

Environment Agency  
Pension Fund

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# Active Pension Fund

Annual Report and Financial Statements for the year  
ended 31 March 2024





# Environment Agency Active Pension Fund Annual Report and Financial Statements 2023/24

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

Ordered by the House of Commons to be printed on 24 July 2024

**HC 20**



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## Environment Agency Pension Fund (EAPF) Chair's statement

I take great pride in chairing the Environment Agency Pension Fund and am pleased to present the Active Fund's Annual Report and Financial Statements for the year ended 31 March 2024.

Every year presents new challenges and 2023/24 was no exception. Global events contributed to market volatility, inflation, increased risks from cyber-attacks and cost of living increases for our members. And we got yet more stark warnings about the state of our planet. Despite all the challenges, the Fund remains in excellent financial health, fully funded and committed to serving our members.

Over the last year, we have supported our members through the Capita cyber incident. Cyber risk management continues to be a large focus for the Pensions Committee, and we want to reassure our members how seriously we treat this incident and the protection of your member data. Importantly, Capita have informed us, that they continue to have no evidence that information resulting from this incident has been misused, or that it is available illegally including on any third-party websites.

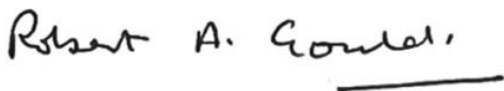
There is also a lot to be proud of. We continue to achieve great outcomes from our investments in tackling climate change, improving biodiversity and generating strong financial returns. Over the past year, we've invested in some truly innovative sustainability opportunities; understood better than ever the impact of our investments on nature and the environment; and have continued to win awards for our innovative approach to investment. Alongside this, our scheme has remained fully funded eight years in a row.

We continue to believe that we will generate better longer term financial returns by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy and society. We share evidence of this success throughout this report.

We remain committed to doing all we can for our members to maintain a strong pension fund and drive positive change. If you have any feedback on any aspect of our work, please let us know at [eapf@environment-agency.gov.uk](mailto:eapf@environment-agency.gov.uk).

I want to thank everyone involved, including our Pension Fund Management Team, employers, and external contractors, in managing and supporting the Fund. I must also pay testament to the high level of commitment and engagement from all our Pension Committee members.

I hope you enjoy reading about the success of our Fund over the year. We also provide more information on our performance in our excellent **UK Stewardship Code** submission and will continue to keep you updated at [www.eapf.org.uk](http://www.eapf.org.uk)



Robert Gould  
Chair, Environment Agency Pensions Committee  
17 July 2024

## About the Environment Agency Pension Fund

### History of the EAPF

In 1989, the National Rivers Authority (NRA) was created following the privatisation of the old water authorities. The Active Pension Fund was created for employees of the NRA.

On 1 April 1996, the responsibility for both the Active and Closed Pension Funds transferred to the Environment Agency (EA). The EA, which was created by the Environment Agency Act 1995, replaced the NRA.

### Local Government Pension Scheme (LGPS) background

Both the EA Active and Closed Pension Funds are statutory members of the Local Government Pension Scheme (LGPS).

With 6.6 million members, the LGPS is one of the largest public service pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employers participating in the Scheme. Employers in the Scheme include local authorities and public service organisations (such as the EA) as well as other employers which provide the LGPS for their employees by becoming admitted bodies.

### 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, a Benefits Working Group, and Pension Board. 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 2025.

### 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 is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004.

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 benefits are primarily governed by the LGPS Regulations 2013, the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 and the LGPS (Management and Investment of Funds) Regulations 2016. These are all subject to amendment over time.

The LGPS provides salary related defined benefits, which are not dependent upon investment performance. The LGPS provides 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

The Pensions Act 2014 introduced changes to the State Pension system in the UK with the introduction of a new single tier State Pension for individuals who reached their State Pension Age on or after 6 April 2016. The Act also legislates for the acceleration of State Pension Age from age 66 to 67 between 6 April 2026 and 5 April 2028. These changes to the State Pension also ended "contracting out" for Defined Benefit schemes. The EAPF was contracted out of the State Second Pension (S2P) until 5 April 2016.

## 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 LGPS in England and Wales.

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

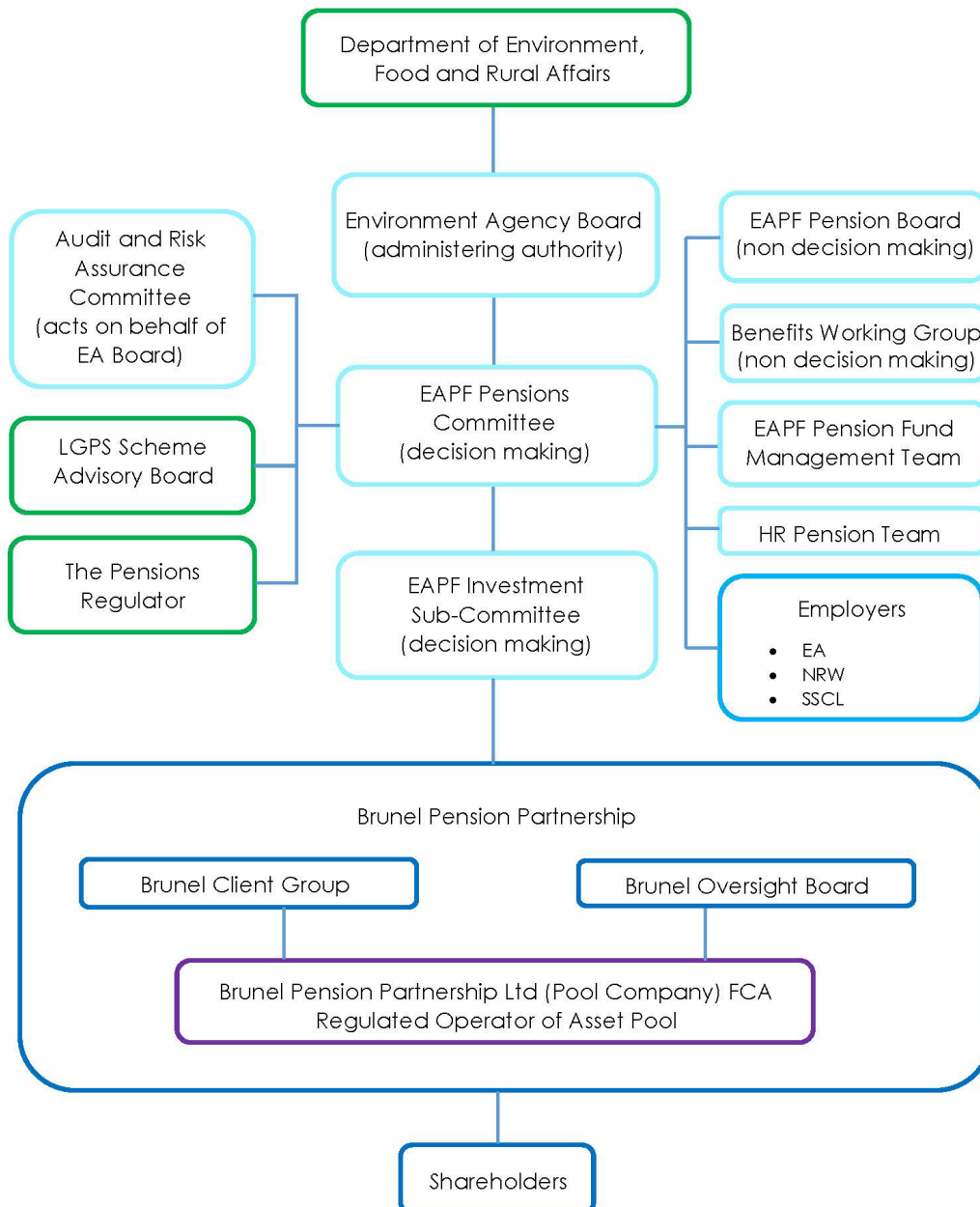
### Objectives

Our Pension fund has set itself the following main governance objectives are to:

- Act in the best interests of the Funds 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 and to 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 EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
- Ensure the confidentiality, integrity and accessibility of the Funds data, systems and services is protected and preserved.

