Environment Agency
Pension Fund

Active Pension Fund

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

Environment Agency Active 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 Pensions Committee, it is my pleasure to present this year's **EAPF Active Pension Fund Annual Report and Financial Statements**. We are part of the Local Government Pension Scheme (LGPS) and have **£4.8 billion of assets** and **over 38,000 members** across both our Active and Closed Pension Funds. Our Active Fund provides pensions for employees and former employees of the Environment Agency, Natural Resources Wales, Shared Services Connected Limited.

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. 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".

We set long term strategies to manage our investment and funding risks. Our last formal triennial valuation on **31 March 2019 reflected a funding ratio of 106%,** which remains amongst the best across the LGPS. Despite the wider market turmoil, our **funding ratio on 31 March 2022 was around 110%**, reflecting the success of our long-term strategies. Our **employer contribution rates remain amongst the lowest across the LGPS** with employers committed to protecting members' pensions and ensuring the Fund maintains its excellent funding position. Our formal valuation on 31 March 2022 is well underway and we will update you on the results later this year.

Responsible Investment remains at the core of our Fund. We have seen our Fund generate **strong financial returns by investing in companies that contribute to the long-term sustainable success of the economy and society.** With the need for responsible and sustainable investment more important than ever, we have a strong desire to keep innovating and driving change.

Our Investment Strategy is designed to both responsibly manage risks and take positive opportunities. Our **asset value on 31 March 2022 was £4.5bn** and, despite significant market volatility over the final quarter, performance was 6.5% (exceeding benchmark by 0.9%). Our average annual performance **over the last 5 years is an excellent 7%.** We have had a very busy year in terms of investment transitions and allocations to exciting private market opportunities that specifically address climate or social challenges. We were also part of the launch of a new **Paris Aligned Benchmark fund** that will accelerate the financial system move to net zero. Our successful financial performance is supported by **our deep commitment to investing responsibly** and we believe it is paramount to deliver sustainable, long-term returns. After the actuarial valuation results are known later this year, we will agree a new investment strategy for the next 3 years to help protect our strong funding position.

A large area of focus for us continues to be the ongoing implementation of the Government's requirement to pool the management and investment of our Fund assets with other LGPS Funds. Following our establishment of the **Brunel Pension Partnership (Brunel) Limited** with 9 other partner Funds, we continue to transition assets into the pool. Also, in my role as Chair of the Brunel Oversight Board, I am pleased at how collaboratively we work together as partner Funds with Brunel Ltd. Importantly, the assets remain our, EAPF's assets and we retain responsibility for setting our detailed Investment strategy, including Asset Allocation. In all the complex decisions we take as a Pensions Committee, we recognise our legal duty to act in the best interests of our members. Our top priority is **to ensure that the pensions of our past, present, and future members are secure and well managed**. In March 2021, the Committee agreed a target to get to net zero emissions by 2045. We have a long and proud tradition of investing to tackle climate change in the Fund. We were delighted to be recognised for our clear, transparent and data driven approach by winning **the 'Best Climate Change Strategy'** at the LAPF awards.

Yet, even for our Fund, to get to net zero by 2045 is going to be a challenge. Addressing climate change is not just about reducing the emissions from our portfolio, it's also about real world change, investing in green solutions, making sure our investments are resilient to a warming climate and that we understand and tackle biodiversity risk. All while encouraging our peers to do the same. **We believe climate change presents a material financial risk to the Fund** – that there are significant financial risks if we ignore it. However, it also presents investment opportunities, and this long-standing approach to address both risks and opportunities is key to us fulfilling **our fiduciary duty**.

Collaboration remains core to how we deliver our responsible investment approach. We actively support the **Task Force on Climate-related Financial Disclosure (TCFD)** and we report in line with the TCFD recommendations. The success of **the Transition Pathway Initiative (TPI)** has resulted in its launch as a limited company during 2021, to support greater research output. Investors representing over $40 trillion now use the results of the TPI's analysis to inform investment decision-making and engagement with companies.

Being open and transparent about the Fund, its benefits and how we invest is a core principle. During 2021, **we successfully held our first ever members' AGM** for our members to ask questions direct of the Pensions Committee on any aspect of the Fund. During 2021, we had great attendance at our pension webinars again. Last year we and published a detailed report for members and Government about our approach to investing responsibly, called the **Stewardship Code**. We used many examples and investment case studies from the report in a wide range of member engagement events, as well as in external presentations.

We use our website, newsletters and member webinars to engage directly with our members. During the year, we also successfully went fully digital with our **contributing member annual pension benefit statements**. and continue to make great progress on our digital by default strategy. We retained our Customer Service Excellence (CSE) accreditation with the assessor reflecting that "the Pension Fund enjoys favourable comparisons with other funds with regard to the timeliness and quality of service". All this work supports our excellent **97% employee participation rate.**

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 the Active Fund through this challenging time.

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 and EAPF 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 employer participating in the Scheme.

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

On 1 April 2013, we became a multi-employer Fund, as we welcomed Natural Resources Wales as the new employer for former employees of Environment Agency Wales. In November 2013, Shared Services Connected Limited joined us following the outsourcing of the Environment Agency's HR and Finance Service Centres.

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. Both employees and employers contribute to the LGPS, employees' contributions are fixed within the Scheme regulations, while employers' contributions vary depending on how much is needed to ensure benefits under the Scheme are properly funded.

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.
  - 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 to 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 (e.g. where the McCloud remedy results in an increase to a member's benefits) 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.

Environment Agency Pension Fund governance

Introduction

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

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

Objectives

Our main governance objectives are to:

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

Regulatory background

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

Our Governance structure

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

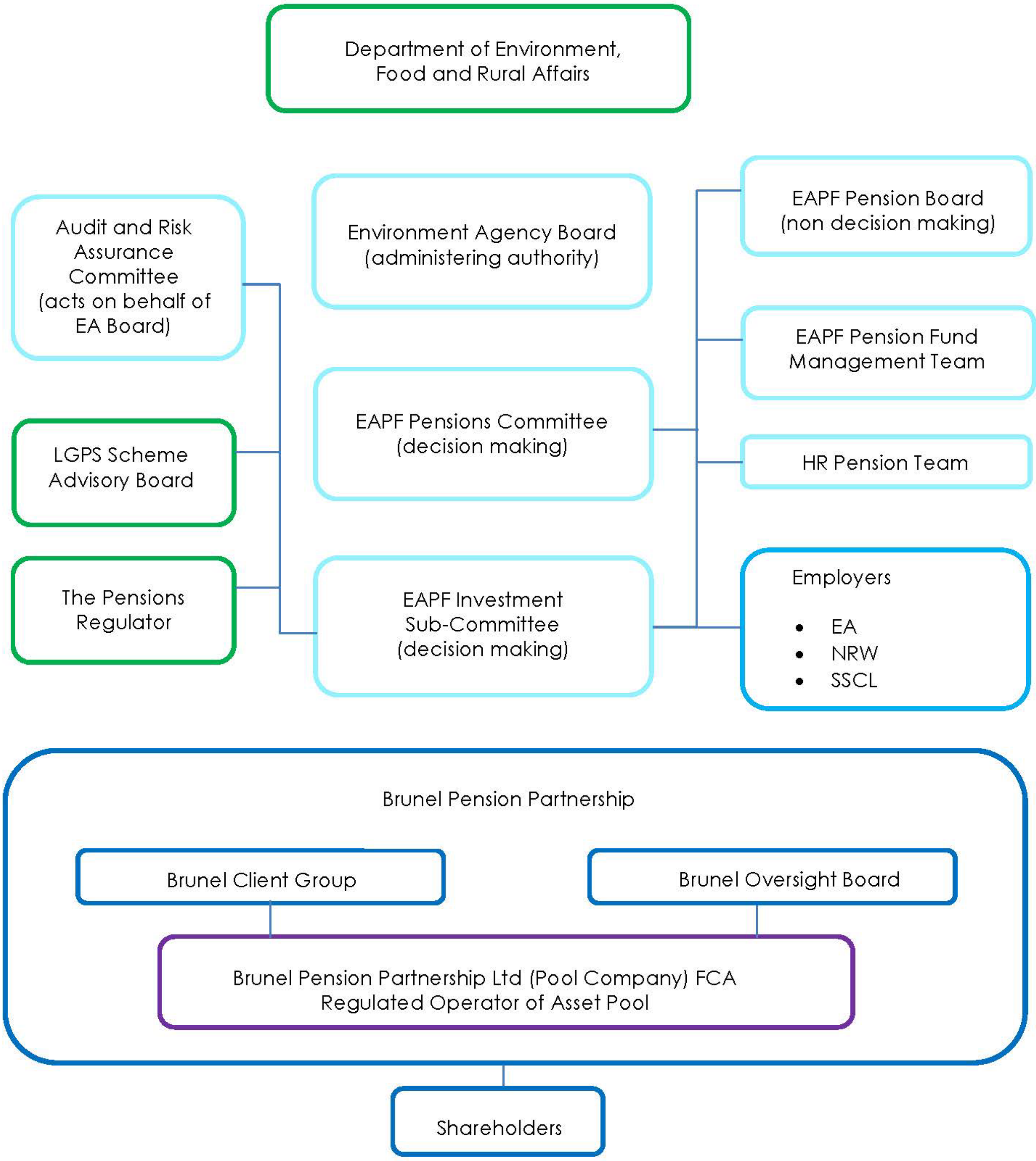
The former Water Authorities Superannuation Fund was divided in three ways: company schemes for employees transferring to the new water companies; the Active Fund for employees joining the then National Rivers Authority (the predecessor to the Environment Agency); and the Closed Fund for deferred and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

The Active Fund inherited active members' accrued liabilities from its predecessor pension arrangements, but no pensioner or deferred pensioner liabilities. In 1996 it transferred to the Environment Agency and became the Environment Agency Active Pension Fund.

The EAPF is now a multi-employer Fund: Environment Agency, Natural Resource Wales (NRW) and Shared Services Connected Limited (SSCL). It is open to all eligible Environment Agency employees, but is closed to new employees of NRW and SSCL. The EAPF is also responsible for administering some unfunded benefit payments.

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:



Our Pension Fund membership

Unless they have elected in writing, all full and part time Environment Agency employees, whether permanent or temporary (over 3 months), become active members of the Fund.

The 12 months ended 31March 2022 has seen a 1.7% increase in the Fund's active members (2021: decrease of 1.1%). Deferred membership has increased by 2.8% (2021: increase of 0.7%) and there has been a 4.6% increase in pensioners (2021: increase of 2.7%).

Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
As at 1 April 2021	**11,354**	**8,089**	**7,408**	**26,851**
Adjustment for late notifications	39	(18)	41	62
Revised opening balance	**11,393**	**8,071**	**7,449**	**26,913**
Add:				
New active members	943	-	-	943
New deferred members	-	459	-	459
New pensioners – retirement	-	-	379	379
New pensioners – dependent	-	-	89	89
	943	**459**	**468**	**1,870**
Less:				
Deferred benefits	(459)	-	-	(459)
New retirement pensions	(261)	(118)	-	(379)
Deaths in service	(6)	-	-	(6)
Refunds of contributions	(27)	-	-	(27)
Options pending	(33)	-	-	(33)
Transfers out – individual	(1)	(88)	-	(89)
Deaths in deferment	-	(10)	-	(10)
Commutation of pension	-	-	(1)	(1)
Death in retirement	-	-	(156)	(156)
Suspended/Ineligible pensions	-	-	(8)	(8)
	(787)	**(216)**	**(165)**	**(1,168)**
As at 31 March 2022	**11,549**	**8,314**	**7,752**	**27,615**

Summary of active member retirements

	2022	2021
Ill Health Retirements (all ages) Tier 1	11	15
Ill Health Retirements (all ages) Tier 2	4	1
Ill Health Retirements (all ages) Tier 3	4	2
Early Retirements - efficiency/redundancy over age 55	1	2
Early Retirements - with employer consent	64	29
Flexible retirements - over age 55	42	22
Early Retirements - age 60 and under age 65	92	71
Normal Retirements - age 65	0	1
Late Retirements - over age 65	43	27
Total retirements	**261**	**170**

For more details on ill health retirement, flexible retirement and retirement in general, please visit the member section of our website at www.eapf.org.uk

Age profiles of members and pensioners

Age profile of active members as at 31 March	2022		2021	
	No.	%	No.	%
15-19	8	0.1	7	0.1
20-24	297	2.6	244	2.1
25-29	879	7.6	875	7.7
30-34	1,160	10.0	1,160	10.2
35-39	1,531	13.3	1,594	14.0
40-44	1,891	16.4	1,880	16.6
45-49	1,748	15.1	1,736	15.3
50-54	1,770	15.3	1,709	15.1
55-59	1,433	12.4	1,357	12.0
60-64	653	5.7	624	5.5
65-69	159	1.4	152	1.3
70-74	20	0.1	16	0.1
Total	**11,549**	**100**	**11,354**	**100**

Age profile of deferred members as at 31 March	2022		2021	
	No.	%	No.	%
20-24	32	0.4	30	0.4
25-29	180	2.2	138	1.7
30-34	430	5.2	505	6.2
35-39	1,043	12.5	1,118	13.8
40-44	1,632	19.6	1,571	19.4
45-49	1,553	18.7	1,531	18.9
50-54	1,615	19.4	1,606	19.8
55-59	1,335	16.1	1,211	15.0
60-64	427	5.1	323	4.0
65-69	56	0.6	47	0.6
70-74	10	0.1	8	0.1
75-79	1	0.1	1	0.1
Total	**8,314**	**100**	**8,089**	**100**

Age profile of current pensioners at 31 March	2022		2021	
	No.	%	No.	%
Child dependents	70	0.9	62	0.9
Pensioners and spouses				
Under 50	48	0.6	45	0.6
50-54	58	0.7	60	0.8
55-59	295	3.8	277	3.7
60-64	1,176	15.2	1,174	15.8
65-69	1,808	23.3	1,772	23.9
70-74	1,803	23.3	1,807	24.4
75-79	1,355	17.5	1,198	16.2
80-84	742	9.6	690	9.3
85-89	317	4.1	261	3.5
90-94	75	0.9	62	0.9
95-99	5	0.1	0	0.0
Total	**7,752**	**100**	**7,408**	**100**
Total membership	**27,615**		**26,851**	

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 instructions to the third party administrators relating to the management of the Scheme. The statement of delegation details the pension extract from the Environment Agency's Non-Financial and Financial Scheme of Delegation; day to day management by Pension Fund Management team; and employing authorities responsibilities and discretions.
Governance Compliance Statement	As approved by the Pensions Committee, this is required by regulation 55 of the Local Government Pension Scheme Regulations 2013. It states how the EAPF complies with Secretary of State guidance.
Knowledge and Skills Policy	As approved by the Pensions Committee, this outlines the EAPFs approach to ensuring all key decision makers have the appropriate knowledge and skills to carry out their roles effectively
Conflicts of Interest Policy	As approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.
Risk management policy	This policy sets out our strategic approach to effective risk management and provides cross references to the detailed risk assessment in the principal strategy documents of the fund.

Committee members must make an annual declaration of any conflicts of interest and prior to each meeting. These are recorded and held on the register of interest by our Secretariat. The Chair reviews the register annually 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 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. An annual risk and compliance internal audit is carried out and reported to the Pension Board and Environment Agency Audit Risk and Assurance Committee. Ongoing consideration of key risks at PC and ISC meetings.
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.

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 Auditor's. 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.
- 2 Pensioners or one Pensioner and one Deferred member representatives.

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).
- 3 Scheme member representatives (active, pensioner or deferred).

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

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

During the year, 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.

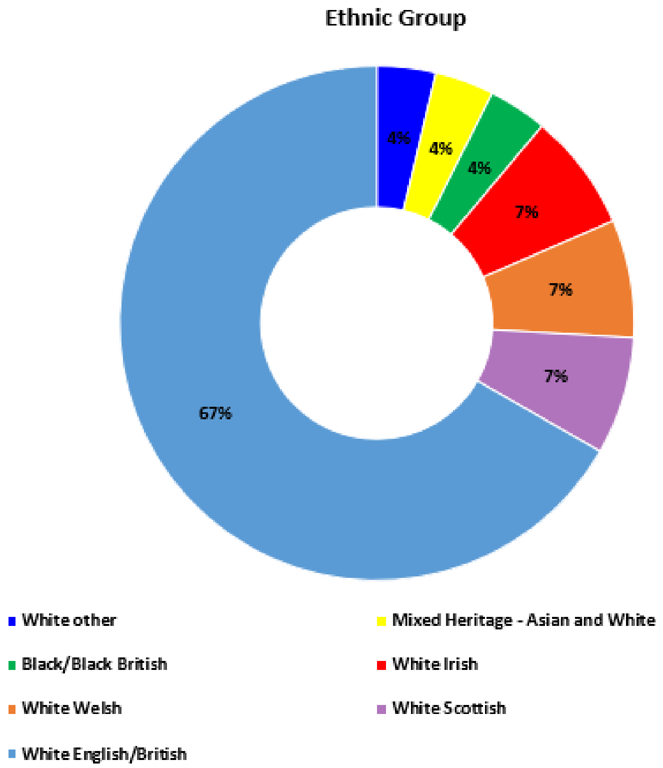
Attendance at Pensions Committee, Investment Sub-Committee and Pension Board meetings

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.

	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 (including 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. More information can be found in our Responsible Investment summary on page 42, our investment strategy statement in Annex 3 and **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.

During 2018/19, we started to transition the management of our assets to Brunel Ltd. This continues to be a huge governance, investment and operational challenge for officers, Pensions Committee and the Fund in general. During the COVID-19 coronavirus position, we agreed not to make any strategic changes until the global situation was clearer and we had reviewed our strategic position.

During the financial year 2021/22, our Investment Sub Committee agreed significant allocations into the Brunel Pension Partnership including: Fixed Income, Multi Asset Credit, Liability Driven Investment (LDI) and Sustainable Equity. We have transitioned over £2bn over the year into Brunel Ltd portfolios. We also made many allocations into private markets.

More information on these transitions and private market allocations can be found in our Pension Fund Investment section on page 52 In addition, we have included a more detailed summary of our participation in the Brunel Pension Partnership in the section below: Asset pooling and the creation of the Brunel Pension Partnership.

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

d) Triennial actuarial valuation

Our Fund actuarial valuation is as at 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 2021 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, including the success of our first online annual benefit statements can be found on page 63. **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 Chartered Institute of Public Finance and Accountancy (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 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.

Asset pooling and the creation of the Brunel Pension Partnership

Background

Since 2015, we have been working with nine other Administering Authorities to implement the Government's requirement to pool the management and investment of our assets with other Local Government Pension Scheme (LGPS) Funds.

The 2015 LGPS Investment Reform Criteria and Guidance set out how the Government expected LGPS funds to establish asset pooling arrangements and the objectives from pooling including: benefits of scale, strong governance and decision making, reduced costs and excellent value for money, and an improved capacity and capability to invest in infrastructure. The Guidance was clear that responsibility for setting the detailed Strategic Asset Allocation would remain with each Administering Authority.

In conjunction with nine other LGPS Funds, we established the Brunel Pension Partnership to meet this Government guidance and the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Our pooling delivery operator, the Brunel Pension Partnership Ltd (Brunel Ltd) was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities, including the EAPF. We own a 10% shareholding in Brunel Ltd.

Brunel Ltd obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor. Brunel Ltd met the Government's requirement for the Pool to become operational from April 2018 thus enabling the transition of assets to begin. Regular reports have been made to Government on progress towards the pooling of investment assets reflecting that fee savings for the partnership as a whole are positive so far.

Importantly, the EAPF, through the Pensions Committee, retains the responsibility for setting the detailed EAPF Strategic Asset Allocation and allocating investment assets to the portfolios provided by Brunel Ltd.

Responsibility for implementing our detailed Strategic Asset Allocation and those of the other nine partner Funds rests with Brunel Ltd. It is required to provide and implement a suitable range of outcome focused investment 'portfolios' to meet the needs of each of the ten partner funds. We are able to, and actively do, suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios in order that the EAPF is able to deliver its Strategic Asset Allocation and properly maintain our long-standing and widely recognised approach to Responsible Investment.

In particular, Brunel Ltd researches and selects the professional external investment managers responsible for making the day-to-day investment decisions on 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, Apex (formerly Fundrock), as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS.

Governance and oversight

The EAPF is both a shareholder and a client of Brunel Ltd. As a client, we have the right to expect certain standards and quality of service. To enable this, a detailed service agreement was put in place setting 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 Pension Committee recognises that the governance of the partnership is of the utmost importance to ensure our assets are invested well and our needs and those of our beneficiaries are protected. We were instrumental in establishing governance controls at several levels within Brunel Ltd as follows:

As shareholders in Brunel Ltd, we entered into a shareholder agreement with the company and the other shareholders. This agreement gives shareholders considerable control over Brunel Ltd – several matters, including significant changes to the operating model and budget, are special reserved matters requiring the consent of all shareholders, with other reserved matters requiring agreement across a majority of shareholders. Each of the ten participating Pension Funds has a 1/10th shareholding in Brunel Ltd. We have summarised the reserve and special reserve matters agreed during 2021/22 in the next section. Draft pooling guidance, issued in January 2019 by the MHCLG (now DLUHC) as part of an informal consultation process, included reference to the need to establish and maintain a governance body to set the direction of the pool and 'hold the pool company to account'.

- An Oversight Board comprising representatives from each of the ten Funds' Pensions Committee's has a primary monitoring and oversight function. Meeting at least quarterly, it reviews and challenges papers from Brunel Ltd and its management. However, it cannot take decisions requiring shareholder approval, which are remitted back to each Fund individually. Our Chair of Pensions Committee, or nominated Pensions Committee deputy, represents the EAPF on this Board. Two members representing Pension Fund members from the participating Funds also attend Oversight Board meetings.

- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Funds, but also drawing on finance and legal officers from time to time. Whilst essentially an officer working group, it has a leading role in reviewing the implementation of pooling by Brunel Ltd, and provides a forum for discussing technical and practical matters, confirming priorities, resolving differences and improving relationships and operational issues. Client Group is also supported by a number of sub-groups, to delve deeper into detail. The EAPF chairs the responsible investment sub-group and sits on the services, investment and financial sub-groups. The Client Group is also 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 shareholders. It comprises five highly experienced and independent Non-Executive Directors including the Chair, Denise Le Gal and three Executive Directors. A Shareholder Non-Executive Director (SNED) represents shareholder views at the Brunel Ltd Board. **Further information can be found at www.brunelpensionpartnership.org/people**.

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

Shareholder reserve matters during 2021/22

During 2021/22, we agreed the following reserve and special reserve matters in consultation with our partner Funds and Brunel Ltd. The Pensions Committee holds the shareholder responsibility for the EAPF, and we bring these reserve matters to the appropriate meeting. If this is not practical due to time limitations, we use agreed urgency delegations with appropriate assurance.

- Reserve Matter 24: Following a procurement exercise and full review and approval by the Board of Brunel Ltd we agreed the appointment of PKF Littlejohn LLP as the new external auditors of Brunel Ltd replacing Grant Thornton.

- Special Reserve Matter 25a: We agreed the Brunel Ltd business plan for 2022/23. The budget increased from the prior year to meet inflation, increased cost pressures and further enhance client services.

- Special Reserve Matter 25b. We agreed a new Pricing and cost allocation Policy to reflect a more equitable cost base now that Brunel Ltd has moved out of the transition phase.

Transition timetable

All partner Funds and Brunel Ltd agreed at the end of March 2020 to pause further transitions until the position with the coronavirus pandemic had become clearer. We continued to meet regularly to discuss and agree appropriate next steps before any transitions were agreed. All transitions are agreed by our Investment Sub Committee.

During 2021/22 we were able to implement our delayed investment transition into Brunel portfolios and made the following transitions in the financial year:

- A new investment into Brunel Multi-Asset Credit was funded through the redemption of our Wellington mandate of c£313m and c£30m cash. This transition was completed by June 2021;
- Our corporate bond mandates, with LGIM and RLAM, were transitioned into the Brunel Sterling Corporate Bonds Fund in July 2021, value c£748m;
- the Fund made a c.£448m investment in the Brunel Global Sustainable Equity portfolio in February 2022. This was funded through a full sale of Ownership (c.£251m) and a disinvestment from our Generation Listed Equity holdings (c.£197m);
- we agreed to transfer the passive equity holdings from our existing Brunel Low Carbon Equity Fund to the new Brunel Paris Aligned Benchmark Fund (PAB) in Oct 21, c£328m; and
- In October 2021 we transferred our existing government bond assets, managed by Legal & General to a new LDI mandate managed by BlackRock, value c£594m. Whilst the investment management relationship is a direct one between the EAPF and BlackRock, Brunel conducted the procurement exercise on our behalf.

For those EAPF assets which have yet to transition, 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. Following the eventual completion of the transition plan, we envisage that the majority 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 which will be set up by Brunel Ltd. We will continue to manage these in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned.

Delivery against original pooling business case

One of the key objectives for Brunel Ltd is to deliver, on a timely basis, the fee savings included in the original business case (OBC) agreed across the ten partner Funds.

The Environment Agency Board, following recommendation from the Pensions Committee, approved our participation in the Brunel Pension Partnership in July 2017, based on the detailed original business case and supported by appropriate legal and financial assurance. Overall, undiscounted potential fee savings across the pool were estimated at £550 million over the 20 year period (to 2036), of which the EAPF's savings were projected to be around £53 million. We recognised that the project would incur initial set up costs, with the business case showing that the EAPF case would break even on a cumulative basis by 2022. For the overall pool, the breakeven date is 2023.

The expected costs and savings for the EAPF through to 2036, as per the original approved business case submitted to Government, are as follows:

Original Business Case (agreed in 2016)

EAPF	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026-36 £000	Total £000
Set up costs (Note 1)	117	1,092	-	-	-	-	-	-	-	-	-	1,209
Ongoing Brunel costs (Note 2)	-	-	545	716	740	764	789	815	841	869	10,426	16,505
Client savings (Note 3)	-	-	(843)	(869)	(895)	(922)	(949)	(978)	(1,007)	(1,037)	(12,248)	(19,748)
Transition costs (Note 4)	-	-	1,078	2,210	11	-	-	-	-	-	-	3,299
Fee savings (Note 5)	-	-	(114)	(876)	(1,661)	(1,878)	(2,116)	(2,370)	(2,533)	(2,703)	(40,241)	(54,493)
Net costs/ (realised savings)	**117**	**1,092**	**666**	**1,182**	**(1,805)**	**(2,036)**	**(2,277)**	**(2,533)**	**(2,698)**	**(2,871)**	**(42,063)**	**(53,227)**

In the sections below, we have included a more detailed breakdown of each area of the original business case with costs/savings built up to 31 March 2022.

Brunel Ltd 2021/22 actual spend against original business case

Reflecting the EAPF original business case budgets. The table below shows actual spend against these original budgets. We have provided more detailed analysis under each individual cost note below:

EAPF	2021/22				2020/21			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Set up costs (Note 1)	*-*	*1,209*	**-**	**1,073**	*-*	*1,209*	**-**	**1,073**
Brunel costs (Note 2)	*764*	*2,766*	**1,053**	**4,309**	*740*	*2,002*	**1,109**	**3,256**
Client savings (Note 3)	*(922)*	*(3,528)*	**(175)**	**(620)**	*(895)*	*(2,607)*	**(175)**	**(445)**
Transition costs (Note 4)	*0*	*3,299*	**4,499**	**4,511**	*11*	*3,299*	**-**	**12**
Fee savings (Note 5)	*(1,878)*	*(4,530)*	**(2,548)**	**(3,180)**	*(1,661)*	*(2,651)*	**(383)**	**(632)**
Net costs / (realised savings)	***(2,036)***	***(784)***	**2,829**	**6,093**	***(1,805)***	***1,252***	**551**	**3,264**

Note 1: Set up costs

As reported in our 2018/19 annual report and financial statements, included in the original business case were set up costs for 2016/17 and 2017/18, recognising that Brunel Ltd would go operationally live from April 2018. The set up costs came in around budget, which was a great achievement given the creation of a completely new company and investment platform. A summary of our EAPF share of the previously reported actual set up costs for 2018/19 are included below:

Asset pool set up and administration costs 2018/19	Cumulative £000
Set up costs:	
Share purchase	840
Legal	133
Consulting, Advisory and Procurement	82
Recruitment	18
Total actual set up costs	**1,073**
Projected costs per original business case	**1,209**

Our 10% share purchase investment in Brunel Ltd is valued at £838k (2021: £768k). This is an increase of £70k (2021: increased by £341k) using latest available valuation from the Brunel Ltd Annual Report and Accounts at 30 September 2021. Within the 31 March 2022 valuation of Brunel Ltd is a Pension reimbursement asset of £768k representing the amount of discounting future pension contribution streams to pay off any funding deficit.

