended); and
- the LGPS (Management and Investment of Funds) Regulations 2009.

The Active Fund was established as the National Rivers Authority Pension Fund in 1989 at the time of the privatisation of the water industry in England and Wales. The Fund inherited active members' accrued liabilities from the predecessor pension arrangements, but no pensioners or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund. Since then, the Fund has been gradually maturing.

Membership

Unless they have elected in writing not to be members, all full and part-time employees of the Environment Agency, whether permanent or temporary (over three months), become active members of the Fund.

As at 31 March 2013, total membership of the Fund is 23,114, which represents 11,379 Active members, 6,624 deferred members and 5,111 current pensioners.

Funding

The Environment Agency, as the employer, pays the balance of the cost of delivering the benefits to members. Contributions payable by the Environment Agency as the Employer are determined in accordance with the Regulations (principally Regulation 36 of the Administration Regulations) which require that the actuary completes an actuarial valuation, including a rates and adjustments certificate, every three years. Contributions to the Active Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible.

Benefits

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. 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.

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 2012-13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. They are prepared with a strong covenant from Defra and the Welsh Government who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the DCLG as the statutory guarantors of the LGPS. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and as disclosed below.

3. Summary of significant accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements.

Investments

Investments are included at their market values, provided by the Fund's global custodian, which are determined as follows:

(i) Quoted securities listed on recognised stock exchanges are valued at bid prices at the year end. UK Government securities are valued at Gilt-edged Market Makers Association (GEMMA) closing prices.

(ii) Pooled investment vehicles are stated at the bid price as quoted by the relevant fund managers, which reflect the underlying investments. In the case of single priced pooled investment vehicles, the closing single price is used as the best estimate of fair value.

(iii) Unquoted securities are valued by fund managers on the basis of latest dealings, professional valuations and financial information at the year end. In the case of private equity limited company funds, the investments are valued at latest values which are previous quarter (generally end of December) values, updated for new investment and distributions. For private equity direct investments the price taken is that as provided by the Fund Manager, which reflect the prices at the latest round of financing if available, or book cost, unless impaired when this value is reduced.

(iv) Acquisition costs are included in the purchase cost of investments.

(v) Investment management fees are accounted for on an accruals basis.

(vi) The Fund's global custodian is not authorised to enter into stock lending arrangements.

Derivatives

(i) Futures contracts' fair value is determined using exchange prices at the year end date. The fair value is the unrealised profit or loss at the closing price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

(ii) The fair value of the forward currency contracts is based on market forward exchange rates at the year end date.

Investment income

(i) Income from fixed interest and index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on an accruals basis on the date when stocks are quoted ex-dividend.

(ii) Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

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

(iv) Income on investments in pooled investment vehicles with accumulation units is reflected in the unit price. Income on investments in property pooled investment vehicles is distributed and recognised on an accruals basis.

(v) Income from cash and short-term deposits is accounted for on an accruals basis.

Exchange rates

(i) Where forward contracts are in place for assets and liabilities in foreign contracts, the contract rate is used.

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

(iii) Overseas dividends are valued at rates of exchange on the date when stocks are quoted ex-dividend. Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Note 3 cont.

Contributions

Standard contributions, both from the members and from the employer, are accounted for on an accruals basis, under the Schedule of Contributions received each month by the Pension Fund and are in compliance with the following:

(i) Regulation 39 of the Local Government Pension Scheme (Administration) 2008 (as amended), stipulates that the employer's standard contributions must be made at a rate as noted in the rates and adjustments certificate as determined by the Pension Fund Actuary under regulations 36 or 38 of those same regulations. The employer's standard contributions are necessary to ensure that the Fund is able to meet its existing and prospective liabilities including indexation.

(ii) The employee's standard contributions are determined with reference to the table shown in regulation 3 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended).

Employer's further contributions, accounted for on an accruals basis, may be made to cover the costs of:

(i) Awarding additional years and days to an active member or making such an award within six months of leaving to a member who has left his employment on the grounds of Redundancy or in the interests of efficiency under Regulation 12 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with Regulations 38 and 40 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(ii) Awarding additional pension to an active member under Regulation 13 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with Regulations 40 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(iii) Any extra charge to the Pension Fund as a result of a member retiring on the grounds of ill-health (Regulation 20), early retirement with employer consent (Regulation 31) or flexible retirement (Regulation 18) of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with regulation 41 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

(iv) Any extra charge to the Pension Fund as a result of benefits immediately becoming payable as a result of a member been dismissed on the grounds of redundancy or in the interests of efficiency under regulation 19 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). The costs for such an award are calculated and paid in accordance with regulation 41 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Additional contributions from members are accounted for in the month deducted from the payroll and may relate to the:

(i) Purchase of additional years payable under regulation 55 of the Local Government Pension Scheme 1997 Regulations (as amended), and/or

(ii) Purchase of additional pension payable under regulation 14 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), and/or

(iii) Payment of additional voluntary contributions (AVCs) payable under regulation 15 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended).

Benefits

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 and from other schemes are those amounts paid to, or received from, other pension schemes relating to previous periods of pensionable employment. Individual transfers are included in the financial statements when paid or received, but bulk transfers are accounted for on an accruals basis when the amounts have been agreed.

Note 3 cont.

Other expenses

Investment management and administration expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. The fees of the Fund's external investment managers reflect their differing mandates. Fees are generally linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Fees are also payable to the Fund's global custodian.

In cases where expenditure relates to both the Active Fund and the Environment Agency Closed Pension Fund, this has been respectively apportioned during the year as follows:

Apportionment of common expenditure	2013 %	2012 %
Custodial arrangements	80/20	80/20
Other (e.g. Environment Agency administration costs)	60/40	60/40

Taxation

UK income tax and capital gains tax

The Fund was exempt approved under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and became a registered pension scheme under Chapter 2 Part 4 of the Finance Act 2004 with effect from 6 April 2006. It is therefore not liable to UK income tax on interest and dividend income (other than dividends arising from UK equities), or to capital gains tax.

Value added tax

As the Environment Agency is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses. The accounts are shown exclusive of VAT.

US withholding tax

The income earned from investments in stocks and securities in the United States is exempt from US tax pursuant to Section 892 of the Income Tax Code and is not subject to the withholding of any tax under Section 1441. This exemption has continued to be applied thus far under the US Tax Reform Act of 1986.

Overseas tax deductions

Where possible, tax deducted at source is recovered by the investment managers.

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2013 was £94.1m (2012: £83.6m).

Pension Fund liability

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 IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 20. 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

The Financial Statements contain figures that are based on assumptions made by our Private Equity manager. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the net assets statement at 31 March 2013 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect of actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the net asset statement date

The financial statements were approved by the Pensions Committee on 17 June 2013 and were approved and signed at the Audit and Risk Committee on 24 June 2013 under delegated authority of the Board. They were also approved at a meeting of the Board on 11 July 2013. There are no adjusting or non-adjusting events that need to be recognised in the financial statements after the net asset statement date.

On the 1 April 2013, the activities of the Environment Agency in Wales (Environment Agency Wales (EAW)) were transferred to a new single body for the environment in Wales, called Natural Resources Wales, (NRW) pursuant to the Natural Resources Body for Wales Transfer Scheme 2013 under the Public Bodies Act 2011. The welsh activities of the Forestry Commission and the Countryside Council for Wales have also been transferred to NRW on that date. The employees of NRW that were employees of the Environment Agency remain members of the Environment Agency Pension Fund as an admitted body.

7. Contributions receivable

	2013 £000	2012 £000
Employer		
Normal	43,806	40,887
Advanced	-	20,853
Special	735	968
	44,541	62,708
Members		
Normal	22,140	20,879
Additional voluntary contributions (AVCs)	1,021	833
Purchase of added years	606	725
	23,767	22,437
Total	**68,308**	85,145

Normal contributions are regular employer and employee contributions paid across by the Environment Agency. Special contributions are additional amounts paid by the Environment Agency in respect of early retirements and also include a contribution to fully fund a bulk transfer. Advanced contributions are paid by the Environment Agency in relation to the historical past service deficit.

8. Transfer values received

	2013 £000	2012 £000
Individual transfers from other schemes	5,761	1,344
AVC transfers	36	10
Total	**5,797**	1,354

Transfer values have been paid ("cash equivalents" within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993), and service credits given for transfers received, calculated in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries.

No discretionary benefits have been included in the calculation of transfer values.

9. Other income

	2013 £000	2012 £000
Reimbursements of additional payments made	-	1

These amounts have been corrected by Capita to the Fund in relation to historical past service credits. The figure of £1,000 shown for 2012 represents reimbursements to the Fund by Capita of administration expenses incurred during this rectification process. No amounts were expected for 2013 or future years.

10. Benefits payable

	2013 £000	2012 £000
Retirement and dependants' pensions	50,894	46,763
Lump sum retirement grants	8,408	18,616
Lump sum death grants	1,887	1,699
Life assurance through AVC provider	4	4
Total	**61,193**	67,082

11. Payments to and on account of leavers

	2013 £000	2012 £000
Individual transfers to other schemes	1,793	2,784
AVC transfers	17	25
Refunds of contributions	5	1
Bulk transfer to other schemes*	118	(197)
Total	**1,933**	2,613

* In 2013, the bulk transfer amount represents a transfer to the Principal Civil Service Pension Scheme. The 2012 figure is in respect of a bulk transfer paid out in June 2011 following the outsourcing of the Environment Agency CIS service in July 2010. An accrual of £1,926k was made in the 31 March 2011 accounts based on actuarial estimates of the amount due to be paid. The actual amount paid across was £197k less than this, hence the negative figure shown in the 2012 accounts.

12. Administration expenses

	2013 £000	2012 £000
Environment Agency Pension Fund Management	528	468
External professional fees:		
Scheme administration	510	520
Specialist advice	226	397
External audit	40	42
Total	**1,304**	1,427

The external auditor remuneration does not include any fees in respect of non-audit services for 2013 and 2012.

13. Investment income

	2013 £000	2012 £000
Dividends from equities	18,191	20,224
Income from fixed interest securities	10,478	9,314
Income from pooled property	2,843	2,521
Interest on cash deposits	277	348
Income from pooled investment vehicles	367	343
Income from private equity	333	327
Total	**32,489**	**33,077**

14. Taxes on income

	2013 £000	2012 £000
Withholding tax – equities	(663)	(868)
Withholding tax – pooled property	(136)	(128)
Withholding tax – fixed interest	-	(3)
Total	**(799)**	(999)

15. Investment expenses

	2013 £000	2012 £000
Fund manager base fees	5,161	4,209
Fund manager performance fees	1,658	2,652
Irreclaimable VAT	981	-
Investment advisers	266	123
Global custody	131	139
Performance and risk measurement	131	124
Total	**8,328**	7,247

Total fund manager fees include management charges for Informed Portfolio Management, PIMCO and First State that are settled directly within the portfolio in accordance with the investment management agreement.The irreclaimable VAT represents 70% of the VAT paid on investment management fees. As at 31 March 2012, it was believed that this VAT may be reclaimable, but subsequent court rulings mean that these amounts are now being expensed.

16. Investments

a) Investment movements summary

	Market value at 01.04.12 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Market value at 31.03.13 £000
Equities	679,320	564,612	(385,847)	116,522	974,607
Fixed interest	366,812	242,678	(262,170)	30,361	377,681
Pooled equities	402,556	233,495	(358,280)	84,898	362,669
Pooled fixed interest	144,364	217,461	(155,394)	17,775	224,206
Private equity	83,597	11,943	(3,550)	2,109	94,099
Pooled property	59,190	7,082	(6,382)	(2,413)	57,477
Pooled currency	54,845	140	(54,250)	(735)	-
Pooled cash	10,299	-	(10,335)	36	-
AVC investments	6,331	1,062	(642)	656	7,407
Derivatives	8,208	574,089	(577,926)	(17,847)	(13,476)
	1,815,522	**1,852,562**	**(1,814,776)**	**231,362**	**2,084,670**
Cash deposits & instruments	33,807			540	29,058
Other investment balances	6,114				7,871
	1,855,443			**231,902**	**2,121,599**

Note 16 cont.

	Market value at 01.04.11 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Market value at 31.03.12 £000
Equities	823,909	280,897	(399,694)	(25,792)	679,320
Pooled equities	320,457	369,153	(177,455)	25,171	402,556
Fixed interest	185,687	130,612	(129,350)	45,093	366,812
Pooled fixed interest	135,539	33,352	(34,600)	10,073	144,364
Private equity	90,572	12,492	(8,920)	(10,547)	83,597
Pooled property	56,181	6,656	(3,341)	(306)	59,190
Pooled currency	55,499	286	-	(940)	54,845
Pooled cash	20,166	-	(10,000)	133	10,299
Derivatives	(2,239)	2,000,313	(2,002,458)	12,592	8,208
AVC investments	6,218	861	(968)	220	6,331
	1,691,989	**2,834,622**	**(2,766,786)**	**55,697**	**1,815,522**
Cash deposits & instruments	58,285			(169)	33,807
Other investment balances	3,641			-	6,114
	1,753,915			**55,528**	**1,855,443**

The change in the market value of investments 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.