## Our Governance structure

The Environment Agency Board delegates the management and oversight of the Funds to a Pensions Committee, an Investment Sub-Committee, a Benefits Working Group 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.



## **Pensions Committee, Investment Sub-Committee, Benefits Working Group and Pension Board membership**

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

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

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

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

The Benefits Working Group has no delegated decision making powers, and its objective is to provide a deeper focus and higher level of scrutiny on administration matters to support the PC.

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**

There were no changes to Committee membership during the year.

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

As at 31 March 2024	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
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**Board members**

Robert Gould	PC, ISC, PB	18/10/2018	5 yr 6 mth	31/03/2025	1 yr 0 mth
Caroline Mason	PC, ISC, PB	03/12/2018	5 yr 4 mth	31/03/2024	0 yr 0 mth
John Lelliott	PC, PB	12/12/2019	4 yr 4 mth	30/09/2024	0 yr 6 mth
Lilli Matson	PC, PB	30/09/2021	2 yr 6 mth	31/01/2025	0 yr 10 mth

**Administering Authority Executive manager nominees**

Laura Milton	PC, ISC	25/05/2023	0 yr 11 mth	N/A	N/A
Phil Lodge	PC, ISC	16/05/2018	5 yr 11 mth	N/A	N/A

**Non-Environment Agency Executive Employer representative**

Rob Bell	PC, PB	08/10/2023	0 yr 6 mth	06/09/2026	2 yr 6 mth
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**Contributing member nominees and representatives**

Alice Brightman	PC, PB	01/04/2023	1 yr 0 mth	31/03/2026	2 yr 0 mth
Will Lidbetter	PC, ISC, PB	01/08/2016	7 yr 8 mth	31/07/2025	1 yr 4 mth
Danielle Ashton	PC, ISC	01/02/2018	6 yr 2 mth	31/01/2027	2 yr 10 mth
Veronica James	PC	16/05/2019	4 yr 11 mth	15/05/2025	1 yr 1 mth
Greg Black	PC, ISC, PB	01/04/2022	2 yr 0 mth	31/03/2025	1 yr 0 mth
Matt Chaddock (Shadow)	PC	01/04/2023	1 yr 0 mth	31/03/2026	2 yr 0 mth

**Pensioner and deferred members**

Peter Smith	PC, PB	14/05/2015	8 yr 11 mth	13/05/2025	1 yr 1 mth
Hywel Tudor	PC, PB	14/05/2015	8 yr 11 mth	13/05/2025	1 yr 1 mth

## Committee member biographies

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

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

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

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

**Laura Milton** is a solicitor and Director of Legal & Audit Services for the Environment Agency. She was appointed as an Executive nominated Member of the Pensions Committee in May 2023. Laura leads a team providing legal advice, litigation and internal audit services to the Environment Agency and is an active member of EAPF. Prior to joining the Environment Agency in 2023, Laura has worked at the Civil Aviation Authority, in central Government and in private practice.

**Alice Brightman** has been an active member of the Fund since 2019 and a member of the Committee since 2023. She is a Hydrogeologist chartered with the Geological Society of London, and is currently working to regulate emerging contaminants of concern in the environment. Alice is the equality, diversity and inclusion (EDI) lead on the Committee, and is undertaking training to develop her understanding of EDI and ESG investing.

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

**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.

**Hywel Tudor** joined the EA Pensions Committee and Pension Board in 2015 as the deferred pensioner member. A qualified accountant his career spanned the public, private and charity sectors, and included senior management positions in a number of organisations including the National Rivers Authority and Environment Agency in Wales. Prior to retirement he was the Director of Finance & Resources for the Arts Council of Wales. Hywel also sat on the Arts Council Retirement Plan Trustee Board for 15 years where he gained extensive experience of pensions. He is currently an Independent non-executive member of the Sport Wales Audit and Risk Assurance Committee.

**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 of Operations where he leads the delivery teams across the South and South-West of England. Phil has been a trustee of a number of charities and sat on the General Council of the Chartered Institution of Wastes Management (CIWM) for 12 years, was CIWM South West Chair from 2005-2008, and elected a Fellow in 2012. He holds an Honours Degree in Environmental Science, a Master's Degree in Business Administration and is a Chartered Environmentalist. Phil represents the Environment Agency's Executive on the Pensions Committee and it's Investment Sub-Committee.

**Rob Bell** joined the Pensions Committee in 2023 and has been an active member of the fund since 1987. He has held the role Head of Finance at Natural Resources Wales (NRW) since 2013 following a short spell working with Welsh Government as part of the project team creating NRW. Rob previously held a senior finance role in Environment Agency Wales. Rob has been a fellow of the Association of Chartered Certified Accountants since the nineties.