Note 2: Ongoing Brunel Ltd costs

The ongoing Brunel Ltd fees for 2021/22 and 2020/21 as summarised below:

EAPF	2021/22				2020/21			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Brunel costs (Note 2)	*764*	*2,766*	**1,053**	**4,309**	*740*	*2,002*	**1,109**	**3,256**

The Brunel Ltd costs across both the EAPF of £1,053k (2021: £1,109k) reflect the core service charge of £906k (2021: £973k) and performance reporting of £147k (2021: £136k).

Our £764k 2021/22 OBC budget (2021: £740k) for Brunel Ltd includes custody costs of £208k (2021: £200k). We understood these would be paid by Brunel Ltd but, in practice, we pay these direct to State Street. We paid State Street £94k (Active: £76k Closed: £18k) (2021: £99k) for custodian services during 2021/22. As we transition further investments into Brunel Ltd portfolio's the custodian fee payable to State Street will reduce.

Note 3: Client Savings

Client savings for 2021/22 and 2020/21 are summarised below:

EAPF	2021/22				2020/21			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Client savings (Note 3)	*(922) (Inc custody 156)*	*(3,528)) (Inc custody 597)*	**(175)**	**(620)**	*(895) (Inc custody 151)*	*(2,607) (Inc custody 441)*	**(175)**	**(445)**

Overall Client Savings includes potential internal savings to the Environment Agency Pension Fund Management team, environmental reporting, investment advice, custody fees and other items. Our original business case (OBC) assumed estimated internal savings of £922k for 2021/22 giving a cumulative figure to date of £3,528k.

Our client savings included in the OBC assumed savings in respect of actual custody costs of £135k (Active Fund £108k and Closed Fund £27k) in 2016. We understood these would be paid by Brunel Ltd as reflected in the Brunel Ltd business case budget. In practice however, we are required to pay these direct to State Street and have not therefore been reflected as an internal client saving. We have not corrected the Original Business Case figures. A 3% uplift is applied each year to the OBC budgeted custody fees,

We have achieved internal savings through our Hermes environmental reporting contract. Whilst we still pay for our carbon foot-printing, we have recognised £110k p.a. for 2021/22 which is the same amount as the prior year (cumulative saving £360k) compared to the assumed saving of £110k p.a. in the OBC in respect of the Hermes contract.

The largest assumed internal saving in the original business case was £226k in respect of the anticipated loss of 3 internal staff as work transferred to Brunel Ltd. Our internal Pension Fund Management has seen significant change from the creation of the Brunel Pension Partnership. During 2017, out of our team of 12 staff covering all areas of pension fund management, we saw 7 staff leave, including the departure of 5 internal staff to Brunel Ltd. We have had to review our internal staffing requirements and structure for the new pooling environment recognising the significant and unexpected level of internal oversight, governance and operational requirements that pooling and our shareholder responsibilities have created. We are therefore not recognising any internal staff savings compared to the original business case and, at this point, we do not anticipate recognising any internal staff savings in the future.

We had also anticipated transitions to occur sooner, but due to strategic investment changes made by the EAPF, the agreed change to the transition plan and the transition pause due to the global pandemic, we have not transitioned as many assets to Brunel Ltd as originally forecast in the original business case. However, in 2021/22 we have embarked on a busy transition programme, moving from only 15% of our assets to c60% now being managed by Brunel Ltd.

We had also budgeted for savings through investment, governance and legal advice and extraordinary projects. In practice, these costs have increased as we have relied on additional external support to manage staff departures since the inception of pooling, transitions and to assist with governance issues.

We continue to review these costs very closely with our Pensions Committee.

Note 4: Transition costs

Transition costs for 2021/22 and 2020/21 are summarised below:

EAPF	2021/22				2020/21			
	OBC Budget		Actual		*OBC Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Transition costs (Note 4)	*0*	*3,299*	**4,499**	**4,511**	*11*	*3,299*	**-**	**12**

Due to changes to our strategic asset allocation, the agreed revised transition timetable set by Brunel Ltd in 2019/20 and the transition pause implemented due to the global pandemic, our transition timetable was delayed until this year. In 2021/22 we have incurred the following transition costs, by moving into Multi-Asset Credit (£1,003k), Sterling Corporate Bonds (£1,646k) and into Global Sustainable Equities (£1,850k). Transition costs are difficult to predict, and cumulatively we are £1,212k above the OBC when considering our 2018/19 transitions into Brunel's Low Carbon (£6k) and Low Volatility (£5k) mandates.

Note 5: Fee savings

Fee savings for 2021/22 and 2020/21 are summarised below:

EAPF	2021/22				2020/21			
	Budget		Actual		*Budget*		Actual	
	In Year	*Cumulative to date*	In Year	Cumulative to date	*In Year*	*Cumulative to date*	In Year	Cumulative to date
	£000	*£000*	£000	£000	*£000*	*£000*	£000	£000
Fee savings (Note 5)	*(1,878)*	*(4,530)*	**(2,548)**	**(3,180)**	*(1,661)*	*(2,651)*	**(383)**	**(632)**

A significant part of our original business case savings rested on securing material investment management fee savings, after set-up costs and Brunel Ltd operating costs. In 2020/21 we remained below the original business case assumption for fee savings due to agreed changes to the original transition timetable, strategic asset allocation changes we have made since the business case, including moving out of Smart Beta during 2017 and Emerging Markets during 2019, and the transition pause implemented by the global pandemic in 2020/21.

During 2021/22 our transition activity into Brunel portfolio's gained pace with c60% of our asset in the Brunel pool. The fee savings of £2,548k generated this financial year are represented by Low Volatility Fund £535k, Low Carbon Fund £23k Paris Aligned Benchmark Fund £42k, Multi-Asset Credit £1,150k, Sterling Corporate Bonds £333k and Global Sustainable Equities £465k.

We actively monitor fee savings and whilst we are cumulatively behind the OBC, due to the original delays in achieving the original business case cost savings, we still believe that Brunel will be cost beneficial. We are continuing to incur investment management fees for the assets that have yet to transition, and these are disclosed within Note 11 Management Expenses under our financial statements.

Ongoing monitoring of Brunel Ltd against business case

Now that Brunel Ltd has been operational for 4 years, ensuring that the financial performance of the pool is monitored and that Brunel Ltd is delivering on the key objectives of investment pooling is vital. This includes reporting of the costs associated with the appointment and management of Brunel Ltd including set up costs, investment management expenses and the oversight and monitoring of Brunel Ltd by the client funds. This is reinforced through CIPFA, the accounting standards body, which has published recommended guidance for disclosing these costs. We have reported using this guidance above.

The Pensions Committee takes its role as both Shareholder and Client of Brunel Ltd extremely seriously, as part of its fiduciary and legal obligations to act in the best interests of members. Progress on the implementation of Brunel Ltd, our asset transitions and the business case/business plan are discussed at every Pensions Committee and Investment Sub Committee meeting. The Committee obtains specialist legal and investment advice on specific matters where required.

Ensuring that Brunel Ltd deliver against the original business case, as a minimum, is of critical importance to the Pensions Committee. We have highlighted above how the EAPF is represented through the governance of Brunel Ltd and how we work with our other partner Funds to achieve this. At all stages and levels there is monitoring and assurance processes around cost control. Regular financial reporting is provided through Client Group and the Oversight Board.

In 2020, we undertook an internal review of the original business case and updated business case to ensure that the level of savings delivered, and forecast for future years, by Brunel Ltd as a minimum achieve the assumptions, we signed up to in the original business case. We continue to monitor and report this regularly to the Pensions Committee.

The ongoing transition of our assets, management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2022/23.

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 2020/21, 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 Consultants	Mercer
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd
Legal Adviser – Benefits Administration	Osborne Clarke
Legal Adviser – Investment Management	Pinsent Masons
Pensions Administrator	Capita Pension Solutions Limited

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

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

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

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

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

Membership

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

Employer representatives

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

Member representatives

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

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

Pension Board business 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 five 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.

In 2021/22, we introduced three new initiatives to improve the member experience.

1. Our first ever Member AGM

In November 2021, we held our inaugural members' Annual General Meeting (AGM).
What made our first members' AGM different from other forms of member engagement was that its express purpose was for our members to meet and challenge their Pensions Committee on anything they wanted.

We planned the AGM to take place after the annual suite of member webinars, so that if members wanted to escalate an issue further, they could.

These are the main things that were on our members' minds.

- They want us to act with ever more urgency to tackle climate change.
- They think our net zero target of 2045 is too late.
- They want to know why we still invest in fossil fuels.
- They want a secure, well-run fund.

As well as responding to these issues at the meeting, we provided a **full report on the website** and provided a **recording of the first part of the AGM** - for personal data reasons we could not include the recording of the second half.

2. Our first series of webinars for the BAME community

We have been working with colleagues in the EA's Black Asian & Minority Ethnic community for over two years to understand any faith-based or cultural reasons why colleagues may not wish to join the pension fund. This followed engagement with a member in 2019 who felt uncomfortable being in the Fund on faith grounds.

In 2021, we worked with the pensions lead in the Black, Asian and Minority Ethnic Community to organise two tailored webinars for colleagues who may or may not have been members of the Fund.

We were advised that some colleagues in the BAME community may be the first generation of their household to be in an occupational pension fund. We therefore focused part of the webinar on the wide range of additional benefits that the pension fund offered, beyond simply a pension on retirement.

We also discussed our wider responsible investment approach and went on to explore again whether there were faith or cultural reasons which prevented people from joining the Fund. None were raised. This reflected the feedback we had in other engagements with the BAME community and faith groups in the EA.

We intentionally planned the webinars to precede our annual suite of webinars and members' AGM, so that if interested in a particular topic, colleagues could then attend a webinar later that month to delve down into an issue in more depth or escalate it with the Pensions Committee direct.

Colleagues in the Black Asian and Minority Ethnic Community warmly welcomed the webinars. The links go from strength to strength with new initiatives planned for 2022.

3. We became the first defined benefit scheme to sign up to Tumelo

In focus groups in 2020, members had told us that they could not find the Fund's holding data on the website. When showed where it was, members told us that they found the information very dry and dull.

We tested with members the approach available through a new startup company, Tumelo. This offered holding data in an engaging way, which was easily interrogated. Members loved what they saw.

In 2021, we procured the services of Tumelo. Our **holdings data is now easy to find and in an easy to use format** for members and any member of the public to see.

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 authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the 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 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 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** and paper copies will be available on request.

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

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

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

Statement

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

Details to be provided	EAPF
Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority.	All key pension fund management responsibilities are delegated to the Pensions Committee (PC) other than implementing the Fund's investment strategy which is delegated to the Investment Sub-Committee (ISC).
If the authority does so (i) the terms, structure and operational procedures of the delegation.	See the Terms of Reference for specifically delegated responsibilities. PC has 14 members and ISC has 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 Statement of Compliance 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	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 auditor's.
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 is 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 Knowledge & Skills 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 regional or webinar pension briefings each year.

		We also organise an annual briefing for deferred and pensioner members. The briefings are generally presented by Capita (Pension Fund Administrator), with administering authority or HR staff. PC members chair or attend some briefings. We will also hold a members' AGM every 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

Responsible Investment

Introduction

In March last year, the Environment Agency Pension Fund set a target to get to net zero emissions by 2045.

Addressing climate change is not just about reducing the emissions from our portfolio, it's also about real world change, investing in green solutions, making sure our investments are resilient to a warming climate and that we understand and tackle biodiversity risk. All while encouraging our peers to do the same.

This responsible investment section of our Annual Report incorporates the information required to comply with the Taskforce for Climate-Related Financial Disclosures.

It also includes a summary of the information which has been included in our **submission to the UK Stewardship Code** for the period January – December 2021 to address not just climate risk but also wider risks from all environmental, social and company governance issues. The submission also includes numerous case studies of our investment approach, which are not included here in the interests of brevity.

1. Investing responsibly

Our responsible investment approach recognises that environmental, social and governance issues, and in particular climate change, can positively and negatively impact on the Fund's financial performance.

To address this, we have to set out the right strategic approach at Fund level and then make sure that it is implemented by asset managers.

This is how we set out the right strategic direction:

- **Put responsible investment at the heart of our governance**. It is integrated into committee meetings, all relevant policies, training plans and engagement with members.

- **Put environmental, social and governance issues at the heart of our investment beliefs**. We will review our investment beliefs in 2022.

- **Set an Investment Strategy** to implement our Strategic Asset Allocation (SAA) which reflects our investment beliefs and in particular a strong focus on investing in products that are good for the environment and society and tackle climate change.

- **Set responsible investment targets,** which are part of the Investment Strategy, notably:

    - Get to net zero carbon emissions from our investment portfolio by 2045 and halve emissions by 2030.

    - To always have at least 33% of our investments in sustainable assets.

    - By 2025, 17% of our investment portfolios will be in green solutions which build a clean, biodiverse and climate-resilient future.

- **Appoint and monitor asset managers who can deliver our responsible investment beliefs across all asset classes.** This is increasingly done through the Brunel Pension Partnership. By December 2021, £2.4bn of assets had transitioned from EAPF to Brunel, which represents 51% of EAPF's total assets. If the appropriate portfolio is not available through Brunel to meet our Investment Strategy, we may appoint managers directly (we refer to them in this report as 'directly-appointed managers').

Net Zero by 2045

In 2021, following a thorough review of the financial, legal and scientific evidence, we agreed to set a target to get to net zero 2045. This addressed transition risk, physical risk and biodiversity risk.

We followed the **IIGCC Net Zero Investment Framework** which we sponsored as a Fund the year before.

Our approach is about:

- Reducing emissions across all asset classes. We want to move across to Paris-aligned benchmarks (first one in place in 2021) and deny debt to those companies which are not Paris-aligned, unless covenants are in place.
- Continuing to invest in climate solutions – these made up 10% of our investments in 2021.
- Engaging with our companies and the wider finance sector
- Operational targets set by the Environment Agency (the primary employer of the Fund)

After much due diligence we were also delighted to invest in a really exciting nature-based investment in South America.

We would love to get to net zero earlier. And it may be possible - we know from the data that we are already five years ahead of where we need our emissions to be in our listed equities portfolio.
So going forward we will regularly review investment products, our Fund's emissions, known data gaps, the climate science and ultimately our investment strategy to see if reaching net zero earlier is possible.

Managing ESG risk

As part of our governance, we undertake a number of actions to help manage environmental, social and governance (ESG) risks to the fund. These include:

- **Modelling the impact of climate change on our investments**
  We model the impact of climate change on our portfolio for both transition and physical risks when we review our Strategic Asset Allocation. We did this last in 2020 using Mercer's Investing in Climate Change: The Sequel. This study provided three climate change scenarios (2, 3 & 4 degree world) and looked at impacts across different asset classes over three timeframes - 2030, 2050 and 2100. **The methodology can be read on Mercer's website.**

  We estimated from our modelling that our portfolio is relatively well positioned to benefit from the opportunities presented by a low carbon transition and withstand the financial risks from climate change. We also know that keeping to a 2°C scenario or lower, is most beneficial from a long term investor perspective, as there are likely to be less physical risks to our investments – which of course is better for the world as a whole. We will undertake a new assessment in 2022.

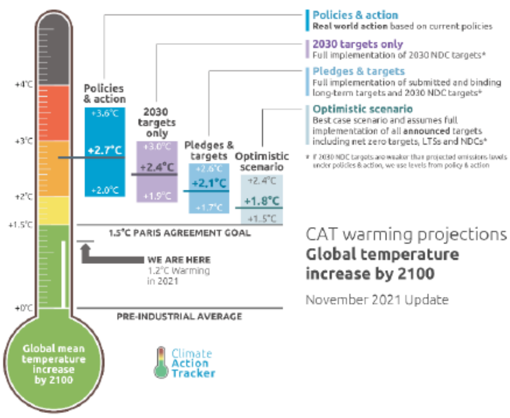
- **Modelling the impact of our investments on climate change**
  In 2021, we analysed the transition capacity of our investments using Mercer's Analytics for Climate Transition ('ACT') framework. We were able to analyse around 60% of our Fund, covering our listed equities and corporate bonds portfolio. Over time, as data availability and consensus around methodology is reached, we will extend the analysis to cover additional asset classes when appropriate. As part of the analysis we examined MSCI's implied temperature rise which indicated that our equity portfolio is consistent with a 2.2 °C outcome by 2100*.

  Whilst this result outperforms the wider universe of global listed stocks (for which MSCI indicates an outcome of 2.4 °C) we recognise that further work needs to be done which we will focus on in 2022.

We also recognise the importance of real world change and our ability as an investor to influence change across the industry. We have an extensive programme of engagement and the ACT analysis also helped identify areas of the portfolio that may be a focus for future engagement activity.

Implied Temperature Rise
Important context

- The listed equity portfolio is currently on a 2.2°C pathway, on a weighted average basis. This compares to a 2.4°C pathway of the investable universe of listed global equities.
- All market stakeholders need to do more to achieve a 2.0°C, or lower, pathway.



The Implied Temperature Rise, as based on MSCI metrics, analyses the "warming potential" or the contribution of a company's activities towards climate change.

It provides a temperature value that signifies which warming scenario (e.g., BAU, 3°C, 2°C, 1.5°C etc.) the company's activities are currently aligned with. Thereafter, a "portfolio warming potential" is calculated as a weighted aggregate of the company-level warming potential.

Not many companies are currently aligned with a 2050 (or earlier) net zero pathway.

However this is anticipated to change in the future.

Sources: Climate Action Tracker (November 2021 http://climateactiontracker.org/); IPCC - https://www.ipcc.ch/sr15/; WRI (2018) "8 Things You Need to Know About the IPCC 1.5°C Report"; IPCC (2018) "Global Warming of 1.5°C"

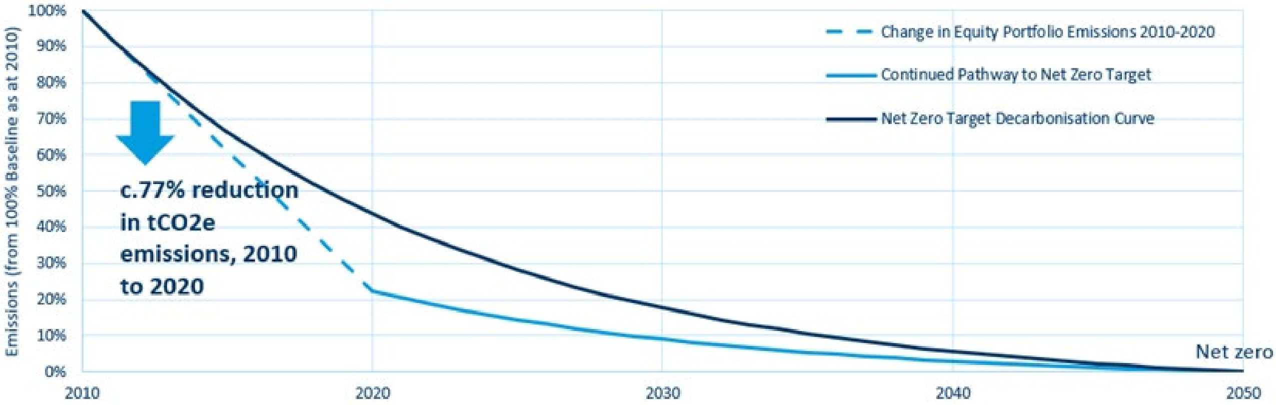
MERCER

Mercer

- **We have significantly reduced our absolute emissions whilst delivering strong long term returns**
  As part of the Mercer ACT analysis, we demonstrated that over the period from 2010 to 2020 we have significantly reduced the amount of absolute emissions attributed to our listed equity portfolio (a 77.4% reduction).

  Over this time period, the value of the Fund's equity portfolio analysed increased by c.90% (please note this analysis is sensitive to a number of factors including changes to the strategic asset allocation to equities over time). The listed equity portfolio has outperformed since inception to 31 March 2022.

Absolute Emissions Trend 2010 to 2020
Trajectory (Listed Equity)



- **For the 2010 – 2020 analysis, we only analyse the listed equity portfolio.**
- **On an absolute basis, the EAPF listed equity portfolio has reduced its Scope 1 and 2 emissions (measured in tonnes of carbon dioxide equivalents, tCO_2e) by c.77.4%, over the past decade, from 2010 to 2020.**

Notes: Analysis of the listed equity portfolio. Analysis captures carbon dioxide equivalent emissions (see Appendix on limitations). Includes Scope 1 and Scope 2 emissions only. Data coverage for 2020 is c.93%.

MERCER

Mercer

- **Monitoring performance of managers closely**
  We use **Mercer's ESG ratings**. Mercer derives its ESG ratings from assessment criteria that vary according to asset class and are relative to what Mercer believes is 'best practice' ESG integration. The approach asset managers adopt to stewardship is one of the factors assessed in Mercer's ESG ratings framework, thereby impacting their overall ESG rating.

  Where appropriate, we also use reporting from Brunel. This includes a detailed breakdown of stewardship activity updates, portfolio narrative and metrics including risks for each portfolio.

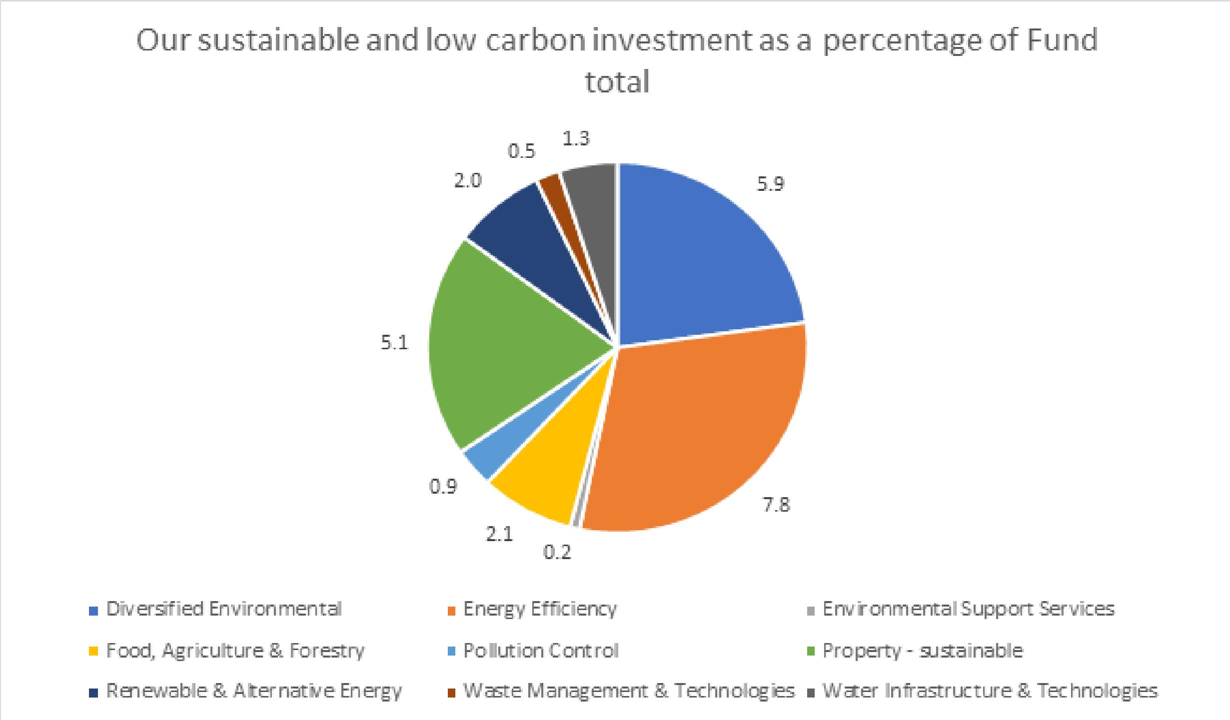
As a result of investing responsibly….

- **We invest significantly in sustainable assets**
  In 2021-22, 26%[1] of our investment were in sustainable assets. In summary, this includes those assets in energy efficiency, alternative energy, water and waste treatment, public transport, property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria.

  In the absence of a common classification system across the finance industry, we work with one of our asset managers to analyse the majority of EAPF holdings and classify what is a sustainable asset, some specific managers do the same and we also carry out some in-house analysis of our own. In 2021, our asset managers used the FTSE Environmental Markets Classification System to do this.

[1] Please note that for private markets we have used the committed capital figure

The pie chart below shows the spread of these assets.

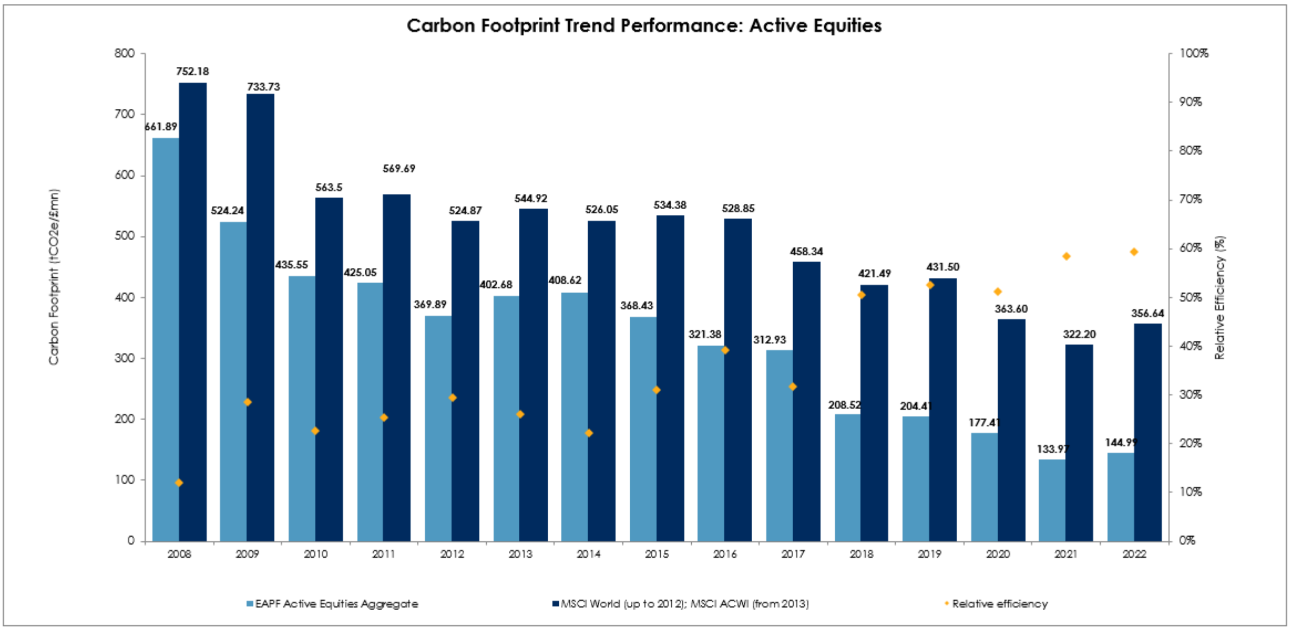


- **A tenth of our Fund is invested in climate solutions**
  In 2021, 10% of our assets directly tackled climate change by helping to reduce emissions or build resilience. These could be for example invested in renewable energy, energy efficiency products or providing services to help with weather-related events. The previous year this was 9%.

- **We have a relatively low carbon footprint**
  Every year since 2008, the EAPF has undertaken a full carbon footprint analysis of all our listed equites and those corporate bonds that can be matched to parent companies. This represents 56% of the value of the whole portfolio.