The derivatives in the above table represent futures' contracts and forward foreign exchange contracts. The closing market values represent fair values at the year end date. In the case of futures' contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All contracts settled during the period are reported within the table as purchases and sales. As all contracts are settled individually, with an amount being paid to or from the broker in respect of all the foreign currency contracts, these transactions need to be disclosed as purchases and sales. As forward foreign exchange trades are settled gross they need to be included as gross receipts and payments and hence the volumes shown are high.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £771,418 (2012: £1,284,992). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Note 16 cont.

b) Investment value details

Investment assets	2013 £000	2012 £000
Equities		
UK quoted	336,407	313,442
Overseas quoted	638,200	365,878
	974,607	679,320
Fixed interest		
UK index linked gilts public sector	186,752	251,705
Overseas corporate quoted	53,250	32,723
UK corporate quoted	137,211	79,911
Overseas public sector quoted	468	2,473
	377,681	366,812
Pooled equities		
Overseas	329,277	402,556
UK	33,392	-
	362,669	402,556
Pooled fixed interest		
UK corporate quoted	88,681	140,419
Overseas corporate quoted	135,525	3,945
	224,206	144,364
Private equity		
Overseas unquoted	87,446	79,089
UK unquoted	6,653	4,508
	94,099	83,597
Pooled property		
UK unit trusts	45,760	47,118
UK managed funds	7,541	7,722
UK unquoted collective limited partnership investments	4,176	4,350
	57,477	59,190
AVC investments	**7,407**	6,331
Derivative contracts		
Forward foreign exchange	(13,397)	8,287
Futures	(79)	(79)
	(13,476)	8,208
Pooled currency	**-**	54,845
Pooled cash	**-**	10,299
Cash deposits and instruments		
Cash with custodian and fund managers	28,277	33,307
Cash margin with brokers	781	500
	29,058	33,807
Other investment balances		
Accrued income	6,844	5,915
Amounts due from trade and currency brokers	2,927	9,081
Income tax recoverable	694	743
Amounts due to trade and currency brokers	(2,594)	(9,625)
	7,871	6,114
Net investment assets	**2,121,599**	1,855,443

Note 16 cont.

c) Financial assets and liabilities

	2013 £000	2012 £000
Financial assets		
Equities (includes pooled and private equity)	1,431,375	1,165,473
Bonds (includes pooled and gilts)	601,887	511,176
Pooled property	57,477	59,190
Pooled currency	-	54,845
Cash (includes pooled)	29,058	44,106
AVC	7,407	6,331
Derivatives – Futures and forward foreign exchange	4,871	8,841
Other investment assets	10,465	15,739
Total financial assets	**2,142,540**	1,865,701
Financial liabilities		
Derivatives – Futures and forward foreign exchange	(18,347)	(633)
Amounts due to trade and currency brokers	(2,594)	(9,625)
Total financial liabilities	**(20,941)**	(10,258)
Net financial assets	**2,121,599**	1,855,443

d) Derivative contracts

	2013		2012	
Derivatives	**Asset £000**	**Liability £000**	**Asset £000**	**Liability £000**
Futures contacts	39	(118)	17	(96)
Forward foreign currency contracts	4,832	(18,229)	8,824	(537)
	4,871	**(18,347)**	8,841	(633)
Net derivatives	-	**(13,476)**	8,208	-

Investment in derivative instruments may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a financial contract between two parties, the value of which is determined by the underlying asset.

Derivatives are used to a limited extent, primarily for efficient portfolio management and reducing currency risk. For example, our passive manager could buy ‘futures’, which are contracts to purchase equities in the relevant index at a given date. This allows the manager to smooth out index changes and track the index more efficiently.

In the table below, the ‘nominal value’ of the futures contracts is the ‘economic exposure’ of those futures as at 31 March 2013. The ‘Fair value’ is the unrealised profit or loss of the futures as at 31 March 2013.

Note 16 cont.

Futures

Type of contract	Expiration	2013 Nominal value £'000	2012 Nominal value £'000	2013 Fair Value £'000	2012 Fair value £'000
FTSE 100 UK exchange traded June 2013 (L&G)	3 months	1,282	2,578	(12)	(69)
E-mini S&P 500 US exchange traded June 2013 (Generation)	3 months	3,889	1,976	39	17
Eurostoxx 50 index exchange traded June 2013 (Generation)	3 months	3,494	683	(106)	(27)
Total		**8,665**	5,237	**(79)**	(79)

A series of six month rolling 'forward' currency contracts are used by our currency manager to hedge 60% of the Fund's exposure to overseas currency movements back to Sterling. They help minimise the adverse effect of volatility of those currencies on the value of the Fund. For forward currency contracts that have not been realised at the year end date, the movement of sterling during the contract period will result in either short-term unrealised gains or losses. Over time these should balance to have a neutral financial impact. At 31 March 2013 there was an unrealised loss of £13.4m on the currency forwards (2012: unrealised gain of £8.3m). Whilst this loss may appear significant, it is worth noting that the value of the assets denominated in overseas currencies will have increased as a result of these currency movements.

Forward foreign currency contracts over the counter

Currency Bought	Currency sold	Settlement dates	2013 Asset £000	2013 Liability £000	2012 Asset £000	2012 Liability £000
Brazilian Real	Sterling	2 days	-	-	-	(1)
Canadian Dollar	US Dollar	19 days	-	(97)	38	-
Canadian Dollar	Sterling	4 days	-	-	-	-
Euro	Sterling	2 days to 6 months	-	(56)	-	(3)
HK Dollar	Sterling	2 days	-	(4)	-	(1)
Japanese Yen	US Dollar	19 days	-	(134)	-	(344)
Sterling	US Dollar	15 days to 6 months	2,561	(13,742)	4,003	(25)
Sterling	Danish Krone	15 days	78	-	-	-
Sterling	Euro	2 days to 6 months	960	(3,992)	2,681	-
Sterling	Japanese Yen	15 days to 6mths	940	(199)	2,091	(14)
Sterling	Norwegian Krone	15 days	19	-	-	-
Sterling	Mexican Peso	2 days	1	-	-	-
Sterling	Canadian Dollar	3 days	-	-	1	-
Sterling	Australian Dollar	15 days	22	-	1	-
Sterling	New Zealand Dollar	15 days	-	(2)		
Sterling	South African Rand	2 to 4days	-	(2)	-	-
Sterling	Swedish Krone	15 days	48	-	-	-
Sterling	Swiss Franc	3 to 15 days	25	(1)	-	-
Swedish Krona	Sterling	3 days	-	-	-	(1)
Swiss Franc	Sterling	3 days	-	-	-	(3)
US Dollar	Sterling	1 to 4 days	-	-	1	-
US Dollar	Japanese Yen	2 to 4 days	-	-	-	(2)
US Dollar	Brazilian Real	20 days	-	-	8	-
US Dollar	Euro	19 days	178	-	-	(143)
Total			**4,832**	**(18,229)**	8,824	(537)

Note 16 cont.

e) Investments exceeding 5% of net investment assets

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

Holding	2013 Market value £m	2013 % of net assets	2012 Market value £m	2012 % of net assets
L&G North America Equity Index Fund	**146.2**	**6.9**	152.1	8.2%
L&G Investment Grade Corporate Bond Fund	**n/a**	**n/a**	140.4	7.6%
L&G World (ex UK) Equity Index Fund	**n/a**	**n/a**	133.8	7.2%

17. Financial Instruments

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. No financial assets were reclassified during the accounting period.

31 March 2013	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	974,607	-	-
Fixed interest	377,681	-	-
Pooled equities	362,669	-	-
Pooled fixed interest	224,206	-	-
Private equity	94,099	-	-
Pooled property	57,477	-	-
Pooled currency	-	-	-
Pooled cash	-	-	-
AVC investments	7,407	-	-
Derivatives	4,871	-	-
Cash deposits and instruments	-	32,192	-
Other investment assets	10,465	-	-
Debtors	-	5,427	-
	2,113,482	**37,619**	**-**
Financial liabilities			
Derivative contracts	(18,347)	-	-
Other investment liabilities	(2,594)	-	-
Creditors	-	-	(4,499)
	(20,941)	-	(4,499)
Net assets of the Fund	**2,092,541**	**37,619**	**(4,499)**

Note 17 cont.

31 March 2012	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Equities	679,320	-	-
Fixed interest	366,812	-	-
Pooled equities	402,556	-	-
Pooled fixed interest	144,364	-	-
Private equity	83,597	-	-
Pooled property	59,190	-	-
Pooled currency	54,845		
Pooled cash	10,299	-	-
AVC investments	6,331	-	-
Derivatives	8,841	-	-
Cash deposits and instruments	-	40,791	-
Other investment balances	15,739	-	-
Debtors	-	870	-
	1,831,894	**41,661**	**-**
Financial liabilities			
Derivative contracts	(633)	-	-
Other investment liabilities	(9,625)	-	-
Creditors	-	-	(2,575)
	(10,258)	**-**	**(2,575)**
Net assets of the Fund	**1,821,636**	**41,661**	**(2,575)**

Net gains and losses on financial instruments

	2013 £000	2012 £000
Financial assets		
Fair value through profit and loss	249,749	42,936
Financial liabilities		
Fair value through profit and loss	(17,847)	12,592
Total change in market value	**231,902**	55,528

Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values:

	2013		2012	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Financial assets				
Fair value through profit and loss	1,822,862	2,103,017	1,635,229	1,816,155
Receivables	48,084	48,084	57,400	57,400
Financial liabilities				
Fair value through profit and loss	(18,347)	(18,347)	(633)	(633)
Financial liabilities at amortised cost	(7,093)	(7,093)	(12,200)	(12,200)
Net assets of the Fund	**1,845,506**	**2,125,661**	1,679,796	1,860,722

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 17 cont.

Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Environment Agency Active Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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:

Values at 31 March 2013	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,979,960	24,087	98,970	2,103,017
Receivables	48,084	-	-	48,084
Total financial assets	**2,028,044**	**24,087**	**98,970**	**2,151,101**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(18,347)	(18,347)
Financial liabilities at amortised cost	(7,093)	-	-	(7,093)
Total financial liabilities	**(7,093)**	**-**	**(18,347)**	**(25,440)**
Net assets of the Fund	**2,020,951**	**24,087**	**80,623**	**2,125,661**

Note 17 cont.

Values at 31 March 2012	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	1,698,562	25,154	92,438	1,816,154
Receivables	57,401	-	-	57,401
Total financial assets	**1,755,963**	**25,154**	**92,438**	**1,873,555**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	-	(633)	(633)
Financial liabilities at amortised cost	(12,200)	-	-	(12,200)
Total financial liabilities	**(12,200)**	**-**	**(633)**	**(12,833)**
Net assets of the Fund	**1,743,763**	**25,154**	**91,805**	**1,860,722**

18. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund's portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension Fund risk management programme.

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 monitors investment risks within the Fund, enabling the pension 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 activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the potential for long-term return within a given risk framework – long-term investment returns fundamentally depend on the willingness to take on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. Specific risks on individual investments, caused by factors specific to the individual instrument, can be largely managed and reduced through diversification. Broader market risk, arising from factors affecting all instruments in the market, can only be reduced to a limited extent through diversification without affecting long-term returns.

To mitigate specific market risk, the Fund and its investment advisers undertake appropriate monitoring of individual manager's selection of securities, their performance against benchmarks and their compliance with their individual Investment Management Agreement and the Fund's overall investment strategy. Broader market risk, analysed below, is regularly monitored by the Fund and its advisers, and is a key consideration in determining the Fund's overall Asset Allocation. The Fund also considers the use of risk management tools such as currency hedging. However, the Fund does not attempt to manage market risk by short-term shifts in asset allocation, as this may increase rather than reduce risk.

Note 18 cont.

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 2012-13 reporting period:

Asset Class	1 Year Expected volatility %	% of Fund %
UK equities	16.0	17.4
Global equities (ex UK)	19.0	45.6
Private equity	27.8	4.4
Property	14.5	2.7
Corporate bonds	10.4	13.9
UK index linked gilts	8.5	8.8
Unconstrained Global bond (hedged)	2.5	6.0
Cash and other	0.8	1.2
Total Fund volatility	**12.2**	**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. 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.

Due to the approach taken to determine the Total Fund volatility (in which the impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility rather than the sum of the monetary impact for each asset class.

Had the market price of the Fund's investments increased/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 2013	31 March 2012
Total net investment assets (£'000)	**2,121,599**	1,855,443
Percentage change (%)	**12.2**	12.4
Value on increase (£'000)	**2,380,434**	2,085,518
Value on decrease (£'000)	**1,862,764**	1,625,368

Asset Class	Potential change in value from market risk	
	31 March 2013 £'000	31 March 2012 £'000
UK equities	59,167	62,609
Global equities (ex UK)	183,713	151,381
Private equity	25,951	23,825
Property	8,306	8,583
Corporate bonds	30,670	26,958
UK index linked gilts	15,870	15,066
Unconstrained Global bond (hedged)	3,182	-
Cash	221	467
(Less impact of diversification)	(68,245)	(58,866)
Total Fund volatility	**258,835**	230,023

Note 18 cont.

Interest rate risk

Many investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct interest rate risk exposure is primarily due to its fixed income holdings. The Fund may also have indirect interest rate exposure through its holdings of other assets, however, it is not possible to quantify these. Note that interest rate risk is also included in the overall estimate of market risk earlier. There is a small interest rate exposure arising from the Fund's cash holdings, 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 interest rates. The interest rate exposure in the Fund's liabilities is materially greater than, and in an opposite direction to, the exposures in the 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 holdings of fixed income assets provide a partial hedge to the interest rate risk in the Fund's liabilities. The Fund monitors this position through regular estimation of its funding position which includes sensitivity analysis of these risks.

	As at 31 March 2013	**Interest rate sensitivity duration 2013**	As at 31 March 2012	Interest rate sensitivity duration 2012
UK Index Linked Gilts	186,752	26.4	251,705	19.6
Pooled Sterling Bonds Indexed	88,681	8.0	140,419	7.7
Sterling Bonds Actively Managed	326,454	7.9	119,052	7.6
Total	**601,887**		**511,176**	

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 1% movement in interest rates provides an appropriate indication of the sensitivity of the fixed interest portfolio and the Fund's Net Assets to a change in interest rates. The Fund advisers have indicated that long-term average interest rates are expected to move less than 1% from one year to the next. This interest rate exposure has to be multiplied by the modified duration of the investments to obtain the risk to capital values.

The analysis that follows assumes that all other variables remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. Note that changes on rates on Index Linked Gilts do not necessarily correspond with changes in rates on other sterling bonds, so total figures are provided for information only.

	Carrying amount as at 31 March 2013	**Possible change in the net assets available to pay benefits**	
		+1%	**-1%**
	£000	**£000**	**£000**
UK Index Linked Gilts	186,752	(49,303)	49,303
Pooled Sterling bonds Indexed	88,681	(7,094)	7,094
Sterling bonds Actively managed	326,454	(25,790)	25,790
Total	**601,887**	**(82,187)**	**82,187**

	Carrying amount as at 31 March 2012	**Possible change in the net assets available to pay benefits**	
		+1%	**-1%**
	£000	**£000**	**£000**
UK Index Linked Gilts	251,705	(49,385)	49,385
Pooled Sterling bonds Indexed	140,419	(10,868)	10,868
Sterling bonds Actively managed	119,052	(9,048)	9,048
Total	511,176	(69,301)	69,301

Note 18 cont.

