Environment Agency
Pension Fund

Closed Pension Fund

Annual Report and Financial Statements for the year ended 31 March 2022

Environment Agency Closed Pension Fund

Annual Report and Financial Statements 2021/22

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Environment Agency Pension Fund (EAPF) Chair's statement

As Chair of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Closed Pension Fund, I am pleased to present the Fund's Annual Report and Financial Statements for the year ended 31 March 2022.

I am delighted to report how successfully the EAPF has responded to the incredible challenges of the last year. We continue to operate in a period of rapid change and uncertainty. Whether social, political, technological, or climatic, which impact everyone, to those more specific to us as a Fund, change and uncertainty are all around us. These all bring opportunities and risks and demonstrate the need for our robust approach to protecting our Pension Fund members and employers, investing responsibly, and ensuring good governance. The Committee were very reassured that the independent assessment of our governance in 2021 confirmed "the effectiveness of EAPF governance arrangements is of an extremely high standard".

During the year the total number of pensioners and deferred members fell from 11,373 to 10,707. At 31 March 2022, the net assets of the Fund were valued at £329m (2021: £310m) and the Fund's liabilities were £453m (2021: £535m). To match the duration of the Fund's liabilities, the investment management of the assets are spread across six index linked gilts managed by Sarasin & Partners LLP. Over the three years to 31 March 2022, the annualised investment rate of return was +5.3% (2021: +3.3%). Our latest formal triennial valuation of the Fund as at 31 March 2019 reflected a funding level of 51% (2016: 31%). The estimated funding level as at 31 March 2022 is 72% (2021: 57%).

Since the Fund has no contribution income, under Section 173 of the Water Act 1989, the Government has a statutory obligation to ensure that the Fund can always meet its pensions and other related liabilities. Deferred members, pensioners and their dependents can therefore be reassured about the long-term security of their pension benefits. Under the terms of letters between Her Majesty's Treasury and the Department for Environment Food & Rural Affairs (Defra), and between Defra and the Environment Agency and the Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency, the Fund receives grant-in-aid from Defra. During the year, payments amounting to £47.9m (2021: £51.6m) were received and used to meet the Fund's obligations to meet pensions and other liabilities.

Finally, I wish to thank the Pensions Committee for its continued hard work and diligence. On behalf of the Committee, I also thank everyone involved, including our Pension Fund Management Team, employers, and external contractors in managing and supporting the Environment Agency Closed Pension Fund.

We will continue to keep you updated on our work through **www.eapf.org.uk**

Robert A. Gould.

Robert Gould
Chair, Environment Agency Pensions Committee
19 October 2022

About the Environment Agency Pension Fund

LGPS background

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

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

LGPS regulations

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

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

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

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

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

State Pension provision and the Pensions Act 2014

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

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

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

LGPS responsibilities

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

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

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

Changes to the Local Government Regulations during 2021/22

Whilst no direct amendments were made to Local Government Pension Scheme Regulations, a local government order was made in January 2021, which took effect from 6 April 2021, that made a small modification to the Regulations by including a reference to the newly formed West Yorkshire Combined Authority (i.e. introducing the office of ‘Mayor’ to West Yorkshire); **as point of clarity, this modification does not affect the Environment Agency Pension Fund, nor any of its members.**

Other significant legislative changes affecting LGPS during 2021/22

Several pieces of overriding legislation came into force during 2021/22; these pieces of legislation, and the effect they had on the Local Government Pension scheme, were as follows:

- **The Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc.) (Amendment) Regulations 2022.**

  Following the DWP’s consultation on the ‘Stronger nudge to pensions guidance’, Regulations were laid, which come into effect from 1 June 2022.

  From the LGPS’ perspective, the new ‘nudge’ rules apply to members aged 50+, who also have an in-house AVC fund; where such a member wishes to:

  - claim payment of their AVC fund (must be done at same time as their main Scheme benefits), or
  - transfer their AVCs fund to another pension arrangement,

  The member will need to have an appointment with Pension Wise, who’ll provide them with guidance, or confirm in writing that they waive their right to receive such guidance. As part of the new process, administrators will be required to:

  - offer to book a Pension Wise appointment on behalf of the member (and where the member accepts, take steps to book it);
  - where the member doesn’t accept the offer (or where, after reasonable steps being taken, the administrator is unable to book the appointment), the member is given details of how to book a Pension Wise appointment; and
  - inform the member that an application to claim payment of/transfer of AVCs can’t proceed without the member confirming that they’ve received the Pension Wise guidance, or that they’ve waived their right to receive such guidance.

  There are a number of exceptions to the above, as well as circumstances under which a person may waive their right to the guidance.

- **Public Services Pensions and Judicial Offices Act 2022**

  The Act provides confirmation as to those members who are now in scope for the McCloud remedy. However, further clarification on how the remedy will be applied within the confines of the LGPS regulations is needed, which will be achieved via specific amendments to the LGPS Regulations.

  The Government was aiming to release its consultation response to the proposed LGPS amendments during Q1 2022, with expectations that further amendments would be made to the draft LGPS amendment regulations, which, again, would need to be consulted on (with the changes coming into force in October 2023). However, at the time of writing (i.e., at the start of Q2), the Government's consultation response and updated draft LGPS amendment regulations are still to be published.

- **Finance Act 2022 (2 items)**

  (1) Timescales changed for annual allowance Mandatory Scheme Pays

  The timescales for members to make or amend a Mandatory Scheme Pays election when paying an annual allowance charge have changed with effect from 6 April 2022; the changes will apply when the information used to calculate a member's pension savings is retrospectively amended.

  (2) Change to Normal Minimum Pension Age (NMPA)

  The NMPA, which is the earliest age at which a person can claim their pension benefits (excluding those members retiring on ill health or are members of the 'uniformed' services) will increase to 57 from April 2028.

  However, the Local Government Association are still waiting on the Department for Leveling Up, Housing and Communities (DLHUC) to clarify whether they'll amend the LGPS to introduce a protected pension age, thereby allowing existing members to retain the previous NMPA of 55; once the DLHUC clarify whether they'll be introducing a protected pension age, we'll be able to determine what comms/procedures/guidance need to be updated.

Pension Fund governance

Introduction

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

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

Objectives

Our main governance objectives are to:

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

Regulatory background

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

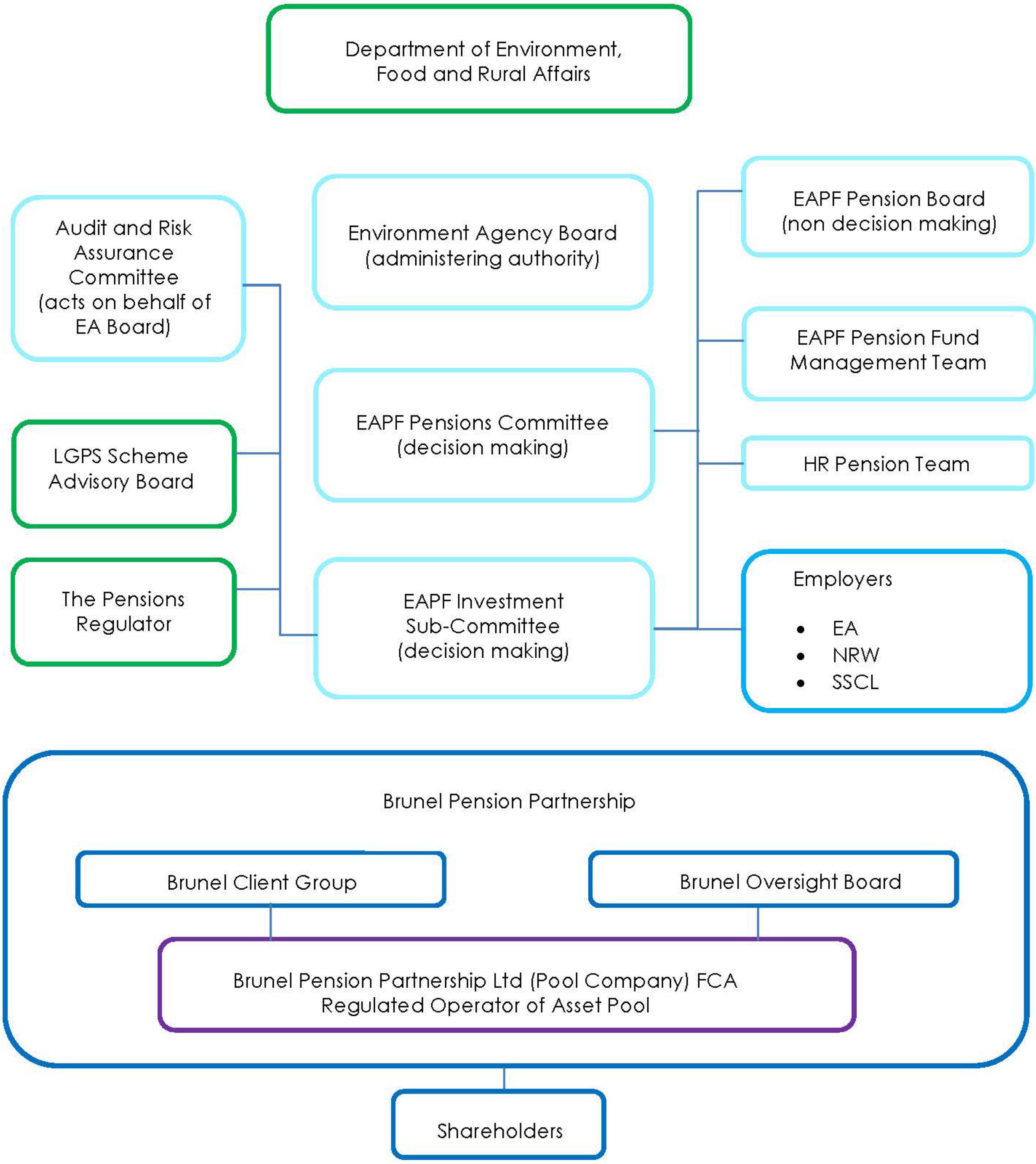
Our Governance structure

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

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

EAPF Pensions Committee and summary governance structure

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



Pension Fund membership

The Fund exists to pay the current and deferred benefits of employees of the former water authorities and associated bodies, which existed prior to 1 September 1989. There are no contributing members. During the year since 1 April 2021, the number of deferred members has fallen by 7.0% from 888 to 826 (2021: fell by 10.9%). The number of pensions in payment fell by 5.8% from 10,485 to 9,881(2021: fell by 6.2%). With no active members in the Fund, this will be a similar pattern for the future. However, dependents and deferred pensions coming into payment will serve to maintain the number of current pensioners for some years to come.

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

Movement in number of members	Pensioner members	Deferred members	Total
At 1 April 2021	**10,485**	**888**	**11,373**
Adjustment for late notifications	41	(30)	11
Revised opening balance	10,526	858	11,384
Add:			
New pensioners	31	-	31
New dependants' pensions	104	-	104
Less:			
Deaths/no longer eligible/suspended	(768)	(1)	(769)
Deferred pensions into payment		(31)	(31)
Commuted benefits	(12)	-	(12)
At 31 March 2022	**9,881**	**826**	**10,707**

Age profile of pensioner members at 31 March				
	2022		**2021**	
	No.	**%**	**No.**	**%**
Child dependants	52	0.5	57	0.5
Pensioners and spouses				
Under 55	9	0.1	13	0.1
55-59	56	0.5	73	0.7
60-64	756	7.7	955	9.1
65-69	1,440	14.6	1,472	14.0
70-74	1,509	15.3	1,547	14.8
75-79	1,362	13.8	1,299	12.4
80-84	1,321	13.4	1,499	14.3
85-89	1,642	16.6	1,799	17.2
90-94	1,276	12.9	1,331	12.7
95-99	400	4.0	396	3.8
100-108	58	0.6	44	0.4
Total	**9,881**	**100**	**10,485**	**100**

Age profile of deferred members at 31 March				
	2022		2021	
	No.	%	No.	%
45-49	0	0.0	1	0.1
50-54	104	12.6	146	16.4
55-59	363	43.9	417	46.9
60-64	241	29.2	228	25.7
65-69	88	10.7	72	8.1
70-74	23	2.8	20	2.3
75-79	6	0.7	4	0.5
80+	1	0.1	0	0.0
Total	**826**	**100**	**888**	**100**

Pensions increase

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

Our pensions in payment and deferred pensions received an increase from 11 April 2022 of 3.1% (12 April 2021: 0.5%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2013:

April %	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Increase	2.2	2.7	1.2	0.0	1.0	3.0	2.4	1.7	0.5	3.1

Key governance documents

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

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

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

Monitoring governance of the EAPF

The Fund's governance objectives are monitored as follows:

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

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

EAPF Governance

Pensions Committee, Investment Sub Committee and Pension Board membership

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

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

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

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

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

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

During the year, Lilli Matson, Environment Agency Board member, replaced Emma Howard Boyd on the Pensions Committee.

Ian Brindley resigned from the Pensions Committee on 31 March 2022 and has been replaced by Greg Black for a 3 year term to 31 March 2025.

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

As at 31 March 2022	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment

Board members

Robert Gould	PC, ISC, PB	18/10/2018	3 yr 5 mth	31/03/2025	3 yr 0 mth
Caroline Mason	PC, ISC, PB	03/12/2018	3 yr 4 mth	31/03/2024	2 yr 0 mth
John Lelliott	PC, PB	12/12/2019	2 yr 4 mth	31/03/2024	2 yr 0 mth
Lilli Matson	PC, PB	30/09/2021	0 yr 6 mth	31/03/2025	3 yr 0 mth
Emma Howard Boyd	PC, ISC, PB	18/10/2012	Resigned	29/09/2021	N/A

Administering Authority Executive Manager nominees

Peter Kellett	PC, ISC	01/02/2018	4 yr 2 mth	N/A	N/A
Phil Lodge	PC, ISC	16/05/2018	3 yr 11 mth	N/A	N/A

Non-Environment Agency Executive Employer representative

Rachael Cunningham	PC, PB	07/09/2020	1 yr 7 mth	06/09/2023	1 yr 5 mth

Contributing member nominees and representatives

Colin Chiverton	PC, ISC, PB	01/04/2013	9 yr 0 mth	31/03/2023	1 yr 0 mth
Will Lidbetter	PC, ISC, PB	01/08/2016	5 yr 8 mth	31/07/2025	3 yr 4 mth
Danielle Ashton	PC	01/02/2018	4 yr 2 mth	31/01/2024	1 yr 10 mth
Veronica James	PC	16/05/2019	2 yr 11 mth	15/05/2025	3 yr 1 mth
Greg Black (shadow)	PC	01/04/2022	0 yr 0 mth	31/03/2025	0 yr 0 mth
Ian Brindley	PC, ISC, PB	01/11/2014	Resigned	31/03/2022	N/A

Pensioner and deferred members

Peter Smith	PC, PB	14/05/2015	6 yr 11 mth	13/05/2024	2 yr 1 mth
Hywel Tudor	PC, PB	14/05/2015	6 yr 11 mth	13/05/2024	2 yr 1 mth

Committee member biographies

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

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

Emma Howard Boyd CBE is Chair of the Environment Agency, an Ex officio board member of the Department for Environment, Food & Rural Affairs, an Advisor to the Board of Trade, and interim Chair of the Green Finance Institute. Emma is a board member or advisor to many organisations including The Prince's Accounting for Sustainability Project, the Coalition for Climate Resilient Investment, the Centre for Greening Finance and Investment, the Council for Sustainable Business, the European Climate Foundation, and Menhaden PLC. Emma was the UK Commissioner to the Global Commission on Adaptation from 2018 until its sunset in January 2021. Previously, Emma was Chair of Trustees at ShareAction from 2015 to 2018, Vice-Chair of the Future Cities Capital from 2013 and 2018, and acted as a Non-Executive Director at the Aldersgate Group (2012 -2018) and Thrive Renewables (previously Triodos Renewables, 2004-2012). Before that, she held various executive roles at Jupiter Asset Management.

John Lelliott OBE is currently a Non-executive Director of Covent Garden Market Authority where he chairs the Audit and Risk Committee and Non-executive of University Hospitals Dorset where he Chairs the Sustainability Committee. He is also Non-executive Director of the Capitals Coalition as well as a Trustee of the Charities JTL and Centre for Sustainable Healthcare. John is a member of H.R.H the Prince of Wales A4S Advisory Council and also chair of the ACCA Global Forum of Sustainability.

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

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

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in Thames Area and has been an active member of the EAPF for 30 years. Colin has attended many training events on the LGPS and completed the Pensions Regulator's Public Service training. He has developed his knowledge on pension fund investment and management. He is the Pensions Representative of Prospect Union's Environment Agency Branch.

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

Danielle Ashton has been a member of the LGPS for 24 years. She is a contributing member representative of the committee since 2017 following open recruitment. She is employed by the Environment Agency as a Research Manager in Environment and Business working on land and net zero research issues. She has attended a series of training events run by the LGPS and will continue to develop her knowledge on pension management and investment. Danielle has attended a company AGM on behalf of the pension fund to raise the issue of their approach to climate change.

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

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

Hywel Tudor is a deferred pensioner member of the EAPF having previously worked for the National Rivers Authority and Environment Agency in Wales. He was a Pension Trustee on the Board of the Arts Council Retirement Plan for over 15 years and joined the EA Pension Committee and Pension Board in 2015. During this time, he attended numerous pension training events and gained wide ranging experience. A qualified accountant (FCMA, CGMA) with senior management experience in the public, private and charity sectors, he was prior to retirement the Director of Finance & Resources for the Arts Council of Wales. Hywel currently holds independent non-executive roles with the National Library of Wales and with Sport Wales.