  Two headline findings from last year's data shows:

  - Our equity portfolio is 33% more carbon-efficient than the benchmark
  - Our carbon footprint in active equities has reduced by 78% since we started monitoring it in 2008 (compared to a 53% benchmark reduction)

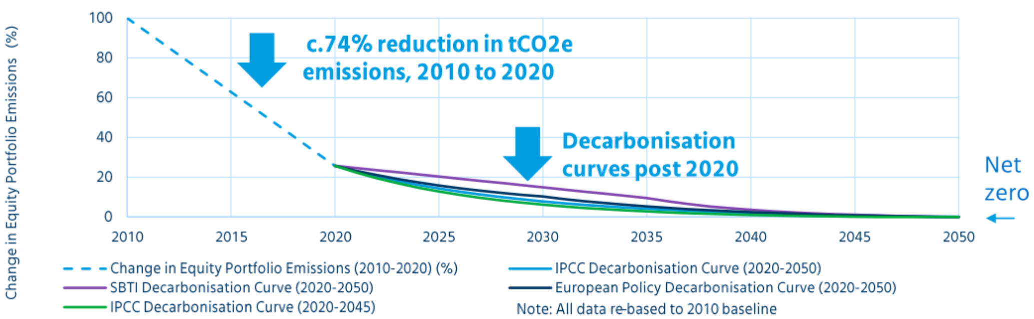


We do not hold carbon metrics for our private market (unlisted) investments. These investments largely focus on low carbon solutions, for example, energy efficiency or those funds with strong sustainability criteria.

- **We have significantly reduced our carbon footprint but still consistently outperform the market**

  In undertaking the analysis for our net zero target last year we could show that between 2010 & 2020, we had reduced the carbon footprint of our equity holdings by 74% while at the same stage had increased the value of the Fund by 94%. The Fund has outperformed its benchmark over one, three and five years.

Environment Agency Active Pension Fund
Decarbonisation Methodology and Results– Listed Equity



- The chart above summarises analysis undertaken for EAPF exploring net zero decarbonisation target setting for the Fund's listed equity portfolio. As part of this work we measured decarbonisation progress between 2010-2020.
- We use three different approaches to set decarbonisation targets to 2025 and 2030, consistent with net zero by 2045 or 2050 (the "decarbonisation curves") based on:
  1. IPCC Decarbonisation Curve consistent with a 1.5°C scenario (2010 baseline). For this curve we analyse net zero targets to both 2045 and 2050.
  2. Science Based Targets initiative's (SBTi) Decarbonisation Curve consistent with a 1.5°C scenario (2020 baseline).
  3. European Policy Decarbonisation Curve (2020 baseline).

The IPCC Decarbonisation Curve, consistent with net zero by 2045, is the most ambitious option. Building on EAPF's decarbonisation actions taken to date, this pathway targets equity portfolio emissions reductions of c.87% by 2025 and c.95% by 2030 using 2010 as a baseline.

Source: MSCI, Mercer, EAPF and investment managers. Data as at 31 March 2010 and 2020. The analysis focuses on the listed equity portfolio. Decarbonisation curves are calculated by Mercer but informed by the three approaches. For more information on Mercer's Analytics for Climate Transition framework, a new climate change solution to help investors transition to a 1.5°C climate scenario see: https://www.mercer.com/newsroom/mercer-launches-new-climate-change-offering-to-help-investors-transition-to-a-climate-scenario.html

MERCER Mercer 3

- **The Fund has reduced significantly its exposure to fossil fuels**
  In 2021, our exposure to future emissions is reduced by 99% for coal and 98% for oil and gas compared to 2015. This puts us ahead of our target for 2025. Going forward, we will be transitioning to Paris Aligned benchmarks, which means that we will only invest in those oil and gas companies that meet the Paris Agreement.

2. Engaging to drive positive change

Based on risk to the Fund, and our Fund's focus on environmental issues, the Fund has agreed the following priority areas for engagement:

- Climate Change, which covers a low carbon economy, building resilience to a changing climate and enhancing biodiversity
- Using resources sustainably, with a particular emphasis on reducing plastics in the environment
- Water – managing amount of water used and impact on water quality

We still support other environmental, social and governance issues which are important to us, for example food security, gender equality and human rights but our resources are limited. We are fortunate in that Brunel has a wide outreach on engagement issues both directly and through its appointed engagement provider EOS at Federated Hermes (EOS) and we can lend support through their work, including on modern slavery, diversity and tax evasion.

In 2021, EOS engaged on our behalf with 562 companies on 2,297 environmental, social, governance, strategy, risk and communication issues and objectives. They typically engaged with companies on more than one topic at the same time. The four active equity managers which EAPF have appointed directly also undertook engagement with their underlying holdings.

If we pick up concerns about a particular company, we will ask the asset manager for information. In the last year, the sorts of issues we have sought more information about included:

- The governance issues at an insulation company
- An agro-chemical company which produces products that may harm insects
- United Nations Human Rights Council report into business activity in Israel's settlements
- Changes in underlying holdings in portfolios due to enhanced responsible investment screening by the manager

We also took part in a number of joint investor initiatives last year targeted at companies in which we invest, including:

- Better disclosure of a company's environmental impact, requesting that companies produce Paris-aligned accounts
- Ensuring appropriate reparations for the local community after a mining disaster through the **Local Authority Pension Fund Forum**.

Voting

Our aim is for our managers to use 100% of votes available.

In 2021, for those assets managed by Brunel, EOS made voting recommendations on 4,470 resolutions at 334 meetings on behalf of the EAPF.

Our directly appointed managers voted on over 4,000 issues at 313 meetings in 2021, using 99% of the eligible votes they had.

Shareholder resolutions

In 2021/22 through Brunel, we have been involved with the following shareholder resolutions.

- **Banking** - the banking sector is a key player in tackling climate change. Brunel co-filed a shareholder resolutions at HSBC.
- **Climate related financial disclosures** – Brunel has co-filed a shareholder resolution at Berkshire Hathaway, Inc which seeks Task Force on Climate-related Financial Disclosures (TCFD)-aligned reports on physical and transitional climate-related risks and opportunities.
- **Living Wage** – Brunel has co-filed a Shareholder Resolution at Sainsbury's with ShareAction and nine other institutional investors and 108 individual investors calling for the grocer to accredit as a Living Wage employer and commit to paying all its workers a wage that meets the cost of living.

As a result of engaging with companies in our portfolio….

- **Our listed equities portfolio is five years ahead of where it needs to be to get to net zero target by 2045.**

  Year on year our companies emit fewer carbon emissions, even though the value of those assets continue to rise.

- **Our asset managers are driving real world change across all asset classes**

  In listed and private equity, we have many examples of our managers engaging to help improve the sustainability practices of the underlying companies. Many examples of this are provided in the Stewardship Code from improving biodiversity in South America to lending finance to companies who wish to transition to a low carbon economy.

- **Our insistence for high environmental and social standards has led directly to the best approach being used on the ground**

  Last year we required a legal covenant in one contract to make sure that the accredited carbon removal truly was permanent by legally protecting the long-term land use of the forest– something we had in another similar contract on another continent. We know from an NGO working with this particular asset manager that the learning from this best-practice investment is going to be shared across the country and hopefully more broadly across South America.

- **Seven more companies report what their environmental impact is after we wrote to them in 2021.**

  Each year we take part in the Carbon Disclosure Project's (CDP)Non-disclosure initiative, where we write to companies and encourage them to report through CDP on their environmental impact. We do this to be better able to understand the risks (and opportunities) in that company but also reporting in this way can help companies manage those risks.

  The EAPF led engagement in this campaign with 17 companies. As a direct result, seven (41%) of them now report for the first time to CDP. This will lend greater transparency and pressure on those companies to improve their performance going forward.

- **We know our vote has influenced the actions of some large companies.**

  We have used our vote effectively. We can point to concrete examples where we have helped to drive change, working through Brunel, Hermes EOS and collectives of investors internationally. At HSBC for example, Brunel's Shareholder Resolution was withdrawn as it was replaced by a management backed resolution committing the bank to phasing out financing the coal industry by 2030 in the OECD and by 2040 worldwide.

3. Contributing to wider change across the finance sector.

Sometimes the issues we face need cross-sectoral support to resolve. To address these, we typically work through investor networks, which in turn link in with, NGOs, industry experts and
The groups we worked through over the last year included:

- Institutional Investors Group on Climate Change
- United Nations Principles for Responsible Investment
- Local Authority Pension Fund Forum
- A4S Accounting for Sustainability
- Global West Government Funds Roundtable

In 2021 we supported the following initiatives:

- **Climate change - understanding transition risk**

  All investors need to have the right information to assess their investment risks from environmental social and governance issues and that is why we remain active supporters of the **Transition Pathway Initiative (TPI).**

  In 2021, TPI announced that a TPI Global Transition Centre would be based at Grantham Institute in the London School of Economics. This will go live in 2022 and will significantly scale up the number of companies TPI can analyse. As part of the plans, we worked with partners on turning TPI from a voluntary initiative into a not-for-profit Limited Company, which will put it in a better position to support the very ambitious research output. EAPF is a Director on the new limited company.

- **Climate change: managing physical risk**

  We know that the climate is already changing. This will result in greater exposure to hazards such as flooding, sea level rise, wildfires and heatwaves.

  EAPF co-led an **IIGCC working group** in 2021 to set out **what information investors would like** from listed companies to help them understand a company's exposure to material physical risk and what the company is doing to address this.

- **Climate change: tackling biodiversity risk**

  In 2021, we joined the advisory forum for the **Taskforce for Nature-Related Financial Disclosures**.

  We also worked through Global Canopy, which led a Finance & Deforestation Advisory group to bring together experts in deforestation, nature loss and sustainable finance to achieve deforestation free finance. We also joined another Global Canopy working group developing guidance for pension funds so that they too can commit to deforestation free portfolios.

- **Using Resources Sustainably**

  We pledged support in 2019 to an initiative to reduce the amount of plastic pellets lost in the supply chain.

  In 2021, the British Standards Institute consulted with industry on the draft standard. This has led to an independent, auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

- **Valuing Water**

  EAPF joined the Ceres Valuing Water Investor Working Group to raise the importance of properly valuing and using water in the investment industry.

- **Sharing EAPF best practice with other funds**

  Over the last year, we have been increasingly asked to speak to international networks, who welcome understanding the UK asset owner perspective.
  A particular highlight was being invited to speak at a number of events at COP26 in Glasgow, where we focused on how to invest for net zero, managing biodiversity risk, and understanding physical risk.

As a result of contributing to wider change in the finance community….

- **Despite being a small Fund, we are having an impact globally**

  In particular, we are very proud of the impact we are having through **Transition Pathway Initiative (TPI)**, an initiative we co-founded in 2017 with the Church of England. TPI is a trusted data source for a large number of investors around the world, who use it to prioritise which companies they should engage with. This in turn leads to pressure on those companies to improve their carbon performance.

  TPI is also a key data source for the **Climate Action 100+ benchmark** which is focused on assessing the performance of the key 166 companies that are key to driving the net zero transition. These 166 companies account for up to 80 % of corporate industrial greenhouse gas emissions globally.

  TPI data is now also being used in investment products to provide forward-looking metrics on how well carbon-intensive companies are managing climate risk. Last year we invested in FTSE Russell Paris-Aligned Benchmark Index. We were one of five Brunel clients investing over £3bn into these series of FTSE indexes in 2021/22.

Commendations

An assessment of our governance in 2021 by Aon concluded that “the effectiveness of EAPF governance arrangements is of an extremely high standard”.

The EAPF has also kept its Customer Service Excellence (CSE) accreditation in 2021 with an increased number of ‘compliance plus’ scores. The report concluded that “the Pensions Fund enjoys favourable comparisons with other funds with regard to the timeliness and quality of service”.

The EAPF won Best Climate Change Strategy at the LAPF Awards (2021). LAPF Investments is the magazine for local authority pension investment specialists.

Pension Fund investment

Investment strategy development and implementation

We aim to deliver a truly sustainable Fund that delivers financially to meet the objectives of our scheme employers and members. The Committee has set the overall investment objective for the Fund after consideration of the actuarial valuation, contributions and the maturity profile of its liabilities.

The investment strategy, laid out in the Investment Strategy Statement in Annex 3, is agreed by the Committee to meet the overall investment objective. The strategy remains focused on seeking to generate maximum value from our assets with an appropriate level of risk, ensuring environmental, social and governance considerations, including climate change, are fully integrated, and furthering our commitment to responsible investment. It uses multiple levers to achieve this: active mandates, specialist benchmarks, detailed risk analysis, and a fully diversified range of assets across global markets.

No changes were made to the Strategic Asset Allocation in 2021/22. The Fund conducted a full detailed investment strategy review following the 2019 Actuarial Valuation, which focused on de-risking the investment strategy in order to protect the Fund's strong funding position. In 2020/21, the Fund conducted reviews of the Equity Portfolio, Private Markets and the Defensive Assets. During the most recent 12 months, the Fund built upon these reviews and a large focus was on implementation.

During the 2019 investment strategy review, an allocation to Liability Driven Investment was introduced to the SAA. Over 2021/22, the Fund completed implementation of the Liability Driven Investment ('LDI') portfolio, with the agreement to transfer the existing government bond assets, managed by Legal & General to a new LDI mandate managed by BlackRock. The LDI mandate invests in physical nominal and index-linked government bonds that are held in quantities intended to match the interest rate and inflation movements of a representative slice of the Fund's liabilities.

Within Private Markets, as a result of the review conducted in 2020/21, the Fund continued to make material allocations to Private Markets to ensure the Fund is able to achieve and maintain the strategic asset allocations to these asset classes, which require ongoing commitments.

The Fund is due to complete a detailed investment strategy review in 2022, following an updated Actuarial Valuation. The focus of the review is expected to be primarily on the defensive equity portfolio, the property allocation and the real asset portfolio and continued de-risking of the portfolio.

Below we provide a summary of the major changes to the Fund's portfolio over 2021/22.

At year end, our real assets portfolio managed by Townsend (property, infrastructure, forestry and agriculture) stood at £395.4m, or 8.7% of the Fund, compared to the 12% SAA target. Investments and undrawn commitments now stand at £511.0m, or 11.2% of the Fund, which is slightly behind the 12% SAA target. In addition to the Townsend mandate, the Fund committed £10m to an impact infrastructure fund, SAIFF, in July 2021.

Over the 12 months, the Fund agreed to make commitments to private debt strategies managed by Ares (c.£22.5m), Carlyle (c.£25m), P Capital (c.£25m), Neuberger Berman (c.£20m), ICG (c.£22.5m), Lombard Odier (£35m) and Newmarket (c.£10m).

Within private equity, the Fund agreed to make commitments to GHO (c.£20m), Circularity (c.£20m), Summa (c.£25m), Generation (c.£40m), Activate (c.£10m), Bridges (c.£20m), Verdane (c.£10m) and Anterra (c.£23m).

Existing private equity and private debt managers also continued to make new investments on our behalf. At year end, investments in relation to private equity stood at £194.5m, or 4.3% of the Fund, compared to the 4% SAA target. Undrawn commitments are disclosed in Note 24 of the financial statements. In the previous year, the Fund had engaged with Stafford (formerly Robeco) with regards to the sale of a portion of the Stafford Private Equity portfolio. Discussions continued in 2022, but parties were not able to agree terms.

The Fund has in place a cashflow and rebalancing policy, to ensure efficient cash management processes are followed.

To ensure the Fund is managed in line with the asset allocation, officers and advisors hold monthly investment meetings. Any deviations in asset allocation are discussed and actions agreed. Cash is maintained within agreed limits. In addition, the Fund has a rebalancing programme that aims to bring the Fund back in line with target weights to listed equities and fixed income assets if market movements cause allocations to breach pre-agreed ranges.

Fund benchmark

Based on the above strategy, the following strategic benchmark had been set for the Fund:

Asset Class	Benchmark Index	% Weight 2021/22	% Weight 2020/21
Global equities	FTSE All World*	36.5	36.5
Corporate bonds	iBoxx Sterling all non-gilt	22.0	22.0
Real Assets	Retail Price Index	12.0	12.0
Liability Driven Investment	Bespoke Liability Benchmark	11.5	11.5
Multi Asset Credit	Sonia +4% p.a.	8.0	8.0
Private debt	3 month £ Libor	5.0	5.0
Private equity	MSCI World	4.0	4.0
Cash	3 month £ Libor	1.0	1.0

* The benchmark is adjusted to allow for tax leakage in our equity investments by combining total return indices on the basis of 80% gross and 20% net.

Investment performance

For the 2021/22 financial year the Fund achieved an absolute return of 6.5%, outperforming its benchmark (after fees) by 0.9%. Over three years the Fund has returned 7.6% p.a., 0.4% p.a. above its benchmark.

On a year-on-year basis to 31 March 2022, Private Market assets had exceptionally high returns, which fed through to the Fund's overall performance shown above. This has a lot to do with the base effect as it compares valuations just after four consecutive quarters of a bull run to valuations in the immediate aftermath of the worst market downturn since the Global Financial Crisis. Given the lag on reporting in private markets, we saw this strong performance come through 1-2 quarters after the strong performance of public market risk assets.

As explained in previous annual reports, we have taken several actions to reduce equity risk, in addition to the aforementioned strategic de-risking which took place as a result of the 2019 investment strategy review. Primarily, the Fund has chosen managers with a deliberate tilt towards low volatility, high quality companies, with a view to reducing downside risk and volatility. Several of our managers take a benchmark agnostic, long term, absolute return approach.

Within our active equity managers, global equity manager performance was broadly positive on an absolute basis, but weak on a relative basis over the 12-month period. Robeco SEVE, Generation and Impax underperformed, however, the Brunel low volatility fund posted a positive relative return. The Private Equity portfolio's performance was positive, with Stafford Capital returning modestly positively and the TOP returning over 40% in absolute terms, with the performance of the TOP being driven by the strong returns of the Generation Climate Solutions Fund. Real assets and Private Debt performed strongly over the 12 months.

Most of our managers have outperformed their benchmarks since inception. Where invested for a period of longer than 12 months, the managers/portfolios that have outperformed were Generation, Ownership Capital (both sustainable global equities), Impax, the Targeted Opportunities Portfolio our real assets manager Townsend and our Private Debt portfolio. Brunel Low Volatility and the Robeco SEVE portfolios, forming part of the Fund's global equity managers, have underperformed since inception.

Financial Performance	**2022 %**	**2021 %**
1 year		
Fund performance	+6.5	+18.2
Benchmark performance	+5.7	+16.8
Active fund relative performance	+0.8	+1.4
3 year		
Fund performance	+7.6	+8.1
Benchmark performance	+7.2	+7.6
Active fund relative performance	+0.4	+0.5

Investment management

By year end, responsibility for the day-to-day management of the Fund's investments was delegated to five managers, including Brunel Pension Partnership, 23 private equity, private debt and real asset specialists.

Throughout 2021/22, there was a large focus on transferring assets, where appropriate, to the Brunel Pension Partnership. Over the 12 months, the Fund completed its investment in the Brunel Sterling Corporate Bonds Fund, with the proceeds funded from RLAM UK Corporate Bonds and L&G Buy and Maintain Credit.

Additionally, within the equity portfolio, the Committee agreed to transfer the passive equity holdings from Brunel Low Carbon Equity Fund, to the Brunel LGIM Paris Aligned Benchmark Fund (PAB). PAB will provide a diversified exposure to equities whilst aligning to the Paris Agreement (7% year on year emissions reduction) and by extension the FTSE Paris Aligned Global Developed Equities index's goal of achieving a low carbon economy (subject to a tracking error constraint versus the parent index).

Over the 12 months, Brunel confirmed the intention to add Mirova and Jupiter to the existing line up of Ownership, Nordea and RBC within their Global Sustainable Equity Fund. The Committee reviewed the Fund's equity portfolio at the November ISC meeting and agreed to make an allocation to the Brunel Global Sustainable Equity Fund. The Fund made a c.£465m investment in the Brunel Global Sustainable Equity portfolio. This was funded through a full sale of Ownership (c.£265m) and a c.£200m disinvestment from Generation Listed Equity.

The Fund had either transferred, or agreed to transfer, over 60% of the Fund's assets to Brunel by 31 March 2022.

Our investment managers are responsible for selecting individual investments, and operate at arm's length from the Fund, with full discretion over the management of their portfolios, subject to IMAs where relevant, complying with statutory limits and the Investment Strategy Statement and taking due regard of the Active Fund Responsible Investment policy and supplementary guidance, for example on environmental issues or voting. Each manager has been set a specific benchmark that reflects the asset class being managed, and in the case of segregated managers has a performance target they are aiming to achieve. Details of the managers, their benchmarks, targets and performance is available on pages 56 to 57.

We seek to work with our managers on a long term basis, as we believe this is the best way to achieve positive results for the Fund. We support the findings of the Kay review on long term decision making in investments. As our contribution to this discussion, we review our arrangements with managers, identifying where we may be recreating short term pressures on managers. To address these pressures, we have developed a standard investment management agreement for managers and supplemented it with a covenant laying out our expectations of managers and our commitment to managers more broadly. In particular, the covenant makes clear that we are more likely to be concerned about team instability or changes in approach than short term performance.

As a Fund we remain very conscious of costs and value for money. We continue to move forward with asset pooling as part of Brunel Pension Partnership, which will have greater scale to negotiate fee reductions or concessions with investment managers.

Custody arrangements

State Street Bank & Trust Company ('State Street') were appointed as the Funds Global Custodian from 1 April 2018. 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 by an independent organisation. Other procedures and controls are reviewed by an independent reporting accountant via the Service Organisation Control (SOC1) Report.

Funding level

The funding level of the Active Fund is estimated to be 110% as at 31 March 2022, based on a roll-forward from latest triennial valuation as at 31 March 2019. The historical funding level and asset allocation for the last five triennial valuations are shown in the table below:

Valuation results	**2007**	**2010**	**2013**	**2016**	**2019**
Value of assets £m	1,521	1,589	2,118	2,730	3,646
Value of liabilities £m	1,455	1,684	2,351	2,641	3,435
Funding level %	105	94	90	103	106
Asset Allocation %					
Equities	67	58	63	60	47
Bonds	9	12	20	20	23
Gilts	14	15	9	8	13
Property	5	3	3	8	9
Private equity	2	5	4	4	5
Cash	3	7	1	<1	3
Total	**100**	**100**	**100**	**100**	**100**

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

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

The table below shows the performance of the total fund and the individual managers:

Manager	Date appointed	Value at 31 Mar 2022 £m	Fund %	Asset class/ Mandate	Benchmark	2021/22 Performance			2020/21 Performance		
						Fund return %	Bench mark return %	Relative to bench mark %	Fund return %	Bench mark return %	Relative to bench mark %
Private equity & TOP											
Targeted Opportunities Fund	Apr-14	172.0	3.8	Private Equity (active pooled)	Absolute Return 8.0% pa	+59.8	+15.9	+43.9	+19.0	+39.1	-20.1
Robeco	Oct-05	22.5	0.5	Private Equity (active segregated)	MSCI World (Gross)	+19.1	+15.9	+3.2	-13.3	+39.1	-52.4
Global equities											
Generation	Aug-08	457.0	10.0	Global Equity (active segregated)	MSCI AC World (80% GD, 20% ND)	-1.4	+12.8	-14.2	+52.7	+39.4	+13.3
Brunel Global Sustainable Equities	Feb-22	460.5	10.1	Global Equity (pooled)	MSCI AC World GBP index	+2.7	+2.3	+0.4	-	-	-
Brunel Passive Equities	Jul-18	327.9	7.2	Global Equity (passive pooled)	FTSE Developed Paris-Aligned (PAB) net index	+14.6	+14.8	-0.2	+39	+39.2	-0.2
Ownership Capital	Jun-14	-	-	Global Equity (active pooled)	MSCI Kokusai (World ex Japan) GD	+5.7	+17.3	-11.6	+36.9	+40.3	-3.4
Brunel Low Volatility	Mar-19	413.8	9.1	Global Equity (low volatility - active pooled)	c50% MSCI AC World NDR (hedged to GBP) & c50% MSCI EM NDR (unhedged)	+16.1	+12.9	+3.2	+20.3	+39.6	-19.3
Robeco SEVE	Oct-17	183.7	4.0	Global Equity (active pooled)	MSCI World GDR	+9.8	+15.9	-6.1	+49.0	+39.1	+9.9
Impax	Aug-08	187.2	4.1	Global Equity (active segregated)	MSCI AC World GDR	+5.8	+12.9	-7.1	+68.7	+39.6	+29.1
Diversifying Growth Assets											
Townsend	Mar-13	404.9	8.9	Real Assets (active segregated & pooled)	RPI (target RPI + 4% over rolling 5 years)	+14.5	+9.0	+5.5	+2.8	+1.8	+1.0
Wellington	Mar-15	-	-	GTR Bonds (active pooled)	3 Month Sterling LIBOR	-	-	-	+4.9	+0.1	+4.8

Private Lending	Mar-15	173.9	3.8	Private Lending (active pooled)	3 Month Sterling LIBOR	+8.7	+0.1	+8.6	+8.0	+0.1	+7.9
Brunel Multi-Asset Credit	Jun-21	337.6	7.4			-1.5	+3.5	-5	-	-	-
Bonds Corporate Bonds											
Brunel Sterling Corporate Bonds	Jul-21	701.2	15.4	Sterling Corporate Bonds (pooled)	iBoxx £ Non Gilt all bonds	-6.3	-6.9	+0.6	-	-	-
Royal London	Jul-07	2.7	0.1	Corporate Bonds (active segregated)	iBoxx £ Non Gilt all bonds	-23.1	-5.2	-17.9	+8.8	+7.0	+1.8
Legal & General	Oct-15	-	-	Corporate Bonds (passive pooled)	iBoxx £ Non Gilt all bonds	-	-	-	+6.1	+7.0	-0.9
Legal & General	Dec-19	-	-	UK Fixed Interest Gilts (pooled fund)	FTSE UK Gilts Government > 15 Years	-	-	-	-10.4	-10.4	0.0
Legal & General	Nov-09	-	-	UK Index Linked Gilts (passive seg)	FTSE Index Linked Gilt > 15 Years	-	-	-	+3.1	+3.6	-0.5
Brunel/Blackrock LDI	Oct-21	535.0	11.8		Bespoke Liability Benchmark	-10.0	-9.4	-0.6	-	-	-
Cash & Other											
Other net assets		167.1	3.8								
Total Fund		**4,547.0**	**100.0**		**Strategic Benchmark**	**+6.5**	**+5.7**	**+0.8**	**+18.2**	**+16.8**	**+1.3**

Notes:

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

For Townsend and private lending we have currency hedging in place which is reflected in the performance numbers.