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

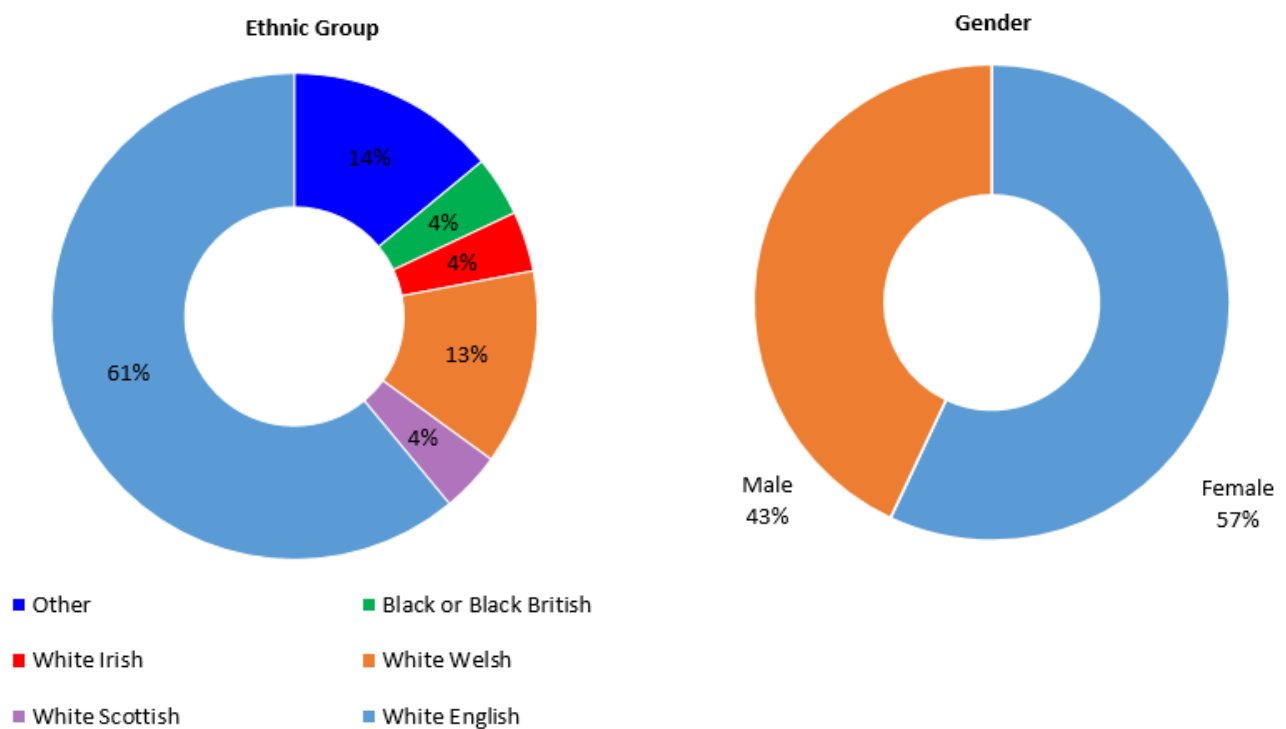
**Greg Black (Active member representative)** joined the committee in as a full member in 2022 and is looking forward to increasing his knowledge of pension funds and investments. He is a Senior Advisor with the Advanced Technologies and Future Strategy team in E&B with a PhD in Nuclear Engineering and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

**Matthew Chaddock** joined as shadow member representative to the Pensions Committee in 2023. Matt has worked at the Environment Agency since 2017 where he has held a number of data roles in Flood and Coastal Risk Management (FCRM), and more recently is a team leader in Climate Change Trading Regulatory Services (CCTRS). Matt has had a keen interest in investment and personal finance for a number of years and is looking forward to increasing his knowledge in these and pensions.

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

### Diversity

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



## 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 four occasions and the Pensions Board met on one occasion.

	Pensions Committee meeting 4 in total	Investment Sub-Committee 4 in total	Pension Board Meeting 1 in total	Total attendance
<b>Board members</b>				
Robert Gould (Chair)	4/4	4/4	1/1	9
Lilli Matson	3/4	1/1 (Observer)	0/1	4
John Lelliott	2/4	-	0/1	2
Caroline Mason	4/4	4/4	0/1	8
<b>Executive members</b>				
Laura Milton	4/4	2/3	-	6
Robert Bell	4/4	-	-	4
Phil Lodge	3/4	3/4	-	6
<b>Active members</b>				
Alice Brightman	4/4	1/1 (Observer)	-	5
Danielle Ashton	4/4	4/4	-	8
Veronica James	3/4	-	-	3
Will Lidbetter	4/4	4/4	1/1	9
Greg Black	3/4	2/3	0/1	5
Matt Chaddock (observer)	4/4	1/1	-	5
<b>Pensioner members</b>				
Peter Smith	4/4	2/4 (Observer)	1/1	6
Hywel Tudor	4/4	2/4 (Observer)	1/1	7

## Pensions Committee training

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

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

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

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

There was individualised training to meet specific needs. This was typically attending third-party webinars or training courses online. In 2023/24, each Pension Committee Member undertook an average of 10 hours of training. On average, each EAPF officer undertook an average of 26 hours of training. Last year, the Pension Committee received training on the issues in the following table.

PC Training Log 2023/24	Cyber Security	Pooling	Governance	Diversity	Actuarial Valuation	Investment Strategy
<b>EA Board members</b>						
Robert Gould – PC Chair	✓	✓	✓	✓	✓	✓
Caroline Mason	✓	✓	✓	✓	✓	✓
John Lelliott	✓	✓	✓	✓		
Lilli Matson	✓	✓	✓	✓	✓	
<b>Executive members</b>						
Laura Milton	✓	✓	✓	✓	✓	✓
Phil Lodge	✓	✓	✓	✓	✓	✓
Rob Bell	✓	✓	✓	✓	✓	
<b>Active member nominees</b>						
Alice Brightman	✓	✓	✓	✓	✓	✓
Danielle Ashton	✓	✓	✓	✓	✓	✓
Greg Black	✓	✓	✓	✓	✓	✓
Will Lidbetter	✓	✓	✓	✓	✓	✓
Veronica James	✓	✓	✓	✓	✓	
Matt Chaddock (Shadow)	✓	✓	✓	✓	✓	✓
<b>Pensioner members</b>						
Peter Smith	✓	✓	✓	✓	✓	✓
Hywel Tudor	✓	✓	✓	✓	✓	✓

### Pensions Committee business during 2023/24

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

Risk management and discussion of risk registers is a standing item on both the Pensions Committee and Investment Sub-Committee agenda. Our top risks which we continue to manage include: Cyber Security, third party supplier delivery, successful implementation of pooling and team resilience.

Supporting members and safeguarding the Fund following the Capita cyber incident has been a critical focus for the Committee, with work to continue during 2024. The Committee are aware of the impact this incident has had on members and their confidence in Capita.

We completed a year-long project to implement the findings from a security risk assessment undertaken in 2022/23. This was a significant project which came in on time, to budget and was subject to a positive internal audit assessment.

Every year we engage with members through our website, our member portal, newsletters, social media and webinars. Our pension webinars were pre-recorded this year, but we hope to be able to deliver live webinars again in 2024/25.

In addition, the Investment Sub-Committee monitored the ongoing volatility in the markets, and its impact on our funding position and assets, taking appropriate investment and actuarial advice. We set long term strategies to manage our risks and remain in a positive funding position.

Our key activities and management of risks included:

- a) Capita cyber incident impact, assurance, member support and communications.
- b) Funding strategy implementation and planning for 2025 Triennial actuarial valuation.
- c) Responsible Investment Strategy agreement, implementation, and monitoring.
- d) Administration strategy implementation including benefits administration and member communications.
- e) Brunel Pension Partnership oversight, engagement, and governance.
- f) Strategy and policy agreement and implementation including Conflicts of Interest and Governance Statement.
- g) National Audit Office oversight and audit, and other independent audits.

### Professional advisers to the Committee

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

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

## Annual Statement by Chair of the EAPF Pension Board

### Role of Pension Board

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

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

- Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator.
- Ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds.

### Membership

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

Employer representatives

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

Member representatives

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

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

### Pension Board business 2023/24

The Pension Board met once during 2023/24 (on 20 March 2024) after the Pensions Committee meeting. The Pension Board reviewed Pensions committee meetings, risk management and progress against strategic priorities in 2023/24 which were:

- Serve our members well
- Strengthen our governance further
- Deliver our investment vision
- Build resource in the Pension Fund Management team

## 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 will be set out in the Governance Policy
  - (ii) the frequency of any committee or sub-committee meetings will be set out in the Governance Policy
  - (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 reviewed by the Environment Agency Pensions Committee on 20 March 2024. It 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](http://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](mailto:eapf@environment-agency.gov.uk)

## Governance 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).	<p>The Pension Board is a non-decision making body responsible for assisting the administering authority in:</p> <p>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.</p> <p>b) ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds.</p> <p>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.</p> <p>Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.</p>

## Statement of Compliance with Secretary of State Guidance

Compliance status - we are compliant with all 20 standards.