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

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

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

Greg Black (Reserve Active member representative) joined the committee in 2019 and is looking forward to increasing his knowledge of pension funds and investments. He is a Senior Nuclear Regulator with a PhD in Nuclear Engineering and strong background in data analysis. Greg is already getting involved by attending AGM's of companies we invest in to raise questions related to our responsible investment policy.

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

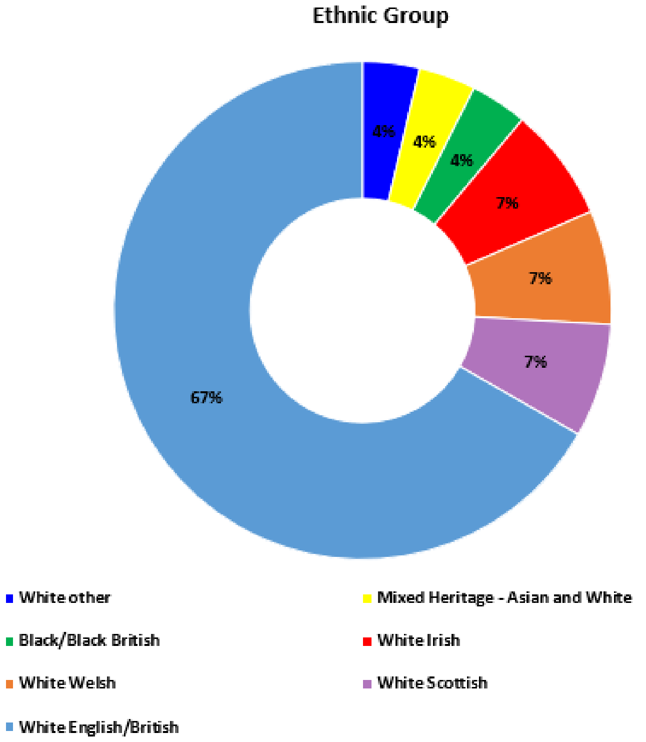
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

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

Committee members	Pensions Committee meeting 4 in total	Investment Sub-Committee 9 in total	Pension Board meeting 1 in total	Total attendance
Board members				
Robert Gould (Chair)	4/4	9/9	1/1	14
Emma Howard Boyd	2/2	0/4	-	2
John Lelliott	3/4	-	1/1	4
Caroline Mason	3/4	9/9	1/1	13
Lilli Matson	1/2	-	0/1	1
Executive members				
Peter Kellett	4/4	8/9	-	12
Rachael Cunningham	3/4	-	1/1	4
Phil Lodge	3/4	7/9	-	10
Active members				
Danielle Ashton	4/4	-	-	4
Ian Brindley	4/4	9/9	1/1	14
Colin Chiverton	4/4	6/9	1/1	11
Veronica James	3/4	-	-	3
Will Lidbetter	4/4	9/9	1/1	14
Greg Black (Shadow)	4/4	-	-	4
Pensioner members				
Peter Smith	4/4	-	1/1	5
Hywel Tudor	3/4		1/1	4

Diversity

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



Pensions Committee business during 2021/22

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

Our key activities included:

a) Management of EAPF related risks.

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

From early 2020, the Pensions Committee has been managing the EAPF risks from the coronavirus global public health crisis. The Pension Fund Management team implemented their business continuity arrangements and focused on business-critical activities, in line with Environment Agency and Pensions Regulator guidance. We have also reviewed business continuity arrangements with all our providers and investment managers.

Our principal concern has been looking after our members. Whilst the situation has improved, we continue to work closely with Capita, our pension administrator and the HR Pensions team. We will always focus on the payment of pensions, retirements and dealing with bereavements.

In addition, the volatility in the global markets impacted both our funding position and assets. The Investment Sub Committee have been regularly monitoring and taken appropriate investment and funding advice. We set long term strategies to manage our risks, we remain in a very positive funding position. **We will keep things under review and provide updates via www.eapf.org.uk**.

b) Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change.

During March 2021, we agreed our updated "Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change". We were delighted to agree this updated policy following detailed Committee discussion and investment and legal advice. We are one of the first public sector pension funds to make this commitment and have a clear roadmap to achieve this ambition.

The implementation of our new policy has been a key focus of both the Investment Sub Committee and Pensions Committee over the last year. **You can find more details online at www.eapf.org.uk.**

c) Implementation of our Investment Strategy

The ongoing Implementation of the Government's requirement to pool our assets with other LGPS Funds has been a large area of focus for the Pensions Committee and Investment Sub Committee during 2021/22. Along with nine other Administering Authorities, we established the Brunel Pension Partnership in 2017 to implement the Government's requirement to pool the management and investment of our assets with other LGPS Funds. Our pooling company, the Brunel Pension Partnership Ltd (Brunel Ltd) became operational in April 2018. We own a 10% shareholding in Brunel Ltd. The Closed Fund does not currently participate in the pool.

Following the results of our actuarial valuation during 2022, we will agree an updated investment strategy to be implemented over the next 3 years.

d) Triennial actuarial valuation

Our Fund actuarial valuation is due on 31 March 2022. Whilst the Fund remains in a healthy funding position, the Committee started preparing for the valuation at its September and December 2021 meetings. We discussed and agreed data cleansing, training, assumptions and timetable. At our March 2022 meeting, we provisionally endorsed employer contribution rates for 2023 onwards. Our valuation results and final contribution rates will be agreed during 2022.

We will keep members updated on progress and results through our newsletter and at **www.eapf.org.uk.**

e) Benefits administration

Following a rigorous procurement process, the Committee agreed the reappointed of Capita as our Pensions Administrator at our September Committee meeting. Our members are core to everything we do as a Fund and ensuring the right level delivery of service is critical from our administrator. As part of the new contract implementation, we will continue our work with Capita to keep improving this. A more detailed update on administration and communication can be found on page 34. **We have also rolled out improvements to our website at www.eapf.org.uk**.

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

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

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

The NAO's audit strategy was presented at our December 2021 meeting. Our Annual Report and Financial Statements for 2020/21 were laid in Parliament in July 2021, a fantastic achievement given wider challenges.

We are also audited by the Environment Agency’s internal audit team. During 2021, their scope focused on the Brunel Pension Partnership business case and involved a review of basic documents such as the annual report disclosures for 2020/21; the Brunel full business case; the financial model; the Brunel savings model for CIPFA reporting; and other relevant documents.

Internal audit were pleased to report that the Environment Agency Pensions Fund (EAPF), in line with recommended good practice guidelines of the Chartered Institute of Public Finance and Accountancy (CIPFA), has reported actual costs against the Original Business Case (OBC) budget for the third year running in 2020/21, with adequate and effective financial monitoring controls. All agreed actions from their prior year report have been implemented fully.

g) Pensions Committee Governance

The Committee regularly reviews and updates Fund policy and strategy documents. During the year, we agreed a new Knowledge and Skills Policy and Procedure for reporting Breaches of the Law. We also agreed minor changes to the Investment Strategy Statements and our Governance Policies.

The Committee reviewed its effectiveness during 2021 in conjunction with our Governance advisers, Aon. Aon undertook a confidential and in-depth survey of PC Members' views in 2021 about how members thought the Fund was being run. In addition, Aon analysed the Fund's approach against their Governance Effectiveness Framework. Aon concluded that the effectiveness of the EAPF governance arrangements is of an extremely high standard. More information on the survey can be found under the Pension Board report on page 24.

The Pensions Committee also approved the Fund business plan and budget for 2022/23 at the March 2022 meeting. This is an annual process.

Pensions Committee training

In 2021/22, we approved a new Knowledge & Skills Policy. This incorporated the recommended standards that trustees and officers should know, as outlined in the CIPFA guidance which was released last year.

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

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

Some training is provided jointly to all Members and officers. This is because it may be a priority in our business plan, a high risk to the Fund or many Committee Members have recognised the need for training on that subject in their training plans.

Pre-Covid, joint training was always done through in-house, in-person training days or as part of a formal Committee meeting. Last year, due to Covid-restrictions, all the training was done online in shorter, sharper bursts. For both Members and officers, the amount of training undertaken was greater than in 2020, reflecting the increased familiarity, availability and use of online facilities.

Last year, the PC received training on the following issues

- Equity strategy review
- Paris Aligned Passive Equity Portfolios
- Sustainable equities
- Liability Driven Investment
- Private Markets
- Fossil fuels & level of transition risk
- Cyber security
- New CIPFA code on knowledge and skills
- Actuarial valuation

In addition, there was individualised training to meet specific needs. This was typically attending third-party webinars or training courses online.

In 2021/22, each Pension Committee Member undertook an average of 16 hours of training. On average, each EAPF officer undertook an average of 22 hours of training.