Brunel Sterling Corporate Bonds are from inception, July 2021, no full year performance available

LDI is from inception, Oct 2021, no full year performance available

Brunel Global Sustainable Equities are from inception Feb 2022, no full year performance

Brunel Multi-Asset Credit is from inception Jun 2021, no full year performance

Portfolio analysis

Distribution of net investment assets by market value as at 31 March 2022, in millions *(Note: May not add up exactly due to rounding)*:

	Private Lending	Private Equity	UK Equities including Pooled Equities	Overseas equities including pooled equities					Pooled Fixed Interest	Liability Driven Investments	Pooled Property	Pooled Infrastructure, Agriculture & Timberland	Cash	£m Total Other net investments including Derivatives	£m Total
				North America	Europe (exc UK)	Emerging Markets & other areas	Asia Pacific (exc Japan)	Japan							
Brunel Sterling Corp Bonds									701.2						**701.2**
Brunel BlackRock-LDI										535.0					**535.0**
Brunel-Sustainable Equities			22.0	321.4	81.4	4.3	14.9	16.6							**460.5**
Generation			26.1	326.3	63.2	12.7	14.4						15.9	-1.7	**457.0**
Brunel Low Volatility			35.0	283.7	47.8	1.0	18.9	27.4							**413.8**
Townsend											172.7	205.4	17.7		**395.9**
Brunel MAC			213.4	70.3	53.0		0.8	0.1							**337.6**
Brunel Paris Aligned (PAB)			14.5	223.9	63.8		10.9	14.8							**327.9**
Impax			15.1	100.0	46.5	12.7	9.8						2.5	0.6	**187.2**
Robeco SEVE			7.7	120.1	31.1		4.7	20.1						0.1	**183.9**
Cash & Other													167.0	11.4	**178.4**
Targeted Ops		137.9									34.1			0.1	**172.1**
Illiquid Credit	172.0														**172.0**
Robeco PE		21.8											0.8		**22.5**
Royal London													2.7		**2.7**
£m Total	**172.0**	**159.7**	**333.8**	**1,445.7**	**386.8**	**30.7**	**74.4**	**79.0**	**701.2**	**535.0**	**206.8**	**205.4**	**206.6**	**10.5**	**4,547.7**
% of Fund	3.8	3.5	7.3	31.8	8.5	0.7	1.6	1.7	15.4	11.8	4.5	4.5	4.5	0.2	**100.0**

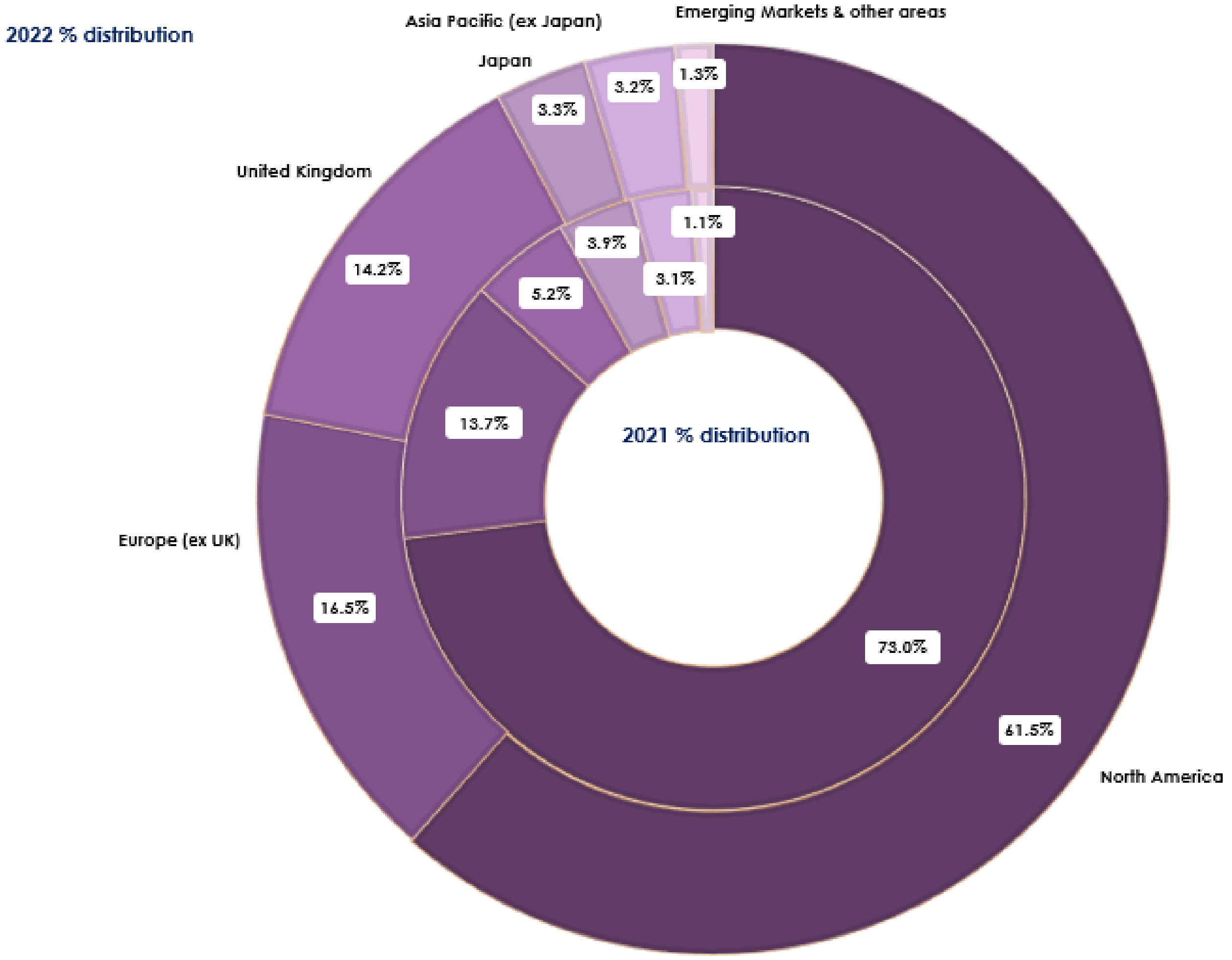
Top 20 holdings of the Fund as at 31 March 2022

Holding	Asset Class	2022	
		£m	% of Fund
BRUNEL STERLING CORPORATE BONDS	Pooled fixed interest - Overseas corporate bonds	701.2	15.4
BRUNEL BLACKROCK LIABILITY SOLUTIONS	Pooled – LDI	535.0	11.8
BRUNEL GLOBAL SUSTAINABLE EQUITIES	Equities – Global	460.5	10.1
BRUNEL LOW VOLATILITY FUND	Pooled equities – Global	413.8	9.1
BRUNEL PARIS ALIGNED FUND	Pooled equities – Global	327.9	7.2
BRUNEL NEUBERGER BERMAN MAC FUND	Pooled – Multi Asset Credit	202.5	4.5
ROBECO QI GLOBAL DEVELOPED	Pooled equities – Global	183.7	4.0
CQS GLOBAL FUNDS	Pooled fixed interest - Overseas corporate bonds	67.9	1.5
OAKTREE (LUX) III SA SICAV	Pooled fixed interest - Overseas corporate bonds	67.2	1.5
GENERATION IM CLIMATE SOLUTION	Private equity - Partnerships	47.5	1.0
DIRECT LENDING FUND III (GBP)	Private Lending - Partnerships	34.0	0.7
PERMIRA CREDIT SOLUTIONS III S	Private Lending - Partnerships	30.1	0.7
UBS GBL ASSET MGT	Real estate	28.9	0.6
BARINGS NORTH AMERICAN PRIVATE	Private equity - Partnerships	28.0	0.6
DBL PARTNERS III LP	Private equity - Partnerships	27.9	0.6
CHARTER HALL PRIME INDUSTRIAL	Real estate	24.7	0.5
DIRECT LENDING UK FUND SLP	Private Lending - Partnerships	24.3	0.5
SENIOR LOAN FUND I C SLP SUB	Private Lending - Partnerships	22.9	0.5
AMAZON.COM INC	Direct Equity	21.7	0.5
TIAA CREF GLOBAL AGRICULTURE I	Private Equity - Agriculture	21.5	0.5
Total		**3271.2**	**71.8**

Top 20 holdings of the Fund as at 31 March 2021

Holding	Asset Class	2021	
		£m	% of Fund
BRUNEL LOW VOLATILITY FUND	Pooled equities - Global	356.4	8.3
L&G TSDD BUY & MAINTAIN CORPORATE BONDS FUND	Pooled fixed interest - Overseas corporate bonds	356.2	8.3
WELLINGTON GLOBAL TOTAL RETURN	Pooled fixed interest - Overseas corporate bonds	311.6	7.3
BRUNEL LOW CARBON FUND	Pooled equities - Global	286.1	6.7
OWNERSHIP CAPITAL GLOBAL EQUITIES	Pooled equities - Global	255.5	6.0
ROBECO QI GLOBAL DEVELOPED	Pooled equities - Global	167.9	3.9
L&G AF OVER 15Y GILTS INDEX	Pooled fixed interest - UK index linked gilts	157.1	3.7
PERMIRA CREDIT SOLUTIONS III S	Private lending - Partnerships	47.4	1.1
BAXTER INTERNATIONAL INC	Direct equity	37.2	0.9
BARINGS NORTH AMERICAN PRIVATE	Private equity - Partnerships	36.6	0.8
GENERATION IM CLIMATE SOLUTION	Private equity - Partnerships	36.4	0.8
SENIOR LOAN FUND I C SLP SUB	Private lending - Partnerships	33.3	0.8
DIRECT LENDING UK FUND SLP	Private lending - Partnerships	32.0	0.7
UK GOVERNMENT 1.25% INDEX LINKED 22/11/55	Fixed interest - UK index linked gilts	30.3	0.7
UK GOVERNMENT 0.125% INDEX LINKED 22/03/68	Fixed interest - UK index linked gilts	29.7	0.7
UK GOVERNMENT 0.375% INDEX LINKED 22/03/62	Fixed interest - UK index linked gilts	28.7	0.7
EQUIFAX INC	Direct equity	26.2	0.6
KKR EVERGREEN CO INVEST II LP	Real estate	25.8	0.6
CISCO SYSTEMS INC	Direct equity	25.4	0.6
UK GOVERNMENT 0.5% INDEX LINKED 22/11/50	Fixed interest - UK index linked gilts	25.3	0.6
Total		**2,305.1**	**53.8**

Geographical distribution of quoted and pooled equity investments



Geographical distribution	2022	2021
	£m	£m
North America	1,445.7	1,330.7
Europe (excluding UK)	386.8	249.0
United Kingdom	333.8	94.5
Japan	79.0	70.6
Asia Pacific (excluding Japan)	74.4	56.7
Emerging Markets and other areas	30.7	21.1
Total	**2,350.4**	**1,822.6**

Top 20 direct equity holdings

Company	Country	2022 £m	% of Fund	Company	Country	2021 £m	% of Fund
Amazon.com Inc	United States	21.7	0.5	Baxter International Inc	United States	37.2	0.9
Baxter International Inc	United States	19.4	0.4	Equifax Inc	United States	26.2	0.6
Becton Dickinson and Co	United States	18.2	0.4	CISCO Systems Inc	United States	25.4	0.6
Henry Schein Inc	United States	17.4	0.4	Schwab (Charles) Corp	United States	24.1	0.6
Jones Lang LaSalle Inc	United States	17.0	0.4	Alphabet Inc CL C	United States	21.9	0.5
Alphabet Inc CL C	United States	16.8	0.4	Becton Dickinson and Co	United States	19.7	0.5
Equifax Inc	United States	16.0	0.4	Henry Schein Inc	United States	19.7	0.5
Vestas Wind Systems A/S	Denmark	15.6	0.3	Amazon.com Inc	United States	19.6	0.5
Schwab (Charles) Corp	United States	14.8	0.3	Dentsply Sirona Inc	United States	19.1	0.4
Taiwan Semi Conductor Manufacture	Taiwan	12.7	0.3	Cognizant Tech Solutions A	United States	19.0	0.4
Clarivate Plc	United States	11.7	0.3	Gartner Inc	United States	18.8	0.4
Visa Class A shares	United States	11.0	0.2	Analog Devices Inc	United States	17.9	0.4
Adidas AG	Germany	11.0	0.2	Jones Lang LaSalle Inc	United States	17.7	0.4
Ashtead Group Plc	United Kingdom	10.6	0.2	Cooper COS Inc/The	United States	17.4	0.4
Gartner Inc	United States	10.1	0.2	CBRE Group Inc A	United States	17.0	0.4
Intel Corp	United States	10.0	0.2	TE Connectivity LTD	United States	16.6	0.4
Cooper COS Inc/The	United States	8.8	0.2	Siemens Healthineers AG	Germany	16.3	0.4
LeGrand SA	France	8.8	0.2	Palo Alto Networks Inc	United States	15.1	0.4
Applied Materials Inc	United States	8.7	0.2	Sensata Technologies Holding	United States	14.1	0.3
Trane Technologies Plc	Netherlands	8.7	0.2	Unilever Plc	Netherlands	14.0	0.3
Total		**269.0**	**5.9**	**Total**		**396.8**	**9.3**

Pension Fund administration

Administration arrangements

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits for 27,615 members of the Active Pension Fund.

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

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

Performance measurement

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

We would like to express our thanks to Capita for resolving 38,069 (2021: 30,255) Active and Closed Fund member requests/queries and for paying pensions to 7,752 Active Fund pensioners. Over the year, Capita achieved service levels for 87.07% 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 70.28% and this progressively improved to 98.37% in August 2021. This continued into 2022 but then declined, largely due to a significant increase in the workload because of 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 five largest case types processed by Capita for the Active Pension Fund during 2021/22 were:

Case type	2022	2021
Leavers with deferred pensions	707	577
Retirement estimates	1492	1049
Joiners	887	440
Transfers out including quotations	644	552
Retirements	725	551

Active Fund administration costs for the year to the 31 March 2022 were £634k (2021: £690k) including member communications and postage costs. For 2020/21 data the CIPFA average was £21.40 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, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively, and economically. The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 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 Active 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 Active Fund annually and a certificate issued reflecting compliance with TPR guidance. The latest available results from our November 2021 certificates showed our post-June 2010 data as 96.95% (June 2020: 99.70%), with pre-June 2010 data at 87.95% (June 2020: 89.92%). The missing data for both categories relates to members moving house and not informing our administrators. We continue to carry out exercises to trace these members and will update their records accordingly. A specific address tracing exercise is currently underway and will inform the next certification exercise.

Data security

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

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

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

- Protecting information assets consistently to a high standard to prevent compromise by external and internal threats, both deliberate and accidental.
- Raising and maintaining security awareness to help avoid the unintentional or malicious disclosure of confidential information, which could cause inconvenience and distress to others, be unlawful, and to avoid causing financial and reputational damage.

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 published its annual pension statements online only for the first time in 2021, after undertaking a lengthy notification exercise with our contributing members. Only a small percentage of members, 2.3%, have chosen to continue receiving paper statements. We have received some very positive feedback and have seen our registered contributing members increase from 64% (at 31 March 2020) to 82% at 31 March 2022. Following on from its success with our contributing members, we've then 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.

Following our Process to Report Breaches of the Law, we made one 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, 2021/22 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 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We're able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our 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, 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, our Inaugural Annual General Meeting (AGM) for members.

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

Complaints

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

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

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

In 2021/22 Capita received 91 (2020/21: 49) & (2019/20: 93) formal complaints from Active Fund members which is a 0.28% of total member queries. 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 was one new IDRP Stage 1 case on the Active Fund raised during the year, no new Stage 2 cases and one new case went to the Pensions Ombudsman.

Foreword to the financial statements

The EAPF 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).

The LGPS was contracted out of the State Earnings Related Pension Scheme (SERPS) and later the State Second Pension (S2P) until 5 April 2016, meaning it provides benefits that are as good as most members would receive if they had been in the SERPS/S2P. Full tax relief is granted on both members' and the Environment Agency's contributions paid to the Fund.

Roles and responsibilities of the Pensions Committee

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

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

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

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

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

The Committee and Accounting Officer are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities. This Annual Report and Financial Statements is available on the Pension Fund's website and the gov.uk website. The maintenance and integrity of the website is the responsibility of the Environment Agency. The work carried out by the Auditor and the Scheme Administrator does not involve consideration of these matters. Accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the websites. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Summary of the financial statements

All investment assets are included in the financial statements on a fair value basis as at the reporting date. The net assets of the Environment Agency Active Pension Fund as at 31 March 2022 have increased by £249m to £4,537m (2021: increased by £683m to £4,288m). Over the past year, events such as the continued COVID-19 pandemic and the events in Eastern Europe have had significant impacts on the financial markets and the global economy. Our Fund has stood up to those challenges well, as we see our assets rise by c6% (2021: c15% increase on 2020).

The Fund holds a Long-term investment in the Brunel Pension Partnership Limited, its pooling provider. As at the 31 March 2022 this had a reported fair value of £838k (2021: £769k).

In order to comply with Regulation 4(2)(b) of the Pension Scheme (Management and Investment Funds) Regulation 2009, Additional Voluntary Contributions (AVCs) paid and the AVC assets are not included in the Fund's financial statements. However, the value of the AVCS is disclosed for information purposes only in Note 22.

Total contribution income has decreased by £41.8m to £89.7m (2021: increased by £33.8m to £131.5m). This can be primarily attributed to the EA and NRW paying across advanced employer contributions in the prior financial year.

Net income from all transfer values received in the year has fallen slightly on the prior year as a result of individuals transferring from previous arrangements into the scheme. This decreased by £1.7m to £4.3m (2021: decreased by £0.6m to £6.0m). Retirement benefits in respect of members during the year has increased by £8.7m to £101.5m (2021: increased by £0.2m to £92.8m).

Management expenses have increased on the prior year by £13.0m to £37.3m (2021: increased by £0.2m to £24.3m). This is primarily due to a £9.3m increase in performance fees paid in the year, plus an increase in the number of private market managers, incurring base management fees and increased use of investment advisors to support transitions and new investments in the year.

The Fund's net return on investments decreased by £368.1m to £297.8m (2021: increased by £677.2m to £665.9m). The prior year's figure was due mainly to the large increase in the market value of our investments held as at 31 March 2021.

Statement by the Consulting Actuary

Environment Agency Active 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. In summary, the key funding principles are as follows:

- Ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- Recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- Enable employer contributions to be kept as stable as possible and at a reasonable cost, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers;
- Manage the employers' liabilities effectively; and
- Maximise the returns from investments within reasonable risk parameters.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For both principal employers, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 78% likelihood that the Fund will achieve the funding target over 20 years.

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 £3,646 million, were sufficient to meet 106% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £211 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

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

Assumptions

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

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

Financial Assumptions (% p.a.)	31 March 2019
Discount Rate	3.1%
Salary increase assumption	2.5%
Benefit 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 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current pensioners	21.9 years	23.8 years
Future pensioners*	22.9 years	25.5 years

*Aged 45 as at 2019 valuation.

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

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. As a result, the funding level of the Fund as at 31 March 2022 on an ongoing basis (with a partial allowance to upcoming changes in the assumptions for the 2022 valuation) is estimated to be 110%, slightly higher than that reported at the previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Peter MacRae
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
12 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 Active 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 Fund's 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 responsibilities 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 ending 31 March 2022

Fund account	Notes	2022 £000	2021 £000
Dealings with members, employers and			
others directly involved with the Fund			
Contributions	7	89,655	131,546
Transfer values in from other pension funds	8	4,339	5,989
		93,994	**137,535**
Benefits	9	(101,464)	(92,784)
Payments to and on account of leavers	10	(3,810)	(2,751)
		(105,274)	**(95,535)**
Net (withdrawals)/additions from dealings with members		**(11,280)**	**42,000**
Management expenses	11	**(37,264)**	**(24,306)**
Return on investments			
Investment income	12	61,813	50,248
Taxes on income	13	(199)	(155)
Profit and loss on disposal of investments and changes in the value of investments	14a	236,140	615,796
Net returns on investments		**297,754**	**665,889**
Net increase in the Fund during the year		**249,210**	**683,583**
Opening net assets of the Fund at 1 April		4,288,172	3,604,589
Closing net assets of the Fund at 31 March		**4,537,382**	**4,288,172**

The notes on pages 78 to 114 form part of these financial statements.

Net assets statement	Notes	2022 £000	2021 £000
Long-term investments	14a	838	769
Investment assets	14c	4,554,173	4,297,186
Investment liabilities	14c	(6,473)	(8,625)
Total net investments		**4,548,538**	**4,289,330**
Current assets	20	16,499	15,660
Current liabilities	21	(27,655)	(16,818)
Closing net assets of the Fund at 31 March		**4,537,382**	**4,288,172**

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Scheme year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on pages 70 to 71 and these financial statements should be read in conjunction with it. The Actuary's statement dated 12 May 2022 is based on a formal valuation as at 31 March 2019. The notes on pages 78 to 114 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 Active Pension Fund is part of the Local Government Pension Scheme (LGPS) 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 EAPF is now a multi-employer Fund: Environment Agency, Natural Resource Wales (NRW) and Shared Services Connected Limited (SSCL). It is open to all eligible Environment Agency employees but is closed to new employees of NRW and SSCL. The EAPF is also responsible for administering some unfunded benefit payments.

The following description is a summary only. For more detail, reference should be made to the Funding Strategy Statement (Annex 2).

General

The Fund is governed by the Superannuation Act 1972 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.

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

Membership

Unless they have elected in writing not to be members, all Environment Agency employees are eligible for membership of the LGPS (excluding Environment Agency Board members and those employees who are eligible to join another pension scheme) providing they are under the age of 75. Membership of the fund also includes employees of Natural Resources Wales and Shared Services Connected Limited who were employees of the Environment Agency immediately before the transfer of services to those bodies.

As at 31 March 2022, total membership of the Fund is 27,615 (2021: 26,851), represented by 11,549 active members, 8,314 deferred members and 7,752 current pensioners.

Funding

Benefits are funded by employer and employee contributions and investment earnings. Employers' contributions are set based on triennial actuarial funding valuations. The latest formal valuation was as at 31 March 2019. This became effective from 1 April 2020 and the Environment Agency contributed the equivalent of 19.0% of pensionable pay per annum, a fixed annual rate of £7m was payable by Natural Resources Wales and 22.7% of pensionable pay for Shared Services Connected Limited. Employee contributions are made by active members in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average revalued earnings scheme (CARE), whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is revalued annually in line with the Consumer Prices Index (CPI).

A range of other benefits are also provided as detailed on our website at www.eapf.org.uk

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. They are prepared with a covenant from Defra who are the financial sponsors of the Environment Agency under the Environment Agency Act 1995 and the DLUHC as the statutory guarantors of the LGPS. 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.

Contribution income

Normal contributions are accounted for on an accruals basis in the period to which the associated wages and salaries relate. Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, according to pensionable pay. Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Advanced employer contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Special employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

Additional Voluntary Contributions, except for those paid to secure added years, are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Transfers to and from other schemes

Individual transfers in and out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement, or in the absence of specific terms, on a cash basis.

Refunds of contributions are included from the date the member leaves the Scheme.

Benefits payable

Members can choose whether to take a proportion of their retirement benefits as a pension and/or lump sum. Pensions and lump-sum benefits payable are accounted for on an accruals basis from the date the option is exercised. Lump sum death grants are included from the date of death. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

Management expenses

Administration, oversight and governance costs and investment management expenses are accounted for on an accrual's basis. Management expenses are recognised net of any recoverable VAT. The fees of the Fund's external investment managers reflect their differing mandates. Fees are generally linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes.

In cases where administration expenditure relates to both the Active and Closed Pension Fund, we attribute this 80%/20% respectively to 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 are also accounted for on an accrual's basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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

Income on investments in pooled investment vehicles with accumulation units is reflected in the unit price.

Change in market value

The change in the market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. VAT input tax is recoverable on all management expenses. The accounts are exclusive of VAT.

Financial assets

The long-term investment in the Brunel Pension Partnership asset pool has been revalued from £769k in 2021 to £838k as at 31 March 2022. The Environment Agency Pension Fund and its nine other partner Funds in the pool, collectively agree that the market value of this investment as at 31 March 2022 can be reasonably assessed from the Brunel Pension Partnerships audited Annual Report and Accounts. Therefore, their Statement of Changes of Equity as at 30 September 2021 is deemed an appropriate estimate of fair value.

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

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

Foreign currency transactions

Where forward contracts are in place for assets and liabilities the contract rate is used. Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

Impairment

IFRS 9 introduces a impairment model for financial assets not held at Fair Value through Profit and Loss (‘FVPL‘). As a result, the Fund must now determine forward looking expected credit losses (‘ECL’) for all its financial assets held at amortised cost. Financial assets held at amortised costs within the Fund comprise: Cash and cash equivalents; Other investment balances; 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, 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.

Derivatives

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

The fair value of the forward currency contracts is based on market forward exchange rates at the year-end date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Cash deposits and instruments

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

Additional Voluntary Contributions

The EAPF provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the Pension Fund. The Fund has open arrangements with Prudential and Standard Life as well as closed arrangements with Equitable Life and Clerical Medical. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

As mentioned previously, AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but their valuation is disclosed as a note to the accounts for information.

Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Where they exist, contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

4. Critical judgments in applying accounting policies

The long-term investment in Brunel has been revalued on the basis that the fair value as at 31 March 2022 can be derived from the Brunel Pension Partnerships Annual Report and Accounts. Their Statement of Changes of Equity is therefore deemed an appropriate estimate of fair value. Management review this valuation annually.

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 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The financial statements contain figures that are based on assumptions made by our managers. Estimates are made taking into account historical experience, current trends and other relevant factors. The items in the net assets statement at 31 March 2022 for which there is a risk of material movement in the forthcoming financial year is as follows:

Item	Uncertainties	Effect of actual results differ from assumptions
Pooled property and infrastructure funds, private equity, private debt, long term investments	These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	There is a risk that this investment may be under or overstated in the accounts. The total value of these investments as at 31 March 2022 is £947million as shown on page 96 under the 'sensitivity of assets valued at Level 3' table. It is estimated that these values could fluctuate by 9.5%.

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. They will also be noted at a meeting of the Board on 7 July 2022. Since the 31 March 2022 we have made the following commitments into new private markets. Detailed below:

New private markets

- Lombard Odier Sustainable Private Credit Fund with a committed capital of $35.0m, current calls totalled $28.3m;
- Anterra Food and Agriculture II Fund is a private equity fund (TOPs) with a committed capital of US$23m, current calls totalled $6.6m;
- Ambienta Environmental Impact Fund IV is a private equity fund (TOPs) with a committed capital of €27m, no calls to date;
- World Fund I is a private equity fund (TOPs) with a committed capital of €17m, current calls totalled €2.5m; and
- Brunel StepStone B III Infrastructure Fund with a committed capital of £80m, current calls to date totalled £4.1m.

Judicial Review – McCloud Remedy Costs

In December 2021 several unions filed for a joint Judicial Review against the Government on the inclusion of the McCloud remedy costs within the cost control mechanism. On 4 July 2022, the Judicial Review was granted permission to be heard, with no further detail currently available on the timeline for a hearing. Even if the Judicial Review is successful, it is unclear what remedy the court may order, and the Government would then need to consider how to proceed following that. Any attempt to predict such outcomes, such as any impact on Scheme liabilities, would be highly speculative at this stage.

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 (c0.5%) 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. However, the EAPF has unlevered LDI so no collateral is required to maintain hedging positions, which are implemented through physical bonds.

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 provided by the Fund's public market managers, we believe that the total value of the Active Fund's invested assets may have fallen by approximately 7% 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.£4.2 billion 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. Nevertheless, despite difficulties within the market, we are confident that the fund is sufficiently liquid and has adequate cash to meet expected cashflow over the foreseeable future. We do not expect any immediate material cash demands and as far as we are aware, the Fund is not currently invested in any funds where gates have been initiated.

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

7. Contributions

By contribution type	2022 £000	2021 £000
Employer		
Normal	54,599	70,146
Advanced	6,894	33,351
Special	75	289
	61,568	**103,786**

Members		
Normal	27,855	27,639
Purchase of added years	232	121
	28,087	**27,760**
Total	**89,655**	**131,546**

Normal contributions are regular employer and employee contributions paid across by our employers. During the prior year, the Environment Agency made a lump sum payment of £15,596k in respect of the balance of employer contributions due for the year 2020/21.

Advanced contributions towards future service contributions for 2022/23 of £6,894k were paid by Natural Resources Wales. In the prior year Advanced contributions were also paid by our employers, with the Environment Agency paying £31,406k in respect of contributions for 2021/22 and 2022/23 and Natural Resources Wales paying £1,945k in respect of contributions for 2021/22.

Special contributions are additional amounts paid by our employers in respect of early retirements.

By employer	**2022 £000**	**2021 £000**
Environment Agency		
Employer normal	54,561	70,106
Employer advanced	-	31,406
Employer special	-	140
	54,561	**101,652**
Members normal	25,741	25,601
Members purchase of added years	205	111
	25,946	**25,712**
	80,507	**127,364**
Natural Resources Wales		
Employer normal	5	5
Employer advanced	6,894	1,945
Employer special	75	149
	6,974	**2,099**
Members normal	2,104	2,028
Members purchase of added years	27	10
	2,131	**2,038**
	9,105	**4,137**
SSCL		
Employer normal	33	35
Members normal	10	10
	43	**45**
Total	**89,655**	**131,546**

8. Transfer values in from other pension funds

	2022 £000	**2021 £000**
Individual transfers from other schemes	2,784	5,021
AVC transfers	1,555	968
Total	**4,339**	**5,989**

Transfer values have been paid to the scheme ('cash equivalents' within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993), and service credits given for transfers received, calculated in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries. No discretionary benefits have been included in the calculation of transfer values. AVC transfers represent amounts disinvested from the AVC arrangements disclosed in Note 22 during the year and subsequently used to fund benefits.