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 is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£).

Currency risk is also included in the overall estimate of market risk earlier. Most of the Fund's currency risk is through exposure to overseas equities, which are exposed to a complex range of risk factors of which currency is only one. There may also be some indirect currency exposure in the Fund's sterling denominated assets, such as UK equities, but these are impossible to quantify. Most of the Fund's currency risk is offset by the Fund's passive currency hedging strategy which maintains a currency hedge of approximately 60% of the non-sterling denominated assets. The gross amount of the Fund's currency hedging position was approximately £668m at 31 March 2013. The Pension Fund's currency rate risk and passive currency hedging strategy are routinely monitored by the Fund and its investment advisors including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2013 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 March 2013 £000	Asset value as at 31 March 2012 £000
Overseas quoted securities	638,200	365,878
Overseas pooled equities	329,277	402,556
Overseas unquoted private equity	87,446	79,089
Total overseas assets	**1,054,923**	847,523
Less currency hedging	(668,000)	(531,000)
Net unhedged overseas assets	**386,923**	316,523

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Fund's advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one year expected standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure Asset type	Asset value as at 31 March 2013	Possible change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	638,200	82,966	(82,966)
Overseas pooled equities	329,277	42,806	(42,806)
Overseas unquoted private equity	87,446	11,368	(11,368)
Total change in assets available	**1,054,923**	**137,140**	**(137,140)**
Less currency hedging	(668,000)	(86,840)	86,840
Net unhedged overseas assets	**386,923**	**50,300**	**(50,300)**

Note 18 cont.

Currency exposure Asset type	Asset value as at 31 March 2012	Possible change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas quoted securities	365,878	47,564	(47,564)
Overseas pooled equities	402,556	52,332	(52,332)
Overseas unquoted private equity	79,089	10,282	(10,282)
Total change in assets available	847,523	110,178	(110,178)
Less currency hedging	(531,000)	(69,030)	69,030
Net unhedged overseas assets	316,523	41,148	(41,148)

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.

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 most of the Fund's cash is held in money market funds run by the Fund's custodian Northern Trust and the Fund's index fund provider Legal & General – these funds invest in a wide range of cash instruments and have limited exposure to any individual institution, Furthermore they are legally separate from the manager, which should safeguard the Fund's investments in the case of the default of the manager.

The Fund believes it has managed the Fund's 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 cash management arrangements at 31 March 2013 was £32 million (31 March 2012 was £51 million). This was held with the following institutions:

Summary	Rating by Moody's	Balances as at 31 March 2013 £000	Balances as at 31 March 2012 £000
Money market funds:			
Legal & General	None *	-	12,124
Northern Trust	Aaa	29,058	31,983
Bank deposit accounts:			
Cater Allen Private Bank Ltd	A2	-	2,177
Bank current accounts:			
National Westminster Bank plc	A2	3,134	4,807
Total		**32,192**	51,091

* Legal & General is not rated by Moody's. This Fund holds sterling term deposits with a range of high quality financial institutions, and is subject to its own extensive credit risk management policies.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it 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 Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets are those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three-months to convert in to cash, and are assumed to be the private equity and property holdings. As at 31 March 2013, the value of potentially illiquid assets was £151.6m, which represented 7.1% of the total Fund assets (2012: £142.8m, which represented 7.7% of the total Fund assets).

Note 18 cont.

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's investment strategy.

All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

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

19. Funding arrangements

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next valuation will take place as at March 2013.

The key elements of the funding policy are as follows:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable the Environment Agency's employer contributions to be kept as stable as possible and at reasonable cost to the Environment Agency;
- manage the Environment Agency's, as the employer, liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The aim is to achieve 100% solvency over a period of 9 years by continuing to contribute the equivalent of 3.5% of pay towards the repayment of the funding deficit. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the Fund was assessed as 94% funded (103% at the March 2007 valuation). This corresponded to a deficit of £95m (2007 valuation: surplus of £38m) at that time.

The Environment Agency's contribution rate over the three-year period ending 31 March 2014 remains unchanged throughout at 16.5% of pay. The following table shows the minimum contributions payable after allowing for discretionary lump sum payments paid to the Fund in March 2011 and March 2012.

Employer name	Minimum contributions for the year ending:					
	31 March 2012		31 March 2013		31 March 2014	
	% payroll	£'000	% payroll	£'000	% payroll	£'000
EA (England)	13.0%	-	13.0%	-	13.0%	-
EA (Wales)	13.0%	-	13.0%	-	13.0%	-

Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

Financial assumptions	% per annum	Description
Investment Return (Discount Rate)	6.1%	Yield on long-term fixed interest Government bonds. plus an Asset Outperformance Assumption of 1.6%.
Retail Price Inflation (RPI)	3.8%	The difference between yields on long-term fixed and index-linked Government bonds.
Salary Increases*	4.8%	RPI plus 1%.
Pension Increases	3.0%	CPI (assumed to be 0.8% less than RPI).

*An allowance is also made for promotional pay increases. Note that the assumption at 31 March 2010 is actually 1% p.a. for 2010/11 and 2011-12, reverting to 4.8% p.a. thereafter.

Note 19 cont.

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current Pensioners	21.3 years	23.3 years
Future Pensioners	23.3 years	25.2 years

* Figures assume members aged 45 as at the last formal valuation date.

Longevity assumptions

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

20. Actuarial present value of promised retirement benefits

IAS26: Accounting and reporting by retirement benefit plans

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 19). 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 £2,492m (2012: £2,074m). This figure is used for statutory accounting purposes by the Environment Agency. The assumptions underlying the figure are set out in the Environment Agency'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 2013	% p.a.
Pension increase rate	2.5
Salary increase rate *	4.6
Discount rate	4.5

* Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long-term assumptions thereafter.

21. Current assets

	2013 £000	2012 £000
Debtors		
Contributions due – employers	3,475	29
Contributions due - employees	1,756	1
Sundry - amount due from Closed Fund / bank interest	74	75
VAT to be reimbursed to the Fund	38	668
Overpaid pensions on death to be refunded to the Fund	34	-
Cash in transit	50	
Administration expenses to be reimbursed to the Fund	-	97
	5,427	870
Cash at bank	**3,134**	6,984
Total	**8,561**	7,854

Note 21 cont.

Analysis of debtors

	2013 £000	2012 £000
Government Agencies – Environment Agency	5,301	202
Central government bodies - HMRC	38	668
Other entities and individuals	88	-
Total	**5,427**	870

Amounts due from the Environment Agency, shown above under Government Agencies, are:

- employers' and employees' contributions of £3,391,000 (2012: £1,000) £1,756,000 (2012: £2,000) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit. The contributions debtor is significantly higher in 2013. The bulk of March 2012 contributions were paid prior to the year end but March 2013 were paid across on 10 April 2013;
- £63,000 (2012: £27,000) for special contributions due in respect of augmentations to members' benefits and £21,000 (2012: £nil) in respect of shortfall funding for a bulk transfer payment;
- £nil (2012: £64,000) in respect of administration expenses paid by the Fund on behalf of the Environment Agency; and
- £70,000 (2012: £108,000) is due from them Environment Agency Closed Fund in respect of member and administration expenses.

22. Current liabilities

	2013 £000	2012 £000
Creditors		
Administration and investment expenses	(2,920)	(1,711)
Benefits payable	(957)	(358)
PAYE	(622)	(506)
Tax payable on refunds	-	-
Total	**(4,499)**	(2,575)

Analysis of creditors

	2013 £000	2012 £000
Other entities and individuals – Benefits and admin fees	(3,732)	(1,936)
Central government bodies – HMRC	(622)	(506)
Government Agencies – Environment Agency	(105)	(93)
Independent Parliamentary Bodies – NAO fees	(40)	(40)
Total	**(4,499)**	(2,575)

23. Additional Voluntary Contributions

The aggregate amounts of AVC investments as at 31 March are as follows:

	2013 £000	2012 £000
Prudential		
Unit-linked funds	116	26
With-profits funds	189	110
Deposit accounts	450	229
	755	365
Standard Life		
Unit-linked funds	3,153	2,853
	3,153	2,853
Clerical Medical		
Unit-linked funds	1,637	1,386
With-profits funds	660	605
	2,297	1,991
The Equitable Life Assurance Society		
Unit-linked funds	736	632
With-profits funds	343	369
Deposit accounts	123	121
	1,202	1,122
Total AVC investments	**7,407**	6,331

The Environment Agency holds assets with Standard Life, Clerical Medical, The Equitable Life Assurance Society and Prudential.These are unit-linked, with-profits and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 31 March 2013 confirming amounts held in their account and movements in the year.

24. Related party transactions

During the year ended 31 March 2013 there have been the following related party transactions:

- pensions administration costs of £368,000 (2012: £340,000) recharged to the Fund by the Environment Agency;
- eleven members of the Pensions Committee are contributing members of the Fund and contributions are paid by the Environment Agency in accordance with the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the 2008 regulations") and the recommendations of the Consulting Actuary;
- one member of the Committee is in receipt of a retirement pension payable from the Fund, calculated and paid in accordance with the 1997 regulations;
- one member of the Committee has deferred benefits in the Fund;
- payment of unfunded liabilities of £369,000 (2012: £347,000) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years; and
- during the year, special contributions totalling £24,917 (2012: £127,056) were not paid over to the Fund in line with statutory timescales. As at the year end, no special contributions were outstanding.

25. Contingent liabilities and assets

In accordance with authorised investment strategy and mandates, the outstanding investment commitment at 31 March 2013 are Private equity £24.0m (2012: £19.0m). There are no contingent assets as at 31 March 2013 (2012: £nil).

26. Impairment losses

For the year to 31 March 2013 the Fund has recognised an impairment loss of less than £0.1m (2012: less than £0.1m) for the non-recovery of pensioner death overpayments.

27. IAS 10: Authorisation for issue

The Environment Agency Active Pension Fund annual report and financial statements are laid before the Houses of Parliament by Defra. IAS 10 requires the Environment Agency Active Pension Fund to disclose the date on which the annual report and financial statements are authorised for issue. The authorised date for issue is 27 June 2013.

The annexes

Annex 1 – Scheme rules and benefits

On 1 April 2008 the scheme rules and benefits became subject to the Local Government Pension Scheme (Benefits, Membership and Contribution) Regulations 2007 (as amended).

Scheme membership and income

(i) All employees of the Environment Agency are eligible for membership of the Local Government Pension Scheme (LGPS) (excluding Environment Agency Board Members and those employees who are eligible to join another pension scheme) providing they are under the age of 75 and have a contract of employment that is valid for at least 3 months (or the aggregate of several continuous contracts is for at least three months). Providing the previous criteria are met, full and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (back-dated to the start of membership if made within three months).

(ii) Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the permanent pensionable earnings paid. The rate the member pays depends on which earnings band the members falls into, but the rate will fall between 5.5% and 7.5% of permanent pensionable earnings. If the member works part-time, the rate will be based on the full time equivalent permanent pensionable pay for the job, although the member will only pay contributions on the pensionable pay actually earned.

(iii) Subject to limits set by Her Majesty's Revenue and Customs (HMRC), members can:

   a. pay additional voluntary contributions (AVCs) with one of the Environment Agency's in-house providers (Standard Life or Prudential) to buy a larger retirement pension, to improve other specific benefits or to provide additional EAPF pension, or membership for pension purposes (if the employee has continuously paid additional voluntary contributions since prior to 13 November 2001); and/or

   b. purchase additional EAPF pension.

(iv) Transfer payments for pension rights in almost any other scheme can be accepted by EAPF to increase benefits, providing the transfer payment is received within 12 months of joining the EAPF (or such a longer date that the Environment Agency may allow).

(v) The Environment Agency must make the balancing contribution required to keep the Fund solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' pensionable pay by the Consulting Actuary following each triennial actuarial valuation of the Fund.

(vi) The Environment Agency is required to fund early retirements (other than dismissal on the grounds of ill health) and any discretionary award of additional membership and/or pension by making up front payments into the Fund.

(vii) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Benefits available

Three months' membership or more (or a transfer value has been received or the member holds a deferred benefit in the LGPS in England and Wales):

(i) Retirement pension and tax-free lump sum (tax-free lump sum only based upon membership accrued prior to 1 April 2008):

   a. payable immediately on cessation of employment:
      - Voluntarily from age 55 onwards (with the Environment Agency's consent if under age 60); or
      - Through permanent incapacity at any age with Environment Agency's consent; or
      - As a result of redundancy or efficiency after age 55.

   b. deferred and payable from:
      - Normal retirement age; or
      - Voluntarily from age 55 onwards (with the Environment Agency's consent if under age 60); or
      - Through permanent incapacity at any age with the Environment Agency's consent.

(ii) Spouses', Civil Partners', Nominated Co-Habiting Partners' and Children's pensions and a lump sum death grant following death:

   a. during employment; or

b. whilst in receipt of a retirement pension (a death grant lump sum may not always be payable); or

c. Before deferred benefits become payable.

Under three months' membership (and no transfer value has been received or member does not hold deferred benefit in the LGPS in England and Wales):

(i) Retirement pension on retirement at age 65.

(ii) Lump sum death grant on death in employment.

(iii) Refund of contributions or Cash Equivalent Transfer Value, when no other benefit payable.

Although it will take into consideration the deceased person's wishes, the Environment Agency has absolute discretion in deciding who should receive any lump sum death grant payable.

Pensions increase awards

Retirement and dependants' pensions in payment and deferred pensions are reviewed each year in line with the increase in the Consumer Prices Index.

Transfers to other schemes

When benefits are not payable immediately, a transfer can usually be made to another tax approved employer's pension scheme, or to a tax-approved personal pension, or stakeholder plan or to purchase an insurance annuity bond.

Annex 2 – Funding Strategy Statement

1. Introduction

In accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel, this statement sets out the funding strategy for the Environment Agency Active Pension Fund (the "Fund"). This statement has been reviewed and updated as part of the 2010 actuarial valuation process.