PC Training Log 2021/22	Liability Driven Investment	Governance Training	Private Markets Fundamentals and Terminology	Sustainable Equities	Brunel Paris Aligned Passive Equities Portfolios	Fossil Fuels	Cyber Security	Actuarial Valuation	Wider Pension Conferences & Training
EA Board members									
Robert Gould – PC Chair	✓	✓	✓	✓	✓	✓	✓	✓	✓
Emma Howard Boyd		✓							
Caroline Mason	✓		✓	✓				✓	
John Lelliott						✓	✓	✓	
Lilli Matson		✓							✓
Executive members									
Rachael Cunningham (NRW)		✓				✓		✓	✓
Peter Kellett	✓	✓	✓	✓	✓	✓	✓	✓	✓
Phil Lodge	✓	✓	✓	✓	✓			✓	
Active member nominees									
Danielle Ashton		✓			✓	✓	✓	✓	✓
Colin Chiverton	✓	✓	✓	✓	✓			✓	✓
Ian Brindley	✓	✓	✓	✓	✓	✓	✓	✓	✓
Will Lidbetter	✓	✓	✓	✓	✓	✓	✓	✓	✓
Veronica James		✓			✓	✓	✓		✓
Greg Black (shadow)		✓			✓	✓	✓	✓	✓
Pensioner members						✓	✓		
Peter Smith		✓			✓	✓		✓	✓
Hywel Tudor				✓		✓	✓	✓	✓

Professional advisers to the Committee

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

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

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

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

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

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

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

Membership

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

Employer representatives

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

Member representatives

- 3 Active Scheme member representatives.
- 2 Pensioner or one Pensioner and one Deferred Scheme member representatives.

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

Pension Board business 2021/22

The Pension Board met once during 2021/22 (on 16 March 2022) after the Pensions Committee meeting. In addition, some or all of the Pension Board members participated in meeting reviews at the end of all 5 Pensions Committee meetings and nine Investment Sub-Committee meetings during 2021/22.

The Pension Board reviewed the Committee meetings that took place in 2021/22, and considered issues including;

- An overview of the policies that have been agreed over the last year

- The main findings from the Governance review (see below);

- The arrangements on cyber security within the Environment Agency and the Fund and the need to keep a strong focus on this;

- Pooling and related developments over the year; and

- Resources within the EAPF Management Team.

Aon undertook a confidential and in depth survey of PC Members' views in 2021 about how members thought the Fund was being run. In addition, Aon analysed the Fund's approach against their Governance Effectiveness Framework.

Aon concluded that the effectiveness of the EAPF governance arrangements is of an extremely high standard. The areas where they thought the effectiveness of the EAPF governance arrangements really stand out were:

- **Clarity of vision** A clear direction, objectives and values. This allows focused meeting agendas, and efficient decision making. In Aon's view, the EAPF is ahead of most, if not all, other LGPS funds in this regard.
- **Risk management** Risk management is embedded in the culture of the Fund. This allows appropriate focus on key areas.
- **Committed to the cause** The Fund is managed by a set of highly committed individuals (both officers and Members), with diverse backgrounds and approaches to decision making, and high standards and expectations.

Aon's key recommendations to the Fund to strengthen governance further were:

1. Monitor resource in Pension Fund Management Team to maintain the right level of external oversight and risk management.
2. Ensure continuity of Knowledge and Skills on Committee. Aon noted that the collective level of knowledge and skills on the PC was very good but given changes in committee Membership and the complexity of subject matter, it was worth focusing on this to deliver timely and effective training as the pandemic eases.
3. Review terms of reference and decision making. While the current arrangements appear to be working effectively, it was appropriate to ensure they remain so, particularly as the transition of assets to Brunel moves to its final stages.
4. More signposting of key information in meetings to ensure the Members understand what parts of the agenda papers they are referring to.
5. Ensure Hybrid Meetings have the right technology, presentation tools and structure to support effective governance and decision making.

All of the above recommendations are being addressed in 2022/23.

Providing good customer service for our members

We seek external accreditation every year to make sure officers are providing the right customer service to our members and to our Pensions Committee Members.

In 2021/22, we again achieved third-party accreditation from Assessment Services Ltd (UKAS accredited) that we had met Customer Service Excellence with an increased number of "compliance plus" scores. The report concluded that "*the Pension Fund enjoys favourable comparisons with other funds with regard to the timeliness and quality of service*".

Engaging with members

Our members are aware of the power of finance to drive positive change and we welcome the fact they are always keen to share their views. Every year we engage with members through our website, our member portal, newsletters, social media and a series of webinars.

Governance Compliance Statement

Introduction

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

This statement is required to set out:

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

b) If the authority does so;

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

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

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

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

This statement was made and approved by the Environment Agency Pensions Committee on 16 March 2022. It was effective from 17 March 2022 and is reviewed at least annually as part of the annual report and financial statement to ensure it remains up to date and meets the necessary regulatory requirements. The statement included in the annual report and financial statements becomes the approved statement for the year unless updated during the year.

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

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

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

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

Statement

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

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

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards.

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

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

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

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

Signed on behalf of the Environment Agency

Robert A. Gould

Robert Gould
Chair
Environment Agency Pensions Committee
19 October 2022

J.D. Bevan

Sir James Bevan
Accounting Officer
Environment Agency
19 October 2022

Pension Fund investment

Ongoing Government funding of the Closed Fund

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

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

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

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

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

Funding Strategy Statement

All LGPS funds are required to publish a Funding Strategy Statement. This statement is used by the Actuary to inform his valuation. The Funding Strategy Statement was adopted by the Committee on 18 December 2019 and is reproduced in Annex 2 to this document.

Investment Strategy Statement

All LGPS funds are required to publish an Investment Strategy Statement. Our Investment Strategy Statement was adopted by the Committee on 16 March 2022 and is reproduced in Annex 3 to these financial statements. It is reviewed annually or as required.

Custody arrangements

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

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

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

Investment management

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

The existing funding strategy relies upon regular payments (known as Grant in Aid) being received from Defra to meet the pension and administrative costs until the present value of the remaining liabilities is equal to the value of the Fund assets at that time. At that point, the Fund will take on the responsibility for meeting the costs of the Closed Fund. The Fund's assets are expected to be sufficient to meet the outstanding benefit and expense outgo by 2027, based on a simple projection from the 2019 valuation date.

Portfolio analysis

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

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

Distribution of investment assets by market value as at 31 March 2021:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Net investment assets
UK Index linked gilts	286.1	-	286.1	93.5
Cash	-	19.4	19.4	6.4
Accrued income	-	0.4	0.4	0.1
Net investment assets	**286.1**	**19.8**	**305.9**	**100.0**

Unquoted investments

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

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

Investment performance

The investment performance of the Fund for the year to 31 March 2022 was +5.3% (2021: +0.7%) against a benchmark return of +3.9% (2021: +3.6%). Over the three years to 31 March 2022 the annualised rate of return was +3.2% (2021: +3.3%) against a benchmark return +3.2% (2021: +3.7%).

Pension Fund administration

Administration arrangements

The Environment Agency is responsible for administering the current and future pension benefits for 10,707 members of the Closed Pension Fund.

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

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

Performance measurement

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

We would like to express our thanks to Capita for resolving 38,069 (2021: 30,255) Active and Closed Fund member requests/queries and for paying pensions to 9,881 Closed Fund pensioners. Over the year, Capita achieved service levels for 81.85% of all casework processed, which is encouraging following the after-effects of the COVID-19 pandemic and the focus on prioritising key case types. The service level in April 2021 was 77.67% and this progressively improved to 97.45% in October 2021. This continued into 2022 but then declined, largely due to a significant increase in the workload for the Active fund (higher than usual recruitment volumes and retirement cases). The EAPF Management Team is working closely with Capita and have an agreed recovery plan in place to return performance back to expected levels.

The 5 largest case types processed by Capita for the Closed Pension Fund during 2021/22 were:

Case Type	2022	2021
Death of pensioner	416	621
Death of spouse	405	494
Retirements	183	225
Transfer Out quotes/finalisation	20	26
Changes of address	566	504

Closed Fund administration costs for the year to the 31 March 2022 were £439k (2021: £465k) including member communications and postage costs. We benchmark our Fund administration costs annually through the public accounting body CIPFA. For 2020/21 data the CIPFA average was £21.40 (2019/20: £20.16) per member. Across both our Active and Closed Funds, our average cost for 2020/21 was £23.33 (2019/20: £23.59) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 23, of which 17 deal solely with pension benefits administration. Based on a membership of 38,322 across both the Active and Closed Funds at 31 March 2022, this represents an average of 2,241 members per administrator.

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

Internal controls

The EAPF system of internal controls is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives. Also to evaluate the likelihood of those risks being realised 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 2022, in accordance with LGPS and Treasury guidance and best practice.

Capita produce an audited AAF 01/20 Assurance Report on internal controls which is reviewed annually by Officers. In considering the effectiveness of the internal controls for the Fund, account has been taken of the findings of the reporting accountants (Ernst& Young) in their assurance report for Capita Employee Benefits Ltd (CEBL) for the year ending December 2021. Capita have provided further information on the three exceptions detailed in the report and confirmed that the exceptions identified do not impact our Funds. Capita have also confirmed that all the prior year exceptions have been closed at the time of issuing the report (May 2022).

During the reporting period, the main exception noted by the auditor was that Capita were not able to demonstrate the operation of migration controls for a data migration project that occurred during the year. Capita's management reviewed the process and were satisfied that the appropriate reconciliations were in place but agreed that there was insufficient audit evidence retained. This did not impact the EAPF.