9. Benefits

	2022 £000	2021 £000
Retirement and dependant's pensions	83,703	81,062
Lump sum retirement grants	15,181	10,421
Lump sum death grants	2,552	1,256
Taxation where annual allowance exceeded	28	45
Total	**101,464**	**92,784**

10. Payments to and on account of leavers

	2022 £000	2021 £000
Individual transfers to other schemes	3,764	2,516
AVC transfers	-	182
Refunds of contributions	46	53
Total	**3,810**	**2,751**

Transfer values have been paid ('cash equivalents' within the meaning of Part 1 of Schedule 5 to the Pensions Scheme Act 1993) in accordance with the method and assumptions on the advice of the Actuary and based on guidelines issued by the Institute and Faculty of Actuaries. No discretionary benefits have been included in the calculation of transfer values.

11. Management expenses

	2022 £000	2021 £000
Administration costs		
Scheme administration	**634**	**690**
Oversight and governance costs		
Specialist advice	1,957	1,355
Environment Agency Pension Fund management	784	743
External audit	89	115
	2,830	**2,213**
Investment management expenses		
Performances related fees	16,777	7,527
Management fees	16,192	13,546
Transaction costs	755	250
Custody fees	76	80
	33,800	**21,403**
Total	**37,264**	**24,306**

External audit fees were higher in 2020/21. This is a result of the additional audit work that was required in the prior year that we had not accrued for in the 2019/20 accounts.

Investment management expenses can be further analysed as follows:

2021/22	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Equities	22,068	5,260	16,078	730
Pooled fixed interest	272	272	-	-
Pooled equities	4,431	3,883	548	-
Private equity	3,674	3,674	-	-
Private debt	1,356	1,356	-	-
Long term investments	939	939	-	
Pooled property and infrastructure	747	747	-	-
Fixed interest securities	169	18	151	-
Cash and FX	68	43	-	25
Total	**33,724**	**16,192**	**16,777**	**755**
Custody fees	76	-	-	-
Total	**33,800**			

2020/21	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Equities	7,733	4,363	3,120	250
Pooled fixed interest	4,294	1,537	2,757	-
Pooled equities	2,881	1,845	1,036	-
Private equity	2,628	2,628	-	-
Private debt	1,033	1,033	-	-
Long term investments	995	995	-	-
Pooled property and infrastructure	959	959	-	-
Fixed interest securities	756	142	614	-
Cash and FX	44	44	-	-
Total	**21,323**	**13,546**	**7,527**	**250**
Custody fees	80	-	-	-
Total	**21,403**			

12. Investment income

	2022 £000	2021 £000
Income from fixed interest securities	6,255	15,203
Income from private equity	14,446	14,514
Dividends from equities	6,486	11,526
Income from pooled property and infrastructure	29,782	8,019
Other investment income	472	505
Income from pooled investment vehicles	4,444	475
Interest on cash deposits	(72)	6
Total	**61,813**	**50,248**

During 2021/22 some security types were reclassified for income purposes which explain the variances on the prior year income comparator.

13. Taxes on income

	2022 £000	2021 £000
Withholding tax – equities	(199)	(155)
Total	**(199)**	**(155)**

14. Investments

a) Investment movements summary 2021/22

Financial year to the 31 March 2022	Market value at 01.04.21	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Asset transfer purchases	Asset transfer sales	Change in market value	Market value at 31.03.22
	£000	£000	£000	£000	£000	£000	£000
Pooled equities	1,065,838	660,801	(920,657)	656,357	(920,532)	119,450	925,432
Pooled fixed interest	824,919	1,685,333	(1,037,007)	1,510,615	(700,225)	(101,951)	1,371,294
Equities	768,723	1,601,191	(1,343,022)	887,261	(597,546)	60,525	1,087,417
Fixed interest securities	750,198	1,223,160	(2,044,085)	707,477	(1,688,572)	70,727	-
Pooled property and infrastructure	352,023	27,174	(65,198)	-	-	32,395	346,394
Private debt	169,950	268,546	(64,476)	207,901	-	474	374,494
Private equity	169,775	31,931	(41,215)	-	-	65,009	225,500
FX and derivatives	(1,264)	25,934	(14,041)	-	-	(11,850)	(1,221)
	4,100,162	**5,524,070**	**(5,529,701)**	**3,969,611**	**(3,906,875)**	**234,779**	**4,329,310**
Cash deposits and instruments	186,768	-	-	-	-	1,292	219,064
Other investment balances	1,631	-	-	-	-	-	(674)
Total	**4,288,561**					**236,071**	**4,547,700**

Long-term investments	769	-	-	-	-	69	838
Total	**4,289,330**					**236,140**	**4,548,538**

The asset transfer purchases and sales in the above table represent transitions to Brunel during the year. More detail on these transactions are shown on page 54 of this report. In addition to the amounts shown, cash was also transferred during this process.

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd was formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each fund owns an equal 10th of Brunel Ltd, with share capital invested by each fund of £840k. The fair value of this long-term investment, our share has been revalued to £838k (2021: £769k).

All contracts settled during the period are reported within the table as purchases and sales. As all contracts are settled individually, with an amount being paid to or from the broker in respect of all the foreign currency contracts, these transactions need to be disclosed as purchases and sales.

Indirect transaction costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

The prior year Investment movement's summary is shown in the table below.

Investment movements summary 2020/21

Financial year to the 31 March 2021	Market value at 01.04.20	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.21
	£000	£000	£000	£000	£000
Pooled equities	801,525	4,208	(49)	260,154	1,065,838
Pooled fixed interest	814,791	-	(7,889)	18,017	824,919
Equities	499,312	267,760	(290,279)	291,930	768,723
Fixed interest securities	698,657	98,985	(75,012)	27,568	750,198
Pooled property and infrastructure	365,767	44,177	(62,026)	4,105	352,023
Private debt	162,687	27,028	(17,650)	(2,115)	169,950
Private equity	168,142	17,754	(19,989)	3,868	169,775
FX and derivatives	(5,437)	15,035	(25,921)	15,059	(1,264)
	3,505,444	**474,947**	**(498,815)**	**618,586**	**4,100,162**
Cash deposits and instruments	81,747	-	-	(3,132)	186,768
Other investment balances	4,145	-	-	-	1,631
Total	**3,591,336**			**615,454**	**4,288,561**

Long-term investments	427	-	-	342	769
Total	**3,591,763**			**615,796**	**4,289,330**

b) Investment value details

Investment assets	2022 £000	2021 £000
Equities	**1,087,417**	**768,723**
Fixed interest securities		
Index linked gilts public sector	-	377,202
Corporate quoted	-	371,794
Public sector quoted	-	1,202
	-	**750,198**
Pooled equities	**925,432**	**1,065,838**
Pooled fixed interest		
UK corporate quoted unit trusts	1,371,294	667,836
UK government bond unit trusts	-	157,083
	1,371,294	**824,919**
Private equity	**225,500**	**169,775**
Pooled property and infrastructure		
Infrastructure funds	280,875	283,744
Unquoted collective limited partnership investments	65,519	68,279
	346,394	**352,023**
Private debt	**374,494**	**169,950**
Derivatives		
Forward foreign exchange	**(1,221)**	**(1,264)**
Cash deposits and instruments		
Cash with custodian and fund managers	**219,064**	**186,768**
Other investment balances		
Accrued income	543	5,387
Amounts due from trade and currency brokers	1,158	1,322
Income tax recoverable	874	914
Amounts due to trade and currency brokers	(3,249)	(5,992)
	(674)	**1,631**
Net investment assets	**4,547,700**	**4,288,561**
Long-term investments	**838**	**769**
Total investment assets	**4,548,538**	**4,289,330**

c) Investment assets and liabilities

	2022 £000	2021 £000
Financial assets		
Equities (includes pooled and private equity)	2,238,349	2,004,336
Bonds (includes pooled and gilts)	1,371,294	1,575,117
Pooled property and infrastructure	346,394	352,023
Cash	219,064	186,768
Private debt	374,494	169,950
Other investment assets	2,575	7,623
Derivatives – Futures and forward foreign exchange	2,003	1,369
Total financial assets	**4,554,173**	**4,297,186**
Financial liabilities		
Amounts due to trade and currency brokers (including cash margin with brokers)	(3,249)	(5,992)
Derivatives – Futures and forward foreign exchange	(3,224)	(2,633)
Total financial liabilities	**(6,473)**	**(8,625)**
Long-term investments	**838**	**769**
Net investment assets	**4,548,538**	**4,289,330**

d) Derivative contracts

	2022		2021	
Derivatives	**Asset £000**	**Liability £000**	**Asset £000**	**Liability £000**
Forward foreign currency contracts	2,003	(3,224)	1,369	(2,633)
Net derivatives	**-**	**(1,221)**	**-**	**(1,264)**

Investment in derivative instruments may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives are used to a limited extent, primarily for efficient portfolio management and reducing currency risk.

Forward over the counter foreign currency contracts

At 31 March 2022 there was an unrealised loss of £1,221,000 on the currency forwards (2021: unrealised loss of £1,264,000). The current position relates to specific hedging undertaken by individual managers.

Currency bought	Local value £000	Currency sold	Local value £000	Settlement dates	2022 Asset £000	2022 Liability £000	2021 Asset £000	2021 Liability £000
Australian Dollar	6,840	US Dollar	4,931	One to six months	156	-	-	(37)
Canadian Dollar	14,060	US Dollar	11,199	One to six months	44	-	38	-
Chinese Yuan	68,860	US Dollar	10,789	One to six months	49	-	-	-
Euro	5,880	US Dollar	6,697	One to six months	-	(117)	-	-
Japanese Yen	2,398,000	US Dollar	20,832	One to six months	-	(815)	-	(918)
Sterling	57,636	Euro	69,116	One to six months	-	(946)	842	-
Sterling	29,451	Australian Dollar	53,084	One to six months	-	(871)	201	-
Sterling	11,243	Japanese Yen	1,698,494	One to six months	592	-	217	-
Sterling	146,696	US Dollar	192,148	One to six months	748	(30)	-	(1,655)
US Dollar	7,374	Sterling	5,496	One to six months	106	-	-	(23)
US Dollar	3,475	Canadian Dollar	4,410	One to six months	-	(42)	-	-
US Dollar	2,096	Euro	1,840	One to six months	36	-	-	-
US Dollar	1,522	Australian Dollar	2,130	One to six months	-	(59)	-	-
US Dollar	6,706	Japanese Yen	770,400	One to six months	272	-	-	-
US Dollar	34,315	Chinese Yuan	220,600	One to six months	-	(344)	71	
				Total	**2,003**	**(3,224)**	**1,369**	**(2,633)**

e) Investments exceeding 5% of net assets

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

Holding	2022	
	Market value £m	% of net assets
Brunel Sterling Corporate Bond Fund	701.2	15.4
Brunel BlackRock LDI Fund	535.0	11.8
Brunel Global Sustainable Equities Fund	460.5	10.1
Brunel Low Volatility Equity Fund	413.8	9.1
Brunel Paris Aligned Equity Fund	327.9	7.2

Holding	2021	
	Market value £m	% of net assets
Brunel Low Volatility Equity Fund	356.4	8.3
L&G TSDD Buy & Maintain Corporate Bonds	356.2	8.3
Wellington Global Return Fund Pooled Bonds	311.7	7.3
Brunel Low Carbon Equity Funds	286.1	6.7
Ownership Capital Equity Fund	255.5	6.0

15. 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 held at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Pooled equities	925,432	-	-
Pooled fixed interest	1,371,294	-	-
Equities	1,087,417	-	-
Fixed interest securities	-	-	-
Pooled property and infrastructure	346,394	-	-
Cash deposits and instruments	219,064	-	-
Private debt	374,494	-	-
Private equity	225,500	-	-
Derivatives	2,003	-	-
Long-term investments	838	-	-
Other investment assets	-	2,575	-
Debtors (excluding VAT)	-	15,475	-
	4,552,436	**18,050**	**-**
Financial liabilities			
Derivatives	(3,224)	-	-
Other investment liabilities	-	-	(3,249)
Creditors (excluding PAYE)	-	-	(26,663)
	(3,224)	**-**	**(29,912)**
Total	**4,549,212**	**18,050**	**(29,912)**
Grand Total		**4,537,350**	

Included within those financial instruments held at fair value through profit and loss, are fixed interest securities that were designated as fair value through profit and loss on initial purchase.

31 March 2021	Financial assets and liabilities held at fair value through profit and loss	Financial assets held at amortised cost	Financial liabilities held at amortised cost
	£000	£000	£000
Financial assets			
Pooled equities	1,065,838	-	-
Fixed interest securities	824,919	-	-
Equities	768,723	-	-
Pooled fixed interest	750,198	-	-
Pooled property and infrastructure	352,023	-	-
Private debt	186,768	6,858	-
Private equity	169,950	-	-
Cash deposits and instruments	169,775	-	-
Long-term investments	1,369	-	-
Derivatives	769	-	-
Other investment assets	-	7,623	-
Debtors (excluding VAT)	-	6,931	-
	4,290,332	**21,412**	**-**
Financial liabilities			
Derivatives	(2,633)	-	-
Other investment liabilities	-	-	(5,992)
Creditors (excluding PAYE)	-	-	(15,899)
	(2,633)	**-**	**(21,891)**
Total	**4,287,699**	**21,412**	**(21,891)**
Grand Total		**4,287,220**	

Included within those financial instruments held at fair value through profit and loss, are fixed interest securities that were designated as fair value through profit and loss on initial purchase.

b) Net gains and losses on financial instruments

	2022 £000	2021 £000
Financial assets		
Gain on fair value through profit and loss	249,372	608,153
Financial liabilities		
(Loss)/gain on fair value through profit and loss	(13,232)	7,643
Total change in market value	**236,140**	**615,796**

16. Fair value – basis of valuation

All investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. 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.

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 or 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.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments – equities and exchange traded futures	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Cash deposits and instruments	Level 1	Closing bid value on published exchanges	Not required	Not required
Amounts receivable from investment sales , amounts payable for investment purchases and investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Fixed interest securities - corporate bonds and Government gilts	Level 2	Market value based on current yields	Current yields	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – overseas unit trusts and pooled property and infrastructure funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled property and infrastructure funds	Level 3	Closing bid price where bid and offer prices are published, otherwise net asset value	NAV-based pricing set on a forward pricing basis	Valuations could be affected by post balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts, along with the limitations of ease of redemption
Pooled investments – unquoted collective limited partnership investments	Level 3	Closing bid price where bid and offer prices are published, otherwise net asset value	NAV-based pricing set on a forward pricing basis	Valuations are affected by any change in market value of the financial instrument being hedged against
Unquoted equities	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by post balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts

The following tables provide an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3 based on the level at which the fair value is observable.

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				
Equities	1,087,417	-	-	1,087,417
Fixed interest securities	-	-	-	-
Pooled equities	-	925,432	-	925,432
Pooled fixed interest	-	1,371,294	-	1,371,294
Pooled property and infrastructure	-	-	346,394	346,394
Private equity	-	-	225,500	225,500
Private debt	-	-	374,494	374,494
FX and derivatives	-	2,003	-	2,003
Cash deposits	219,064	-	-	219,064
Investment income due	1,417	-	-	1,417
Amounts receivable for sales	1,158	-	-	1,158
Long term investments	-	-	838	838
Total	**1,309,056**	**2,298,729**	**947,226**	**4,555,011**
Financial liabilities at fair value through profit and loss				
FX and derivatives	-	(3,224)	-	(3,224)
Payable for investment purchases	(3,249)	-	-	(3,249)
Total	**(3,249)**	**(3,224)**	**-**	**(6,473)**
Total	**1,305,807**	**2,295,505**	**947,226**	**4,548,538**

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				
Equities	768,723	-	-	768,723
Fixed interest securities	-	750,198	-	750,198
Pooled equities	-	1,065,838	-	1,065,838
Pooled fixed interest	-	824,919	-	824,919
Pooled property and infrastructure	-	-	352,023	352,023
Private equity	-	-	169,775	169,775
Private debt	-	-	169,950	169,950
FX and derivatives	-	1,369	-	1,369
Cash deposits	186,768	-	-	186,768
Investment income due	6,301	-	-	6,301
Amounts receivable for sales	1,322	-	-	1,322
Long term investments	-	-	769	769
Total	**963,114**	**2,642,324**	**692,517**	**4,297,955**
Financial liabilities at fair value through profit and loss				
FX and derivatives	-	(2,633)	-	(2,633)
Payable for investment purchases	(5,992)	-	-	(5,992)
Total	**(5,992)**	**(2,633)**	**-**	**(8,625)**
Total	**957,122**	**2,639,691**	**692,517**	**4,289,330**

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investmentadvisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed valuation range % (+/-)	Value at 31 March 2022	Value on increase	Value on decrease
		£000	£000	£000
Pooled property and infrastructure	15.1	346,394	398,699	294,089
Private debt	10.6	374,494	414,190	334,798
Private equity	24.3	225,500	280,297	170,704
Long-term investments	9.5	838	918	758
Total		**947,226**	1,094,104	800,349

Reconciliation of fair value measurements within level 3

Period 2021/22	Market value 1 April 2021 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value £000	Market value 31 March 2022 £000
Pooled property and infrastructure	352,023	-	-	27,174	(65,198)	32,395	346,394
Private equity	169,775	-	-	31,931	(41,215)	65,009	225,500
Private debt	169,950	-	-	268,546	(64,476)	474	374,494
Long-term investments	769	-	-	-	-	69	838
Totals	**692,517**	**-**	**-**	**327,651**	**(170,889)**	**97,947**	**947,226**

17. 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:

   a. **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.

   b. **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.

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

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

The Active Pension Fund has addressed its market risk regarding the events in Russia and Ukraine. The Fund has very minimal exposure, with just 0.01% of the Active Funds portfolio, invested in Russian assets. These have subsequently been written down to nil with instructions in place to sell these existing holdings when possible.

Further information on the Fund's approach to risk management, credit and market risk is set out below. This doesn't include AVC investments as these are not considered significant in relation to the overall investments of the Fund, though they are subject to periodic review to ensure ongoing appropriateness.

With regards to the Active Fund, the Pensions 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. We manage 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 Fund, working with its advisors, regularly monitors 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 Committee 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 Active Fund's assets as at 31 March 2022 and 31 March 2021 are detailed in the table below.

Active Fund	**2022 £000**	**2021 £000**
Equity	**2,225,236**	**1,990,315**
Global Equity	2,030,637	1,858,270
Private Equity inc TOP	194,572	132,017
Emerging Market Equity	27	27
Diversifying Growth Assets	**916,401**	**908,943**
Real Assets	404,888	423,098
Absolute Return Bonds	-	311,659
Private Debt	173,894	174,185
Multi Asset Credit	337,619	-
Matching Assets	**1,238,929**	**1,271,424**
Corporate Bonds	703,870	736,917
LDI	535,059	534,507
UK Index Linked Gilts	-	*377,424*
UK Fixed Interest Gilts	-	*157,083*
Cash*	**167,133**	**117,879**
Total	**4,547,700**	**4,288,561**

Figures may not sum due to rounding. Valuation provided at an asset class level by the Fund's custodian, State Street.
*Excludes monies held in NatWest Trustee Bank Account but includes residual amounts held within the legacy Pooled Investment Vehicle funds.

Investment Strategy

The EAPF Active Fund is an open, defined-benefit pension fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future. The primary objective of the Pensions Committee is to ensure that members' benefits are payable as they fall due whilst minimising the volatility of the contributions required from the sponsoring employer, the Environment Agency.

To achieve this, the Fund needs to invest in assets that differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio that has high probability of exceeding the asset outperformance target assumed by our actuary, while minimising the risk of the funding level falling below 90% at future valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

The Strategic Asset Allocation for the Fund as at 31 March 2022 and 31 March 2021 is set out as follows:

Asset Classes	2022 (%)	2021 (%)
Equity		
Global Equities	36.5	36.5
Private Equity incl TOP	4.0	4.0
Total Equity	**40.5**	**40.5**
Real Assets		
Property	5.0	5.0
Infrastructure	5.0	5.0
Timberland & Farmland	2.0	2.0
Private Debt	5.0	5.0
Multi Asset Credit	8.0	8.0
Total Diversifying Growth	**25.0**	**25.0**
Total Growth Assets	**65.5**	**65.5**
Defensive		
Sterling Corporate Bonds	22.0	22.0
LDI	11.5	11.5
Cash	1.0	1.0
Total Defensive	**34.5**	**34.5**
Total	**100.0**	**100.0**

The actual allocations will vary from the above due to market price movements, legacy holdings not fully redeemed, planned investments being held in investment managers' queues and intervals between rebalancing the portfolio which takes place as stipulated in the Fund's cashflow and rebalancing policy.

1. Credit Risk

The Fund is subject to credit risk because the Fund is invested in pooled funds and holds cash balances. It also has indirect exposure to credit risk through holdings in corporate bonds and multi asset credit (both through Brunel pooled funds).

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. Careful credit quality management by the investment managers helps to mitigate this risk.

The use of a mixture of pooled and segregated investment mandates further reduces the exposure to any particular manager or institution.

Cash Accounts

To minimise credit risk exposure on cash most of the Fund's cash is held in a money market fund managed by the Fund's custodian State Street. This fund is 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 Trustee 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	142,718	106,743
Bank current account: National Westminster Bank plc	8,512	6,858
Total	**151,230**	**113,601**

Note: We have not included legacy residual cash amounts held in the Pooled Investment Vehicle account in this table.

The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk arising from these pooled fund investment vehicles and is indirectly exposed to credit risk arising on the underlying investments held by a number of these pooled fund investment vehicles. These arrangements are covered in a separate section below.

The notes below provide more detail on how credit risk is managed and mitigated for the different asset classes.

Segregated Investment Arrangements

Corporate bonds: Corporate bonds are held primarily through a pooled mandate with Brunel. However, there is a small direct legacy corporate bond holding with Royal London which is in the process of winding up the mandate. Credit risk arising on corporate bonds is managed by predominantly investing in corporate bonds, which are rated at least investment grade and through limits on exposure to individual issuers. Credit risk management within this legacy portfolio is primarily delegated to the investment manager.

Private Debt: Credit risk arising on private debt held through the segregated mandate is mitigated by investing with a number of fund manager, minimising exposure to any single position. There is also liquidity risk associated with such investments, as the lack of an active market for the underlying investments makes it difficult to value and find a suitable buyer.

Cash balances: As described above credit risk arising on cash held within financial institutions is managed by ensuring cash is held with a diversified range of institutions which are at least investment grade credit rated.

Derivatives: Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter ('OTC').

- OTC derivative contracts are subject to risk of failure of the counterparty. Forward currency contracts are entered into by the Fund's investment managers; this is particularly relevant to the Fund's currency overlay manager, Russell Investments and a number of private debt managers who hedge their currency exposure as a matter of course. These forward contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing an investment manager.

Pooled Investment Arrangements

The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk arising from these pooled fund investment vehicles and is indirectly exposed to credit risk arising on the underlying investments held by a number of these pooled fund investment vehicles. Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

The Fund's holdings in pooled investment vehicles are not rated by credit rating agencies with the exception of the SSGA Liquidity Fund. This fund seeks to obtain and maintain a AAA rating from at least one of the internationally recognised rating agencies – S&P, Moody's and Fitch. Cash held by the pooled managers' custodians is not ring-fenced but the credit risk arising on this is mitigated by the use of regular cash sweeps (typically daily) and investing cash in liquidity funds. 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.

A summary of the pooled investment vehicles by type of arrangement is as follows:

Fund	Collective Investment Fund
Brunel Low Volatility Equity	Authorised Contractual Scheme ('ACS')
Robeco SEVE	
Brunel Global Sustainable Equity	
Brunel Paris Aligned Benchmark	Unit Linked Insurance Policy
Brunel Multi Asset Credit	Life Fund
Brunel Sterling Corporate Bonds	
Palatine Impact Fund	UK Limited Partnership
GHO Capital Fund III	
DBL Partners III	US Limited Partnership
Generation Climate Solutions Fund	Cayman Islands Limited Partnership
Barings North America PL Fund	

Circularity European Growth Fund II	Private Fund Limited Partnership
Summa Equity III	Swedish Private Limited Company
Ambienta III	Luxembourg Limited Partnership
Arcmont Direct Lending UK Fund	
Arcmont Senior Lending Fund	
Arcmont Direct Lending III	
Activate Capital Fund II	Delaware Limited Partnership
Neuberger Berman Private Debt Fund IV	
Generation Sustainable Solutions Fund IV	Irish Limited Partnership
Permira Credit Solutions III	Luxembourg Sarl
Newmarket IIFC Feeder Fund III	Cayman Islands Limited Partnership
P Capital Partners Transition Partner Fund	Swedish AB
Verdane Idun I	
ICG Europle Fund VIII	Luxembourg Limited Partnership
Ares Capital Europe V	
Carlyle Credit Opportunities II	Luxembourg Feeder
Bridges Property Alternatives Fund III	UK Limited Partnership
Bridges Property Alternatives Fund IV	
Bridges Property Alternatives Fund V	
Brunel Blackrock Liability Driven Investment	Irish Authorised Unit Trust
State Street Liquidity Fund	OEIC UCITS

The Pensions Committee carries out due diligence checks on the appointment of new pooled investment managers and, in conjunction with its investment advisor, periodically reviews the investment managers.

Indirect credit risk arises in relation to underlying investments held in the pooled bond investment vehicles. Indirect credit risk is managed by investing in pooled funds that are well diversified and predominantly invest in at least investment grade corporate bonds.

Credit risk also arises from the private debt, private equity, multi asset credit and real asset portfolios. This risk is also mitigated through the use of a range of managers across several funds with the real asset portfolio limiting exposure to any single asset class and issuer. The impact of credit default within each is minimised through the use of multiple managers for each portfolio.

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 is subject to currency risk because of an interest in pooled investment vehicles which are denominated or priced in a foreign currency (i.e. a currency other than sterling).

Indirect currency risk arises from the Fund's investment in sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency. Most of the Fund's currency risk is through exposure to overseas equities, which are exposed to a complex range of risk factors of which currency is only one. There may also be some indirect currency exposure in the Fund's sterling denominated assets, but these are impossible to quantify. The Fund's currency risk is routinely monitored by the Pensions Committee and its investment advisors.

To manage currency risk the Fund employs Russell Investments to provide currency overlay services for a number of the underlying funds including the Townsend Real Assets portfolio and Private Debt portfolio. Equity mandates and other mandates with overseas currency exposure may not be hedged as the underlying managers have discretion to use currency exposures as part of the funds' investment strategies.

The Fund is also exposed to direct/indirect currency risk through its holdings of US dollars and euros as part of the State Street Liquidity Fund sub-funds.

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

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)
Stafford Private Equity	Segregated	0.0	100.0	0.0	22.5
Targeted Opportunities Portfolio (see below)	See below	27.9	72.1	0.0	124.0
Generation Global Equity	Segregated	5.1	94.9	0.0	433.5
Impax Global Equity	Segregated	8.8	91.2	0.0	170.8
Robeco SEVE	Pooled	5.5	94.5	0.0	173.6
Brunel Low Volatility Equity	Pooled	8.6	91.5	0.0	378.9
Brunel Passive Dev Eq Paris Aligned	Pooled	4.2	95.8	100.0	0.0
Brunel Global Sustainable Equities	Pooled	4.7	95.3	0.0	438.9
Townsend Real Assets	Segregated	46.1	53.9	100.0	0.0
Private Debt Portfolio (see below)	See below	21.2	78.8	58.1	63.8
Brunel Multi Asset Credit	Pooled	5.1	94.9	94.4	17.9
Brunel Sterling Corporate Bonds	Pooled	96.9	3.0	3.2	20.4
Blackrock Liability Driven Investment	Pooled	100.0	0.0	0.0	0.0
Cash	Segregated	91.2	8.8	0.0	14.7
Total[1]		**39.1**	**60.9**	**25.8**	**1,859.1**

[1]Excludes residual holding in Royal London Corporate Bond Fund.