The Active Fund is part of the Local Government Pension Scheme (LGPS) and was established as the National Rivers Authority Pension Fund in 1989 at the time of the privatisation of the water industry in England and Wales. The Fund inherited active members' accrued liabilities from the predecessor pension arrangements, but no pensioners or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund. Since then, the Fund has been gradually maturing.

A separate Closed Fund, which is guaranteed by the Department for the Environment, Food and Rural Affairs, exists for pensioners and deferred pensioners that did not transfer to one of the privatised water companies' pension schemes in 1989. The Closed Fund has its own Funding Strategy Statement.

As at 31 March 2010, the Active Fund contained 11,933 active members, 4,089 pensioners and 5,215 deferred pension members whose benefits have yet to come into payment.

Unlike typical LGPS funds, the Active Fund only has a single participant employer – the Environment Agency.

Regulation 35 of the respective legislation referred to above provides the statutory framework from which the Administering Authority is required to prepare and review a Funding Strategy Statement ("FSS"). The key requirements for preparing the FSS can be summarised as follows:

- after consultation with all relevant interested parties involved with the Active Fund, the Administering Authority will prepare and publish their funding strategy;
- in preparing the FSS, the Administering Authority must have regard to:
    - the guidance issued by CIPFA for this purpose;
    - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended); and
- the FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Regulations). "The Regulations" are defined as:

- the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) – "the Administration Regulations";
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) – "the Benefit Regulations";
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) – "the Transitional Regulations"; and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) – "the Investment Regulations".

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The required levels of employee contributions are also specified in the Regulations.

The Environment Agency, as the employer, pays the balance of the cost of delivering the benefits to members. Contributions payable by the Environment Agency as the Employer are determined in accordance with the Regulations (principally Regulation 36 of the Administration Regulations) which require that the actuary completes an actuarial valuation, including a rates and adjustments certificate, every three years. Contributions to the Active Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible.

Following the 2010 actuarial valuation, and subject to ministerial approval, the cost of the scheme will be potentially shared between the employer and employees as part of a locally applied national LGPS 'cap and share' arrangement introduced under Regulation 36A of the Local Government Pension Scheme (Administration) Regulations 2008. However, it is not yet clear how the 'cap and share' arrangements will work in practice given that:

- the benefits available under public service schemes such as the LGPS are likely to be subject to reform as part of the Hutton Review; and

- the Chancellor of the Exchequer's announcement in the 2010 Spending Review that contributions payable by employees to public service pension schemes are to be increased over the next three years.

The interaction of 'cap and share' with the aims of the Hutton Review and the 2010 Spending Review should become clearer during 2011. The FSS does not make any allowance for these changes.

The FSS focuses on the pace at which these liabilities are funded, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will, therefore, determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Environment Agency Pensions Committee as the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is to:

- establish a clear and transparent fund-specific strategy which will identify how the Environment Agency's employer pension liabilities are best met going forward;
- support the regulatory requirement to maintain as near constant employer contribution rates for the Environment Agency as employer as possible; and
- take a prudent longer-term view of funding those liabilities.

These objectives are desirable individually, but not necessarily deliverable together.

In developing this strategy which is intended to be both cohesive and comprehensive, the Environment Agency Pensions Committee as the Administering Authority has focused on balancing the desirability of affordability of contributions, transparency of processes, stability of the employer's contributions, and prudence in the funding basis.

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

- ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- enable the Environment Agency's employer contributions to be kept as stable as possible and at reasonable cost to the Environment Agency;
- manage the Environment Agency's, as the employer, liabilities effectively; and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses; as defined in the Regulations.

4. Responsibilities of the key parties

These are as set out in the Regulations as amended from time to time.

The Environment Agency Pensions Committee as the Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- exercise discretions within the regulatory framework;
- manage the valuation process in consultation with the actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties; and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as necessary.

The Environment Agency as the Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions to the Fund, including their own as determined by the actuary, promptly by the due date;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of pension benefits, and early retirement strain costs;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding; and
- exercise discretions within the regulatory framework.

The Fund actuary should:

- prepare valuations including the setting of the employer's contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- advise on funding strategy, the preparation of the FSS, and the interrelationship between the FSS and the SIP.

5. Long-term funding

When considering the adequacy of funding, the primary focus of the Pension Committee should be on the long-term because:

- liabilities are paid over a long period, rather than crystallising on a single day;
- market prices of assets with growth potential can be volatile;
- pension liabilities are significant compared to the employer's payroll; and
- cuts in employer contributions are easy to implement, but very slow to reverse.

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to at least 100% or more of the present value of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay. The Administering Authority, after taking advice from the Fund actuary, uses 'stochastic' modelling techniques to project future asset and liability values forward from the valuation date to assess the likelihood that this long-term funding objective will be met.

Funding levers

The Administering Authority, in conjunction with the Fund actuary, reviewed the Fund's funding strategy in the early part of 2010. The review identified a number of possible funding levers that could be used to refine the funding strategy at the 2010 valuation. The following table shows the funding levers that the Active Fund has adopted for the 2010 actuarial valuation.

Funding Lever	
1	Reduced level of assumed future pay growth (over long-term) at maximum of RPI + 1% pa (0.5% pa reduction from 2007 assumptions). Set to 1% p.a. for first two years only.
2	Change derivation of pension increase assumption to allow for benefits being linked to CPI rather than RPI (deduct 0.5% p.a. from market derived RPI figure).
3	Change derivation of pension increase assumption to allow for inflation risk premium by deducting 0.3% p.a. from CPI-linked assumption.
4	Tailor baseline longevity assumptions to particular characteristics of Fund members, using pay levels and postcode based influence indicators.
5	Larger reserve for longevity improvements by moving from 'Original 92 Series' to 'Medium Cohort' with 1% p.a. minimum underpin. This increases average future life expectancies at age 65 by around 1½ years for current pensioners and by around 2 years for future pensioners.
6	Increase average age of retirements for active members aged around 50 or less who have no Rule of 85 protections.
7	Increase allowance for converting pension to cash lump sum (commutation) up to HMRC limits at retirement from 25% to 50%.
8	Stabilise employer contributions by limit on annual changes in employer contributions of +/-0.5% of pay from April 2014 (hereafter referred to as the "contribution stability overlay").
9	To complement the contribution stability overlay, include a safety check at each future actuarial valuation to ensure that the probability that the stabilised contributions will be sufficient to achieve a funding level on the ongoing basis of above 100% in 21 years (equivalent to seven actuarial valuations) is at least two in three or 67%. If this test is not passed, the contribution stability overlay would be switched off.

Funding Lever	
10	Introduce an annual check on the impact of pay awards on the value of accrued liabilities, compared to assumptions made at the most recent actuarial valuation. The Environment Agency will be able to pay additional top-up contributions at its discretion.
11	In order to protect against the risk of a reducing payroll delaying the deficit recovery plan, the employer's contributions have been re-expressed such that that the future service element depends on a percentage of payroll and the past service deficit recovery element is covered by fixed monetary amounts.

Key assumptions

The key assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation are:

	31 March 2010
Past Service (Current Yields Basis)	
Asset Valuation	£1,589m
Asset outperformance assumption (pre retirement)	1.6%
Asset outperformance assumption (post retirement)	1.6%
Discount rate (pre retirement)	6.1%
Discount rate (post retirement)	6.1%
Breakeven Retail Price Inflation (RPI)	3.8%
Pension Increases *	3.0%
Earnings Inflation **	4.8%
Future Service (Current Yields Basis)	
Discount rate (pre retirement)	6.1%
Discount rate (post retirement)	6.1%
Breakeven Retail Price Inflation (RPI)	3.0%
Earnings Inflation **	4.8%

* based on breakeven RPI less 0.5% p.a. (following the Government's announcement in June 2010 that future pension increases in the LGPS will be based on the Consumer Prices Index rather than on RPI) less 0.3% p.a.. (the premium that investors are prepared to pay for inflation protection in current bond markets).
** 1% p.a. in the first two years and 4.8% p.a. thereafter, with an allowance for age-related promotional increases currently worth around 1.2% p.a. made in addition.

Underlying these assumptions are the following two tenets:

- that the Active Fund and the Environment Agency are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

The way in which longevity assumptions are set has changed at the 2010 valuation. Instead of relying on a single base table and specific age ratings per class of member, at the 2010 valuation the post retirement mortality base tables are a suite of bespoke assumptions which reflect the characteristics of the Fund membership. These bespoke assumptions are based on pooled experience from occupational pension schemes during the period 2005 to 2007 and allow for observed variations in mortality according to age, gender, salary and postcode based lifestyle group. The assumptions adopted vary according to the individual characteristics of each individual Fund member. The assumptions for 31 March 2010 also incorporate an improvement to mortality figures, over those assumptions used in the 2007 actuarial valuation. The Actuary has allowed for future longevity improvements by using Medium Cohort projections with a 1% p.a. minimum underpin from 2010.

Solvency and Target Funding Levels

The Active Fund's actuary is required to report on the "solvency" of the whole Fund at least every three years.

'Solvency" is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's ongoing funding basis. This quantity is known as a funding level.

As at 31 March 2010, the ongoing funding level was 94% and at 31 December 2010 it was estimated to have remained at 94%.

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation with a one-year control period.

The funding method is described in the Actuary's report on the valuation.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

The future service rate includes expenses of administration to the extent that they are borne by the Active Fund and an allowance for benefits payable on death in service and ill health retirement.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes an allowance for anticipated returns from equities being in excess of bonds. There is, however, no guarantee that equities will outperform bonds but historical data demonstrates that over the long-term, returns from investing in equities tend to be greater than those from investing in bonds. When returns are measured over short periods such as the three years between formal actuarial valuations, actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's assets will, over the long-term, deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The retail price inflation assumption is taken to be "breakeven" inflation i.e. the level of future inflation that would give an investor in a conventional (non-inflation protected) gilt the same return as another who invested in an index-linked gilt. The pension increase assumption is based on breakeven inflation, but reduced by 0.5% a year to allow for consumer price inflation and by a further 0.3% a year to allow for the inflation risk premium (the premium that investors are prepared to pay for inflation protection in current gilt markets).

The assumptions are described in the Actuary's report on the valuation.

Derivation of Employer Contributions (before stability overlay)

The Environment Agency's contributions as the Employer are normally made up of two elements:

- the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus
- an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over the remaining working lifetime of scheme members (calculated to be 9 years at the 2010 actuarial valuation).

The Fund's actuary is required by the regulations to report the Common Contribution Rate, for the Environment Agency as the Employer at each triennial valuation. It combines both of the items above and is expressed as a percentage of pay.

The Environment Agency is paying 16.5% of pay in 2010/11. The 2010 valuation delivered a very similar result and the Active Fund's actuary recommended that contributions at the current level should continue. However, given the uncertainties about the size of the Environment Agency's payroll in future, it was further recommended that the elements relating to future accruals and to deficit recovery be separated into two parts:

- 13% of pensionable pay for future accruals; and
- £12m a year, or £1m a month for deficit recovery. The latter element would be increased in April 2012 and April 2013 to allow for the increases to pensionable pay which had been assumed in the actuarial valuation to £12.12m and £12.70m.

Sensitivity to assumptions

The table below illustrates the effect on the value of the liabilities if each of the assumptions shown was to vary by +/- 0.5% per annum.

Financial Assumption	**Effect on value of liabilities of varying assumption by**			
	+0.5% p.a.		**-0.5% p.a.**	
	Past Service Liabilities	**Future Service Liabilities**	**Past Service Liabilities**	**Future Service Liabilities**
Discount Rate	-11%	-13%	+11%	+13%
Pension increases	+7%	+7%	-7%	-7%
Salary Growth	+4%	+5%	-4%	-5%

It should be noted that the figures above consider the change to each assumption in isolation i.e. a reduction of 0.5% to the discount rate will increase the past service liabilities by approximately 11%, assuming the inflation and salary growth assumptions remain unchanged.

With regard to demographic sensitivities:

- each extra 100 early leavers (i.e. employees who became deferred pensioners) over and above that assumed in the valuation (approximately 1,000 per year), would be expected to reduce the value of the accrued liabilities by between £1m and £1.5m, equivalent to 0.1% to 0.15% of the active liabilities;
- each additional year of life expectancy adds approximately 3% to the value of accrued liabilities. The reserving basis includes an allowance of approximately 7% (or £117m) for future longevity improvement;
- there is allowance for approximately 50 ill-health retirements each year, at a cost in the contribution rate of approximately 2-3% of pay; and
- non-ill health early retirements have a neutral effect on funding as there is either a reduction to the member's pension or an extra employer contribution.

Stability of Employer Contributions

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, long-term view of funding and ensure the solvency of the Active Fund. With this in mind, there are a number of prudent strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- the use of extended deficit recovery periods;
- the phasing in of contribution increases/decreases; and
- capping of employer contribution rate increases/decreases within a pre-determined range ("the contribution stability overlay").

Contribution stability overlay

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority commissioned the Fund Actuary to carry out extensive modelling to explore the long-term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit annual changes to contributions payable by the Environment Agency, as employer, to no more than +0.5% / -0.5% of pay from 1 April 2014.

In the interests of stability and affordability of the Environment Agency's contributions, the Administering Authority, on the advice of the Active Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can be viewed as a prudent longer-term approach. In addition, as the theoretical rate at the 2010 valuation is below the minimum contribution rate of 16.5% of pay that is currently payable to the Fund by the Environment Agency as the Employer, the Administering Authority has agreed that the current level of contributions should be maintained for financial years 2011-12, 2012-13 and 2013-14 until the results of the 2013 valuation are available.

The Active Fund currently has a strong net cash inflow and can therefore take a medium to long-term view on determining employer contribution rates to meet future liabilities through operating a Fund with an investment strategy that reflects this long-term view. It allows short-term investment markets volatility to be managed so as not to cause volatility in employer contribution rates. The LGPS Regulations require the longer-term funding objectives to be achieved and the Fund to maintain assets to meet the projected accrued liabilities. The role of the Active Fund Actuary in performing the necessary calculations and determining the key assumptions used is an important feature in determining the funding requirements.