The Officers to the Fund are satisfied with the overall outcome of the AAF 01/20 audit and that any risks are being appropriately and proactively managed by Capita.

Data quality

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

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

Data quality testing is carried out for the Closed Fund annually and a certificate issued reflecting compliance with TPR guidance. The latest available results from our June 2021 certificates showed our post June 2010 data as 98.96% (August 2020: 99.02%), with pre-June 2010 data at 93.48% (August 2020: 94.18%). The missing data for both categories relate to members moving house and not informing our administrators. We continue to carry out exercises to trace these members and will update their records accordingly. A specific address tracing exercise is currently underway and will inform the next certification exercise.

Data security

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

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

- Maintaining the confidentiality, integrity, and availability of information, while ensuring information is only accessible by those who are entitled to access it.

- Protecting information assets consistently to a high standard to prevent compromise by external and internal threats, both deliberate and accidental.

- Raising and maintaining security awareness to help avoid the unintentional or malicious disclosure of confidential information, which could cause inconvenience and distress to others, be unlawful, and to avoid causing financial and reputational damage.

The EAPF has undertaken a review of Capita's Cyber Risk Policy and Cyber Security Overview in 2021 and are satisfied that Capita are taking the necessary steps to manage cyber security risks. Wider Cyber Security issues are covered in the Governance section of the report.

National Fraud Initiative/mortality checks

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

The next exercise will take place in 2023 and the most recent exercise was completed in March 2021.

As a general principle, where we investigate cases and if fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, if necessary, take legal action or involve the police. Our monthly mortality checks are in place to help reduce potential fraud on the Fund. There are no reported fraud cases for 2021/22.

Communications

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

We have introduced a new platform for creating documents called Turtl, which can create 'ebooks' rather than pdf's which are more visually appealing, as well as being more accessible. The updates to the website, portal and new documents ensures compliance with current accessibility standards, as well as being up to date with technology and demands in the digital area,

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

The Fund continues with its member engagement strategy and having published its annual pension statements for contributing members online only for the first time in 2021, we've now undertaken the necessary disclosure exercise with the deferred member population, so that we can publish their annual benefit statements for 2022 online only.

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

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

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

Delivering webinars allows us to:

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

Our annual pension benefit statements were issued to 100% of our active and deferred members within the statutory 31 August 2021 deadline.

Our Communications strategy

As part of our long-term strategy, 2021/22 saw us continue our move to digital communications by using our 5 segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

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

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

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

Our 2021/22 Campaigns

Due to Covid-19 continuing to impact our normal working practices in 2021/22, we adapted the campaign activity in line with changes to ways of working, and different priorities. The normal campaign activity continues to adapt to be relevant to the ongoing situation. We have been conscious to keep communications relevant and not to overload members. We share new items and ask for feedback.

We also used Pensions Awareness Week, which is a regular September feature, as an opportunity to share key pension topics and these included reminders about digital benefits statements, the launch of a platform called Tumelo (which gives members transparency on our investments), the booking links for upcoming webinars, and new for 2021/22, our Inaugural Annual General Meeting (AGM) for members.

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

Complaints

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

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

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

In 2021/22 Capita received 16 (2020/21: 17) & (2019/20: 23) formal complaints from Closed Fund members and these have all been resolved. We continue to work with Capita on ensuring the majority of work is completed within SLA and that Contact Centre staff are appropriately trained to respond and add value to member enquiries and help provide the necessary support to prevent escalation.

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

Foreword to the financial statements

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

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

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

Roles and responsibilities of the Pensions Committee

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

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

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

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

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

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

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

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

Summary of the financial statements

The financial statements have been prepared in accordance with CIPFA guidance including narrative reporting and accounting disclosures for LGPS funds, with quoted securities valued at bid prices at the year end. After realised gains and changes in portfolio valuations, and grant-in-aid funding for benefits and other outgoing payments, the value of the Closed Fund has increased by £18.5m to £328.9m (2021: increased by £3.8m to £310.4m).

As expected in a closed fund arrangement there is a continuing decrease in membership. As a consequence, the value of Grant-in-Aid required to meet the Closed Fund's obligations to pay pension payments and other liabilities, reduced to £47.9m from £51.6m in the year to 31 March 2022.

Retirement benefits payable in the year to 31 March 2022 have decreased from £48.8m in 2021 to £44.9m in 2022.

In overall terms, the net additions from dealings with pensioners and deferred members after Grant-in-Aid funding in the year was £3.0m (2021: £2.7m).

The index linked portfolio of assets held by the Closed Fund as at 31 March 2022 were valued at £328.6m (2021: £305.9m).

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

Statement by the Consulting Actuary

Environment Agency Closed Fund ('the Fund') Actuarial Statement for 2021/22

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

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated December 2019. The Fund's benefits are underwritten by the Department for the Environment, Food and Rural Affairs ('the Guarantor'). The Fund's approach to funding the Guarantor's pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment. The Guarantor has committed to a funding plan that involves half-yearly cash injections to meet the following six months' expected benefit expenditure.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £294 million, were sufficient to meet 51% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £280 million.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report dated 30 March 2020.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial Assumptions (% p.a.)	31 March 2019
Discount rate	1.5%
Benefits increase assumption (CPI)	2.0%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 0.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current Pensioners	20.1 years	22.6 years
Future Pensioners*	19.6 years	23.2 years

*Aged 60 at the 2019 valuation date

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Investment returns in the year to 31 March 2022 were estimated to be 6.7% and the Fund assets had a market value of £328.1m as at 31 March 2022. Liabilities were estimated to be £452.8m on an ongoing funding basis as at 31 March 2022, implying that the Fund’s assets were sufficient to meet 72% of the liabilities accrued up to that date.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Peter MacRae FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
6 May 2022

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

Opinion on financial statements

I have audited the financial statements of the Environment Agency Closed Pension Fund ('the Fund') for the year ended 31 March 2022 which comprise the:

- Fund Account;
- Net Assets Statement as at 31 March 2022; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the Funds' assets and liabilities; and
- have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

Opinion on regularity

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

Basis for opinions

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

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

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

Conclusions relating to going concern

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

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

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

Other Information

The other information comprises the information included in the Annual Report, Financial Statements, Annexes and Enquiries but does not include the Financial statements for the year ended 31 March 2021, the Notes to the financial statements, nor my auditor's report. The Accounting Officer is responsible for the other information.

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

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

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

I have nothing to report in this regard.

Opinion on other matters

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

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

Matters on which I report by exception

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- whether management's use of the going concern basis of accounting is appropriate and whether a material uncertainty exists related to events or conditions which may cause doubt on the Funds' ability to continue as a going concern.

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

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

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

Auditor's responsibility for the audit of the financial statements

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

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

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

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

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

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

- the nature of the sector, control environment and operational performance including the design of the Fund's accounting policies.
- Inquiring of management, the Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Fund's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Fund's controls relating to compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.
- discussing among the engagement team and involving relevant internal specialists, including actuarial and valuation specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

I also obtained an understanding of the legal and regulatory frameworks in which the Fund operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Fund. The key laws and regulations I considered in this context included the CIPFA/LASAAC Code of

Practice on Local Authority Accounting in the United Kingdom 2021/22, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.

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

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

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

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

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

Other auditor's responsibilities

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

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

Gareth Davies Date: 21 October 2022

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

Financial statements for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
Fund account			
Dealings with members, employers and others directly involved			
with the Fund			
Grant-in-Aid		47,897	51,565
		47,897	**51,565**
Benefits and other payments			
Benefits payable	**7**	(44,935)	(48,846)
Payments to and on account of leavers	**8**	-	(55)
		(44,935)	**(48,901)**
Net additions from dealings members		**2,962**	**2,664**
Management expenses	**9**	**(784)**	**(787)**
Return on investments			
Investment income	**10**	1,506	1,426
Profit and loss on disposal of investments and changes in the market value of investments	**11**	14,814	515
Net returns on investments		**16,320**	**1,941**
Net increase in the Fund during the year		**18,498**	**3,818**
Opening net assets of the Fund at 1 April		**310,415**	**306,597**
Net assets of the Fund at 31 March		**328,913**	**310,415**
Net assets statement			
Investment assets	**11**	**328,575**	**305,832**
Current assets	**17**	**1,503**	**5,827**
Current liabilities	**18**	**(1,165)**	**(1,244)**
Net assets of the Fund at 31 March		**328,913**	**310,415**

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary and these financial statements should be read in conjunction with it. The Actuary's statement on pages 41 to 42, dated 6 May 2022, is based on a valuation as at 31 March 2019. The notes on pages 48 to 63 form part of these financial statements.

Robert A. Gould

Robert Gould
Chair
Environment Agency Pensions Committee
19 October 2022

J D Bevan

Sir James Bevan
Accounting Officer
Environment Agency
19 October 2022

Notes to the financial statements

1. Description of the Fund

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

General

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

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

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

Membership

The Fund has been closed to new entrants and accruals of future service since 1989. As at 31 March 2022, total membership of the Fund is 10,707, represented by 9,881 current pensioners and 826 deferred members.