Targeted Opportunities Portfolio – 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)
Actis Energy Fund IV	Pooled	0.0	100.0	0.0	13.2
Activate Capital Fund II	Pooled	0.0	100.0	0.0	2.6
Ambienta III	Segregated	10.7	89.3	0.0	9.1
Bridges Property Alternatives Fund III	Pooled	100.0	0.0	0.0	0.0
Bridges Property Alternatives Fund IV	Pooled	100.0	0.0	0.0	0.0
Bridges Property Alternatives Fund IV	Pooled	100.0	0.0	0.0	0.0
Circularity European Growth Fund	Pooled	0.0	100.0	0.0	0.3
DBL Partners III LP	Pooled	0.0	100.0	0.0	27.9
DBL Partners IV LP	Pooled	0.0	100.0	0.0	13.4
Generation Climate Solutions Fund	Pooled	1.1	98.9	0.0	47.0
Generation Sustainable Solutions Fund IV[1]	Pooled	N/A	N/A	N/A	N/A
GHO Capital Fund III	Pooled	25.0	75.0	0.0	2.3
Palatine Impact Fund	Segregated	100.0	0.0	0.0	0.0
SA Impact Forestry Fund	Pooled	0.0	100.0	0.0	7.8
Summa Private Equity	Pooled	0.0	100.0	0.0	0.0[2]
Verdane Idun I	Pooled	0.0	100.0	0.0	0.4

[1]Fundraising had recently been completed as at 31 March 2022 and as such, no investments had been made.

[2]As at 31 March 2022, no commitments to the fund had been made and as such, there was no overseas currency exposure.

Private Debt Portfolio – 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)
Arcmont Direct Lending UK Fund	Pooled	29.1	71.0	70.3	5.1
Arcmont Direct Lending Fund III	Pooled	19.3	80.7	79.9	5.2
Arcmont Senior Loan Fund	Pooled	31.1	68.9	68.3	5.0
Ares Capital Europe V	Pooled	62.0	38.0	102.6	(0.1)
Barings North America PL Fund	Pooled	0.0	100.0	0.0	28.1
Carlyle Credit Opportunities II	Pooled	23.7	76.3	0.0	7.6
ICG Europe Fund VIII	Pooled	23.0	77.0	0.0	1.2
Neuberger Berman Private Debt Fund IV	Pooled	1.0	99.0	0.0	7.2
Newmarket IIFC Feeder Fund III	Pooled	0.0	100.0	0.0	3.1
P Capital Partners Transition Partner Fund	Pooled	0.0	100.0	0.0	1.1
Permira Credit Solutions Fund III	Pooled	22.9	77.1	100.0	0.0

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)
Stafford Private Equity	Segregated	1.8	98.2	-	174.1
Targeted Opportunities Portfolio (see below)	Pooled	28.3	71.7	-	76.6
Generation Global Equity	Segregated	7.0	93.0	0.5	568.9
Impax Global Equity	Segregated	9.1	90.9	-	160.4
Brunel Low Carbon Equity	Pooled	4.2	95.8	-	274.0
Ownership Global Equity	Pooled	-	100.0	-	255.5
Brunel Low Volatility Equity	Pooled	2.6	97.4	-	-
Robeco SEVE	Pooled	5.3	94.7	-	158.9
Townsend Real Assets	Segregated	49.5	50.5	100.0	-
Private Debt portfolio (see below)	Segregated	22.5	77.5	67.6[1]	8.1
Wellington Global Targeted Return Bonds	Pooled	(0.6)	100.6	1.2	5.6
LGIM Buy and Maintain Bonds	Pooled	81.9	18.1	-	-
Royal London Corporate Bonds	Segregated	99.8	0.2	-	0.2
LGIM Index Linked Gilts	Segregated	100.0	-	-	-
LGIM Fixed Interest Gilts	Pooled	100.0	-	-	-
LGIM Sterling Liquidity Fund	Pooled	100.0	-	-	-
Cash*	Pooled	84.6	15.4	-	18.2
Total		**39.0**	**61.0**	**12.8**	**1,700.5**

[1]Russell Investments provide a currency hedge overlay for 100% of the non-GBP exposure for the Townsend Real Assets.

*Includes the USD, EUR & GBP sub funds of the State Street Liquidity Fund, excludes Natwest bank account.

Targeted Opportunities Portfolio – 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)
Palatine Impact Fund	Pooled	100.0	-	-	-
DBL Partners III LP	Pooled	-	100.0	-	14.8[1]
Actis Energy Fund IV	Pooled	-	100.0	-	7.5[1]
Bridges Property Alternatives Fund III	Segregated	-	100.0	-	11.4
Bridges Property Alternatives Fund IV	Segregated	100.0	-	-	-
Ambienta III	Segregated	100.0	-	-	-
Generation Climate Solutions Fund	Pooled	-	100.0	-	6.5

[1]Converted at 31 March 2021 GBP-USD exchange rate.

Private Debt Portfolio - 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)
Permira Credit Solutions III	Pooled	41.7	58.3	100.0	-
Arcmont Direct Lending UK Fund	Pooled	18.0	82.0	81.0	1.2
Arcmont Senior Loan Fund	Pooled	28.0	72.0	71.0	3.3
Arcmont Direct Lending Fund III	Pooled	14.0	86.0	85.0	2.6
Generation Credit Feeder Fund III[2]	Pooled	37.7	62.3	100.0[2]	1.0
Barings North America PL Fund	Pooled	0.0	100.0	0.0[2]	-

[2]Converted at 31 March 2021 GBP-USD exchange rate.

b. Interest Rate Risk

The Fund is subject to interest rate risk on its assets because some of the Fund's investments are held in bonds and cash, either as segregated investments or through underlying investments held in pooled investment vehicles. Indirect market risk arises if the underlying investments of the pooled vehicle are exposed to interest rate or other price risks. We have considered indirect risks in the context of the investment strategy.

The Fund maintains a strategic allocation of 11.5% to Liability Driven Investments (LDI), as well as an allocation to corporate bonds of 22%. Together 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 are broadly expected to rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these matching assets are broadly expected to fall in value, as will the actuarial liabilities because of an increase in the discount rate.

At year-end, the defensive portfolio target allocations was 34.5% of the total investment portfolio (2021: 34.5%).

Interest Rate Sensitivity Analysis

	Duration	
	As at 31 March 2022	As at 31 March 2021
Blackrock Liability Driven Investment	27.4	-
Brunel Sterling Corporate Bonds	7.2	-
Brunel Multi Asset Credit	2.3	-
LGIM Index Linked Gilts	-	28.7
LGIM Fixed Interest Gilts	-	20.9
LGIM Corporate Bonds	-	8.0
RLAM Corporate Bonds	-	7.8
Wellington Global Targeted Return Bonds	-	(2.2)

c. Other Price Risk

Other price risk arises principally in relation to the Fund's growth asset portfolio which includes listed & private equities, investment property, infrastructure and a multi asset credit allocation, held either as segregated investments or through underlying investments held in pooled investment vehicles.

The Fund has set a target asset allocation of 65.5% (2021: 65.5%) of investments being held in growth investments. The Fund manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

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

	Credit Risk	Market Risk		
		Currency Risk	Interest Rate Risk	Other Price Risk
Stafford Private Equity		✓		✓
Targeted Opportunities Portfolio		✓		✓
Generation Global Equity		✓		✓
Impax Global Equity		✓		✓
Brunel Low Volatility Equity		✓		✓
Brunel Passive Dev Eq Paris Aligned		✓		✓
Brunel Global Sustainable Equity		✓		✓
Robeco SEVE		✓		✓
Townsend Real Assets	✓	✓	✓	✓
Private Debt portfolio	✓	✓	✓	
Brunel Multi Asset Credit	✓	✓	✓	✓
Brunel Sterling Corporate Bonds	✓	✓	✓	
Blackrock Liability Driven Investment			✓	
State Street Liquidity Fund	✓	✓	✓	

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 9.5% (2021: 10.4% using assumptions provided by the investment consultant as at 31 March 2021).

Asset Class	Absolute 1 year expected volatility (+/-)%	% of Fund value	
		2022	2021
Private Equity	24.3	4.3	3.1
Global Equity	18.0	44.7	43.3
Real Assets	-	8.9*	9.9*

Property	15.1	4.1	4.2
Infrastructure	15.1	3.4	3.8
Commodities	21.3	1.4	1.5
Private Debt	10.6	3.8	4.0
Absolute Return	5.7	-	7.3
Multi Asset Credit	9.6	7.4	-
Corporate Bonds	5.5	15.5	17.2
Index Linked Gilts	7.6	-	8.8
Fixed Interest Gilts	7.1	-	3.7
Liability Driven Investment	7.3	11.8	-
Cash	0.0	3.7	2.8
Total Fund Volatility	**9.5**	**100**	**100**

Figures may not sum due to rounding.
*Includes allocation to cash within the portfolio.

The potential price changes disclosed above are expected one-year absolute standard deviations of the returns of the asset classes.

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 as well):

	As at 31 March 2022	As at 31 March 2021
Total net investment assets (£000)	4,547,700	4,288,561
Percentage change (%)	9.5%	10.4%
Value on increase (£000)	4,979,731	4,735,858
Value on decrease (£000)	4,115,668	3,841,264

18. Funding arrangements

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 2021 data. The key elements of the funding policy are as follows:

- Ensure that sufficient resources are available to meet all benefits as they fall due for payment;
- Recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees;
- Enable the employer contributions to be kept as stable as possible and at reasonable cost, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the Fund and the risk appetite of the administering authority and employers;
- Manage the employers' liabilities effectively; and
- Maximise the returns from investments within reasonable risk parameters.

The Funding Strategy Statement (FSS) sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

At the 2019 actuarial valuation, the Fund was assessed as 106% funded (103% at the March 2016 valuation). This corresponded to a surplus of £211m (2016 valuation: surplus of £89m) at that time.

The following table shows the minimum contributions payable after allowing for advance lump sum contributions paid to the Fund in March 2022.

Employer name	Minimum contributions for the year ending: 31 March 2023	
	% pay	Monetary amount
EA	14.5	£nil
NRW	0.0	£nil
SSCL	22.7	£nil

Full details of the contribution rates payable can be found in the 2019 actuarial valuation report (dated 30 March 2020), the revised rates and adjustments certificate (dated 7 April 2021) and the FSS (dated 18 December 2019).

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

Financial assumptions

Financial assumptions	% per annum	Description
Investment Return (Discount Rate)	3.1	Return estimated to be achieved by the Fund's investments over 20 years with a likelihood of 78%
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
Salary Increases*	2.5	CPI inflation plus 0.5% (with the adjustment applied geometrically)
Pension Increases	2.0	CPI inflation (assumed to be 1% less than RPI inflation with the adjustment applied geometrically)

*An allowance is also made for promotional pay increases.

Longevity assumptions

Life expectancy at the 2019 valuation was 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 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current pensioners	21.9 years	23.8 years
Future pensioners *	22.9 years	25.5 years

* Figures assume members are aged 45 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.

19. Actuarial present value of promised retirement benefits

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £5,292m (2021: £5,495m). The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Financial assumptions

Year ended	31 March 2022 % p.a.	31 March 2021 % p.a.
Inflation/Pensions increase rate	3.15	2.8
Salary increase rate	3.65	3.3
Discount rate	2.75	2.05

Demographic assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model with a 0% weighting of 2021 (and 2020) data, standard smoothing (sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a..

By placing no weight on 2020 and 2021 data the longevity assumptions adopted on the IAS19 basis for 2022 make no allowance for the impact of the COVID-19 pandemic on future mortality rates as the data is not yet available to make an evidence-based assessment on the pandemic's impact on long term longevity.

The actual experience and longer-term impact on mortality rates will be reflected in the 2023 accounting disclosures, following the next formal actuarial valuation of the Fund. The other demographic assumptions used to determine the actuarial present value of promised retirement benefits as at 31 March 2022 are those adopted for the formal actuarial valuation as at 31 March 2019.

The actuary has estimated that the impact of the change in longevity assumptions to 31 March 2022 was to decrease the actuarial present value by £32m. The actuary has also estimated that the impact of the change in financial assumptions to 31 March 2022 was to decrease the actuarial present value by £456m.

IAS26: Accounting and reporting by retirement benefit plans

CIPFA's Code of Practice on Local Authority Accounting 2020/21 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. The Fund Actuary has been instructed by the

Administering Authority to provide the necessary information for the Environment Agency Active Fund ('the Fund').

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- As a note to the accounts; or
- By reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2022	31 March 2021
Active members (£m)	3,029	3,062
Deferred members (£m)	897	968
Pensioners(£m)	1,365	1,465
Total (£m)	**5,291**	**5,495**

The promised retirement benefits at 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2022 and 31 March 2021. I estimate that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £456m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £32m.

Financial assumptions

Year ended	31 March 2022 % p.a.	31 March 2021 % p.a.
Salary Increase Rate	3.65	3.3
Pensions Increase Rate	3.15	2.8
Discount Rate	2.75	2.05

Longevity assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.9 years	24.1 years
Future pensioners	23.1 years	26.0 years

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash, up to HMRC limits, for pre-April 2008 service and 50% of the maximum tax free cash for post-April 2008 service.

Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Sensitivity to assumptions 31 March 2022	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.1% decrease in the Real Discount rate	2	125
1 year increase in member life expectancy	4	217
0.1% increase in the Pension Increase rate	2	103
0.1% increase in the Salary Increase rate	0	22

The principal demographic assumption is the longevity assumption. For sensitivity purposes, the Fund Actuary estimates that a one year increase in life expectancy would approximately increase the liabilities by around 3-5%.

20. Current assets

	2022 £000	2021 £000
Debtors		
Contributions due – employers	4,645	4,634
Contributions due – employees	2,209	2,148
VAT to be reimbursed to the Fund	1,024	1,871
Overpaid benefits to be refunded to the Fund	109	149
	7,987	**8,802**
Cash at bank	**8,512**	**6,858**
Total	**16,499**	**15,660**

Analysis of debtors

Employers' and employees' contributions of £4,645k and £2,209K (2021: £4,634k and £2,148k) respectively outstanding in the normal course of collection at the year end and subsequently paid over within the statutory time limit. Overpaid benefits to be returned to the fund represent recoveries being made from members who have had funds paid to them after they have died.

21. Current liabilities

	2022 £000	2021 £000
Creditors		
Administration and investment expenses	(24,823)	(15,204)
PAYE	(992)	(913)
Benefits payable	(1,822)	(695)
Other – amount due to Closed Fund	(11)	-
Tax payable on refunds	(7)	(6)
Total	**(27,655)**	**(16,818)**

Analysis of creditors

£11,000 are due to the Environment Agency Closed Pension Fund (2021: £nil) in respect of administration expenses and VAT reclaimed.

22. Additional Voluntary Contributions

The table below shows information about these separately invested AVCs.

	2022 £000	2021 £000
Prudential	6,192	5,599
Standard Life	4,001	3,877
Clerical Medical	1,477	1,477
Utmost Life	641	731
Total AVC investments	**12,311**	**11,684**

AVC confirmations have not been received for 31 March 2022 from Prudential, Standard Life or Utmost Life, so these valuations are based on the closing value from 31 March 2021, then adjusted for cash contributions and withdrawals during the year.

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment Funds) Regulation 2009, the contributions paid and the assets of these investments are not included in the Fund's accounts. The AVC providers secure benefits on a money purchase basis for those members electing to buy AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

23. Related party transactions

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

- Pensions administration costs of £783k (2021: £743k) were recharged to the Active Fund by the Environment Agency;
- 6 members of the Pensions Committee are contributing members of the Active Fund who pay contributions on an arm's length basis;
- 2 members of the Pensions Committee are deferred members of the Active Fund;
- 1 member of the Pensions Committee is in receipt of a pension from the Active Fund which is received on an arm's length basis;
- Payment of unfunded liabilities of £358k (2021: £370k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years;

- £11k is due to the Environment Agency Closed Fund (2021: £nil) due from the Environment Agency Closed Fund) in respect of administration expenses and VAT reclaimed. The Closed Fund is a sister scheme to the Active Fund and further details about this fund are shown in Annex 5;
- Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 18 July 2017 and will oversee the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds;
- Each of these 10 local authorities, including the Environment Agency own 10% of BPP Ltd represented by the Long-term investment of £838k (2021: £769k). This was increased by £69k (2021: increased by £342k) using the latest available valuation from the Brunel Pension Partnership Annual Report and Accounts as at 30 September 2021;
- The Environment Agency paid Brunel Pension Partnership £939k in the year, for its Investment Management services (2021: £995k);
- The Environment Agency invested directly into a BlackRock LDI Fund valued at £535.0m (2021: £nil), but Brunel conducted the procurement/risk management exercise on our behalf; and
- The Environment Agency currently has five portfolio's with Brunel:
    - Sterling Corporate Bonds valued at £701.2m (2021: £nil);
    - Global Sustainable Equity Fund valued at £460.5m (2021: £nil);
    - Low Volatility Equity Fund valued at £356.4m (2021: £356.4m);
    - Multi Asset Credit Fund valued at £337.6m (2021: £nil); and
    - Paris Aligned Equity Fund valued at £327.9m (2021: £286.1).

24. Capital commitments, contingent assets and contingent liabilities

In accordance with authorised investment strategy and mandates, the outstanding Capital commitments at 31 March 2022 are: Real Estate £115.6m (2021: £67.5m), Illiquid Credit £152.7m (2021: £50.6m) and Private Equity £186.6m (2021: £42.8m).

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

The EAPF has one contingent liability at 31 March 2022 which is equal to 1/10th of Brunel's Pension reimbursement asset of £768k (2021: £657k) representing the amount of discounting future pension contribution streams to pay off any funding deficit.

25. 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.

26. IAS10: Authorisation for issue

The Environment Agency Active 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 – Scheme rules and benefits

On 1 April 2014, the Scheme rules and benefits became subject to the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

Scheme membership and income

(a) All Fund employees are eligible for membership of the Local Government Pension Scheme (LGPS) (excluding Environment Agency Board Members and those employees who are eligible to join another public service pension scheme) providing they are under the age of 75 and have a contract of employment for a period of at least 3 months. If it is for a period of less than 3 months and they are, or during that period become, an *Eligible Jobholder,* they will be brought into the scheme from either:

- Their automatic enrolment date (unless their employer issues a postponement notice to delay entry to the scheme for up to a maximum of 3 months); or
- The beginning of the pay period after the one in which the contract is extended to 3 months or more, or the employee opts to join the scheme.

Members' contributions are deducted from pensionable pay and the rate is dependent on the value of the actual permanent pensionable earnings they are paid. The rate the member pays depends on which earnings band the member falls into and the section of the scheme they choose to be in. The contribution rate will fall between 5.5% and 12.5% of a member's permanent pensionable earnings if they choose to be in the Main Section, and half this amount if they choose to be in the 50:50 Section.

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

- Pay additional voluntary contributions (AVCs) with one of the Environment Agency In-House providers (Standard Life or Prudential) to buy a larger retirement pension, to provide additional tax-free cash, to provide additional LGPS membership for pension purposes (if the employee has continuously paid additional voluntary contributions since before 13 Nov 2001), or to be used in any other way permitted by the AVC provider/another insurance company (such as an annuity).
- Purchase additional LGPS pension.

The Environment Agency Pension Fund also has AVC membership in Equitable Life (now Utmost Life) and Clerical Medical, but these are now closed to new members.

(b) Pension rights built up under other schemes can, in most cases, be transferred into the Environment Agency Pension Fund to increase a member's pension benefits, providing the member requests the transfer payment within 12 months of joining the Environment Agency Pension Fund (or such a longer date that the Fund employer or Environment Agency Pension Fund allows).

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

(d) The Fund employer is required to fund any discretionary award of pension by making up-front payments into the Fund.

(e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Outline of pension benefits provided by the LGPS

	Before 1 April 2008	1 April 2008 to 31 March 2014	From 1 April 2014
Basis of pension	Final salary	Final salary	Career Average Revalued Earnings (CARE)
Pension build up rate	1/80th final salary for each year	1/60th final salary for each year	1/49th (Main Section) 1/98th (50:50 Section)
Revaluation rate	N/A (Final salary)		Consumer Price Index
Pensionable pay	Pay excluding non-contractual overtime and additional hours worked by part-time members		Pay including both non-contractual overtime and additional hours worked by part-time members
Lump sum	3/80ths (+ commutation 12:1)	No automatic lump sum (commutation 12:1)	
Ill health retirements	One tier	Three tiers	
Death benefits • In-service • In-deferment or on pension	• 2 x salary • 5 year guarantee	• 3 x salary • 10 year guarantee	• 3 x assumed pensionable pay • 10 year guarantee
Contribution rate (see table below)	Flat rate of 6%	7 contribution bands 5.5% to 7.5% Bands index linked	9 contribution bands 5.5% to 12.5% (Main Section) 2.75% to 6.25% (50:50 Section) Bands index linked
Early retirement	From age 50 (either redundancy or employee request)	From age 55 (either redundancy or employee request)	
Voluntary retirement	From age 55 (though reductions would normally apply if benefits taken before Normal Pension Age (NPA)		
85 year rule	Early payment protection when combined age and service equals 85	Removed, but existing staff with membership that falls between 1 April 1998 & 30 September 2006 have retained protections	
Normal retirement age	Age 65	Age 65	State Pension Age (minimum age 65)

Contributions Table

The following table displays the 2021/22 employee contribution bands.

Pay range (based on actual Pensionable pay paid)	Contribution rate Main Section	Contribution rate 50:50 Section
Up to £15,000	5.50%	2.75%
£15,001 to £23,600	5.80%	2.90%
£23,601 to £38,300	6.50%	3.25%
£38,301 to £48,500	6.80%	3.40%
£48,501 to £67,900	8.50%	4.25%
£67,901 to £96,200	9.90%	4.95%
£96,201 to £113,400	10.50%	5.25%
£113,401 to £170,100	11.40%	5.70%
£170,101 or more	12.50%	6.25%

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 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
  - Inform the member that an application to claim payment of/transfer AVC 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 to 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 (e.g. where the McCloud remedy results in an increase to a member's benefits) is retrospectively amended.

  In short, the main change to the Mandatory Scheme Pays deadline is that, so long as the tax year in question falls within the last six years, any adjustment to a member's historic pension savings as a result of 'insufficient' pay information being provided previously, resulting in a new/revised pension savings statement needing to be sent, then, in general:

  - The statement must be sent within 3 months of the revised pay information being provided

  - Any retrospective election for Mandatory Scheme Pays must be made within 3 months of the statement being issued

  (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.

Annex 2 – Funding Strategy Statement

1. Introduction

What is this document?

This is the Funding Strategy Statement (FSS) of the Environment Agency Active 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 Fund's employers and investment adviser. It is effective from 18 December 2019.

What is the Environment Agency Active Pension Fund?

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

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

As at 31 March 2019, the Active Fund contained 10,932 active members, 6,940 pensioners and 8,463 deferred pension members whose benefits have yet to come into payment.

The Active Fund has three participating employers – the Environment Agency (EA), Natural Resources Wales (NRW) and Shared Services Connected Ltd (SSCL).

The Administering Authority runs the Environment Agency Active Pension Fund to make sure it:

- Receives the proper amount of contributions from employees and employers, and any transfer payments.
- Invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth.
- Uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- Affordability of employer contributions,
- Transparency of processes,
- Stability of employers' contributions, and
- Prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- The LGPS Regulations;
- The Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report.
- The Fund's policies on admissions, cessations and bulk transfers.
- Actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service.
- The Fund's Investment Strategy Statement.

How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund.

What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- 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.
- To ensure that employer contribution rates are reasonably stable where appropriate.
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.

- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- To use reasonable measures to reduce the risk to other employers and ultimately to the UK tax payer from an employer defaulting on its pension obligations.

How do I find my way around this document?

There is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time. Then we outline how the Fund calculates the contributions payable by different employers in different situations. We show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices, we cover various issues in more detail if you are interested:

- 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,
- Some more details about the actuarial calculations required,
- The assumptions which the Fund actuary currently makes about the future.

Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

How does the actuary measure the required contribution rate?

In essence this is a three step process:

a) Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target.

b) Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3 and Note (d) below for more details.

c) Determine a contribution strategy that has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See below, and the table in section 3 Note (e) for more details.

What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) The estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the 'Primary rate', and is expressed as a percentage of members' pensionable pay; plus

b) An adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the 'Secondary rate'. In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the 'time horizon'). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

How does the contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

Funding target

The funding target is based on a set of assumptions about the future (e.g. investment returns, inflation, pensioners' life expectancies).

For employers open to new entrants a long-term view is taken to determine the funding target. In particular, the investment return assumption makes an allowance for anticipated returns from equities and other assets held by the Fund being in excess of UK Government bonds (gilts) over the long term. For the 2019 valuation, it was assumed that the Fund's assets will, over the long-term, deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked gilts. This is known as the 'ongoing' funding basis.

The EA (including SSCL by virtue of their risk-sharing agreement – see Section 3 note (c)) was funded on the ongoing funding basis at the 2019 valuation date.

If an employer that is closed to new entrants is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation. This basis is known as the 'gilts cessation' basis and does not make any allowance for the outperformance of the Fund's assets above the rate of return on long dated index-linked gilts. Furthermore, the gilts cessation basis allows for future improvements in life expectancy in excess of those assumed under the ongoing funding assumptions.

NRW was funded on the gilts cessation basis at the 2019 valuation.

Time horizon

The time horizon required is the period over which the funding target is to be achieved. A shorter period will lead to higher contributions, and vice versa (all other things being equal).

When considering the adequacy of funding for employers that are open to new entrants (other than those open employers that participate in the Fund for a fixed period), the primary focus of the Pension Committee should be on the long-term because:

- Liabilities are paid over a long period, rather than crystallising on a single day;
- Market prices of assets with growth potential can be volatile;
- Pension liabilities are significant compared to the employer's payroll.

The EA's contribution strategy was determined using a 20 year time horizon (from 1 April 2020) at the 2019 valuation.

For employers that are closed to new entrants, the Pensions Committee has regard to each employer's likely remaining period of participation in the Fund.

As a closed employer, the funding objective for NRW is to be 100% funded on the gilts cessation basis by the time the last active member leaves, triggering a cessation event (see section 3 note (c) for more details). For contribution setting purposes, a 20 year time horizon (from 1 April 2020) has been modelled. In practice, NRW's cessation date is expected to be beyond this time horizon.

Likelihood of achieving the funding target

The likelihood of achieving the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that are expected to meet their respective funding targets with a 78% probability of success. At the 2019 valuation, the Pensions Committee has agreed this higher likelihood of success threshold as a 'buffer' against risks which are not directly captured by the contribution modelling such as Climate Change, the McCloud case, Brexit and the LGPS Cost Cap.

Other factors affecting contributions

Any costs of non-ill health early retirements must be paid by the employer, see 3.5. Costs of ill health early retirements are covered in 3.5 also.

How is a funding level calculated?

An employer's 'funding level' is defined as the ratio of:

- The market value of the employer's share of assets (see Appendix D section D5, for further details of how this is calculated), to
- The value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the 'liabilities'). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's 'deficit'; if it is more than 100% then the employer is said to be in 'surplus'. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns). In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

How does the Fund balance the conflicting objectives of benefit security and contribution rate affordability?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services.

Whilst this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to former employees and their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees.

In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up to date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation, a longer time horizon, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The uncertainty over future benefits has been allowed for indirectly in employer contributions through the use of a higher likelihood of success, as mentioned above.

What approach has the Fund taken to dealing with uncertainty over the length of the LGPS valuation cycle?

On 8 May 2019 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 Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

Calculating contributions for individual Employers

General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability hurdles can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section. The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore, the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- Extend the time horizon for targeting full funding;
- Adjust the required probability of meeting the funding target;
- Permit an employer to participate in the Fund's stabilisation mechanisms;
- Permit extended phasing in of contribution rises or reductions.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- Their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions.
- Lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term.
- It may take longer to reach their funding target, all other things being equal.

Overleaf is a summary of how the main funding policies differ for the 3 employers currently participating in the EAPF, followed by more detailed notes.