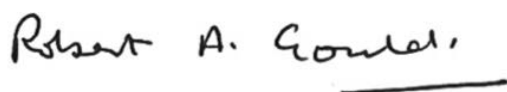
Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
<b>A – Structure</b>		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	<p>Our PC has 14 members, appointed by the EA Board and includes:</p> <p>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.</p> <p>Three Scheme member representatives and the one Non EA employer representative are also members of the Investment Sub-Committee (ISC).</p>
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chair of the Pensions Committee reports to each EA Board meeting. Reports of the ISC meetings are available to all PC members. The Chair of the ISC provides a summary report and draft minutes to the following PC meeting.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The membership of our ISC comprises members of the main PC.
<b>B – Representation</b>		
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 auditors.
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.
<b>C – Selection and role of lay members</b>		
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.

<b>D – Voting</b>		
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.
<b>E – Training, facility time and expenses</b>		
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.
<b>F – Meetings (frequency/quorum)</b>		
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.

		<p>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.</p> <p>Where possible, we will also seek to hold a members' AGM every year.</p>
<b>G – Access</b>		
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.
<b>H – Scope</b>		
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.
<b>I – Publicity</b>		
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	We publish our Governance Compliance Statement and all other key governance documents and policies on our website, and they are available in hard copy from our Pension Fund Management Team. The Governance Compliance Statement is also published in our Annual Report & Financial Statements. We have an agreed procedure for appointment of new employee, pensioner, and deferred member nominees to our PC when vacancies arise working in conjunction with our Trades Unions and all employers.

Signed on behalf of the Environment Agency



Robert Gould  
Chair  
Environment Agency Pensions Committee  
17 July 2024



Philip Duffy  
Accounting Officer  
Environment Agency  
17 July 2024

## Responsible Investment

### Introduction

The information in this section is taken from the [EAPF report](#) to the [UK Stewardship Code](#). This was submitted to the Financial Reporting Council (FRC) in May 2024 and outlines in detail all aspects of our work on responsible investment in 2023, including:

- How we invest responsibly
- How we contribute to wider change across the finance sector
- How we influence the companies we invest in

Our full report includes a more fulsome account of our approach, more numerous outcomes and a large number of investment and engagement case studies. Please see our website to access the report.

The FRC sets high standards for asset owners to become signatories of the Stewardship Code. We have met these standards for the last 3 years running.

The Financial Reporting Council will be assessing our report to decide if we continued to meet those standards in 2022.

### How We Invest Responsibly

The Pensions Committee sets the strategic direction by:

- **Agreeing our high level investment beliefs.** This includes our approach to environmental, social and governance issues. We review these every three to five years, or following a material change to the membership of the Committee.
- **Setting a Strategic Asset Allocation (SAA).** This takes into account our beliefs and our funding strategy, which defines what returns we need as an open defined pension scheme with liabilities potentially running into the next century.
- **Agreeing an investment strategy.** This is a public document which sets out in detail our investment approach.
- **Managing investment risk.** This will consider wider economic risks and risks relating to the performance of our portfolio.
- **Appointing asset managers who can deliver our responsible investment strategy.** These funds will all be managed by external asset managers.
- **Monitoring the performance of our asset managers and ensuring they implement our investment strategy.** This covers both asset managers we have selected directly and those which are selected by the Brunel Pension Partnership.
- **Reviewing wider aspects of responsible investment.** At every Pensions Committee and Investment Sub-Committee there will be a report on key developments in the industry, emerging risks and initiatives which the EAPF is, or could get involved with.
- **Receiving regular training to ensure EAPF remains at the forefront of responsible investment.**

As at 31 March 2024, 63% of our assets (£2.9bn) were invested in managers appointed by Brunel.

## Our Responsible Investment Strategy Statement

In 2022, the Pensions Committee reviewed its investment beliefs and agreed the principles for setting a new investment strategy the following year.

It also decided to reduce the number of policies the Fund has and to incorporate the Responsible Investment Strategy into the Investment Strategy Statement.

The Fund now just has one document setting our direction – the Responsible Investment Strategy Statement. This sets out our investment beliefs, strategic asset allocation, objectives, targets, and approach to managing risk.

Given our healthy funding level and market conditions, in 2023 we continued with our derisking strategy. This saw a reduction of allocation to return seeking assets by 2.5%, with a corresponding increase in risk reducing assets. New allocations were made to Natural Capital and Secured Sustainable Finance.

Additionally, the Fund took the opportunity to reduce its equity overweight and to invest the proceeds into Fixed Income.

## How we influence the companies we invest in

Once we are invested in companies, this offers us opportunities, if needed, to try to influence the corporate behaviour of those companies.

In 2023, we held shares in approximately 1,300 listed companies, invested in over 120 companies in private equity and held approximately 400 loans for listed companies.

We also lent money to the UK Government through 28 sovereign bonds.

Due to the number of companies and the limited resources of the Fund, we use a number of routes to engage with the companies we invest in:

- Through our engagement provider
- Through our asset managers
- Through Brunel
- Direct as a Fund

We engage on a range of environmental, social and governance issues, including diversity, food security, gender equality, human rights, modern slavery and tax evasion.

As a Fund, our priorities when we engage directly are climate change, natural capital, using resources sustainably and water. A fair and just transition to a lower carbon economy underpins this.

## Outcomes from our investment approach

The Stewardship Code report provides a range of outcomes with underlying data, but some highlights include:

12% of our Fund's investments help address climate change.

This is made up of:

- 4% of the total value of the Fund's investments in climate solutions which are in private market asset classes.

- 4% of the total value of the Fund's investments, from listed equities and corporate bonds, tackling climate change mitigation or adaptation based on green revenues generated in line with EU taxonomy.
- 4% of the total value of the Fund committed in 2023 to investing in renewable energy in the UK. This will be invested from 2024.

This data has been calculated by an external provider.

For the first time, we know which of our investments may present the most risk to nature.

26.5% of our listed equity portfolio are in sectors identified by the Task Force for Nature-Related Financial Disclosures (TNFD) as being priority areas for further consideration.

These are in Semiconductors, Pharmaceuticals, Chemicals, Utilities and Food & Beverage.

Our investments are generally in companies better aligned to a lower carbon economy and have a relatively lower carbon footprint than average. But we are not on track to meet our net zero target.

Money talks - our biggest impact as a Fund is where we put our money.

In the last year, we have obtained positive change by requiring certain things up front before investing. For example, in the last year, we have requested asset managers in our natural capital asset class to have a non-deforestation policy and we have seen this drive change within the industry.

### **How we contribute to wider change across the finance sector**

Some issues have a wide impact across our portfolio or on the broader economy as a whole. To resolve these wider issues, it is often beneficial to collaborate with others.