Funding for Early Retirement

Non Ill health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. The Environment Agency, as the Employer, is required to pay a lump sum contribution whenever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

Employees who joined before 1 October 2006 (and are subject to Rule of 85 protections on their pre April 2008 benefits) but reach age 60 after 31 March 2020, plus all employees who joined after 1 October 2006, are assumed to take all of their benefits at age 65. Otherwise it is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages. The Environment Agency, as the Employer, is required to meet all costs of early retirement strain caused by early retirements other than on the grounds of ill health by immediate capital payments into the Fund.

Ill health monitoring

The Fund monitors the Environment Agency's employees' ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the Environment Agency, as the Employer, may, after the Environment Agency's Pensions Committee (the Administering Authority) has consulted with the actuary, be charged additional contributions on the same basis as apply for non ill-health cases.

New employers participating in the Fund

Unlike most other LGPS funds, the Fund currently has only a single employer. It is however possible that more than one employer will participate in the Fund in future. There are a number of ways in which new bodies can participate in the LGPS such as a scheduled body or an admission body.

In general, the following principles will apply when a new employer enters the Fund:

- starting assets and liabilities will be notionally ringfenced within the Fund and the funding level of the new employer tracked over time based on its own experience, cash flows in and out and membership movements;
- the new employer will have its own individual contribution rate separate from any other employer in the Fund and based on its own membership profile, with a surplus/deficit spreading period no greater than the average future working lifetime of its active employees;
- any deficit left behind if past service benefits are transferred from a ceding employer in the Fund to the new employer as result of a fully funded transfer should be met via either an upfront capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body;
- any deficit that the new body inherits at commencement (e.g., as a result of a “share of fund” transfer from another employer within or outside the Fund) would be expected to be met via an upfront capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency;
- any deficit left behind if the new employer ceases in the Fund at a later date should normally be met by a capital payment at point of departure. The assumptions used to carry out the cessation valuation will depend on the reason for departure but typically if the departure is unexpected (e.g., due to insolvency or abolition of the employer) then more conservative assumptions than those used for ongoing funding purposes would be used in order to provide some protection to other employers left within the Fund; and
- the calculation of all upfront capital payments are based on market conditions at the date that the new employer joins the Fund (i.e., the vesting or transfer date) or leaves the Fund in the case of cessations, with payment due from the paying body as soon as sufficient information is available to fully identify all affected members and the associated assets and past service liabilities.

The extent to which these principles will apply will depend on the individual circumstances of the new employer. For example, the Fund will take into account the type of new body (e.g. admission or scheduled body), whether or not it is closed or open to new entrants, its financial covenant and the existence of any Crown guarantee. The Fund will also refer to its policy on the participation of new admission bodies and bulk transfers when agreeing its entry requirements.

6. Link to investment policy set out in the Statement of Investment Principles

Funding and investment strategies are inextricably linked.

In assessing the value of the Active Fund’s liabilities in the valuation, allowance has been made for asset outperformance as described in Section 5, taking into account the investment strategy adopted by the Active Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio that closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked gilts.

Investment of the Active Fund’s assets in line with the least risk portfolio would minimise fluctuations in the Active Fund’s ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Active Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for outperformance of the investments. On this basis of assessment, the assessed value of the Active Fund’s liabilities at the 2010 valuation would have been significantly higher and the declared funding level would be correspondingly lower.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that outperformance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The Administering Authority has adopted a benchmark, which sets the proportion of the Active Fund's assets to be invested in key asset classes. This is set out in the SIP and shown below:

Asset Class	Benchmark Index	Current Strategic Benchmark Holding	Actuary's Best Estimate Long-Term Return from asset class[1] (in excess of gilts returns) %pa
UK Equities	FTSE All Share Index	31.5%	4.3%
Overseas Equities	FTSE World ex UK	31.5%	4.0%
Index-Linked Gilts	FTSE Over 5 Year Index-Linked Gilts	13.5%	-
Corporate Bonds	iBoxx Sterling all non-gilt index	13.5%	2.2%
Private Equity	Absolute Return	5.0%	5.5%
Property	IPD Monthly	5.0%	2.2%
Total		**100%**	

The Active Fund's benchmark includes significant allocations to equities and property in the pursuit of long-term returns higher than those from investing in just index-linked gilts. It is the Administering Authority's belief that this strategy will, in the long-term; result in a better-funded and more affordable scheme.

The Active Fund actuary's current best estimate of the long-term return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 1.6% a year, that is around 1.7% a year less than the best estimate return from the Active Fund's portfolio of assets (if no active manager outperformance is achieved).

In this way, the employer contributions anticipate returns from Active Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years). The Active Fund has set its investment managers performance targets so that the overall target return for the Active Fund is +0.9% per annum greater than the return on the strategic benchmark, after allowing for the active managers' fees. This target return is expected, in the medium to long-term, to result in a better-funded and more affordable scheme.

However in the short-term, such as the three-yearly assessments at formal valuations, there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will dampen down, but not remove, the effect on employer's contributions.

The Active Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

Balance between risk and reward

In setting the investment strategy, the Environment Agency's Pensions Committee, as the Administering Authority, considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes such as equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future funding levels and the impact on future contribution rates.

Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the change in the value of liabilities by means of quarterly inter-valuation monitoring reports.

[1] Excludes any allowance for active manager outperformance of market.

7. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Environment Agency's Pensions Committee, as the Administering Authority, has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset outperformance between successive valuations could diverge significantly from the overall 1.6% per annum assumed in the long-term.

The following key risks have been identified:

Financial

Risk	Summary of Control Mechanism
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of underperforming. Analyse progress at three yearly valuations Inter-valuation roll-forward of liabilities between formal valuations on a quarterly basis. Contribution stability overlay (from 2013 valuation) will reduce risk of volatile employer contributions.
Inappropriate long-term investment strategy.	Set fund-specific benchmark, informed by asset-liability modelling. A mechanism for enabling strategy to be linked to funding level could enable asset outperformance relative to liabilities to be locked in.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager underperformance relative to benchmark.	Short-term (quarterly) investment monitoring analyses market performance and managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Investment in other "real" assets (e.g. equities and property) also helps to mitigate risks. New mechanism introduced at 2010 valuation where Environment Agency will additionally top-up contributions if future pay increases are in excess of the 2010 valuation salary increase assumption.
Effect of possible increase in employer's contribution rate on service delivery.	Mitigate impact through deficit spreading and introduction of new contribution stability mechanism at 2013 valuation to increase employer's budgeting certainty.

Demographic

Risk	Summary of Control Mechanism
Pensioners living longer.	Actuary quantifies potential scale of risk associated with continuing improvements in longevity, and identifies separate reserve in the actuarial valuation. The reserve for future longevity improvements was increased in the 2010 actuarial valuation. Fund uses bespoke 'baseline' longevity assumptions, based on the pooled mortality experience of almost 100 large occupational pension schemes, to allow for the individual characteristics of each individual member in the Fund. Club Vita also provides annual monitoring of longevity experience movements, to give an early warning of the adequacy of the reserve for future longevity improvements.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.

Regulatory

Risk	Summary of Control Mechanism
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the CLG and comments where appropriate.
Changes to national pension requirements and/or HM Revenue & Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006.	It considers all applicable HM Revenue & Customs regulations and pensions' legislation.

Structural Changes in Employer

Risk	Summary of Control Mechanism
Administering Authority unaware of structural changes in the employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Past service deficit recovery element of the Environment Agency's regular contribution rate to be based on monetary amounts (rather than a percentage of payroll) from April 2011 to protect the Fund against falling payroll.
New employers, Arm's Length Bodies (ALBs) review and bulk transfers in or out may crystallise funding deficits.	Administering Authority will manage this by adherence to Pensions Committee's policies on the participation of new admission bodies and bulk transfers.

Governance

The Environment Agency as the administering authority for the Environment Agency Active Pension Fund has delegated the responsibility and accountability for overseeing all aspects of management of the Active Fund to the Pensions Committee.

The Pensions Committee is made up of fifteen Members - four Environment Agency Board members, four executive management members, five trade union nominated members, a deferred member and a pensioner member nominated by the Pensions Committee.

The Pensions Committee meets four times a year and has set up a Benefits Group which meets four times a year to advise the Pensions Committee on LGPS regulatory changes and benefits administration and Investment Sub-Group to advise the Pensions Committee on the Fund and fund managers investment performance.

The Pensions Committee has a Scheme of Delegation to enable the Fund administrator and Environment Agency officers and pension Fund administrators to undertake the day-to-day running of the Fund.

8. Monitoring and Review

The Environment Agency's Pensions Committee, as the Administering Authority, has taken advice from the actuary and its investment consultants in preparing this Statement, and has also consulted with the employer.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Environment Agency's Pensions Committee, as the Administering Authority, will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy;
- if there have been significant changes to the Fund membership e.g., as a result of the Government's Arm's Length Body review, or to LGPS benefits e.g., as a result of the Hutton Review;
- if there have been changes to the circumstances of the Environment Agency, as the Employer, to such an extent that they impact on or warrant a change in the funding strategy; and
- if there have been any significant special contributions paid into the Fund.

Approved by the Pensions Committee on 17 March 2011 and will be reviewed in 2013.

Annex 3 – Statement of Investment Principles

The Fund is a final salary (defined benefit) pension scheme with over 23,000 members and assets of £2.1bn as at 31 March 2013. Full details of the Environment Agency Pension Fund and our activities can be found on www.eapf.org.uk.

Regulatory context

This Statement has been prepared by the Pensions Committee of the Environment Agency Board. It sets out the principles that govern our decisions about the investment of the assets of the Active Fund. We will refer to the statement when making investment decisions to ensure they are consistent with these principles. Our fiduciary obligations to Fund members take precedence in the event of a conflict of interest with the Environment Agency's business objectives. 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.

This statement has been made under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("The LGPS Investment Regs") Section 12 that requires that the Environment Agency must (after consultation with such persons as it considers appropriate) prepare, maintain and publish a written statement of the principles governing its decisions about the investment of Fund money. The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and the associated guidance issued by CIPFA in December 2009, entitled Investment Decision-making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles. This can be found in the section 'Compliance with Myners Principles' at the end of this document.

This statement is required to cover the Environment Agency's policy on:

- the types of investment to be held;
- the balance between different types of investment;
- risk, including the ways in which risks are to be measured and managed;
- the expected return on investments;
- the realisation of investments;
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- the exercise of the rights (including voting rights) attaching to investments, if there is any such policy;
- stock lending; and
- statement of compliance with the six Myners Principles.

Strategic and policy context

This Statement outlines the basic framework for investing the assets of the Environment Agency Active Pension Fund. This statement was made and approved by the Environment Agency Pensions Committee on 18 June 2013, after taking advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

The Environment Agency is also required by Local Government Pension Scheme (Administration) Regulations 2008 section 35 and Local Government Pension Scheme (Administration) Regulations 1997 section 76A to publish a separate Funding Strategy Statement for the Active Fund. This sets out the assumptions used by our Actuary in determining the funding level, and sets out a fund-specific strategy for the Fund which is reflected in the investment strategy adopted by the Environment Agency for the Active Fund.

The Statement should be read and implemented in conjunction with the Active Fund's Funding Strategy Statement, Pensions Committee Governance Policy Statement, Responsible Investment Policy, statement of compliance to the UK Stewardship Code and Environmental Overlay Strategy. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is also supplemented by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our annual report and financial statements.

Fund governance

The Pensions Committee Governance Policy Statement sets out how the Active Fund is governed and the role of the Investment Sub-Group and Environment Agency officers with respect to investment matters. The Environment Agency Board appoints Pensions Committee 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 advisors. The Environment Agency Board approves the annual report and accounts of the Fund, which sets out the policies under which the Fund is governed.

The Investment Sub-Group consists of five representatives of the Pensions Committee and receives advice from professional investment staff employed by the Environment Agency, specialist investment consultants, an independent investment adviser, plus our Fund actuary, and other professional advisers as required.

The Investment Sub-Group has delegated responsibility to advise the Pensions Committee on investment strategy and manager structure, to recommend the appointment of fund managers, and to monitor and report on the performance fund managers to the Committee.

Once appointed, Fund Managers are responsible for the day-to-day management of the Fund's assets in accordance with their investment management agreement with the Environment Agency. The Environment Agency has appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. The Environment Agency has also appointed a global custodian who is responsible for the safe-keeping of the directly held assets of the Active Fund and who works in close liaison with each fund manager.

The Active Fund's actuary is responsible for performing a formal valuation of the Active Fund every three years in order to assess the extent to which the assets cover accrued liabilities in order to inform the development of an appropriate Funding Strategy Statement.

Investment objectives

Our return investment objective is to achieve 100% funding on an ongoing basis by 2031, with a reasonable probability of reaching 90% funded by 2022 and our risk objective is to limit the likelihood of a fall in the funding level to below 80% by 2016 and subsequent actuarial valuations.

The aim of these objectives is to achieve a return on our assets which:

- is sufficient to meet Funding Strategy Statement objectives arising from triennial actuarial valuations of the Fund;
- in overall terms, seeks to outperform a fund-specific benchmark;
- contributes towards achieving and maintaining a future funding level of 100%;
- is set at a level which does not force the managers to take unnecessary risks; and
- acknowledges the risks inherent in making investments and have regard to best practice in managing those risks.

In addition the Environment Agency Active Fund seeks to use its influence as a large institutional investor to support and develop best practice in responsible investment, through best practice in corporate governance and environmentally responsible investment.

Choosing investments

Asset allocation

The Environment Agency is responsible for setting the strategic asset allocation of the Fund. It is set after considering the results of an asset and liability modelling exercise. In setting the strategic asset allocation the Environment Agency seeks a medium-term rate of returns sufficient to meet the investment objective, which has been determined as a return of +3.25% over the expected return on gilts. In setting the asset allocation the Environment Agency has also to consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, potential changes to the investment regulations all of which potentially impact on opportunity set for investment, contribution levels, future accruals and opt-outs.

Therefore, after reviewing the investment strategy in 2012, the Environment Agency has adopted a flexible approach to asset allocation, which consists of a broad framework and process for determining specific asset allocation on a more frequent basis.

The broad framework sets out acceptable ranges for specific assets classes rather than fixed amounts. These are set out in the table below. The asset allocation is subject to a range of risk control measures. The framework is intended to be fairly fixed, and to ensure asset allocation remains within acceptable limits but can also be responsive to changes in funding levels, market conditions and other factors.