Funding

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

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounting policies have been drawn up in line with recommended accounting principles within the overall Code of Practice on Local Authority Accounting framework.

3. Summary of significant accounting policies

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

Grant-In-Aid

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

Benefits payable

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

Transfers to other schemes

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

Management expenses

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

Apportionment of common expenditure	2021/22 AF/CF %	2020/21 AF/CF %
Custodial arrangements	80/20	80/20
Environment Agency Pension Fund Management	80/20	80/20

Investment income

All interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

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

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. VAT input tax is recoverable on all management expenses. The accounts are exclusive of VAT.

Financial assets

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

Classification and measurement

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

Impairment

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

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

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

Cash deposits and instruments

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

Financial Liabilities

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

IFRS 15 Revenue from Contracts with Customers

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

HM Treasury guidance expands the definition of a contract under IFRS 15 to include legislation and regulations which enables an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. Under this expanded definition Grant-in-Aid is seen to not be akin to revenue and therefore IFRS 15 does not apply.

4. Critical judgments in applying accounting policies

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

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

There are no items of estimation in the net assets statement as at 31 March 2022 or 31 March 2021 for which there is a significant risk of material movement.

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 21 June 2022 and Audit and Risk Assurance Committee on 28 June 2022. The financial statements are signed under delegated authority of the Board. These will also be noted at a meeting of the Board on 7 July 2022.

Supplementary Pension Increase payments

On an annual basis, supplementary Pensions Increase (PI) payments are due to eligible members. Capita have recently identified that the supplementary PI had not been completed after the main scheme PI for the last 3 financial years. The small number (c0.7%) of affected members have been identified and rectification payments made in September 2022. Where death cases exist, Capita have written to recipients to confirm account details.

Post year end market volatility

Following the accounting year end, there was a continuation of the broad macro trends seen since the beginning of 2022. Surging commodity prices, to a large degree the result of the ongoing conflict in Eastern Europe and associated sanctions, and the aftermath of the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in the major regions doubled down on monetary tightening resulting in elevated market volatility and a sell-off in pretty much all asset classes except commodities. Growth expectations were dialled down over the quarter, with a growing number of investors seeing a recession as an increasingly plausible scenario. On the brighter side, there was increasing evidence of supply chains gradually beginning to improve.

Inflation and central bank policy continued to drive markets in the second quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were quashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession resulting from the monetary tightening. Therefore, most major asset classes ended the quarter with negative returns. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors. Restricted natural gas supplies to Europe exacerbated the energy crisis. The fallout from the 'mini-budget' led to significant strain on UK gilt markets, putting downward pressure on government bond valuations and increasing the occurrence of recapitalisation events for pension schemes with leveraged LDI mandates.

In accordance with accounting provisions, the fair valuations at the date of the statement of net assets reflect the economic conditions in existence at that date. The Officers have evaluated all subsequent events or transactions for potential recognition or disclosure through to the date on which the Investment Report is approved and have determined that there were no additional subsequent events requiring adjustment to or disclosure in the Annual Report. However, based on initial unaudited valuations we believe that the total value of the Closed Fund's invested gilts has fallen by approximately 22% from the balance sheet date to 30 September 2022, off the back of the aforementioned market turbulence. We now estimate that the total value of the Fund's invested assets is c£255 million as at 30 September 2022. However, as the current market situation is fluid and unpredictable, a precise calculation of the financial effects on the Fund's investment assets and liabilities is not possible at the date of approval of the financial statements. The Closed Fund is funded on a pay-as-you-go basis by Defra and this funding arrangement is not affected by the current volatility of gilt prices. None of the recent market developments have affected the strength of this arrangement.

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

7. Benefits payable

	2022 £000	2021 £000
Retirement and dependants pensions	44,304	47,574
Lump sum retirement grants	603	1,229
Lump sum death grants	28	43
Total	**44,935**	**48,846**

8. Payments to and on account of leavers

	2022 £000	2021 £000
Individual transfers to other schemes	-	55
Total	-	**55**

9. Management expenses

	2022 £000	2021 £000
Administration expenses		
Scheme administration	**439**	**465**
Oversight and governance costs		
Environment Agency Pension Fund Management	168	158
Specialist advice	103	78
External audit	26	37
	297	**273**
Investment management expenses		
Management fees	30	30
Custody fees	18	19
	48	**49**
Total	**784**	**787**

External audit does not include any fees in respect of non-audit services for 2021/22 or 2020/21. The investment management expenses include £nil (2021: £nil) in respect of transaction costs.

Investment management expenses can be further analysed as follows:

2021/22	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Index linked gilts	**30**	**30**	**-**	**-**

10. Investment Income

	2022 £000	2021 £000
Income from index linked gilts	1,496	1,415
Interest on cash deposits	10	11
Total	**1,506**	**1,426**

11. Investments movement summary

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

	Market value at 01.04.20 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Market value at 31.03.21 £000
Index linked gilts	284,165	1,376	-	542	**286,083**
Cash deposits and instruments	16,975			(27)	**19,381**
Accrued income	372				**368**
Net investment assets	**301,512**	**1,376**	**-**	**515**	**305,832**

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

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

Investment assets	**2022**		**2021**	
	£m	**%**	**£m**	**%**
UK Government 0.125% Index Linked Gilt 2029	**76.4**	**23.2**	71.9	23.2
UK Government 1.25% Index Linked Gilt 2032	**64.2**	**19.5**	60.4	19.5
UK Government 2% Index Linked Gilt 2035	**55.1**	**16.8**	51.8	16.7
UK Government 0.125% Index Linked Gilt 2044	**47.1**	**14.3**	44.5	14.3
UK Government 1.25% Index Linked Gilt 2055	**45.1**	**13.7**	43.2	13.9
SSGA Offshore GBP D Class Cash Instrument	**25.6**	**7.8**	19.1	6.2

12. Financial instruments

a) Classification of financial instruments

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

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

31 March 2021	Financial assets and liabilities designated at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Index linked gilts	286,083	-	-
Cash deposits and instruments	19,381	5,320	-
Other investment balances	-	368	-
Debtors (excluding VAT)	-	197	-
Financial liabilities			
Creditors (excluding PAYE)	-	-	(671)
Net assets of the Fund	**305,464**	**5,885**	**(671)**

b) Net gains on financial assets

	2022 £000	2021 £000
Financial assets		
Fair value through profit and loss	**14,814**	**515**
Total change in market value	**14,814**	**515**

13. Fair value – basis of valuation

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

Fair value hierarchy

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

Level 1

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

Level 2

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

Level 3

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

Transfers between levels 1 and 2

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

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3 based on the level at which the fair value is observable. Financial assets and liabilities valued at amortised cost, and those that are not financial instruments, are included in the total column in order to show that all of the Fund's assets have been considered and that these reconcile back to the total net assets of the Fund.

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

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

Values at 31 March 2021	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss				
Index Linked Gilts	-	286,083	-	**286,083**
Cash deposits and instruments	19,381	-	-	**19,381**
Net financial assets at fair value	**19,381**	**286,083**	**-**	**305,464**
Financial assets held at amortised cost				
Accrued income				**368**
Net investment assets				**305,832**

14. Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

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

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

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

    - **Russia / Ukraine exposure risk:** The Closed Pension Fund has addressed its market risk regarding the events in Russia and Ukraine. The Fund has no exposure in its portfolio.

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

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

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

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

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

The Fund's assets as at 31 March 2022 and 31 March 2021 for the Closed Fund are detailed in the table below.

Closed Fund	**2022 £000**	**2021 £000**
UK Index Linked Gilts	302,778	286,083
Cash*	25,797	19,381
Total	**328,575**	**305,464**

*Excluding interest receivables and Natwest bank account

Investment Strategy

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

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

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

The assets comprise:

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

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

1. Credit Risk

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

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

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

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

To minimise credit risk exposure on cash most of the Fund's cash is held in money market funds managed by the Fund's custodian State Street. These funds are invested across a wide range of cash instruments and have limited exposure to any individual institution. Furthermore, these monies are legally separated from EAPF's custodian, which serves to safeguard the investment in the case of default of the custodian. Assets held in both the Fund's bank account and custodian accounts are held in accounts provided by banks that have an investment grade credit rating. The values as at 31 March 2022 and 31 March 2021 are disclosed in the table below.

Fund	Balance as at 31 March 2022 £000	Balance as at 31 March 2021 £000
Money Market fund: State Street	25,797	19,381
Bank current account: National Westminster Bank plc	994	5,320
Total	**26,791**	**24,701**

2. Market Risk

a) Currency Risk

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

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

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

31 March 2022

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

31 March 2021

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Sarasin - Index Linked Gilts	Segregated	100	0	0	0
State Street – Cash	Pooled	98.8	1.3	0	0.2
Total		**99.9**	**0.1**	**0**	**0.2**

b) Interest Rate Risk

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

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

Interest Rate Sensitivity Analysis

	Duration	
	As at 31 March 2022	As at 31 March 2021
Sarasin Index Linked Gilts	16.1	17.8

The following is a summary of the risk exposures by Fund:

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

Appendix

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period. This gives an overall fund volatility of 7.0% (2021: 7.5% based on assumptions provided by the Fund's investment adviser as at 31 March 2021).