On these wider issues, we typically work through investor networks, which in turn may link in with, investor networks, industry experts, academics and politicians. These networks are often international in nature. An example is given below.

### **Mining**

The resources extracted by mining are essential for the transition to a low carbon economy but this should not be at any cost.

The Fund continued to engage on mining in 2023/24, with specific focus on two issues.

First, we are still pushing for due reparation for local communities after a tailings dam collapse in Brazil in 2015, where 19 people were killed and huge human and environmental impacts were felt and continue to this day. We owned shares in BHP Billiton at the time, one of the companies responsible.

We are pleased that an asset manager we held BHP shares with in 2015 and that we no longer invest directly with, is still prepared to engage with us on the matter.

We welcome the ongoing efforts of The Local Authority Pension Fund Forum to focus attention on the impacts of local communities.

Part of our engagement with the legacy asset manager is sharing with them the extremely helpful updates on the situation on the ground in Brazil, which we receive on a regular basis from LAPFF.

We think the progress of the mining companies in providing adequate reparation and compensation to local communities remains too slow. We will continue to pursue this issue.

More broadly, we want to see mining become more sustainable. We continue to support the ongoing work by the 'Investor Mining and Tailings Safety Initiative', led by the Church of England Pensions Board. [\*\*You'll find more information about this initiative on the Church of England's website.\*\*](#)

## Pension Fund investment

### Investment strategy development and implementation

We aim to deliver a truly sustainable Pension 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 Responsible Investment Strategy Statement, 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 and nature loss, 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.

The Fund conducted a full detailed investment strategy review in the previous reporting year following the results of the 2022 Actuarial Valuation, the investment strategy review continued the focus on gradual de-risking of the investment strategy in order to protect the Fund's strong funding position as well as further embedding the Fund's Responsible Investment Strategy into the Strategic Asset Allocation. No changes were made to the Strategic Asset Allocation in 2023/24 albeit meaningful steps were taken to implement the updated strategy.

The 2023 investment strategy review involved reducing the allocation to global equities, real estate and corporate bonds and increasing the allocation to Liability Driven Investment and cash. A new allocation to Secured Sustainable Finance was also introduced to the SAA, alongside a 2% increase in the allocation to Infrastructure. Within the 9% infrastructure allocation, the Fund made a commitment to allocate 4% of total Fund assets to Natural Capital (as a percentage of total Fund).

Based on the 2023 investment strategy review, the following Strategic Asset Allocation ("SAA") has been set for the Fund:

Asset Class	Benchmark Index	SAA % 2023/24
Global equities	MSCI World	34.0
Corporate bonds	iBoxx Sterling all non-gilt	19.0
Liability Driven Investment	Bespoke LDI Benchmark	12.0
Infrastructure (including 4% allocation to Natural Capital)	Consumer Price Index	9.0
Multi Asset Credit	Sonia +4% p.a.	8.0
Illiquid credit/Private debt	Sonia + 8% p.a.	5.0
Private equity	MSCI World	4.0
Secured Sustainable Finance	TBC*	4.0
Real Assets	Consumer Price Index	3.0
Cash	Sonia	2.0

\*Benchmark dependent upon selection of fund(s)

With regards to implementing the updated Strategic Asset Allocation, the Fund agreed to invest 4% (c.£170m) of assets in Schroders Greencoat Renewable Income (GRI), a Secured Sustainable Finance fund, which will be funded from the Fund's equity portfolio.

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. As part of this rebalancing, over the reporting year, the Fund completed a £176.9m investment in a BlackRock Buy and Maintain ESG Credit solution (part of the Corporate Bonds allocation), which was funded from the Fund's equity portfolio (via the LDI portfolio).

The Fund continued to make ongoing 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. Over the 12 months, the Fund committed to a new private debt fund, the Ambianta Sustainable Credit Opportunities, with a €20m commitment.

In February 2024, the Fund agreed the following Private Markets commitment plan for the next c.2 years.

- Private Equity: EAPF will continue to make investments for the TOP portfolio directly.
- Private Debt: £65m (c.50%) of the £127m commitments will be made through Brunel's cycle 4 portfolio. The other £62m of commitments will be made through direct investment in credit strategies with a high level of Impact.
- Infrastructure: No commitments are planned for Infrastructure over the cycle 4. However, Officers will continue to monitor impact opportunities and could bring direct investment ad-hoc opportunities to the Committee should they significantly further the Responsible Investment Strategy of the Fund.
- Natural Capital: The Fund will make investments directly and Officers are engaging with advisers on potential implementation options, while ongoing strategic work is undertaken

## Investment management

Responsibility for the day-to-day management of the Fund's investments was delegated to three listed equity managers, twenty seven private equity, private debt and real asset specialists, and Brunel, who manage a number of pooled funds on behalf of the Fund.

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 Investment Management Agreements 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 are available on page 35.

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.

## Asset pooling and the creation of the Brunel Pension Partnership

### Background

Following the 2015 LGPS Investment Reform Criteria and Guidance, which set out how the Government expected LGPS funds to establish asset pooling arrangements, 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, in conjunction with nine other LGPS Funds. The objectives included benefits of scale, strong governance and decision making, reduced costs and the improved capacity to invest in infrastructure.

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.

Responsibility for implementing our detailed Strategic Asset Allocation rests with Brunel Ltd. Importantly the EAPF, through its Pensions Committee, retains the responsibility for setting the detailed EAPF Strategic Asset Allocation and allocating investment assets to the portfolios provided by Brunel Ltd which maintains our long-standing and widely recognised approach to Responsible Investment.

### 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 (SRM) requiring the consent of all shareholders, with other reserved matters (RM) 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 2023/24 in the next section. Pooling guidance, issued in January 2019 by the MHCLG (now DLUHC), 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'. Our governance structure is summarised below:

- 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 finance 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 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](http://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 2023/24

During 2023/24, we agreed the following reserve matters (RM) and special reserve matters (SRM) 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.

- SRM 29: We agreed to change the Remuneration Policy from an SRM to an RM.
- RM 30: We agreed to update the Remuneration Policy to reflect the changes to the People Strategy review.
- SRM 31: We agreed to implement the People Strategy under the revised Remuneration Policy.
- SRM 32: We agreed changes to the Shareholder Agreement to change voting thresholds. SRM's now require 75% majority instead of 100%, and RM's require a simple majority against the previous 75%.
- SRM 33: We agreed the Brunel Business Plan for 2024/25.
- RM 34: We agreed the appointment of a new Chair of the Brunel Board, with the appointment of Sally Bridgeland.

### New investment activity in the year

Whilst we did not make any further transitions into the Brunel pool in 2023/24, we made some investment changes which included a planned equity rebalance exercise in April 2023, where we moved c£177m from Brunel BlackRock LDI, where it was housed in March 2023, into Brunel BlackRock Buy and Maintain Credit. Additionally, in June 2023, we instructed a 100% unit switch in share class in the Brunel Paris Aligned Portfolio from a Hedged share class into an Unhedged share class, c£296m.

### 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. As at the 31 March 2024 the EAPF is now reporting cumulative net savings of £0.6m in Brunel measured against the OBC assumptions.