The asset allocation will be reviewed at least annually by the Pensions Committee who will set a more tightly defined asset allocation, within the ranges below and with reference to the return requirements and acceptable risk, as well as the current funding levels, market conditions and valuations, and with the input of the Fund's advisors. Changes in allocations to lower risk (fixed income) assets in particular will be scrutinised to ensure that the timing and the impact on risk is appropriate. As part of this process the strategic benchmark will be updated. Asset allocation may vary outside the target ranges because of movements in market and the availability of suitable investment alternative investment opportunities.

Previous %	Asset Class	Framework Range %
63	Public Global Equities of which emerging markets	50-63 5-12
10 5 5 - -	Alternatives of which: private equity property infrastructure farmland-timberland	9-20 4-6 3-6 0-4 0-4
 13.5 13.5	Fixed Income Index-Linked gilts Corporate bonds	 5-20 13-28
	Cash	<3

The Environment Agency has a specialist manager structure for the management of the Fund's assets and has delegated the management of the Fund’s investments to external fund managers. These managers have each been given a specific benchmark and performance target. They are required to comply with the investment provisions and limits prescribed in LGPS Investment Regulations 2009.

Subject to these statutory constraints and compliance with both this Statement of Investment Principles and the terms of their Investment Management Agreements, all the managers have full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio.

The EA regularly reviews the balance between exposure to growth assets (public equities and alternatives) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the target asset allocation, rebalances the portfolio back to the target asset allocation. The Fund’s strategic benchmark and manager performance targets and their achievement are publicly disclosed within the Active Fund Annual Report and Financial Statements.

Types of investment to be held

The Fund may invest in any category of investment permitted by LGPS regulations. In selecting categories of investments to invest in, the Environment Agency will, inter alia, have regard to return potential, financial risk, liquidity, management costs and any environmental impacts.

The balance between different types of investment

The Fund will at all times hold a widely diversified portfolio of investments to reduce risk. Each investment manager will hold an appropriate spread of investments and within each asset class the Fund as a whole will seek to have a well-diversified portfolio. The Investment Strategy Framework and asset allocation results in a significant weight being given to equities, which the Environment Agency considers appropriate given the current liability profile and funding position of the Fund, but this will be spread across a range of managers with different approaches and styles.

The Fund’s preference is for segregated portfolio’s, where the Fund is the direct beneficial owner of the underlying investments, but the Fund also uses collective investments (pooled) funds when we consider them to be appropriate, based on considerations including speed of implementations, costs, flexibility, ease of administration and impact on voting and active ownership.

The Fund uses a combination of passive (indexed), enhanced indexed and active approaches to investment management, based on consideration of availability, cost, flexibility and returns potential. Passive approaches aim to deliver the market return of the underlying index and consequently contain a very large number of holdings that seek to replicate the make-up of the underlying market indices. They are used for gilts, equities and corporate bonds, in both pooled and segregated approaches. With global equities, an allocation has also been made to enhanced index and low volatility approaches, which aim to provide improved risk/return characteristics over conventional passive approaches.

The remainder of the Fund will be managed on an active basis, using investment managers to select the investments they consider to have the best return potential, with an average outperformance target of +1.5% p.a. This portion of the Fund is spread across UK equities, overseas equities, corporate bonds, property/real assets, currency and private equity. Specialist managers are appointed to manage specific portfolios within each asset class. Each investment manager is given an individual benchmark, performance and risk targets that are regularly monitored.

The LGPS (Management and Investment of Funds) Regulations 2009 impose limits on certain categories of investments which are complied with by the Fund. These limits are set in Column 1 of Schedule 1 of these Regulations. There is a provision in Section 15 for a fund to change these limits to the higher limits in Column 2 of Schedule 1, if certain conditions are met.

The Pensions Committee considered the increased amount of risk associated with Column 1 and 2 and they do not think it is material and so decided to adopt Column 2.

	Column 1 (from)	Column 2 (to)
All contributions to any single partnership	2%	5%
All contributions to partnerships	5%	30%
Any single insurance contract	25%	35%

In order to meet the LGPS requirements our holdings in passive pooled funds are divided between two insurance contracts, each operating to a limit to the upper limit (35%) defined in Column 2 Schedule 1 and for this to apply for the duration of the Fund holding this insurance product.

Risk

Investment by its very nature is a risk-based activity and the returns achieved, will to a considerable extent, reflect the risks taken. There are a variety of risks to be considered including the risks of loss arising from default by brokers, banks or custodians. The Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Investment risk includes the absolute risk of reduction in the value of assets through negative returns. It cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be mitigated by ensuring that the assets of the Fund are invested across a number of different asset classes and markets. Diversifying assets across different asset classes is widely recognised as being an effective way of minimising the risk of reductions in the value of the Fund's assets.

Investment risk also includes the risk of underperforming the Fund's benchmark. This is a relative risk. Our investment managers can, to a large extent, control risk within the portfolio, relative to the benchmark of the mandate, by using statistical techniques to forecast how volatile their performance is likely to be relative to their benchmark. The Pensions Committee has set each external fund manager a mandate-specific benchmark and agreed suitable targets above that benchmark to control the amount of risk each manager can take. Furthermore, for many of the mandates, this is reinforced by the fee structure payable to the Manager, aligning the Fund and Fund Managers' risk / reward decisions.

Different types of investment have different risk characteristics and return potential. Historically the returns from equities have been higher than from bonds but they are more volatile and risky. In setting the investment strategy the Environment Agency pays regard to the expected risks and returns from various asset classes and the correlation between these returns to target an expected return within an acceptable level of risk.

The Environment Agency also believes that other financially material risks including, but not limited to, corporate governance, climate change, pollution, and other environmental issues, need to be considered and controlled. Our active Fund managers are required to consider these sources of risk (and opportunity) when evaluating investments on our behalf.

The most fundamental risk is that the Fund's assets produce worse long-term returns than those assumed by the Fund's actuary, leading to a deterioration in the Fund's solvency. To achieve the required returns the Environment Agency needs to invest in assets involving a degree of risk and so the EA seeks to manage its investment risk but cannot eliminate it.

Thus, the adoption of a strategic asset allocation and the explicit monitoring of performance and risk relative to targets, constrains the investment managers from deviating greatly from the intended approach, while permitting flexibility to manage the portfolio in such a way as to enhance returns. Further, the decision to appoint more than one investment manager achieves a satisfactory level of diversification of manager risk.

The Fund uses a currency hedging programme to assist in the management of the volatility incurred in investing in non-sterling priced securities. Any overseas fixed interest exposure would normally be hedged. Currency exposure in equities is partially hedged, with the proportion currently set at 60% but reviewed regularly.

Realisation of investments

The majority of the Fund's investments will be made in stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Some investments, notably in private equity and pooled property funds, have limited liquidity. However, given the strong positive cash inflows of the Fund, the Environment Agency is satisfied that a sufficient proportion of the Fund is held in liquid assets to meet any expected or unexpected demands for cash. Our only materially illiquid assets within the Fund are those categorised as alternatives and we do not intend to exceed a 20% allocation in aggregate.

Investments (except private equity that makes capital payments) will normally yield regular income that will either be re-invested in existing or new mandates. The decision whether or not to hold an asset class that is considered to be suitable will only be made on investment grounds taking into account the fiduciary responsibilities of the Fund.

Expected return on investments

It is not possible to control the absolute return on investments but over the long-term the Fund seeks to achieve the returns required to achieve the objectives of its Funding Strategy Statement. In the short-term returns are measured against a Fund specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's Funding Level. Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target, and taken together the entire Fund is expected to out-perform the strategic benchmark for the Fund.

Social, environmental and ethical considerations

The Environment Agency Active Fund recognises the importance of the principles relating to responsible investment and robust corporate governance to help achieve its investment objectives. Accordingly, the Environment Agency has made a statement of compliance with the UK Financial Reporting Council's Stewardship Code and, in respect of investments in the United Kingdom, requires its managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards.

The Environment Agency Active Fund will research, analyse and understand responsible investment, including best practice and the various tools and approaches available to ensure its approach to environmental, social and ethical issues remains in the best financial interest of Fund members.

The Environment Agency Active Fund it is a signatory of the United Nations Principles of Responsible Investment (UNPRI), which is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that environmental, social and corporate governance (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.

The Environment Agency will comply with its fiduciary duty to maximise the risk adjusted investment returns of the Fund. In this context, the Environment Agency recognises that financially material environmental issues, e.g. climate change can adversely impact on the Fund's financial risks and investment returns and thus should be taken into account in the investment strategy and process. Accordingly, the Environment Agency has adopted an Environmental Overlay Strategy (EOS) which requires each of the Fund's investment managers to assess and evaluate environmental risks and opportunities when meeting the senior management of investee companies and before selecting investments for the Fund. To further support the integration of environmental governance in our Fund and in the securities in which we invest, we are signatories to the Investor Statement on Climate Change, the Carbon Disclosure Project (CDP) and its sister projects Water Disclosure Project (WDP) and Forestry Footprint Disclosure Project (FFDP).

Whilst reserving the right to act independently, if it so wishes, the Fund will normally act through partnerships and alliances with other institutional pension funds, shareholder bodies, and asset owner organisations. This will include the UNPRI, Institutional Investors Group on Climate Change (IIGCC) and UK Sustainable Investment and Finance Association (UKSIF), or through its fund managers' membership of other bodies concerned with improving corporate governance such as International Corporate Government Network.

The ability of managers to comply with the EOS is assessed as part of the appointment process. The environmental assessment criteria includes the relative quality, integration and impact of environmental research and information used in external managers' investment management and performance reporting processes, and also the amount of resource they have available to do this.

Each fund manager is required to submit a quarterly compliance report to the Environment Agency, to outline any environmental considerations or analysis that have arisen, and to explain any environmentally controversial investments, as well as any engagement and voting on environmental issues that it has conducted with investee companies. Each active equity and bond manager is also required to assist the Environment Agency in assessing the annual environmental footprint of the Fund.

The Environment Agency also seeks to take advantage of environmental investment opportunities as they arise, subject to their offering acceptable levels of return/risk. Environmental investment opportunities may form part of our global equity, fixed interest, private equity and other portfolios.

Our fund managers are also expected to assess the impact of any financially material social and ethical issues, in relation to future prospects of investee companies, and to take this into account in their decision-making processes. When appropriate, such issues should also be addressed in our managers' regular contact and engagement with the senior executives of companies in which the Fund's assets are invested.

Exercise of rights

Our external fund managers can generally vote all the Active Fund's shares at their discretion, however, in our investment management agreements; we reserve the right to do this ourselves or via a specialist service provider, if we wish to do so. Before appointment, our fund managers have to confirm that they subscribe to the principles of good corporate governance and, when voting at company AGMs, take them into account. In respect of investments in the United Kingdom, this requires its managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. We require our managers to apply the UK Stewardship Code and to adopt the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents. All managers are requested to vote all the Fund's shares and quarterly monitoring reports are provided by our global custodian Northern Trust.

When specific environmental resolutions are proposed at company AGMs, our fund managers are required, wherever possible, to refer such resolutions to the Environment Agency, who will direct the investment manager how to vote the Fund's shares on that resolution. The Environment Agency's policy is to be generally supportive of resolutions calling for greater disclosures of a company's environmental performance or for improvements in environmental practice. Each resolution is considered on its own validity and merits, and due regard is paid to any possible adverse effect on investment performance that our voting may have. Further information is provided in our Voting Policy on Environmental Issues, available at www.environment-agency.gov.uk/pensions.

Stock lending

The Fund does not support or directly engage in stock lending, although some pooled funds in which the Fund invests may have a different policy.

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. Further details and evidence are contained with the documents referenced in our Annual Report and Financial Statements and on our internet sites: www.environment-agency.co.uk/pensions and www.eapf.org.uk.

Myners principle	Evidence of compliance and justifications for non-compliance
Principle 1: Effective decision-making	
Administering authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Our Fund fully follows this principle. • Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing Orders and Pension Funds Scheme of Delegation, clearly set out the governance structure and levels of responsibility of the Committee, Sub-Groups, officers and external suppliers. Our statutory Governance Compliance Statement provides further detail. • All the above documents and other supporting material are contained in a Pensions Committee handbook which is updated each year. • The Pensions Committee retains overall responsibilities for Fund and investment strategy. • The Pension Committee appoints a number of professional external advisers for investment, legal advice, actuarial services and fund management. These are detailed in our Annual Report and Financial Statements. A report on their performance is presented to the Pensions Committee and the Board annually. • The Pensions Committee has a training strategy which is reviewed annually. Conflicts of interest are identified and records maintained and form part of an annual audit. A record of meeting attendance and training is published in our Annual Report and Financial Statements. • Managers are appointed to invest funds following a comprehensive due diligence process and with input from independent investment advisers.

Myners principle	Evidence of compliance and justifications for non-compliance
Principle 2: Clear Objectives	
An overall investment objective(s) should be set for the Fund taking account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Our Fund fully follows this principle. • In setting the investment objective(s), the Pensions Committee, as the Administering Authority, addresses the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes such as equities. This process is informed by actuarial and investment advice and the use of asset-liability modelling techniques to model the range of potential future funding levels and the impact on future contribution rates with reference to the Funding Strategy Statement and Statement of Investment Principles, detailed above.
Principle 3: Risk and liabilities	
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Our Fund fully follows this principle. • In setting the investment strategy, the Pensions Committee, as the Administering Authority, is informed by actuarial and investment advice and asset-liability modelling with inter-valuation monitoring, providing an early warning to the Committee. A summary of the assumptions is detailed in the statement of the Consulting Actuary and risks in the Funding Strategy Statement.
Principle 4: Performance assessment	
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	Our Fund fully follows this principle. • The Environment Agency has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee. • The Pensions Committee meets 4 times a year and has set up an Investment Sub Group which also meets at least 4 times a year to monitor investment performance and developments. • These bodies and officers monitor investment performance relative to benchmarks and the change in the value of liabilities by means of quarterly inter-valuation monitoring reports. • The Pension Committee reviews its effectiveness at each meeting and periodically the outcomes are reported to the Board of the Environment Agency.
Principle 5: Responsible ownership	
Administering authorities should: • Adopt, or ensure their investment manager adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. • Include a statement of their policy on responsible ownership in the statement of investment principle.	Our Fund fully follows this principle. • We have published a statement of compliance with the UK Stewardship Code which, in respect of investments in the United Kingdom, requires its managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards. We also support the Institutional Shareholders' Committee and Association of British Insurers standards in respect of best practice in corporate governance. We expect our new fund managers and/or an engagement and voting overlay service to follow these standards, subject to our specific instructions. Failure to do so could be a breach of the Investment Management Agreement. • In addition to including responsible ownership in our Statement of Investment Principles above, we have separate published policies covering Responsible Investment and our Environmental Overlay Strategy. We are a signatory of the UNPRI.