	1 year expected volatility (+/-) %	% of Fund	
		2022	2021
Sarasin Index Linked Gilts	7.6	92.1	93.7
State Street Cash	0.0	7.9	6.3
Total Fund Volatility	**7.6**	**100.0**	**100.0**

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

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

	As at 31 March 2022	As at 31 March 2021
Total net investment assets (£000)	328,575	305,832
Percentage change (%)	7.0	7.5
Value on increase (£000)	351,509	328,892
Value on decrease (£000)	305,640	282,772

15. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting the Guarantor's employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

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

At the 2019 actuarial valuation, the fund was assessed as 51% funded (31% at the March 2016 valuation). This corresponded to a deficit of £280m (2016 valuation: £492m) at that time.

The level of contribution payable to the fund is not directly determined from the past service deficit position. Instead, a cash flow approach is used where the contributions are paid by Defra on a six monthly basis depending on expected benefits and expenses payable from the Fund for the following six months.

The projected payments due from Defra over the period ending 31 March 2023 are shown in the table below:

Year	Projected payments due £000
2022/23	49.6

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

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

Financial assumptions

	%	Descriptions
Investment return (Discount rate)	1.5	Yield on long term fixed interest Government bonds
Adjusted Retail Price Inflation (RPI)	3.0	The difference between yields on fixed and index-linked Government bonds at the valuation date less 0.3% p.a. in respect of the inflation risk premium
Pension increases	2.0	CPI (assumed to be 1.0% less than RPI with the adjustment applied geometrically)

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2018 model assuming that the current rate of improvement has reached a peak and will converge to the long term rate of 0.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current pensioners	20.1 years	22.6 years
Future pensioners*	19.6 years	23.3 years

* Figures assume members are aged 60 as at 31 March 2019

Commutation assumption

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

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

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

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions and considering funding benefits only, is estimated to be £480m (2021: £498m). This figure is used for statutory accounting purposes by Defra. The assumptions underlying the figure are set out in Defra's statutory accounts. The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for the funding purposes and setting contributions payable to the Fund.

Assumptions used Year ended 31 March 2021	**% p.a.**
Investment return (discount rate)	**1.55**
Pension increases	**2.90**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, assuming smoothed rates of improvement, an initial addition of 0.25% and improvements converging to a long term rate of 1.5% p.a. with no weighting placed on the 2020 or 2021data.

17. Current assets

	2022 £000	**2021 £000**
Cash at bank	992	5,320
Debtors		
VAT debtor	305	310
Overpaid pensions due to be returned	206	197
Total	**1,503**	**5,827**

Analysis of debtors

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

18. Current liabilities

	2022 £000	**2021 £000**
Creditors		
Administration and investment expenses	653	547
PAYE	494	527
Benefits payable	18	124
Tax payable on refunds	-	46
Total	**1,165**	**1,244**

Analysis of creditors

No funds are due to the Environment Agency Active Pension Fund (2021: £nil) in respect of administration expenses and VAT reclaimed.

19. Related party transaction

During the year ended 31 March 2022 there have been the following related party transactions:

- Pensions administration costs of £168k (2021: £158k) were recharged to the Closed Pension Fund by the Environment Agency;

- No funds are due to the Environment Agency Active Pension Fund in respect of administration expenses and VAT reclaimed (2021: £nil). The Active Fund is a sister scheme to the Closed Fund and further details about this Fund are shown in Annex 4;

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

- Benefits payable exclude £6.2m (2021: £6.8m) for historical unfunded pensions liabilities of the Environment Agency in respect of compensatory added years and water company pension scheme charges paid via the pension's administrator. This has been recharged to the Environment Agency and funded by Grant-In-Aid from Defra.

20. Contingent liabilities

There are no contingent liabilities as at 31 March 2022 (2021: £nil).

21. Contingent assets

There are no contingent assets as at 31 March 2022 (2021: £nil).

22. Impairment losses

For the year to 31 March 2022 the Fund has recognised an impairment loss of less than £0.1m (2021: less than £0.1m) for the non-recovery of pensioner death overpayments.

23. IAS10: Authorisation for issue

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

The annexes

The annexes included within this report are unaudited.

Annex 1 – Government Funding Agreement

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

Environment Agency Closed Pension Fund

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

Paul Boateng

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

Environment Agency Closed Pension Fund

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

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

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

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

Margaret Beckett

Memorandum of understanding

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

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

Background

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

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

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

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

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

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

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

Payments into the Fund

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

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

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

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

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

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

Payments to pensioners

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

Control, monitoring and review

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

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

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

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

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

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

Annex 2 – Funding Strategy Statement

Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Department for the Environment, Food and Rural Affairs (Defra – 'the Guarantor') and the Fund's investment adviser. It is effective from 18 December 2019.

Fund history

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

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

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

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

Profile of liabilities

As at 31 March 2019, the Fund's membership consisted of 11,763 pensioners and 1,183 deferred pension members whose benefits have yet to come into payment. The average age of members in receipt of pensions in payment was around 77 years, and 59 years for deferred pensioners.

Around 50% of the liabilities are expected to be discharged over the next 6-7 years, but the remaining liabilities could take a further 40-50 years to come close to being extinguished. The final payment from the Fund may not be paid until the end of the 21st century.

The Fund's assets are expected to be sufficient to meet the outstanding benefit and expense outgo by 2027, based on a simple projection from the 2019 valuation date.

The discounted mean term of the liabilities – a measurement of duration that can be useful in matching liabilities to bond durations – was 8.8 years as at 31 March 2019 and will fall only gradually over time.

As at 31 March 2019, the Fund's assets were £294m (£219m at 31 March 2016) and the value placed on the liabilities (discounted in line with the minimum risk return available on UK government bonds) was £574m (£711m) resulting in a funding level of 51% (31%) and a deficit of £280m (£492m). Benefit expenditure flowing out of the Fund is running at around £57m per annum.

All these figures exclude the additional 'unfunded' pension payments of around £7m per annum which are paid to Fund members for added years awarded on retirement. The Administering Authority receives Grant-in-Aid payments covering funded and unfunded benefit payments.

Regulatory framework

The FSS forms part of a framework which includes:

- The LGPS Regulations;
- The Fund's Investment Strategy Statement

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

Reviews of FSS

The FSS applies with effect from 31 March 2020 for lump sum contributions payable in the Fund's financial year 2020/21 and thereafter. The principles documented herein have been used for the actuarial valuation as at 31 March 2019.

The FSS is reviewed in detail at alongside each triennial valuation. Currently, valuations are carried out every three years but on 8 May 2019 the Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle. The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation.

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

Funding strategy objective

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

How do I find my way around this document?

We show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail:

- The regulatory background, including how and when the FSS is reviewed
- Who is responsible for what
- What issues the Fund needs to monitor, and how it manages its risks
- The assumptions which the Fund actuary currently makes about the future

Determining the solvency target and funding position

Reviews of funding position and Guarantor payments

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

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

Solvency target

The Fund defines 'solvency' to be the ability to meet ongoing benefit expenditure. As at 31 March 2019, the assets held by the Fund were only sufficient to cover 51% of its liabilities (31% in 2016). Without the GiA payments made by the Guarantor, the Fund would expect to be exhausted by 2025.

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

Ongoing funding basis

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

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

The key financial assumption affecting the projected GiA payments is the rate of CPI inflation which will determine future benefit increases. This has been taken to be 2.0% p.a. at the 2019 valuation.

In determining the value placed on the liabilities it is also important to use a suitable discount rate. The Fund is invested almost entirely in index-linked UK government bonds, so the discount rate chosen is the expected nominal return on these assets as at the valuation date. As at 31 March 2019, this return is expected to be 1.5% p.a., leading to a real assumed return of -0.5% p.a. relative to CPI.

Funding strategy and links to investment strategy

What is the Fund's investment strategy?

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

Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members.

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

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

What is the link between funding strategy and investment strategy?

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

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

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

Does the Fund monitor its overall funding position?

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

Statutory reporting and comparison to other LGPS Funds

Purpose

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward; to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and Pensions Committee level with council tax raising authorities and with corresponding representatives of other participating employers".

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

- A draft version of the FSS was issued to Defra on 28 October 2019 for comment;
- Comments were requested within 30 days;
- Following the end of the consultation period the FSS was updated where required and then published on 18 December 2019.

A3 How is the FSS published?

The FSS is made available through the following routes:

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

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation, although this may move to every four years in future. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:

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

10. Monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Fund Actuary should:

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

B3 Other parties:

1. Investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS.
2. Investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS.
3. Auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required.
4. Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.
5. Legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.
7. The Guarantor (the Department for the Environment, Food and Rural Affairs) should make the Grant-in-Aid payments agreed with the Administering Authority to meet the cost of benefits.