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)

#### Brunel Ltd 2023/24 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	2023/24				2022/23			
	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)	0	1,209	0	1,073	0	1,209	0	1,073
Brunel costs (Note 2)	815	4,370	1,021	6,359	789	3,555	1,029	5,338
Client savings (Note 3)	(978)	(5,456)	(175)	(970)	(949)	(4,478)	(175)	(795)
Transition costs (Note 4)	0	3,299	0	4,511	0	3,299	0	4,511

<b>Fee savings (Note 5)</b>	(2,370)	(9,016)	(4,341)	(11,547)	(2,116)	(6,646)	(4,026)	(7,206)
<b>Net costs / (realised savings)</b>	<b>(2,533)</b>	<b>(5,594)</b>	<b>(3,495)</b>	<b>(574)</b>	<b>(2,277)</b>	<b>(3,060)</b>	<b>(3,172)</b>	<b>2,920</b>

### Note 1: Set up costs

We reported in our 2018/19 annual report and financial statements set up costs for 2016/17 and 2017/18. The set up costs came in under budget, which was a great achievement given the creation of a completely new company. A summary of our EAPF share of the previously reported actual set up costs for 2018/19 are included below:

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

Our 10% share purchase investment in Brunel Ltd is valued at £722k (2023: £707k). This fair value is determined from the latest Statement of Equity reported in the Brunel Ltd Annual Report and Accounts at 30 September 2023.

### Note 2: Ongoing Brunel Ltd costs

The Brunel Ltd costs for EAPF of £1,021k (2023: £1,029k) reflect the core service charge of £929k (2023: £915k) and performance reporting of £92k (2023: £114k).

The core costs are higher than the OBC, which is accepted based by a OBC that was set on a best endeavours basis back in 2016. Brunel's budget is agreed annually via a Special Reserve Matter for all partner funds.

### Note 3: Client Savings

Overall Client Savings is the biggest variable against the OBC. The OBC had assumed large savings due to the loss of EAPF Officers, as work transferred to Brunel Ltd. However, our internal Pension Fund Management Team has seen significant changes since the creation of the Brunel Pension Partnership. 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 OBC.

The OBC 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 and legal issues.

Also, custody costs we understood would be paid by Brunel Ltd as reflected in the OBC. In practice however, we are required to pay these direct to State Street and therefore cannot reflect these as an internal client saving.

However, we have achieved internal savings through our Hermes environmental reporting contract. We have recognised £110k p.a. for 2023/24 which is the same amount as the prior year. We also saved £65k

p.a. in respect of financial performance fees when compared to our previous performance measurer prior to pooling. The equates to a cumulative saving of £970k (2023: £795k).

#### **Note 4: Transition costs**

We have not incurred any transition costs in 2023/24. The variance to the OBC is due to changes to our strategic asset allocation since pooling, the agreed revised transition timetable set by Brunel Ltd in 2019/20 and a transition pause implemented due to the global pandemic. We are strategically assessing our assets outside the pool in 2024 to seek further opportunities in the pool.

#### **Note 5: Fee savings**

A significant part of the OBC savings rested on securing material investment management fee savings, after set-up costs and Brunel Ltd operating costs. In the year we achieved savings of £3,512k in Brunel listed market portfolios and £829k in Brunel private market portfolios.

#### **Ongoing monitoring of Brunel Ltd against business case**

With 63% (£2.9bn) of our Fund now invested within Brunel portfolios, 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.

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 and is discussed at every Pensions Committee and Investment Sub-Committee meeting.

Ensuring that Brunel Ltd delivers against the original business case 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.

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 Pensions Committee throughout 2024/25.

#### **The EAPF's Custody arrangements**

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

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

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

### Statistics of the EAPF investment portfolio

In the following tables and charts we highlight the Top 20 holdings of the Fund, our Top 20 holdings in direct equities our geographical exposure in 2023/24 compared to 2022/23.

#### Top 20 holdings of the Fund as at 31 March 2024

Holding	Asset Class	2024	
		£m	% of Fund
BRUNEL STERLING CORPORATE BONDS	Pooled fixed interest - Overseas corporate bonds	681.8	14.7
BRUNEL BLACKROCK LIABILITY SOLUTIONS	Pooled – LDI	469.6	10.1
BRUNEL GLOBAL SUSTAINABLE EQUITIES	Equities – Global	425.9	9.2
BRUNEL LOW VOLATILITY FUND	Pooled equities – Global	390.6	8.4
BRUNEL PARIS ALIGNED FUND	Pooled equities – Global	348.3	7.5
BRUNEL NEUBERGER BERMAN MAC FUND	Pooled – Multi Asset Credit	213.7	4.6
ROBECO QI GLOBAL DEVELOPED	Pooled equities – Global	189.0	4.1
BRUNEL BLACKROCK BUY & MAINTAIN CREDIT	Pooled fixed interest	188.2	4.1
CQS GLOBAL FUNDS	Pooled fixed interest - Overseas corporate bonds	76.4	1.6
OAKTREE (LUX) III SA SICAV	Pooled fixed interest - Overseas corporate bonds	74.3	1.6
DIRECT LENDING FUND III (GBP)	Private Lending - Partnerships	39.3	0.8
AMAZON.COM INC	Direct equity	33.3	0.7
MICROSOFT CORP	Direct equity	33.0	0.7
DBL PARTNERS III LP	Private equity - Partnerships	25.1	0.5
CCOF II LUX FEEDER, SCSP-CARLYLE	Private Lending - Partnerships	24.2	0.5
TIAA CREF GLOBAL AGRICULTURE I	Private Equity - Agriculture	23.5	0.5
UBS GBL ASSET MGT	Real estate	23.0	0.5
GID MAINSTAY FUND	Real estate	22.0	0.5
CHARTER HALL PRIME INDUSTRIAL	Real estate	21.9	0.5
INFRACAPITAL GREENFIELD PARTNER	Real estate	21.0	0.5
<b>Total</b>		<b>3,324.1</b>	<b>71.6</b>