Myners principle	Evidence of compliance and justifications for non-compliance
Principle 6:Transparency and reporting	
Administering authorities should: • Act in a transparent manner; communicate with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Provide regular communications to scheme members in the form they consider most appropriate.	Our Fund fully follows this principle. • Our Annual Report and Financial Statements details all the material issues relating to the Fund, its investments and administration. It is publicly available in hard copy and via our websites. • Fundfare is our annual publication to members, which includes financial information about the Fund and its investments. Two editions are published - one covering the Active Fund and one for the Closed Fund. • Our Communications Policy Statement details the stakeholders we have identified. It also details the communication channels and delivery targets for member communications.

Approved by the Pensions Committee on 17 June 2013

Annex 4 – UK Stewardship Code compliance statement

Environment Agency Active Pension Fund (EAPF) is fully committed to responsible investment. We believe there is a considerable body of evidence that well governed companies produce better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, could influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies. A summary of our compliance with the UK Stewardship Code is detailed below.

Principle 1 Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	**Our Fund fully follows this principle.** • Our Stewardship responsibilities extend over all the assets held by the Fund. • The EAPF has a comprehensive suite of published policy documents which define how we discharge our Stewardship responsibilities, including but not limited to our Statement of Investment Principles, Responsible Investment Policy and our Environmental Overlay Strategy. • All new Investment Management Agreements (IMAs) include requirements to observe the FRC's UK Corporate Governance Code and UK Stewardship Code. • We do not undertake any stock lending.	**And in practice:** • Our Responsible Investment Review provides comprehensive coverage of how the EAPF has discharged our stewardship responsibilities, including details of the roles and responsibilities of own governance structure, how we consider stewardship from asset allocation, selection and monitoring of managers, voting, engagement and the analysis of our Fund.
Principle 2 Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	**Our Fund fully follows this principle.** • Our policy is published in our Governance Compliance Statement and in our Annual Report and Accounts. • A public register of Pension Committee members' declaration of interests is also maintained and audited annually. • The need to avoid conflicts of interest is also highlighted in our Investment management agreements (IMAs) and contracts with external parties.	**And in practice:** • Declaration of conflict of interests is a standing agenda item at the start of all Pensions Committee and Investment Sub-Group meetings.
Principle 3 Institutional investors should monitor their investee companies.	**Our Fund fully follows this principle.** • We include our Responsible Investment policy and ESG reporting requirements in all our IMAs with all our fund managers and Service Level Agreement (SLA) with our equity engagement overlay provider.	**And in practice:** • Monitoring of specific investee companies is detailed in our quarterly reports and discussed at each fund manger review meeting. • Engagement statistics and summary engagement information is detailed on our quarterly Investment Group and Pensions Committee reports.
Principle 4 Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	**Our Fund fully follows this principle.** • Our Responsible Investment Policy and Environmental Overlay Strategy detail our engagement policies. • We review each manager's policies on engagement and escalation prior to appointment and during quarterly review meetings with our fund managers we review their engagement activity and support the planned escalation of activity.	**And in practice:** • A public report on engagement activity undertaken on our behalf by Hermes EOS (external engagement provider) is available on our website. • We analyse our own portfolio looking at ESG risks to shareholder value and work with our fund managers to address those issues in their activities.

Principle 5 Institutional investors should be willing to act collectively with other investors where appropriate.	**Our Fund fully follows this principle.** • We actively work with other pension funds, asset managers and other organisations to promote responsible investment. These include, but are not limited to, the UNPRI, IIGCC, NAPF and UKSIF. • All our managers work collaboratively with other parties. Collaborative engagements, research and advocacy work is detailed in our quarterly and Annual Report and Accounts to our Investment Group, Pensions Committee and beneficiaries.	**And in practice:** • We worked with our managers to engage with companies in our portfolio as part of our collaborative engagements linked to the Carbon Disclosure Project, Forestry Footprint and Water disclosure. Details in the RI section above. • Our direct engagement is focused on working with other institutional investors and services providers to the financial industry.
Principle 6 Institutional investors should have a clear policy on voting and disclosure of voting activity.	**Our Fund fully follows this principle.** • We delegate the large volume of non-environmental corporate research, engagement and voting to our fund managers or engagement provide and monitor, assess and externally report on this activity. • We detail on what basis our votes are cast and the guidelines we direct our managers to use in voting in our Responsible Policy, for example the Institutional Shareholders' Committee and the National Association of Pension Fund Corporate Governance Policy and Voting Guidelines. • We publish specific guidelines on our Voting on Environmental Issues and publish all the votes on environmental resolutions. • All our equity manager have voting polices and most are publicly available. Similarly, our larger managers publish voting records on their website and others on request.	**And in practice:** • We voted directly on environmental resolutions. Details in the RI section above. Reports on these votes are available on our website. • Information on the voting undertaken on our behalf by Hermes EOS (overlay on our passive index funds) is also available on our website.
Principle 7 Institutional investors should report periodically on their stewardship and voting activities.	**Our Fund fully follows this principle.** • We include a comprehensive annual review of our activities in our Annual Report and Accounts and member communications. A more detailed review is provided in our periodic Responsible Investment Review.	**And in practice:** • A copy of our Responsible Investment Review is available on our website. • Public Engagement Reports are updated quarterly on our website. • We require all our managers to provide with annual assurance on internal controls and compliance through international standard or a UK framework such as AAF01/06.

Approved by the Pensions Committee on 17 June 2013 and will be reviewed in 2014.

Annex 5 – Responsible investment strategy

Introduction

We believe there is a considerable body of evidence that well governed companies produce better and more sustainable returns than poorly governed companies. We also think investors, including pension fund managers and shareholders, can influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

Our strategy and approach is driven by our fiduciary duty to deliver financial returns on our investments. We invest in active and index funds holding shares in most companies, in most stock markets. We distinguish ourselves as a responsible investor, by being an active, responsible owner. As such this policy is addressed to our members, employer(s), regulators, fund managers, service providers and other interested parties.

The Fund complies with the UK Stewardship Code and subscribes to the Myners' Principles of best practice in investment management. This policy should be read and implemented in conjunction with the Pensions Committee Governance Policy Statement, Statement of Investment Principles (including Myners), Statement of Compliance to the UK Stewardship Code and Environmental Overlay Strategy. These provide more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is also supplemented by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our annual report and financial statements. All these documents are available on our website.

Scope

We focus our attention on the quality of corporate governance (and especially corporate environmental governance) of UK, US, EU, Far East and emerging markets assets, in that order and linked to the relative size of our holdings.

The Environment Agency Pension Fund believes in shareholder activism and being an active owner directly, through our managers and dedicated governance overlay providers. We delegate much of the day-to-day environmental, social and governance activities to our managers and overlay service provider. The capability and performance of each manager, in this area, is a key component of our selection and retention criteria. Once appointed, we monitor the activity and success of our managers and overlay service provider on a quarterly basis.

United Nations Principles of Responsible Investment

We continue to be an active member of the United Nations Principles for Responsible Investment (UNPRI), which is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that environmental, social and corporate governance (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.

We complete the annual report on progress in implementing the principles and publish it at www.environment-agency.gov.uk/pensions.

Engagement

We believe that well governed companies reduce the risk to shareholder value and will, over time, produce more sustainable returns compared to poorly governed companies. All of our fund managers regularly engage with companies or funds in which they invest either directly or through a specialist provider, to assess policies, processes and practices. In partnership with our fund managers, we set out engagement priorities, including collaborative engagements, for the forthcoming year.

We delegate the large volume of non-environmental corporate research, engagement and voting to our fund managers or a third party/parties and monitor, assess and externally report on this activity.

Voting

We aim to vote the Fund's shares in all markets, where practicable. Our fund managers vote at their discretion and must confirm that they subscribe to the principles of good corporate governance and, when exercising their vote, take this into account.

We have adopted the Institutional Shareholders' Committee and the National Association of Pension Fund Corporate Governance Policy and Voting Guidelines. In respect of investments in the United Kingdom, we require our managers to have due regard to the UK Corporate Governance Code and, in respect of overseas investments, have due regard to relevant recognised standards.

Regular contact, at senior executive level, with companies in which the Fund's assets are invested, is an important element of both the investment process and good corporate governance. We require our managers to report quarterly on their engagement and the outcomes achieved.

Our fund managers refer "environmental" resolutions to us for advice on voting policy in these areas. We also publish our voting record for all environmental resolutions. We publish the guidelines we use for environmental resolutions and this is available on our website.

Monitoring

We monitor our fund manager's adoption of our corporate governance policies and request that they comply with it and inform us of any future environmental resolutions.

We also meet with our global custodian Northern Trust and their contractor the Institutional Shareholder Service (ISS), through whom our fund managers vote our shares at company AGMs. We also have electronic access to their VOTEX system, through which we can monitor fund managers voting actions.

Disclosure

We believe disclosure underpins good corporate and environmental governance.

We promote the Environment Agency's Active Pension Fund approach and voting actions on environmental corporate governance, sustainability, CSR and environmental issues.

Working in partnerships

The Environment Agency liaises with bodies with similar activism goals, including the UK Sustainable Investment and Finance Association (UKSIF), Institutional Investors Group on Climate Change (IIGCC) and Carbon Disclosure Project (CDP) and its sister projects, Water Disclosure Project (WDP) and Forestry Footprint Disclosure Project (FFDP).

The Environment Agency continues to work with other asset owners to encourage companies to report on their environmental performance. In the UK we publish reports on the environmental disclosure of FTSE all-share companies and we use this in our engagement plan.

We have undertaken collaborative engagements with other asset owners and managers across the world. For example we have partnered the Mercer-led research which considered the implications of climate change scenarios on strategic asset allocation (SAA). It has been hailed as pioneering and a significant step forward in helping pension funds to integrate climate change into their investment strategies in order to reduce risk and maximise investment opportunities.

We expect all our Fund Managers and our engagement and voting overlay service to follow our strategies and policies subject to any Environment Agency specific instructions which should be followed in full failure to do so could be a breach of the Investment Management Agreement.

This policy incorporates the existing Corporate Governance Policy requirements as specified in our Fund Managers Investment Management Agreements.

Approved by the Pensions Committee on 17 June 2013 and will be reviewed in 2014.

Annex 6 – Environmental overlay strategy

Vision

The Environment Agency ("We") will seek to ensure that its future strategy and policies for the investment and management of pension fund assets are financially robust and environmentally credible and, where feasible, through their implementation, will seek to contribute to creating a "greener" business world.

Aim

To be one of the leading public sector pension funds in respect of the implementation of financially robust and environmentally responsible investment policies.

Legal compliance

We will seek to comply fully with the regulatory requirement to include in the Statement of Investment Principles (SIP) details of our policies on social, ethical, environmental (SEE) issues in respect of the selection, retention, realisation of investments and exercise of voting rights.

We will regularly update and develop new policies in light of any future changes to company law, pension's law and codes of best practice in respect of corporate governance and environmental management.

Fiduciary duty

We will fulfil and comply with our fiduciary duty to maximise risk-adjusted investment returns, in the long-term interest of pension fund members. As a result of which, we affirm that we will assess and take account of existing and future financial risks (e.g. climate change and cost of pollution clean-ups and opportunities from environmental issues on clean ups) and financial opportunities from the exploitation of green technology and services.

Capability

We will seek to ensure our pension fund management team possesses high-quality knowledge, skills and experience in respect of financially and environmentally responsible investment, and has access to external research, expertise and training to maintain and develop this capability.

Statement of Investment Principles (SIP)

When preparing and maintaining the SIP, we will be mindful of our overall corporate strategy and corporate environmental governance policies (e.g. encouraging company environmental reporting and disclosure of environmental risks and performance).

Investment strategy

Our investment strategy will seek to take account of the relationship between good environmental management and long-term sustainable business profitability.

We will seek to overlay this environmental strategy across our investment portfolio. We recognise that, when the strategy is applied to investments in equities, bonds, gilts, real assets and private equity, this will involve considering different approaches, constraints, risks, opportunities and potential benefits.

Our main influence will be through our strategic asset allocation, manager structure, manager selection, performance benchmarks, monitoring and reporting and not by getting involved in the day-to-day investment decisions, which is the role of our fund managers.

We will encourage our fund managers to use research on various environmental risk and/or "green" performance rating/ranking tools to identify and avoid financial risks attributable to environmental issues, such as climate change, that could impact negatively on investment returns.

We will, through monitoring their performance, ask our fund managers to explain and justify financially any investment decisions, for example on stock selection which, in our view, are environmentally controversial. We will favour investing on a positive "best in class" selection basis, and encourage the use of engagement rather than negative screening.

Asset allocation

We will periodically review our asset allocation strategy between different investments. We will investigate and evaluate financially the risks/opportunities and performance/potential returns from investing more assets in various types of "green"/SRI funds, taking into account their financial performance relative to other funds.

In 2010 we partnered other asset owners globally, as part of the Mercer-led research which considered the implications of climate change scenarios on strategic asset allocation (SAA). We have integrated the findings into our review of our strategic asset allocation to inform the development of a robust portfolio, where the investment strategy is positioned to reduce risk and maximise investment opportunities presented by climate change.

Based on financial returns we have incrementally increased our allocation to funds and/or fund managers that integrate sustainable responsible investment into their investment decision-making. The details of our investments, the benchmarks and targets are all disclosed in our Pension Fund Annual Report.

We will also examine various types of private equity funds including sustainability, environmental, low carbon, green energy, green technology, green property and sustainable infrastructure, forestry and farmland funds. After researching and evaluating the financial/environmental pros and cons of these funds through normal due diligence processes, we will invest a proportion of our assets in these fund types in order both to stimulate such “green” investment styles and to share the returns.