Appendix C – Key risks and controls

C1 Types of risk

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

- Financial
- Demographic
- Regulatory
- Governance

C2 Financial risks

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

C3 Demographic risks

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

C4 Regulatory risks

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

C5 Governance risks

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

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

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

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

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

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

a) Pension increases

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

As at the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. An inflation risk premium was then applied to the market-implied RPI, by means of a 0.3% deduction to allow for market distortions. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, we have continued to use a reduction of 1.0% per annum. (Note that the reduction is applied in a geometric, not arithmetic, basis).

b) Investment return / discount rate

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

c) Life expectancy

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

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

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 0.5% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal) when compared against assumptions made at the 2016 valuation.

The combined effect of the above changes from the 2016 valuation approach, is to reduce life expectancy slightly (by around 0.1-0.2 years), which reduces the funding target and GiA projections (all other things being equal). The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

Approved by the Pensions Committee on 18 December 2019 and will be reviewed in 2022/23.

Annex 3 – Investment Strategy Statement

Introduction

The Environment Agency Closed Pension Fund (the Fund or 'EAPF') is a closed, final salary (defined benefit) pension scheme with around 13,000 members at 31 March 2019 and assets of approximately £323m as 30 September 2019. **Full details of the Environment Agency Pension Funds and our activities can be found at www.eapf.org.uk.**

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was approved by the Environment Agency Pensions Committee on 16th March 2022, which acts on the delegated authority of the Environment Agency's Board, after receiving input and advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

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

The Closed fund is governed and managed by the same Pensions Committee and officers as the Environment Agency Active Pension Fund. Although the circumstances of the Closed Fund are always taken account of whenever appropriate, on certain matters both Funds are considered together ('the combined EAPF'). The Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Policy and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics as appropriate.

Fund governance: Investment

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

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

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

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

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

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

High Level Investment Principles

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

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

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

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

Responsible Investment

We are long term investors who aim to deliver a truly sustainable Pension Fund; ensuring that it is affordable; delivers financially to meet the objectives of our scheme employers; and is invested responsibly. We seek to be a leading responsible investor.

Being responsible investors to EAPF is to;

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

Our fiduciary duty is to act in the best long-term interests of our members. To do so properly requires us to recognise that environmental, social and governance issues can positively and negatively impact on the Fund's financial performance and that they should be taken into account in our funding and investment strategies, and throughout the funding and investment decision-making process.

Full details are contained in our 'Responsible Investment Policy', and other associated policies, notably our 'Policy to Address the Impacts of Climate Change' which are available on our website. Both the Brunel Pension Partnership and the Fund's underlying investment managers are expected to comply with these policies when implementing the mandates on our behalf.

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

Every portfolio, in every asset class, under the Brunel Pension Partnership, explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives. Brunel Pension Partnership has published a Responsible Investment Policy Statement which lays out our common approach in more detail. **More information is on the Brunel website**.

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

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

Investment objectives

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 18th December 2019. The Fund's solvency is guaranteed by the Government, in the form of the Secretary of State for Environment, Food and Rural Affairs ('the Guarantor'). The level of the Guarantor's contributions is reviewed every six months.

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

The suitability of different types of investment

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

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

Social and sustainable Investments

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

Our wider definition of sustainable investments includes:

a) Social investments and those with significant revenues involved in energy efficiency, alternative energy, water and waste treatment, public transport together,

b) Property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and

c) Companies (often equities and bonds) with a progressive environmental, social or governance practices that may enhance investor value.

Asset allocation

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

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

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

Managers and mandates

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

Risk

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

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

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

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

Liquidity and the realisation of investments

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

Stewardship and the exercise of our rights as owners

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

Collaboration

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

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

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

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

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

Implementation: Approach to Asset Pooling

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

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

Investment assets are expected to be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and March 2021 in accordance with a timetable that has been agreed across the partnership.
Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

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

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

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

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

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

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

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

- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises four highly experienced and independent non-Executive directors, chaired by Denise Le Gal and 4 Executive directors.

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

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

Statement of compliance with the Myners Principles

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

Approved by the Pensions Committee on 16 March 2022.

Annex 4 – Communications Policy Statement

Introduction

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

The Active Fund is open to all members of the Environment Agency and to those employees of NRW and SSCL who transferred from the EA on their relevant vesting day. It has 11,549 contributing members, 8,314 deferred members and 7,752 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no contributing members, 826 deferred members and 9,881 pensioners. This Communications Policy Statement is effective from 21 June 2022.

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

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

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

Objectives

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

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

Regulatory framework

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

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

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

The authority;

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

The matters are;

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

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

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

Representation

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

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

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

Responsibilities and resources

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

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

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

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

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

Communication with key audience groups

Our audience

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

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

How we communicate

General communication

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use. The updates to the website in 2021 have improved members experience with huge improvements to the navigation of the site, as well as giving it a fresh look and feel. This look and feel is now being incorporated in to an updated branding guide, and being applied across the updated online platform, as well as being incorporated in to new documents we produce. We have introduced a new platform for creating documents called Turtl, which can create 'ebooks' rather than pdf's which are more visually appealing, as well as being more accessible. The updates to the website, portal and new documents ensures compliance with current accessibility standards, as well as being up to date with technology and demands in the digital area,

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

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

We deliver tailored, themed topic webinars and consult with members and Fund employers on content and introducing new sessions which are informed through customer surveys and focus groups.
These sessions are supported by newsletter, E Shots and promotion through our Fund employers' internal communication channels.

They're also recorded to enable members who miss them to view them on our website at their own leisure. Members are based nationwide across England & Wales, so it provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.
Delivering webinars allows us to:

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

Our annual pension benefit statements were issued to 100% of our active members within the statutory 31 August 2021 deadline.

Following our Process to Report Breaches of the Law, we made 1 report to the Pensions Regulator during 2021/22 which relates to the identification of incorrect final pensionable pay figures provided by SSCL to Capita for employees who have left the EA. This has created an inequity in final pensionable pay figures, either understating or overstating pay which impacts the final pay calculation of pension. A project group has been established to provide assurance and rectification along with a wider audit at SSCL. The Pension Fund Management Team continue to keep the Pension Regulator appraised on progress.

Our Communications strategy

As part of our long-term strategy, 2021 saw us continue our move to digital communications by using our five segmented groups to ensure the way we engage remains relevant and tailored to our different members.

Our segmented groups are:

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

The use of segmented 'E Shots', ensures we test different imagery, and messaging with our different groups to establish preferences. We've completed 4 years of digital campaigns with specific messages being targeted to the five main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We're able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communications dashboard.

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

Our 2021 campaigns

Due to Covid-19 continuing to impact our normal working practices in 2021, we adapted the campaign activity in line with changes to ways of working, and different priorities. The normal campaign activity continues to adapt to be relevant to the ongoing situation. We have been conscious to keep communications relevant and not to overload members. The main new things to share and ask for feedback on was when we launched the new public website in late June.
We then used Pensions Awareness week in September as an opportunity to send a few pension topics out – including reminders about digital benefits statements, the launch of a platform called Tumelo (which gives members transparency on our investments), the booking links for upcoming webinars, and new for 2021 - the AGM. Closer to the time of the AGM, we sent out some further promotion for it too.

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

Accessibility

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

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

Performance measurement

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

Timeliness

We'll measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide	New joiners to the LGPS	Within 2 months of joining	Within 2 weeks of joining the LGPS
E Shot Introduction to the EAPF & video	New joiners to the LGPS	Within 2 months of joining	Within 1 month of joining the LGPS and on receipt of email address
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	31 August each year	31 August each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at normal pension age)	Contributing members retiring	Within 1 month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within 2 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 2 months of notification	Within two months
Transfers in	Joiners & contributing members	Within 3 months of request	Within two months
Issue of retirement benefits (early retirements)	Contributing members retiring	Within 2 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 forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within 5 working days

Changes to scheme rules	Contributing & deferred & pensioner members, as required	Within 3 months of the change coming into effect	Within 3 months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within 2 months of request	Within 2 working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly 5 days before pay date

Quality

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

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

Results

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

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

Carbon reduction through digital communications

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

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

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

Our Communication Policy is aligned to the EA and EAPF net zero ambitions. Following a competitive tender exercise to identify an administrator for the Fund, Capita were successful in their tender. The new contract terms include a 'Gain Share' mechanism, where they are rewarded financially for a reduction in carbon emissions, using defined metrics. Whilst we plan to measure and report our digital first carbon reduction, Capita will not be in a position to provide the data on this until 1 year from the new contract start date. The metrics we'll target our reporting on are;

- The amount of CO_2 that is saved by providing annual pension statements, via the online portal rather than printing and posting
- Electronic newsletters and online administration
- The efficiency of new website vs the old website
- The efficiency of the new online platform (when it's complete) compared with the current platform

Protecting member data

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

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

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

Review process

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

Paper copies are available on request.

Approved by the Pensions Committee on 21 June 2022 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

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

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

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

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

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

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

www.gov.uk/government/publications

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