Top 20 holdings of the Fund as at 31 March 2023

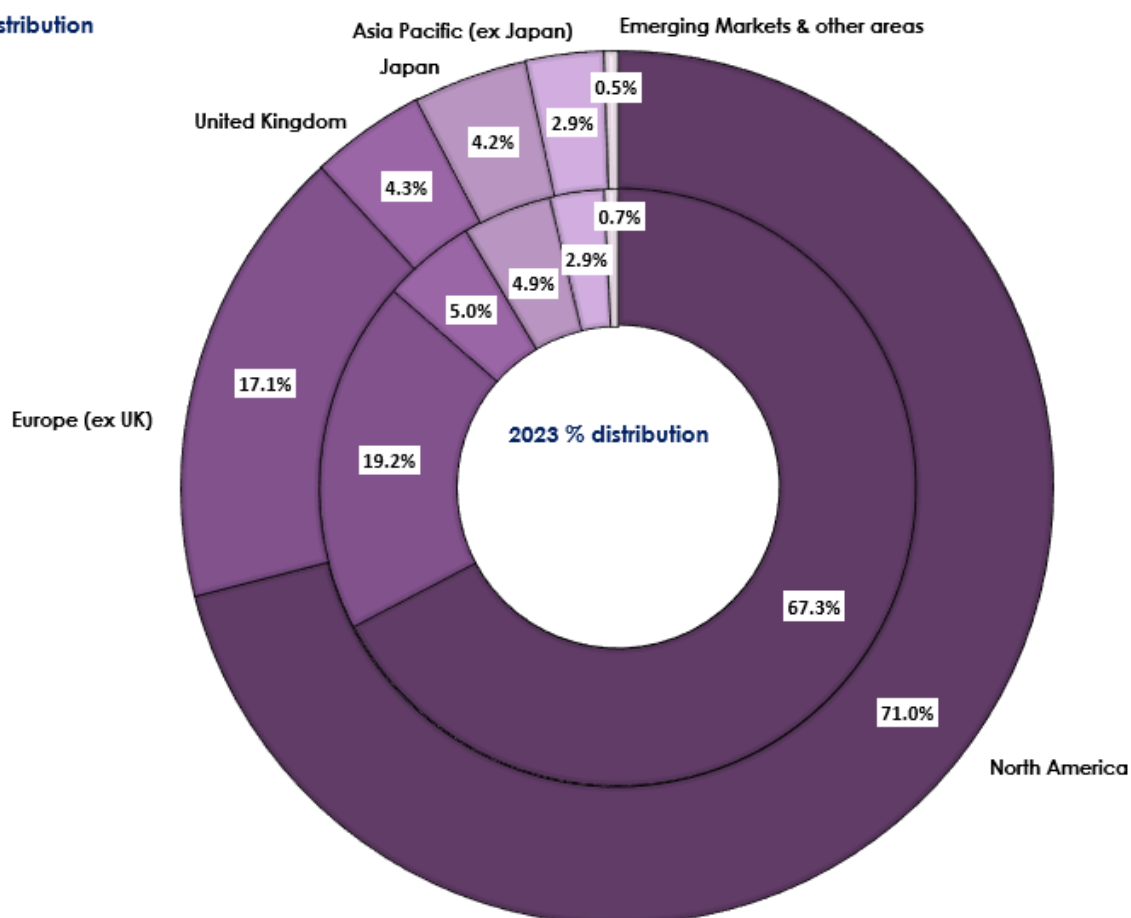
Holding	Asset Class	2023	
		£m	% of Fund
BRUNEL BLACKROCK LIABILITY SOLUTIONS	Pooled – LDI	694.6	16.2
BRUNEL STERLING CORPORATE BONDS	Pooled fixed interest - Overseas corporate bonds	626.3	14.6
BRUNEL GLOBAL SUSTAINABLE EQUITIES	Equities – Global	376.2	8.8
BRUNEL LOW VOLATILITY FUND	Pooled equities – Global	342.9	8.0
BRUNEL PARIS ALIGNED FUND	Pooled equities – Global	283.3	6.6
BRUNEL NEUBERGER BERMAN MAC FUND	Pooled – Multi Asset Credit	194.2	4.5
ROBECO QI GLOBAL DEVELOPED	Pooled equities – Global	159.7	3.7
CQS GLOBAL FUNDS	Pooled fixed interest - Overseas corporate bonds	66.1	1.5
OAKTREE (LUX) III SA SICAV	Pooled fixed interest - Overseas corporate bonds	65.7	1.5
DIRECT LENDING FUND III (GBP)	Private Lending - Partnerships	44.5	1.0
DBL PARTNERS III LP	Private equity - Partnerships	28.4	0.7
LOIM SUS PVT CREDIT UNIT – Lombard Odier	Private Lending - Partnerships	28.0	0.7
CCOF II LUX FEEDER, SCSP-CARLYLE	Private Lending - Partnerships	25.0	0.6
CHARTER HALL PRIME INDUSTRIAL	Real estate	24.6	0.6
UBS GBL ASSET MGT	Real estate	24.0	0.6
INFRACAPITAL GREENFIELD PARTNER	Real estate	22.4	0.5
DIRECT LENDING UK FUND SLP	Private Lending - Partnerships	22.2	0.5
TIAA CREF GLOBAL AGRICULTURE I	Private Equity - Agriculture	22.0	0.5
BARINGS NORTH AMERICAN PRIVATE	Private equity - Partnerships	21.7	0.5
PERMIRA CREDIT SOLUTIONS III S	Private Lending - Partnerships	21.2	0.5
<b>Total</b>		<b>3,093.0</b>	<b>72.1</b>

Top 20 direct equity holdings

Company	Country	2024	% of Fund	Company	Country	2023	% of Fund
		£m				£m	
Amazon.com Inc	United States	33.3	0.7	Microsoft Corp	United States	20.3	0.5
Microsoft Corp	United States	33.0	0.7	Amazon.com Inc	United States	17.8	0.4
Applied Materials Inc	United States	15.7	0.3	Henry Schein Inc	United States	13.7	0.3
LeGrand SA	France	14.8	0.3	Analog Devices Inc	United States	13.6	0.3
Thermo Fisher Scientific Inc	United States	14.5	0.3	Vestas Wind Systems A/S	Denmark	13.0	0.3
Vestas Wind Systems A/S	Denmark	14.3	0.3	Applied Materials Inc	United States	12.5	0.3
Equifax Inc	United States	13.5	0.3	LeGrand SA	France	12.0	0.3
Schneider Electric SE	France	12.4	0.3	Trane Technologies Plc	Netherlands	11.9	0.3
Beckton Dickinson and co.	United States	12.1	0.3	Thermo Fisher Scientific Inc	United States	11.7	0.3
Analog Devices Inc	United States	12.0	0.3	Equifax Inc	United States	11.5	0.3
Nutanix Inc A	United States	11.6	0.2	Mercadolibre Inc	United States	11.1	0.3
CBRE Group Inc A	United States	11.5	0.2	Texas Instruments Inc	United States	9.8	0.2
Henry Schein Inc	United States	11.5	0.2	Ashtead Group Plc	United Kingdom	9.1	0.2
Trimble Inc	United States	11.1	0.2	Adidas AG	Germany	9.0	0.2
Sika AG Reg	Switzerland	10.9	0.2	Gartner Inc	United States	9.0	0.2
Danaher Corp	United States	10.6	0.2	Mastercard Inc A	United States	8.8	0.2
Novonesis (Novozymes) B	Denmark	10.5	0.2	Jones Lang LaSalle Inc	United States	8.5	0.2
Trane Technologies Plc	Netherlands	10.3	0.2	Schwab (Charles) Corp	United States	8.3	0.2
Jones Lang LaSalle Inc	United States	10.3	0.2	Kingspan Group Plc	Ireland	8.2	0.2
Gartner Inc	United States	10.3	0.2	Cooper COS Inc/The	United States	8.2	0.2
<b>Total</b>		<b>284.2</b>	<b>5.8</b>	<b>Total</b>		<b>228.0</b>	<b>5.4</b>

## Geographical distribution of quoted and pooled equity investments

### 2024 % distribution



Geographical distribution	2024	2023
	£m	£m
North America	1,362.7	1,104.4
Europe (excluding UK)	328.5	314.3
United Kingdom	83.3	81.2
Japan	80.9	79.8
Asia Pacific (excluding Japan)	55.1	47.5
Emerging Markets and other areas	9.4	12.2
<b>Total</b>	<b>1,919.9</b>	<b>1,639.4</b>

## Investment performance

For the 2023/24 financial year the Fund achieved an absolute return of 8.0%, underperforming its benchmark (after fees) by 2.0%. Over three years the Fund has returned 2.8% p.a., 0.4% p.a. below its benchmark.