The different approaches used for different employers

Employer	Environment Agency (EA)	Natural Resources Wales (NRW)	Shared Services Connected Limited (SSCL)
Funding Target Basis used	Ongoing funding basis (see Appendix E)	Gilts cessation basis	Ongoing funding basis (see Appendix E)
Primary rate approach	(see Appendix D – D.2)		
Method for assessing total contributions payable	Contribution Stability Overlay - see Note (a)	NRW funding arrangement – see note (b)	Risk sharing arrangement – see note (c)
Maximum time horizon – <u>Note (d)</u>	20 years	20 years (for assessment of Primary rate)	20 years (for assessment of Primary rate)
Treatment of surplus	Covered by Contribution Stabilisation	Covered by NRW funding arrangement	Covered by risk sharing arrangement

	Mechanism		
Probability of achieving target – Note (e)	76%	73%	N/A – see note (c)
Phasing of contribution changes	Covered by Contribution Stabilisation Mechanism	None	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, at regular intervals between valuations		
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (g).	As per note (g)	Covered by fixed rate arrangement

Note (a) Contribution Stabilisation Mechanism

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been 'stabilised' (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

Stabilisation in the Environment Agency Active Pension Fund is reserved for long, term secure open employers. At present, the EA is the only employer with a stabilised contribution rate.

On the basis of extensive asset liability modelling carried out for the 2019 valuation exercise, the stabilised details are as follows:

Employer	Environment Agency
Short term contribution increases	+0.5% p.a. in the year beginning 1 April 2020
Max contribution increase per year thereafter	+0.5% of pay
Max contribution decrease per year thereafter	-0.5% of pay

The stabilisation criteria and limits will be reviewed at the 31 March 2022 valuation, to take effect from 1 April 2023. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes.

Note (b) NRW funding arrangement

NRW joined the Environment Agency Active Pension Fund on 1 April 2013. As an employer closed to new entrants, NRW's period of participation is finite and will cease when the last current active member leaves employment. At the 2013 valuation of the Fund, NRW were certified a contribution rate which aimed to target full funding on the ongoing basis over a period of 12 years (the estimated future working lifetime of the active membership at the time). In practice, an actual cessation event may not be for another 30-40 years.

Following the 2013 valuation, NRW indicated to the Fund that a fixed monetary contribution would be desirable as this would provide budgeting certainty. At the instruction of the Administering Authority, the Fund Actuary has carried out extensive asset liability modelling to determine a fixed level of contribution that would provide the Fund with the desired probability of funding success. As the employer will eventually be asked to meet a cessation payment assessed on the 'gilts cessation' basis, this been used as the funding target for the purpose of this modelling.

On the basis of the modelling carried out in 2016, a fixed annual contribution of £7m was agreed. This level of contributions is expected to continue until the point of cessation, subject to review at each actuarial valuation. The modelling carried out for the 2019 valuation confirmed that this arrangement was still appropriate, so the following fixed annual contributions are still in force:

Employer	Natural Resources Wales
Fixed annual contributions – 1 April 2020 to 31 March 2023	£7m
Fixed annual contributions – from 1 April 2023	Intended to remain at £7m but subject to regular review

The long term contributions of £7m p.a. are intended to be fixed from 1 April 2023 until the last active member leaves employment and a cessation event is triggered. Based on the modelling carried out by the actuary, the Administering Authority is comfortable that the payment of a fixed amount of £7m p.a. leads to a sufficiently high likelihood of NRW being fully funded on the gilts cessation basis in the long term. However, the Administering Authority will carry regular monitoring of progress against the funding objective to ensure NRW remains 'on track'. The Administering Authority reserves the right to change the level of fixed contribution in the event of a significant change in funding position or to the economic outlook, or a change in employer circumstances (e.g. a significant change in membership).

Note (c) Risk sharing arrangement

An Awarding Authority may enter into a 'risk sharing' arrangement with a participating employer (typically a contractor). A 'risk sharing' arrangement is defined whereby the contribution and/or cessation requirements of an employer have been altered through the implementation of a separate side agreement between the Awarding Authority and the employer. The terms of any 'risk sharing' arrangement will be documented appropriately (i.e. in a signed legal agreement) and shared with the Administering Authority.

The terms of separate 'risk sharing' arrangement may differ (for example, the rate payable by the participating employer could be fixed or capped in some way). In addition, the approach taken to certify contributions required from employers in respect of separate 'risk sharing' arrangements may also differ. The Administering Authority will ensure that the Rates and Adjustments (R&A) certificate reflects any specific 'risk sharing' arrangement in place between an Awarding Authority and a participating employer.

The Administering Authority reserves the right to veto any risk sharing proposal in the event that the terms of the proposal leads to undue risk on the Fund and its participating employers.

There is currently one risk sharing agreement between EAPF employers, which exists between SSCL and the EA. As per the terms of this agreement, SSCL will be certified to pay a total contribution rate of 22.7% of payroll throughout their period of participation in the Fund. On ceasing to participate in the Fund, no cessation debt will be payable and all assets and liabilities of this employer will revert to the EA.

Note (d) Maximum time horizon

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (e) Probability of achieving funding target

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- The Fund believes the employer poses a greater funding risk than other employers
- The employer does not have a guarantor or other sufficient security backing its funding position; and/or
- The employer is likely to cease participation in the Fund in the short or medium term

The EA and NRW are secure employers with a Government guarantee. The Pensions Committee have settled on contribution strategies for both employers that aim to meet their respective funding targets with at least a 78% probability of success.

Note (f) Regular Reviews

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) Cessation of participating employers

An employer's participation in the Fund is generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. Participation in the Fund can however be terminated at any point, subject to the terms of any admission agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the employer;
- Any breach by the employer of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A persistent failure by the employer to pay any sums due to the Fund within the period required by the Fund, which leads to the accrual of arrears to a level deemed by the Fund to be significant; or
- The failure by the employer to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor as required by the Fund.

In addition, either party can voluntarily terminate the agreement by giving the appropriate period of notice to the other party.

If an employer ceased to participate in the Fund, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit or surplus.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example, for admission bodies whose participation is voluntarily ended either by themselves or the Fund, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future.

Where there is a guarantor, and the guarantor participates in the Fund, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist (or in the case where the guarantor does not participate in the Fund) then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a 'gilts cessation basis' with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy.

This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required. These principles also apply to any employers that are not admission bodies.

Any shortfall would be levied on the departing admission body as a capital payment. Any surplus would be paid to the body as a lump sum exit credit in line with LGPS Regulations.

In the event that the Fund is not able to recover any required shortfall payment in full directly from the admission body or from any bond or indemnity or guarantor, then the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

Where the ceasing admission body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing admission body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a 'gilts cessation basis' and seek immediate payment of any funding shortfall identified.

For those employers whose lifespan is limited (e.g. closed employers), the Administering Authority may seek to increase or reduce the employer's contributions to the Fund in the period leading up to cessation to target a position where the employer's assets are equal to their liabilities on an appropriate basis.

As discussed, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a [x%] loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes. We will agree how this works in practice separately.

Protection mechanisms

The Administering Authority has a duty to set prudent funding assumptions and protect the long term health of the Fund. The following table explains the key tools that have been used in the decision making process to arrive at the recommended set of assumptions.

	Tool	Description
1	Contribution stability	
	a. Contribution stability overlay	Limit on annual changes in contributions for long term, secure employers (currently only the Environment Agency) of +/-0.5% of pay from April 2023 (contributions fixed at 2019/20 levels until then).
	b. Contribution stability overlay safety check	Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding with the contribution stability mechanism in place was sufficiently high.
2	NRW funding strategy	
	c. Fixed annual contributions	Long term contributions for NRW have been set at £7m per annum.

	d. Fixed annual contributions check	Asset liability modelling was carried out to ensure that the likelihood of the employer achieving full funding on the 'gilts cessation' basis in the long term (20 years) was sufficiently high. Fixed annual contributions will be reviewed regularly (e.g. triennially) and tweaked as necessary.
3	Pay growth check	An annual check on the impact of pay awards on the value of accrued liabilities, compared to assumptions made at this actuarial valuation, will continue to be undertaken. Each employer will be able to pay additional top-up contributions at the Fund's discretion.
4	Time horizon	Determined separately for each participating employer by reference to the employer's circumstances and basis of participation in the Fund.

Funding for early retirement

Non Ill health retirements

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

It is assumed that members' benefits are payable from the earliest age that the employee could retire, on or after age 60, without incurring a reduction to their benefit and without requiring their employer's consent to retire.

Employees who joined the LGPS before 1 October 2006 (and are subject to Rule of 85 protections on their pre April 2008 benefits) but reach age 60 after 31 March 2020, plus all employees who joined after 1 October 2006 (and are assumed to retire before 1 April 2022), are assumed to take all of their benefits at age 65. Otherwise, all benefits accrued will be payable at the member's State Pension Age (SPA). SPA is as per current legislation where the SPA is due to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046. The Government has indicated that further changes will be made to SPA, but as yet these are to be confirmed in legislation.

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

Ill health monitoring

The Fund monitors employees' ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer may, after the Administering Authority has consulted with the actuary, be charged additional contributions on the same basis as apply for other cases.

New employers participating in the Fund

The Fund currently has three participating employers. It is possible that more employers will join the Fund in future. There are a number of ways in which new bodies can participate in the LGPS, such as a scheduled body or an admission body.

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

- Starting assets and liabilities will be notionally ring-fenced within the Fund and the funding level of the new employer tracked over time based on its own experience, cash flows in and out and membership movements.

- The new employer will have its own individual contribution rate separate from any other employer in the Fund and based on its own membership profile, with a time horizon no greater than the average future working lifetime of its active employees.

- Any deficit left behind if past service benefits are transferred from a ceding employer in the Fund to the new employer as result of a fully funded transfer should be met via either an up-front capital payment or over a suitable spreading period, which should be no longer than that applied to the Environment Agency, as agreed with the paying body.

- Any deficit that the new body inherits at commencement (e.g. as a result of a 'share of fund' transfer from another employer within or outside the Fund) would be expected to be met via an up-front capital payment from the new employer or over some suitable spreading period, which should be no longer than that applied to the Environment Agency.

- The calculation of all up-front capital payments are based on market conditions at the date that the new employer joins the Fund (i.e. the vesting or transfer date).

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

Policies on bulk transfers

The Fund's policy on bulk transfers is based on the following key principles:

- When a group of active scheme members joins the EAPF, the Administering Authority's objective is to ensure, as far as practical that the EAPF does not accept an ongoing funding deficit in respect of the transferring employees.

- When a group of active scheme members leaves the EAPF, in order to protect the funding position in respect of the remaining members, the transfer values in respect of the transferring members should be no more than the assets held in respect of the transferring liabilities, and at most be 100% of the transferring liabilities on the ongoing funding basis as set out in the EAPF's Funding Strategy Statement.
- Service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.
- There is also an overriding objective to ensure that the LGPS Regulations and (new) Fair Deal guidance as they pertain to bulk transfers are adhered to. As an agency of Central Government, the Environment Agency, is covered under (new) Fair Deal guidance released in October 2013. As such it is obliged to ensure that any outsourcing of services must comply with (new) Fair Deal guidance and those members affected by the outsourcing must be offered continuing accessing in the LGPS.

EAPF employers should treat the EAPF's preferred terms on bulk transfers as non-negotiable. Any differences between the value the EAPF is prepared to pay (or receive) and that which the other scheme involved is prepared to accept should be dealt with by the employers concerned outside the EAPF.

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 contribution and other 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 consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

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 Environment Agency's Pensions Committee has decided to adopt a more flexible approach to the Active Fund future investment strategy and asset allocation so that we can respond responsibly and robustly to both the changing global economic environment and impacts of climate change. This will ensure that the Fund's approach to environmental issues remains in the best interest of fund members with many environmental issues able to affect the financial and physical wellbeing of individuals.

The same investment strategy is currently followed for all employers.

What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

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 actuary's assumptions for the future investment returns (described in Appendix E) are based on the current benchmark investment strategy of the Fund (but were tested with the proposed new Strategic Asset allocation as well). The future investment return assumptions underlying each of the funding bases (ongoing and cessation) include a margin for prudence, and therefore also 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).

In the short term – such as the 3 yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contributions and the stability measures will damp down, but not remove, the effect on employers' contributions.

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

Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through regular communication.

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 MHCLG 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.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) The rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds).

(b) Employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%.

(c) There is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. The rate of employer contributions is sufficient to make provision for the cost of current benefit accrual.

ii. With an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MGCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. The implied deficit recovery period.
2. The investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. The extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit.
2. How the required investment return under 'relative considerations' above compares to the estimated future return being targeted by the Fund's current investment strategy.
3. The extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate.
4. The extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) 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.

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 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.

Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers on 28 October 2019 for comment;

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published on 18 December 2019.

How is the FSS published?

The FSS is made available through the following routes:

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

How often is the FSS reviewed?

The FSS is reviewed in detail at every actuarial valuation. Currently these take place every three years but 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 employer communications,
- Amendments affecting only one class of employer would be consulted with those employers,
- 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.

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 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.

The Administering Authority should:

Operate the Fund as per the LGPS Regulations.

Effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer.

Collect employer and employee contributions, and investment income and other amounts due to the Fund.

Ensure that cash is available to meet benefit payments as and when they fall due.

Pay from the Fund the relevant benefits and entitlements that are due.

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.

Communicate appropriately with employers so that they fully understand their obligations to the Fund.

Take appropriate measures to safeguard the Fund against the consequences of employer default.

Manage the valuation process in consultation with the Fund's actuary.

Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.

Prepare and maintain a FSS and a SIP/ISS, after consultation.

Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary).

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

The Individual Employer should:

Deduct contributions from employees' pay correctly.

Pay all contributions, including their own as determined by the actuary, promptly by the due date.

Have a policy and exercise discretions within the regulatory framework.

Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain.

Notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

The Fund Actuary should:

Prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately.

- Prepare valuations including the setting of employer contributions rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations and targeting each employer's solvency appropriately.
- Provide data and information as required by the Government Actuary's Department to carry out their statutory obligations.
- Provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these).
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.
- Assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary.
- Advise on the termination of employers' participation in the Fund.
- Fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Other parties:

Investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS.

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.

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.

Governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund.

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.

MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

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

Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy for the EA, whilst a stable monetary contribution (subject to triennial review) has been agreed for NRW. SSCL participate in the Fund with a fixed contribution rate.
Effects of possible shortfall in cash required to meet benefit outgo due to reduced cash contributions and/or maturing demographic profile	Projections are calculated at each formal valuation to monitor cashflows versus contribution income so that any possible future cash shortfall is identified early enough for appropriate action to be taken. Accuracy of cash flow projections is improved by use of bespoke baseline longevity assumptions.
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. The potential risks from climate change were considered in the long-term modelling carried out to set employer contribution rates at the 2019 valuation. A higher likelihood of success than at 2016 has been built into the 2019 funding strategy as a 'buffer' against these risks.

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.
Maturing Fund – i.e. proportion of actively contributing employee's declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non-ill health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.

Risk	Summary of Control Mechanisms
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: The EA may be brought out of the stabilisation mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations. NRW pay contributions as a monetary amount rather than a percentage of payroll to avoid a gradually reducing annual contribution.

Regulatory risks

Risk	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. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. In the meantime, a higher likelihood of success than at 2016 has been built into the 2019 funding strategy as a 'buffer' against this risk. The government's long term preferred solution to GMP indexation and equalisation – conversion of GMP's to scheme benefits – was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis.	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations. Deficit contributions may be expressed as monetary amounts.
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.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals. Reviewing contributions well ahead of cessation if thought appropriate.

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in section 3 for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in section 3 note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

1. The estimated cost of ongoing benefits being accrued, referred to as the 'Primary contribution rate' (see D2 below); plus
2. n adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the 'Secondary contribution rate' (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' future service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers. The Primary rate is calculated such that it is projected to:

1. Meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets.
2. Within the determined time horizon (see note (d) in section 3 for further details).
3. With a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see note (e) in section 3 for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the 'Economic Scenario Service') developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The contributions are determined based on the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) in comparison to the desired likelihood of success.

The approach includes expenses of administration to the extent that they are borne by the Fund and includes allowances for benefits payable on death in service and on ill health retirement.

How is the Secondary contribution rate calculated?

The Fund aims for employers to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as an adjustment to the Primary rate, such that the total contribution rate is projected to:

1. Meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. At the end of the determined time horizon (see note (d) in section 3 for further details)
3. With a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see note (e) in section 3 for further details).

The projections are carried out using an economic modeller (the 'Economic Scenario Service') developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in Appendix E. The measured contributions are determined based on the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) in comparison to the desired likelihood of success.

What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. Past contributions relative to the cost of accruals of benefits
2. Different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary)
3. The effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. Any different time horizons
5. The difference between actual and assumed rises in pensionable pay
6. The difference between actual and assumed increases to pensions in payment and deferred pensions
7. The difference between actual and assumed retirements on grounds of ill-health from active status
8. The difference between actual and assumed amounts of pension ceasing on death
9. The additional costs of any non ill-health retirements relative to any extra payments made
10. Differences in the required likelihood of achieving the funding target.

How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation. There are broadly two ways to do this:

1. A technique known as 'analysis of surplus' in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary uses the Hymans Robertson's proprietary 'HEAT' system to track employer assets between valuations. Starting with each employer's assets from the previous month end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the month are added to calculate an asset value at the month end.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

Appendix E – Actuarial assumptions

What are the actuarial assumptions used to calculate employer contribution rates?

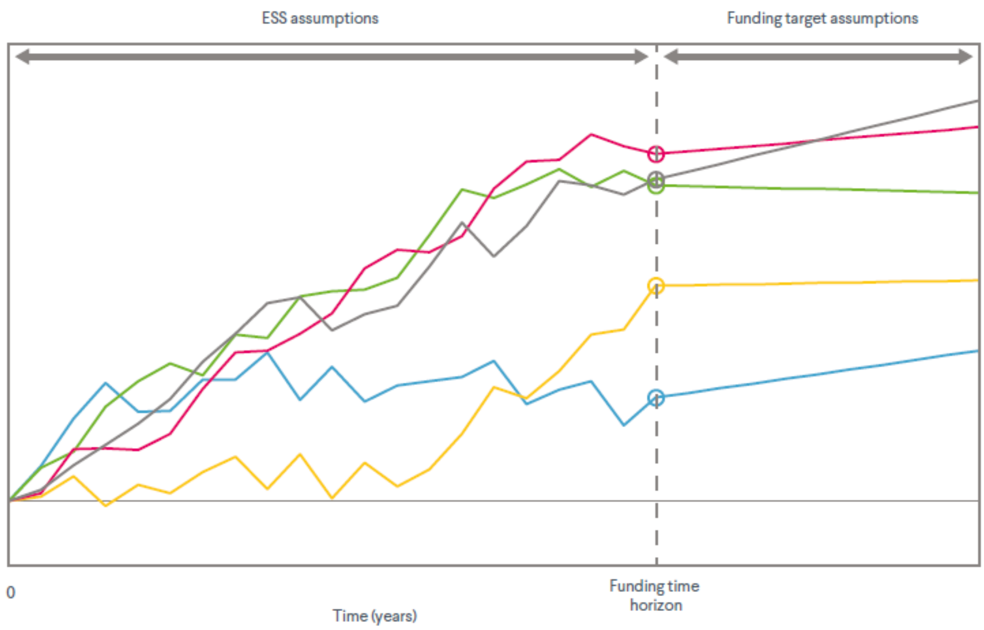
These are expectations of future experience used to place a value on future benefit payments ('the liabilities') and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions).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

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

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose, the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ('ESS').
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has two different funding bases.



Details on the ESS assumptions and funding target assumptions are included below.

What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the 'discount rate')

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are - future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has two funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Gilts cessation basis
Employer type	Open employers not expected to cease participation in the Fund (e.g. the EA) or those with appropriate guarantors (e.g. SSCL)	Closed employers expected to cease participating in the Fund in future (e.g. NRW)
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.6% p.a.	Long term government bond yields with no allowance for outperformance on the Fund's assets

What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers and representatives from the EA and NRW, the salary increase assumption at the 2019 valuation has been set to a blended rate of RPI – 0.5% per annum, based on increases of 3% each year to 31 March 2021 followed by long-term increases of RPI - 0.5% per annum.

This is a change from the previous valuation, which assumed a blended assumption of RPI – 0.7% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than 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 on a geometric, not arithmetic, basis).

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 1.25% 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).

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.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis), in deriving the funding target underpinning the Primary contribution rates: as described in (**3.3**). The Secondary contributions are calculated in different ways, depending on the employer's circumstances (See Section 3.3, notes (a) to (c)).

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The body with statutory responsibility for running the Fund, in effect the Fund's 'trustees'.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be 'fixed interest', where the interest payments are level throughout the gilt's term, or 'index-linked' where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer that outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds across the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and

	choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred pensioners (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's total and Primary contribution rates. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the Primary and Secondary contribution rates, and other statutory information for the Fund and individual employers.

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 Active Pension Fund (the Fund or 'EAPF') is a funded, defined benefit pension scheme with around 26,500 members and assets of approximately £4.6bn as at 31 December 2021. **Full details of the EAPF 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 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 Statement should be read and will be implemented in conjunction with the Fund's Governance Policy, Funding Strategy Statement, Responsible Investment Strategy and Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change and Global Stewardship Statement. These provide and state our more detailed requirements and supplementary guidance on these specific topics for our external fund managers. It is supported by the contents of our investment management agreements for each investment mandate. Details of the investment and performance objectives for each mandate are published in our Annual Report and Financial Statements.

Fund governance: Investment

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

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

The Investment Sub-Committee has received delegated responsibility to prepare and recommend the investment strategy to the Pensions Committee and, within the context of the agreed investment strategy, to decide on the structure of mandates and their specification, to appoint fund managers, to monitor the performance of fund managers, and to terminate or alter mandates. This is done in partnership with the Brunel Pension Partnership (see later).

We have delegated day-to-day management of the Fund's assets to a number of fund managers. They have full discretion to manage their portfolios, subject to their investment management agreements with us and in compliance with the Fund's own policies including this ISS. We do not seek to direct the managers on individual investment decisions.

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 Ministry for Housing, 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 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 sub funds and managers within asset classes. While we take account of market and economic levels in our decision making, we will avoid making decisions on purely a short term basis.

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

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;

a) 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.
b) Look to work with and influence others.
c) Act as good owners of the companies, assets and funds in which we invest.
d) 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 Strategy and our Getting to Net Zero and Building Resilience: EAPF Policy to Address the Impacts of Climate Change. **You'll find both policies online at www.eapf.org.uk/resources/publications/policies**. Both the Brunel Pension Partnership's 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 process 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 and the **Tumelo tool to disclose our listed equity shareholdings.** 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.

Both EAPF and Brunel Ltd are signatories of the UNPRI. This 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

The EAPF Active Fund is an open, defined-benefit pension fund with strong employer backing, positive cash-flows and pension obligations stretching to the end of this century. In setting our investment strategy we seek to balance twin objectives: first, to achieve sufficient long-term returns for the scheme to be affordable to employers now and in the future, and second, minimising risk of having to increase the contribution rate in the future.

To achieve this, the Fund needs to invest in assets which differ from our pension liabilities. We seek to develop an investment portfolio with exposure to these return seeking assets in the most risk efficient way. We look to build a portfolio which has high probability of exceeding the asset outperformance target assumed by our actuary, while limiting the probability of the funding level falling below 90% at the next three actuarial valuations, as this should be effective at substantially reducing the potential need to increase the contribution rate.

It is not possible to control the absolute return on investments but over the long-term the Fund believes its investment strategy should result in a high probability of achieving the objectives of its Funding Strategy Statement.

In the short-term, returns are measured against a Fund-specific benchmark and the Actuary prepares quarterly intra-valuation updates on the Fund's funding level. Further details on the expected returns from investments and how they interact with the Actuary's formal triennial valuation of the Fund's assets and liabilities are included in the Funding Strategy Statement.

Each active manager has an outperformance target against its benchmark. Over the long term the targeted outperformance is expected to lead to significantly lower contributions than would otherwise occur.

The suitability of different types of investment

The Fund may invest in any investment it considers appropriate. In selecting categories of investments to invest in, the Fund has regard, inter alia, to return potential, financial risk, liquidity, management costs and any potential environmental, social and governance risks and opportunities. 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. In accordance with our principles above, we seek to invest in areas contributing to long term economic activity rather than assets where returns are based on speculation or short term trading.

Assets currently held include, but are not limited to, equities (both listed and private), gilts, corporate and other bonds, private debt and real assets including property, infrastructure, forestry and agriculture assets.

Certain asset classes are not considered suitable for EAPF, particularly if they are not compatible with our investment principles. Asset classes where returns are based on short term speculation or trading, or where it is not clear how they generate an underlying return are generally not considered suitable. Other assets classes are found not to be suitable after review on the grounds of high costs, inadequate returns for the risk involved, unclear or unquantifiable risks, insufficient diversification or effective duplication of existing allocations.

The range of assets we choose to invest in are always reviewed as part of our investment strategy review process. At our latest strategy review process a number of possible new areas were considered. It was decided to further explore an allocation to liability matching assets and multi-asset credit at this time.

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

The Fund has set itself the target to have over 33% of the Fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our annual report and financial statements.

Net Zero

The Fund has set itself the target to get to net zero by 2045 and halve emissions by 2030. As part of this, the Fund wants to invest significantly in green solutions. It has a target to have 17% of its investment by 2025 directly tackling climate change. **Full details are in Getting to Net Zero & Building Resilience: EAPF Policy to Address Climate Change.**

Asset allocation

The strategic asset allocation of the Fund is the principal way we achieve a diversity of assets of different types. It is set after considering the results of our funding strategy modelling and our asset allocation and risk modelling. This considers various asset allocation mixes, return objectives and risk levels. Having too modest a return target will reduce short term risks but will increase the likelihood that longer term returns are insufficient, resulting in contribution increases and undermining the affordability of members' benefits. Too high a return target, while it may increase average long term returns and the potential for contribution reductions, will increase overall risk resulting in a wider range of outcomes, including a higher risk of deficits and the need to increase contributions. Clearly, for a particular level of return, we seek to minimise the level of risk taking through efficient diversification and appropriate allocation. It is this analysis that determines the overall appetite for risk in the Fund. Should the analysis fail to find a satisfactory balance of risk and return, with too high a risk of contribution instability or falling funding levels, then the funding strategy may need to be revisited.

In setting the strategic asset allocation we seek a long-term rate of return sufficient to meet our investment objectives. Based on our funding strategy and long term investment analysis we estimate an appropriate overall expected return of +3.1% over the expected return on gilts will be sufficient on the balance of probabilities, but also consider the possible range of return outcomes and in particular the likelihood of lower returns. We also consider the challenges presented by volatile market conditions, changes to the benefit structure of the LGPS, the demographics of the Fund, and possible transfers out; all of which potentially impact on the most suitable investments and the appropriate allocation to them.

At the highest level our asset allocation splits the investment portfolio into three broad areas: equities, bonds, and diversifying growth assets. Equities and bonds are traditional asset classes. Equities provide good long terms returns but have significant risks. Bonds are typically lower risk, and indeed are more closely correlated with our liabilities, but returns are low. Diversifying growth assets covers a range of assets that we consider to offer attractive returns on a risk adjusted basis. It is split into 3 areas: real assets: (property, infrastructure, and agriculture); illiquid credit/private debt (direct lending to companies and investments); and growth fixed income (bond investments offering higher returns but lower correlation to conventional fixed income).

We have adopted a strategic asset allocation (SAA) benchmark. The framework is intended to provide a degree of high level risk control, ensuring asset allocation remains broadly appropriate and diverse, while being flexible enough to enable the Fund to respond to changes in funding levels, market conditions and other factors.

The SAA benchmark is set, with input from the Fund's advisers, after considering current funding level, the return requirements and acceptable risk of the Fund, as well as market conditions and valuations. The Investment Sub-Committee sets this benchmark and it is reviewed at least annually by the Pensions Committee. The target is typically expected to be achieved in around 3 years as the allocations to illiquid allocations are built up over time. We have updated the target this year. The actual asset allocation may also vary because of movements in markets and the availability of suitable investment opportunities.

Asset Class	Strategic Asset Allocation %	Framework Range %
Equities (Public & Private)	**40.5**	**-**
Public Equities	**36.5**	**± 5.0%**
Diversifying Growth assets	**25.0**	-
Real assets including: Property Infrastructure Farmland and Timberland	12.0 5.0 5.0 2.0	-
Illiquid Credit / Private Debt	5.0	
Growth Fixed Income / Multi Asset Credit ('MAC')	8.0	- -
Fixed income assets	**33.5**	**±5.0%**
Fixed / Interest Linked Gilts (LDI) Corporate bonds	11.5 22.0	**-**
Cash	**1.0**	
Total Defensive Assets	**34.5**	

The strategic asset allocation (SAA) benchmark is laid out below.