Fund manager selection

When selecting the Fund’s investment advisers and appointing external fund managers, we will use our standard procurement process. This includes environmental assessment tools and criteria, as well as financial performance criteria and value for money.

The environmental criteria include: the relative quality, integration and impact of environmental research; the information used in external managers’ investment management and performance reporting processes; and the amount of resource that external managers have available for this work.

We are committed to responsible investment and all our fund managers and principal service providers are co-signatories of the United Nations Principles for Responsible Investment, which is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact. The principles reflect the view that environmental, social and corporate governance (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 management agreements

We engage managers using our own model investment management agreement. This has been drafted to meet industry standards of best practice, and will ensure the use of consistent terms and conditions, fund valuation methods, manager fee calculation and payment mechanisms in respect of the various investment mandates. It also includes our corporate governance/environmental policies and disclosure and reporting requirements. External fund managers agree to comply with such requirements as a condition of their appointment.

Performance benchmarks

We will measure our fund managers’ investment performance using either industry standard indices/benchmarks or “customised” versions to track/monitor performance targets. Where appropriate, we may separately monitor other environmental and sustainable indices. We may also use specially constructed versions of these indices to assess our own and various other investment styles. Some assets (such as property and private equity) will need their own “specialised” benchmarks.

Investment management processes

We will inform our asset managers (and those who provide their company research information) about our own environmental data, be it publicly available or obtainable from us, which is potentially financially significant (e.g. on climate change). Such information could relate to environmental risks (e.g. our operator performance risk assessment scores), emissions (e.g. our Pollution Inventory) and performance. Our aim is to help inform, but not interfere with, independent investment management processes. We affirm that the purpose of all such information exchange with managers is to help deliver sustainable high financial returns on our investments.

Shareholder activism, engagement and voting

We will aim to comply with the UK Stewardship Code, UK Corporate Governance Code and Myners principles as an active investor, focusing on companies whose environmental behaviour and performance are currently impacting negatively on short or long-term investment returns. We will normally do this through partnership and alliances with other pension fund groups (e.g. UNPRI, UKSIF and IIGCC) to increase the impact of our policies. However, we reserve the right to act independently where necessary.

We will encourage our asset managers (or an engagement or voting overlay service provider) to actively engage with the top management of those companies they invest in. This is to help improve the companies’ performance in both financial and environmental terms. We will also encourage voting on key resolutions concerned with corporate governance and environmental issues.

We will provide our asset managers (or an engagement and voting overlay service provider) with details of our corporate governance, environmental policies and preferred voting stances, for example, in respect of companies that do not report on their green house gas emissions and environmental performance in their annual reports and accounts.

Performance monitoring and reporting

We will assess the compliance of both the investment processes and the decisions of external fund managers with our SIP policy statements and IMA requirements. This will be part of regular review meetings to discuss quarterly fund management performance and company engagement and voting reports.

We will receive an annual report on fund managers' compliance with the SIP's "green" policies. We will also report on our own environmentally related activities. These reports will be summarised in the Pension Fund Annual Report.

Performance benchmarking and assessment

We will periodically benchmark the environmental investment performance of our fund managers, and also this environmental investment strategy, against other public sector and private pension funds. We will take action as required to improve both their relative performance and this strategy.

Research and development

Resources permitting, we will undertake some SRI research in-house and/or support joint studies with other pension funds and organisations that have interests in environmental or sustainable investment. We will do this to inform our own policies.

Collaboration

We will join and/or collaborate with other organisations with environmental goals. Such organisations include the UNPRI, Institutional Investors Group on Climate Change (IIGCC), UK Sustainable Investment and Finance Association (UKSIF), Carbon Disclosure Project (CDP) and its sister projects Water Disclosure Project (WDP) and Forestry Footprint Disclosure Project (FFDP).

Communication and disclosure

We will communicate our approach to sustainable environmentally responsible pension fund management, and report on the "green" performance of our pension fund.

We will do this on our intranet (Easinet), our website pages (www.environment-agency.gov.uk and www.EAPF.org.uk) and in publications such as the Pension Fund Annual Report and Fundfare, a members' booklet. Users of this information will include staff, pensioners, other pension funds and policymakers in Government.

Continuous improvement

We will ensure our Pensions Committee is regularly advised and updated on external developments and on our own performance in this area. We will keep our policies and approach under continual review so as to improve their efficacy.

Approved by the Pensions Committee on 17 June 2013 and will be reviewed in 2014.

Annex 7 – Communications Policy Statement

Introduction

The Environment Agency Pension Funds (EAPF) are part of the Local Government Pension Scheme (LGPS).

With effect from 1 April 2013 the Active Fund has two employers – the Environment Agency (EA) and Natural Resources Wales (NRW).

The Active Fund is open to all EA employees with a contract of three months or more and to those employees of Natural Resources Wales who transferred from the EA on vesting day. It has 11,400 active members, 6,600 deferred members and 5,100 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 active members, 3,300 deferred members and 15,300 pensioners.

This is the eighth Communications Policy Statement for the EAPF and is effective from 17 June 2013.

We have an agreed strategy for implementing a move to more electronic communication which commenced in 2012 and will continue during 2013. The changes are reflected in this policy statement. In particular we have developed our website www.eapf.org.uk to try to provide everything members want to know about their pensions in one place. We will continue to maintain a range of information at www.environment-agency.gov.uk/pensions. The intranet (EA's Easinet and NRW's Extranet) contains details of the employer related aspects of pensions such as policies on contributions, use of discretions etc.

Any enquiries in relation to this Communication Policy Statement should be sent to:
Head of Pension Fund Management
Horizon House
Deanery Road
Bristol BS1 5AH

Email: info@eapf.org.uk

Tel: 0117 934 5094

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.

(1) The authority—

(a) must keep the statement under review;

(b) make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3); and

(c) if revisions are made, publish the statement as revised.

(2) The matters are—

(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;

(b) the format, frequency and method of distributing such information or publicity; and

(c) 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 time-scales 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, supported by the Finance Director and the Pension Fund Management team and a variety of external advisors, taking overall responsibility for Administering Authority functions. The EA's Director of Resources and Legal Services and the HR Pensions Team perform 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 15 members made up of 4 Board members, 3 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, 1 pensioner nominee and 1 deferred member nominee. The Committee is supplemented by the Investment Sub Group and the Benefits Sub-Group, where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group and 1 Trade Union nominee, the deferred member nominee and the pensioner nominee on the Benefits Sub-Group.

Responsibilities and resources

Administration of the EAPF is the responsibility of the EA 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 supported by the Pension Fund Management team in Finance, the HR Pensions' team in Resources and Legal Services 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 EA 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:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- the employing authorities – Human Resources (HR) & Payroll;
- the EA Board and executive managers;
- Pensions Committee members;
- recognised Trades Union representatives;
- pensions staff in Finance & HR and at the Funds' administrator;
- professional advisors and Funds' investment managers;
- EA and NRW sponsors - Defra & Welsh Government (WG);
- our auditors - National Audit Office (NAO);
- the LGPS Scheme regulator - Department for Communities and Local Government (DCLG);
- pensions and investment Media; and
- other stakeholders/interested parties and external bodies.

How we communicate

General communication

We currently still use paper-based communication as one of our main means of communicating, for example, by sending letters to our scheme members.

During 2012-13 we increased our use of electronic means to communicate with our members and other stakeholders. In particular, we refreshed our website www.eapf.org.uk making it easier to navigate and adding a range of new short guides for members as well as more information about the management of the funds. We also added a link to a new section called EAPFonline, giving members access to their own personal information, including benefit statements and pensioner pay slips. During 2013 we will be reviewing the content we currently have at www.environment-agency.gov.uk/pensions and ensuring that the intranet (EA's Easinet and NRW's Extranet) holds all the employer related information that members and non-members need. We accept email communication and respond electronically where possible.

Capita provides a freephone telephone help line and a dedicated email address for all Fund members. These are widely publicised in Fund literature.

The government introduced automatic enrolment in 2012. The EA staging date was 1 March 2013 and NRW have a staging date of 1 July 2017. Operating automatic enrolment is an employer responsibility so, although there is a limited amount of administering authority involvement, it is outside the scope of this document.

Branding

The EA in its role as administering authority produces all Pension Funds literature and communications, as far as is practical, in line with the corporate branding of the EA.

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

So as to measure the success of our communications with active, deferred and pensioner members, we will 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
Annual estimated Benefit Statements as at 31 March	Active & deferred members	By 1 April the following year	31 July each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at Normal retirement date)	Active 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)	Active 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/active 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	Active/Deferred members	Not applicable	Within five working days
Changes to scheme rules	Active/deferred and 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 five working days (once published)
Fundfare	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 Informal mechanisms to monitor the quality of our communications. All our publications and our website include invitations for comment on content and offer suggestions for future editions and contact details are provided. 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 Fundfare. Full details will be reported regularly to our Pensions Committee.

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 and www.environment-agency.gov.uk/pensions . Paper copies are available on request.

Approved by the Pensions Committee on 17 June 2013 and reviewed annually.

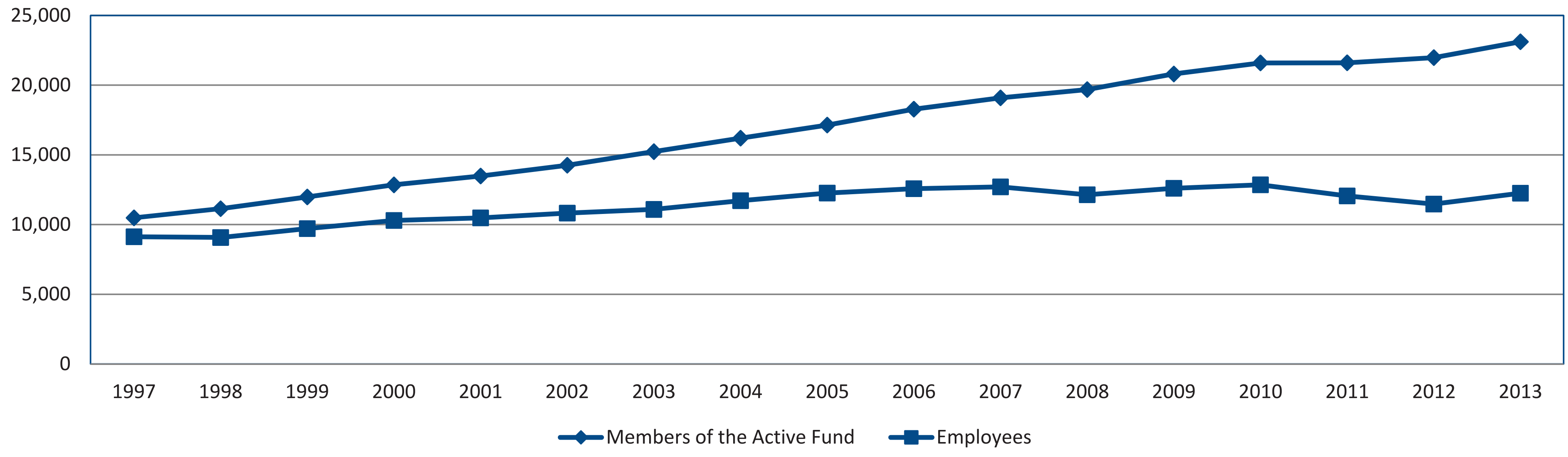
Additional information

Summary of Fund membership, total employees and financials as at 31 March

Fund membership	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Members	8,346	8,670	9,142	9,692	9,936	10,264	10,494	11,031	11,615	11,844	11,926	11,348	11,741	11,990	10,954	10,628	11,379
Deferred members	752	921	1,130	1,291	1,548	1,834	2,426	2,668	2,801	3,521	4,050	4,839	5,244	5,518	6,130	6,425	6,624
Pensioners	1,384	1,548	1,710	1,865	1,999	2,157	2,310	2,501	2,721	2,913	3,114	3,496	3,816	4,087	4,521	4,924	5,111
Total	**10,482**	**11,139**	**11,982**	**12,848**	**13,483**	**14,255**	**15,230**	**16,200**	**17,137**	**18,278**	**19,090**	**19,683**	**20,801**	**21,595**	**21,605**	**21,977**	**23,114**

No. of employees	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	**9,123**	**9,073**	**9,707**	**10,296**	**10,476**	**10,824**	**11,087**	**11,714**	**12,261**	**12,577**	**12,700**	**12,142**	**12,600**	**12,849**	**12,054**	**11,363**	**12,252**

Time series of Environment Agency employees and members of the Active Pension Fund.



Financial summary (£m)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Contributions, transfer values received and investment income less investment expenses	36	46	92	47	59	58	54	62	68	78	79	88	101	108	116	133	111	99
Benefits and other payments	(13)	(12)	(14)	(16)	(20)	(22)	(23)	(26)	(29)	(28)	(36)	(37)	(51)	(51)	(57)	(64)	(71)	(64)
Excess	23	34	78	31	39	36	31	36	39	50	43	51	50	57	59	69	40	35
Change in market value of investments	87	34	124	39	113	(105)	(34)	(254)	171	83	235	78	(80)	(421)	404	101	56	231
Net increase/ (decrease) in Fund value	110	68	202	70	152	(69)	(3)	(218)	210	133	278	129	(30)	(364)	463	170	96	266
Market value of Fund	**574**	**642**	**844**	**914**	**1,066**	**997**	**994**	**776**	**986**	**1,119**	**1,397**	**1,526**	**1,496**	**1,132**	**1,595**	**1,765**	**1,861**	**2,127**

Enquiries

Any enquiries regarding this Report should be addressed to:

Head of Pension Fund Management
Environment Agency
Horizon House
Waterside Drive
Deanery Road
BRISTOL

BS1 5AH
Tel: 0117 934 4600
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
2 Cutlers Gate
SHEFFIELD
S4 7TL

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

The Annual Report and Financial Statements are also available on the Environment Agency's websites:

www.eapf.org.uk

www.environment-agency.gov.uk/pensions

www.environment-agency.wales.gov.uk/pensions
The Environment Agency Active Pension Fund is registered with the Pension Schemes Registry No. 10079069

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