The asset allocation results in a significant weight being given to equities, which we consider appropriate given the long term nature of our liabilities profile and our investment objectives, but this is spread across a range of managers with different approaches and styles (see below). As our funding level permits, we are also gradually reducing the allocation to equities to reduce our overall investment risks, although we expect to retain a significant equity allocation.

Allocations to certain areas (real assets; illiquid credit/private debt; private equity/specialist opportunities) are illiquid and the actual level of investment will depend on the rate of drawdown once investments are identified, any changes in value and the pace at which capital is returned. They may therefore vary significantly from target levels. In particular, should the above ranges be exceeded as a result of market movements, while new investments will not be made, there will be no immediate requirement to reduce exposure through forced sales.

We regularly review the balance between exposure to growth assets (equities and diversifying growth assets) and lower risk assets (fixed income and cash), and if they vary by more than a certain amount from the benchmark asset allocation, we will rebalance the portfolio back towards the benchmark asset allocation as much as practical.

EAPF uses this SAA benchmark for investment performance purposes.
The Fund’s SAA is publicly disclosed within the Fund’s Annual Report and Financial Statements.

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 in the process of being transitioned across from our existing investment managers to the portfolios managed by Brunel by 2020, in accordance with a timetable that has been agreed across the partnership. To date passive Low Carbon and Low Volatility equity mandates have been transitioned to Brunel Ltd.
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 is responsible for implementing the detailed Strategic Asset Allocations of its ten Client Funds by providing and implementing a suitable range of outcome focused investment ‘portfolios’. In particular, it researches and selects the professional external investment managers responsible for making the day-to-day investment decisions at the portfolios. In some cases, a portfolio has 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 has 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 us and the other shareholders. It comprises four highly experienced and independent non-executive directors, chaired by Denise Le Gal and four executive directors.

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

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

Managers and Mandates

Whilst the transition to pooling is being completed, our legacy Investment Management arrangements will continue to be in place as required.

Within each asset class the Fund seeks to have a well-diversified portfolio. This is achieved by ensuring each investment manager holds an appropriate spread of investments and, within certain asset classes, working with a range of managers to ensure a diversity of styles and expertise.

We have a specialist fund manager structure with managers appointed with a mandate to manage assets in a specific area. This enables us to access managers with particular expertise and skills. Each mandate has a detailed specification, including a mandate-specific benchmark, performance target and risk controls.

Subject to compliance with both this Investment Strategy Statement and associated policies, and the terms of their Investment Management Agreements, which includes the requirement to maintain a diversified portfolio, all the managers have full discretion over the choice of individual investments.

The Fund uses a combination of passive (indexed), and active approaches to investment management, based on consideration of availability, cost, flexibility and return potential. Passive approaches aim to deliver the return of the underlying market index and consequently contain a very large number of holdings. We consider the case for integrating responsible investment within our passive investments, particularly where suitable indices exist. Within global equities, a significant allocation has also been made to both a quantitative fund seeking sustainable exposure to the value factor, and to mandates managed using quantitative low volatility approaches. These aim to provide improved risk/return characteristics over conventional passive approaches. We have also introduced a buy-and-maintain approach, in corporate bonds, which has a quasi-passive approach to investing but does not seek to follow a benchmark index. This is useful particularly where benchmarks are deficient from the Fund's perspective.

The remainder of the Fund is managed on an active basis, using investment managers to select the investments they consider to have the best return potential. This portion of the Fund is spread across global equities, corporate bonds, property/real assets, and private equity. The decision to appoint active managers is only made after careful consideration of the likely costs, the likelihood that the manager will be able to add value after fees, the impact on risk, and the ability of the manager to implement the responsible investment strategy. Once appointed, managers are carefully scrutinised for value for money, and any reasonable opportunities to reduce costs will be pursued.

In keeping with our investment principles, we focus on developing successful long term partnerships with our managers. We have developed a detailed approach to investing long term, including establishing 'covenants' with our managers to outline what is expected of each other. In assessing managers, we focus on long-term performance potential including aspects such as idea generation and team stability, rather than short term performance. Where managers are underperforming, we seek to work with them to address any issues and improve performance.

Risk

We take the management of risk in our investments very seriously. We maintain a detailed risk register of all the investment-related risks that could affect the Fund, which monitors their severity and the implementation of mitigating actions.

To achieve the required returns, the Fund needs to invest in assets involving a degree of risk and so although we seek to manage our investment risk, we cannot eliminate it. The most fundamental risk is that the Fund's assets produce lower long-term returns than those assumed by the Fund's actuary, leading to a significant deterioration in the Fund's funding position.

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

Different types of investment have different risk characteristics and return potential. For example, historically the returns from equities have been higher than from bonds but they are more risky, particularly short term. In setting the investment strategy we consider the expected risks and returns from various asset classes and the correlation between these returns to develop a strategy with an adequate expected return with an acceptable level of risk. Detailed modelling analyses the expected results of different strategies (in terms of funding levels and contributions) over a range of possible long term market outcomes to determine the preferred strategy. This strategy is then reflected in the Fund's strategic benchmark.

A separate investment risk is the risk of underperforming the Fund's strategic benchmark. This relative risk is less significant than the strategic risk above, but we still seek to manage it. It can arise either because asset allocation has deviated from the strategic benchmark allocation or because our fund managers are underperforming. We monitor the actual asset allocation continually and take action if required. Individual managers may, particularly over the short term (a year or less), underperform their benchmark but over the long term we expect them to add value. For the Fund as a whole, the range of managers reduces the risk of significant underperformance.

Climate change is the single biggest threat to our economy, environment, health, way of life, and our members' future. It presents a systemic risk, where the climate actions or inaction, of one company can positively and negatively affect another company, as well as the overall economy. As a pension fund, climate change presents a material financial risk to us. It has the potential to impact the value of holdings in our portfolio and our long term liabilities.

The Fund is aware of the nature of its liabilities and considers how closely its different assets match its liabilities. With increasing funding levels and following the last triennial valuation, we are considering the case for liability-driven investments, including explicit liability hedging.

The Fund reviews the potential for active hedging of any aspects of risks (e.g. currency risk). At present the Fund only hedges a small proportion of its listed equity currency risk relating to its low volatility equity allocation. However, any currency risk in overseas fixed interest exposure would normally be hedged, and we have introduced currency hedging for lower risk assets such as private debt and overseas infrastructure. We continue to monitor the case for hedging currency and other risks more widely.

There are also a variety of other risks to be considered, for example operational risks of loss arising from default by brokers, banks or custodians. Here, the Fund is careful only to deal with reputable service providers to minimise counterparty risks.

Liquidity and the realisation of investments

The majority of the Fund's investments will be made in bonds and stocks that are listed on recognised Stock Exchanges and may be realised quickly if required. Our corporate bond holdings are generally reasonably liquid but may be harder to realise in certain market conditions. However, given the strong positive cash inflows of the Fund, and the long term nature of the Fund, we are satisfied that a significantly greater proportion of the Fund is held in liquid assets than is likely to be needed to meet any expected or unexpected demands for cash.

The materially illiquid assets within the Fund are those held in private equities, real assets and private debt. These are normally held through pooled funds. As a long term investor, we regard it as entirely appropriate to hold such illiquid assets. In particular as we expect such funds to benefit from an enhanced return due to an 'illiquidity premium' which compensates for the long term nature of these investments. Furthermore, all funds we invest in will have a long term strategy for the realisation of their investments, through sales, repayments or income. We do not expect to exceed a 25% allocation to illiquid assets in aggregate at present.

Engagement

The Fund is a signatory of the new UK Stewardship Code, established in 2020. This sets high standards for those investing money on behalf of UK savers and pensioners, and those that support them.

Stewardship is defined as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Our submission to obtain signatory status provides a detailed analysis of the how the EAPF does this. The Fund seeks to retain signatory status every year.

Our Responsible Investment Strategy set outs the areas of engagement that, as a Fund, we have selected to have a particular focus on to bring about change in the finance sector and the companies that we invest in. These are climate change, natural capital, using resources sustainably and water.

Where appropriate and in line with our Investment Strategy and Responsible Investment Strategy, we support other engagement initiatives which will deliver real benefits for the EAPF and where resources allow. We set out details of these in our annual report.

Brunel has a key role to play in engaging on our behalf with the finance industry. Brunel's approach and priorities are set out in its Responsible Investment Stewardship Policy. EAPF and the other underlying clients of Brunel contribute to the setting of these priorities and discuss ongoing progress on a regular basis.

We also work directly with investor bodies to help build a better future. We are members of the Local Authority Pension Fund Forum (LAPFF) IIGCC (Institutional Investors Group on Climate Change) and the CDP. We also share our understanding and experience by regularly speaking at investment industry events and publishing articles on-line.

The Fund co-founded the Transition Pathway Initiative (TPI). This is an asset owner-led initiative, supported by asset managers and owners with over $40 trillion assets under management and advice. The initiative assesses how companies are preparing for the transition to a low-carbon economy and has recently been established as a limited company to support its greater research output. An EAPF representative is on the TPI Board.

The Fund is using the IIGCC framework to align our portfolio with net zero. We are also co-leading an IIGCC working group to develop understanding within the investor community of the physical risks from climate change.

EAPF is pledged to the UN initiative on Ocean plastics #CleanSeas. Our action on plastics is one way that we align with 'A Green Future'. Defra recently published 'A Green Future: Our 25 Year Plan to Improve the Environment'. In so far as practicable, EAPF plans to align its investment and engagement activities with the Green Future Plan. We have also been involved in an investor-led initiative to reduce plastic pellets from being released to the environment.

The Fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of UK listed companies and promotes wider diversity and inclusion in the companies in which we invest.

All the assets of the pension fund are selected by external fund managers. This means that it is our external fund managers who make the detailed decisions about which companies we invest in. This is important in avoiding conflicts of interest for our employers, but also gives us the flexibility to select the best managers for each set of assets. The skills needed to decide environmental and other issues vary from one asset class to another. We place a high importance, and spend significant time and energy, in selecting good quality managers who deliver financially and can manage the wide variety of risks that come with making investments.

Voting

The Fund believes that voting is integral part of the responsible investment and stewardship process. Voting is delegated to managers to vote on all the Fund's shares. All managers, be they chosen by the

Brunel pool, or are our legacy managers, are encouraged to follow the approach set out in **Brunel's Responsible Stewardship policy statement** and **Brunel's Voting Guidelines**. We demand high standards in stewardship from all managers who act on our behalf. We monitor the voting reports of all managers on a quarterly basis

Stock lending

The Fund does not engage in stock lending through active equities, but we do so in some passive or quantitatively managed pooled portfolios through our participation in the Brunel Pension Partnership Ltd. Where stock lending is taking place within pooled funds we seek to arrange where practical to have the ability to recall stocks so that we can vote. As described in the previous section, for environmental issues we have written specific guidance and reserve the right to direct the voting in accordance with these guidelines. Brunel Pension Partnership details its approach to stock lending in its Responsible Investment Stewardship Policy.

Statement of compliance with the Myners Principles

We fully comply with Lord Myners' six principles codifying a model of best practice in pension fund governance, investment decision-making and disclosure. 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 – Responsible Investment strategy

Introduction

Responsible investment makes business sense. For over 15 years now we have seen that our Fund generates strong financial returns by investing in companies that contribute to the long term sustainable success of the economy and society.

But with investment comes responsibility – responsibility for a wide range of environmental, social and governance issues, with none bigger and more urgent than climate change. Climate change is the biggest threat to our economy, environment, health, way of life and our future. We will use our investments to help bring about positive change, make a difference to the future and inspire others.

We are doing this for our members, who work tirelessly, and with pride to improve the environment. Asking them to participate in our Pension Fund scheme means to ask for their trust over the long term. We want to repay that trust and make them proud of what their Pension Fund stands for. That is why, as well as investing responsibly, we make sure that those investments are also the right investments financially, which will deliver the right returns to make the Pension Fund secure and fit for the long term.

Summary

Building on our achievements to date, these are our priorities for the next 5 years:

1. **We invest to build a better future by:**
   - investing significantly in sustainable and low carbon assets
   - calculating the impact on, and impact of, our fund on climate change
   - exploring opportunities for investing responsibly in all asset classes and in particular in fixed income
2. **We work with the investment community to help build a better future by:**
   - supporting the development of the Transition Pathway Initiative (TPI)
   - raising the importance of managing the physical risks from climate change
   - challenging company boards directly on their performance
   - taking part in campaigns to deliver changes in company and investor behaviour
3. **We make our members proud of their Pension Fund by:**
   - telling members about the positive impact their Pension Fund is making
   - encouraging members' feedback on how our responsible investment approach can be improved

For more detailed information on how we will implement this strategy, please see our Policy on Responsible Investment and Policy to Address the Impacts of Climate Change.

You can access both policies online at www.eapf.org.uk

Responsible investment and ethical investment

The Environment Agency Pension Fund is a responsible investor, as opposed to an ethical investor.

An ethical investor will generally exclude certain investments from the outset, and this decision may be more important than financial considerations.

A responsible investor will invest across the full range of listed companies, but will use the power of ownership to influence companies to improve their environmental, social and corporate governance performance to manage risk and generate long term returns.

Working in partnership with Brunel Pension Partnership

This strategy takes into account the introduction of pooling across the Local Government Pension Scheme and what the EAPF's role is as part of Brunel Pension Partnership.

As asset owners, we set out how we want our money invested, in line with our Investment Strategy, and in which asset classes. This is known as our strategic asset allocation. We also set our strategy and ambition on responsible investment, engage externally on issues which are key to us, and retain responsibility for engaging with our members and representing their views. **You can access the Investment Strategy online at www.eapf.org.uk**

Brunel Pension Partnership (Brunel) will manage our investments in line with our strategic objectives and those of 9 local government funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

This makes Brunel and our 9 fellow Funds key partners in ensuring that individual assets in our Pension Fund are being invested responsibly. **We have strong links with Brunel and our common approach and thinking is reflected in Brunel's responsible investment policy which is available on their website.**

Aim 1. We invest to build a better future

Over the last 10 years, we have made great strides in considering environmental, social and governance issues in our investments. This has included which funds we invest in and how we monitor their performance.

We believe well governed companies produce better and more sustainable returns.

This is key to helping us meet our legal obligations to fund our members' pensions in the short and long term. Yet there is more we can do and lots we need to carry on doing.

1.1 We invest significantly in sustainable and low carbon assets

Today, the case for investing for the long term and acting to address climate change is more important than ever, and more of an opportunity than ever. We do this by investing in sustainable and low carbon assets, in line with our strategic asset allocation and our Investment Strategy.

We aim to always have at least 33% of our investments in sustainable assets

In the absence of a common classification system, we have worked with our existing fund managers and investment consultants to define how we determine the sustainability credentials of our investments.

In summary, sustainable investments include those in energy efficiency, alternative energy, water and waste treatment, public transport, property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria, and companies with progressive environmental, social or governance practices.

By 2025 17% of our investments will directly tackle climate change

Assets which we assess as directly tackling climate change include those in the fields of renewable energy, energy efficiency and other mitigation opportunities, as well as those which help address and manage climate change adaptation. These assets are a subset of our wider sustainable assets.

We aim to meet these targets through investing in line with our strategic asset allocation and working with Brunel to ensure that their portfolios integrate environmental, social and governance issues. We will report on our progress in meeting these targets every year in our annual report.

While these targets are very important to us, they will not be an artificial constraint on individual investments or our long term duty to ensure that our Pension Fund is well financed.

We are aware of proposed changes to how sustainable assets may be classified in the future. We will review our target annually, to make sure our calculations are in line with the commonly adopted approach and can be readily understood and compared.

Fossil fuel investment presents climate change and financial risks.

We will decarbonise our equity portfolio, reducing our exposure to future emissions by 95% for coal and 90% for oil and gas by 2025 compared to the exposure in our underlying benchmark as at 31 March 2015.

'Future emissions' refers to assets in the ground owned by companies we invest in and is the amount of greenhouse gases that would be emitted should these reserves be extracted and ultimately burnt, expressed in tonnes of carbon dioxide equivalent.

We expect our exposure to coal to be minimal by 2025 but we believe that overall, the right approach at this stage is to continue to decarbonise the fund but not to disinvest fully from fossil fuel companies. This is partly because some energy companies have significant renewable energy assets and also the resources to contribute to a low carbon future. Instead, the EAPF will continue to put pressure on oil and gas companies to bring about change to their business model, so that they play their role in a low carbon transition. We will also follow developments on carbon pricing closely.

1.2 We calculate the impact on, and impact of, our fund on climatechange

The scientific evidence is overwhelming that by the end of this century, we need to keep changes in global temperature to below 2 degrees Celsius (2ºC), compared to pre-industrial levels, to avoid the worst impacts from climate change.

There are 3 elements to climate change that we need to understand as a fund:

- How our investments are positioned in a warming world

We estimate from our modelling (Mercer's Investing in a time of Climate Change) that our portfolio is relatively well positioned to benefit from the opportunities presented by a low carbon transition and withstand the financial risks from climate change. We also know that keeping to a 2°C scenario or lower, is most beneficial from a long term investor perspective, as there are likely to be less physical risks to our investments. We will continue to monitor this.

- How much our investments are contributing to the warming

We need to understand the contribution our investments are making in relation to keeping the temperature rise below 2°C. We hope that by investing significantly in sustainable and low carbon assets, our contribution will be a favourable one, but we need to measure this to understand more. We will work with others to see if we can do this to inform our approach and help improve understanding more broadly across the investment community.

- How climate change may impact on our future liabilities

As a pension fund, we need to make sure we are able to pay our members' pensions (future payments are known as our liabilities). We have started to consider with our actuaries Hymans Robertson, the impact of climate change on our liabilities. We are keen to develop this further.

"Damaging climate impacts are already being felt. Every degree matters"

- UK Committee of Climate Change

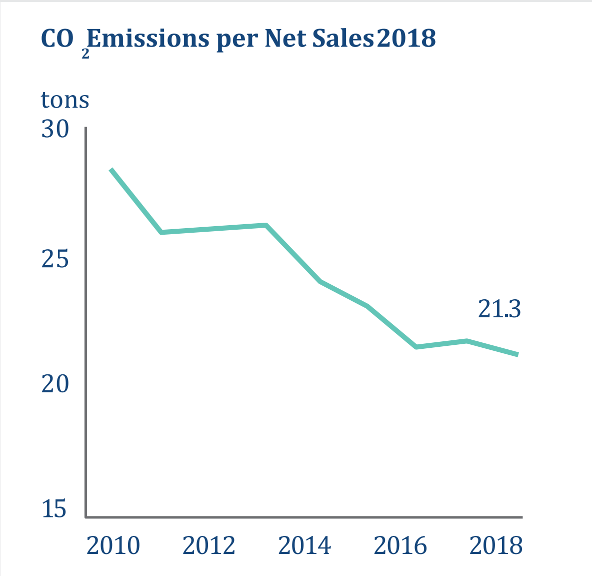
Investment Case Study

One of our investment managers is Ownership Capital who work proactively with company management teams towards achieving a more sustainable business.

One example of this is their engagement with a global industrial manufacturer of weighing equipment. The company lacked any environmental sustainability strategy, which presented urgent risks to its long term business model and cost structure. Ownership Capital worked with the company to identify the steps needed for it to become a sustainability leader.

Over the course of the investment, Ownership Capital met regularly with the company to provide feedback and monitor progress.

The company is now recognised as one of the leaders in its industry, decreasing its carbon emissions and improving its profitability.



1.3 We explore opportunities for investing responsibly in all asset classes and in particular fixed income

We want to ensure that responsible investment is integrated across all asset classes and where it is less established, help to build opportunities.

We have a strong record of already integrating responsible investment into our investments and for working with asset managers to develop innovative approaches.

Following our review of the strategic asset allocation in 2019, we aim to invest in a new strategy for us: multi-asset credit. These are investments in a broad range of credit asset classes, for example corporate bonds and bank loans. We hope to make these investments to multi-asset credit as sustainable as possible. This will be of direct benefit to our investments and we hope the wider market. We will start engaging with Brunel and fixed income managers to develop a sustainable multi- asset credit fund which looks to make sustainable allocations and takes into account environmental, social and governance issues.

Our Targeted Opportunities Portfolio

In 2014 we started to develop our Targeted Opportunities Portfolio (TOP) to increase our allocation to sustainable private markets.

TOP enables the fund to invest directly in a few outstanding opportunities, which have strong financial and sustainability credentials. It offers us a broader scope than traditional private equity.

As of 31 March 2019, the fund had £77m invested in TOP (2% of our total fund).

We will work with Brunel to agree how best to manage this innovative portfolio and the rest of our private market allocations through the pooling arrangements.

Aim 2. We work with the investment community to help build a better future

Investors have the power to influence and change behaviour globally. As the Environment Agency Pension Fund, there are specific priorities where we want to work with the investment community to bring about change.
These are:

- **Climate Change** – helping investors understand and manage the financial risks from climate change
- **Using resources sustainably**, with a particular emphasis on reducing plastics in the environment
- **Water** – managing water quantity and water quality

For these priority areas, we will engage to bring about greater disclosure and improve environmental outcomes, including through the Taskforce on Climate-Related Financial Disclosures (TCFD). We will seek to support the Environment Agency's five year plan of action, the Government's 25 year plan to improve the environment and their Green Finance Strategy to help investors consider the impact of climate change within investments.

You can access the 'Government's 25 year plan' by visiting www.gov.uk/government/publications/25-year-environment-plan

Download the 'Green Finance Strategy' at www.gov.uk/government/publications/green-finance-strategy

We will still support other environmental, social and governance issues which are important to us as responsible investors, for example food security, gender equality and human rights. However, these will be more resource-dependent and generally Brunel will lead on these issues on our behalf as part of the pool partnership.

Reducing plastic pollution

We have pledged financial support to an initiative to reduce the amount of plastic pellets lost in the supply chain.

Launching in late 2019, the initiative will allow the British Standards Institute to put in place an independent, auditable and accredited standard which should result in fewer plastic pellets being released to the environment.

2.1 We continue to support the development of the Transition Pathway Initiative (TPI)

The TPI is a great tool to help investors understand how successful individual companies are in managing their carbon emissions, and how they compare with peers in the same sector.

We are proud to have been one of the joint co- founders of TPI along with the Church of England. We are keen to see it developed further to cover a larger number of companies and sectors.

For more information visit www.lse.ac.uk/GranthamInstitute/tpi

2.2 We work to raise the importance of managing the physical risks from climate change

Much of the focus in the investment community to date has been on the opportunities from reducing the causes of climate change by helping support the development of low carbon alternatives.

We are keen to develop wider market understanding of the physical risks from climate change and the need for investment in this area, including by sharing our experience to date.

This could help companies and investors avoid future losses, while generating social, environmental and economic benefits.

2.3 We challenge company boards directly on their performance

We aim to ask questions at 10 AGMs every year, in line with our priorities and the company's approach.

Where we can, we will use the Transition Pathway Initiative to help inform our views of individual companies and seek to engage where appropriate where they are performing badly compared to their peers. Similarly, we will also offer encouragement and recognise progress where it has been made.

Where appropriate, we will support shareholder resolutions.

2.4 We take part in campaigns to deliver changes in company and investor behaviour

In addition to the above, we will also take part in at least 2 extra campaigns a year to help bring about change in company and investor behaviour, in line with our priorities.

Engaging on fossil fuels

We supported a resolution, which was led by the Church of England at the Shell AGM in 2018. This called for Shell to have targets to reduce the carbon footprint from the way their products are used (scope 3 emissions). The resolution did not get enough support to pass but a few months later, Shell invited us to meet with them, the Church of England and others to talk about their future approach. We were pleased to see that Shell subsequently agreed to set carbon emissions targets, integrate these into Executive pay, and to update their ambition as technology and regulation advances.

We will monitor the progress of Shell and the wider oil and gas industry in reducing emissions. If our engagement approach does not bring about wider change, we will work with our partners in Brunel to consider alternative approaches. This may include disinvesting from a particular sector or company, where there is no change to that sector or company's approach.

We also recognise that it is not just the production of oil and gas which contributes to climate change, but also its use. We support initiatives that encourage the supply chains and the general public to move to low carbon alternatives.

Engaging to support environmental disclosure

CDP (formerly the Carbon Disclosure Project) runs a global disclosure platform. This allows individual companies to report on their environmental impact to the investment community and their customers.

In 2018, 19 investors, including Environment Agency Pension Fund (EAPF) targeted 239 companies that had failed to report on water issues previously. KOSÉ Corporation (KOSÉ), the Japanese cosmetics company, had been asked to disclose on water security since 2014 but had never responded to any of the information requests.

The EAPF holds shares in KOSÉ through one of our investment managers as does Comgest, a fund manager we worked with on other markets. CDP, Comgest and EAPF, worked together to engage with KOSÉ. As a result, KOSÉ disclosed not only on water issues but also in relation to climate change and deforestation.

Aim 3. We make our members proud of their Pension Fund

All of our members have spent at least part of their career improving the environment or providing support services to those that do.

3.1 We tell members about the positive impact their Pension Fund is making

We want to help members understand that their pension is well financed, is being managed responsibly, and it is helping to build a better future for them and others.

While many of our members may know we have a responsible investment approach, we want them to really understand what this means.

We will endeavor to provide members with interesting information which easily allows them to understand the types of investments we are making and the sorts of campaigns we are involved in.

As our approach is all about building a better future, we are keen to engage and recruit the next generation of members. We believe our responsible investment approach is one of the attractions for new staff to the Environment Agency to join a pension fund and we will make this a highlight at induction days.

3.2 We encourage members' feedback on how our responsible investment approach can be improved

Many of our members hold passionate views about the environment and sustainability more broadly.

Every other year we will hold a members' general meeting webinar, where we will get feedback on our responsible investment approach and encourage new ideas.

We will also include responsible investment issues in member surveys, regular webinars and on our website where we will encourage feedback.

Investment Case Study

We asked Impax Asset Management, who make investments on our behalf in resource efficiency and environmental markets, what was the environmental impact of our investments with them. This is what they told us.

Environmental impact of total portfolio

65,800 tCO_2 of net CO emissions avoided

Equivalent to taking 35,790 cars off the road in 2018

22,700 Mwh of renewable electricity generated

Equivalent to 5,970 households' electricity consumption in 2018

27,800 megalitres of water treated, saved or provided

Equivalent to 177,290 households' water consumption in 2018

14,620 tonnes of materials recovered/waste treated

Equivalent to 15,120 households' waste arising in 2018

Figures based on an investment with Impax of approximately £115m, which equates to about 3% of the overall value of our investment fund (as of March 2019).

Investment Case Study

We partner with The Townsend Group to ensure our real asset investments are as sustainable as possible. An example of this is an investment through them in industrial property operated by Charter Hall, a market leader in sustainable real estate management.

Charter Hall works with tenants to maximise the sustainability of buildings. Standard features of industrial properties include energy efficient LED lighting, water efficient amenities, rain water tanks, solar hot water, skylights, and low toxin interiors. Roof structures generally include solar panels.

Charter Hall recently installed Australia's largest industrial solar power system at a new distribution centre. With 3,800 solar panels, the system will meet 20% of the property's energy needs and will cover its costs within 5 years.

Such initiatives result in both better building for tenants and the environment.

Annex 5 – 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 at 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 two 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 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 Communication 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 two months of joining	Within two 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 one month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within five days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners & contributing members	Within three months of request	Within two months
Transfers out	Leavers & deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within five working days
Changes to scheme rules	Contributing & deferred & pensioner members,	Within three months of the change coming into effect	Within three months of change coming into effect

	as required		
Pension Fund Annual Report and Accounts	All	Within two months of request	Within two working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date

Quality

We make use of a range of mechanisms to monitor the quality of our communications which include surveys, focus groups and website activity. All our publications 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 Co2 that is saved by providing annual pension statements, via the online portal rather than printing and posting
- Electronic newsletters and online administration
- The efficiency of new website vs the old website
- The efficiency of the new online platform (when it's complete) compared with the current platform

Protecting member data

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

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

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

Review process

We'll review our communication policy to ensure it meets audience needs and regulatory requirements at least every 2 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 Fund 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/official-documents

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