On a year-on-year basis to 31 March 2024, the Fund underperformed when compared with the benchmark, negatively impacted by negative relative returns on private equity, infrastructure and LDI performance. Bond yields continued to rise in response to the tight monetary policy employed by central banks worldwide negatively affected the value of debt instruments held, whilst constraining economic growth, weakening equity markets.

As explained in previous annual reports, we have taken several actions to reduce equity risk, in addition to the aforementioned strategic de-risking as a result of the 2023 investment strategy review and implementation of rebalancing. Primarily, the Fund has chosen managers with a deliberate tilt towards 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.

As already specified, within our active equity managers, global equity manager performance was mixed on an absolute and relative basis over the 12 month period. Impax, Brunel Low Volatility, Brunel Global Sustainable Equities and Robeco SEVE underperformed, whilst Generation posted a positive relative return. The Private Equity portfolio's performance struggled, with both Stafford Capital and the TOP Funds posting negative performances on absolute and relative terms. Real assets' performance was also negative, however Private Debt, Multi Asset Credit and Corporate Bonds performed strongly over the 12 months. The Fund's LDI portfolio returned negatively in the period of rising government bond yields.

Whilst a number of our managers continue to post positive returns, several of our managers have underperformed their benchmarks since inception. Where invested for a period of longer than twelve months, the listed managers/portfolios that have underperformed since inception were Impax, Robeco SEVE, Brunel Global Sustainable Equities, Brunel Low Volatility and Brunel Multi Asset Credit. Where invested for a period of longer than three years, the listed managers/portfolios that have underperformed over the three year period were Generation, Impax, Brunel Low Volatility, Robeco SEVE and Townsend. The table below summarises the financial performance over 1, 3 and 5 years.

<b>Financial Performance</b>	<b>2024</b> <b>%</b>	<b>2023</b> <b>%</b>
<b>1 year</b>		
Fund performance	+8.0	-5.6
Benchmark performance	+10.0	-5.4
Active Fund relative performance	-2.0	-0.2
<b>3 year</b>		
Fund performance	+2.8	+5.9
Benchmark performance	+3.2	+5.3
Active Fund relative performance	-0.4	+0.6
<b>5 year</b>		
Fund performance	+4.9	+4.9
Benchmark performance	+5.1	+4.5
Active Fund relative performance	-0.2	+0.4

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

Manager	Date of inception	Value at 31 Mar 2024 £m	Fund %	Asset class/ Mandate	Benchmark (BM)	2023/24 Performance			2022/23 Performance		
						Fund return %	BM return %	Relative to BM %	Fund return %	BM return %	Relative to BM %
<b>Private equity &amp; TOP</b>											
Targeted Opportunities Fund (TOP)	Apr-14	215.6	4.6	Private Equity (active pooled)	Absolute Return 8.0% pa	-1.3	+23.1	-24.4	-5.4	-0.5	-4.9
Robeco	Oct-05	11.5	0.2	Private Equity (active segregated)	MSCI World (Gross)	-17.8	+23.1	-40.9	+0.9	-0.5	+1.4
<b>Global equities</b>											
Generation	Aug-08	432.1	9.3	Global Equity (active segregated)	MSCI AC World (80% GD, 20% ND)	+23.2	+21.1	+2.1	-7.5	-1.0	-6.5
Brunel Global Sustainable Equities	Feb-22	425.9	9.2	Global Equity (pooled)	MSCI AC World GBP index	+13.2	+21.2	-8.0	-1.3	-0.9	-0.4
Brunel Paris Aligned Equities	Jul-18	348.3	7.5	Global Equity (passive pooled)	FTSE Developed Paris- Aligned (PAB) net index	+22.9	+22.9	-	+4.7	+4.8	-0.1
Brunel Low Volatility	Mar-19	390.6	8.4	Global Equity (low volatility - active pooled)	c50% MSCI AC World NDR (hedged to GBP) & c50% MSCI EM NDR (unhedged)	+13.9	+21.2	-7.3	+1.1	-3.9	+5.0
Robeco SEVE	Oct-17	189.0	4.1	Global Equity (active pooled)	MSCI World GDR	+18.9	+23.1	-4.2	+5.0	-0.5	+5.5
Impax	Aug-08	156.6	3.4	Global Equity (active segregated)	MSCI AC World GDR	+2.9	+21.2	-18.3	-1.4	-0.9	-0.5
<b>Diversifying Growth Assets</b>											

Townsend	Mar-13	402.9	8.7	Real Assets (active segregated & pooled)	RPI (target RPI + 4% over rolling 5 years)	-2.8	+4.3	-7.1	+7.8	+13.5	-5.7
Brunel Infrastructure Cycle 3	Dec-22	20.9	0.5	Real estates (pooled)	CPI	-3.6	+3.2	-6.8	-	-	-
Private Lending	Mar-15	192.7	4.1	Private Lending (active pooled)	3 Month Sterling LIBOR	+10.1	+4.9	+5.2	+6.6	+2.2	+4.4
Brunel Private debt cycle 3	Dec-22	14.9	0.3	Private Lending (active pooled)	SONIA +4%	+11.4	+9.2	+2.2	-	-	-
Brunel Multi-Asset Credit	Jun-21	364.4	7.8	Multi asset credit	SONIA +4%	+11.8	+9.2	+2.6	-3.4	+6.4	-9.8
<b>Bonds Corporate Bonds</b>											
Brunel Sterling Corporate Bonds	Jul-21	681.8	14.7	Sterling Corporate Bonds (pooled)	iBoxx £ Non Gilt all bonds	+8.8	+6.1	+2.7	-10.7	-10.2	-0.5
Royal London	Jul-07	-	-	Corporate Bonds (active segregated)	iBoxx £ Non Gilt all bonds	-	-	-	+2.1	-10.2	+12.3
Brunel - BlackRock Buy and Maintain Credit	May-23	188.2	4.0	Pooled Fixed Interest	BlackRock Buy and Maintain Credit BM	-	-	-	-	-	-
Brunel - BlackRock LDI	Oct-21	469.6	10.1	Liability Driven Investment	Bespoke Liability Benchmark	-7.5	-7.5	-	-39.5	-39.5	0.0
<b>Cash &amp; Other</b>											
Other net assets		142.1	3.1								
<b>Total Fund</b>		<b>4,647.3</b>	<b>100.0</b>		<b>Strategic Benchmark</b>	<b>+8.0</b>	<b>+10.0</b>	<b>-2.0</b>	<b>-5.6</b>	<b>-5.4</b>	<b>-0.2</b>

**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 BlackRock Buy and Maintain Credit is from inception so no full year performance available.

## Portfolio analysis

The table below shows the distribution of net investment assets by market value as at 31 March 2024, in £ millions (Note: May not add up exactly due to rounding):

	Private Lending	Private Equity	UK Equities inc. Pooled Equities	Overseas equities including pooled equities					Pooled Fixed Interest	Liability Driven Investments	Pooled Property	Pooled Infrastructure, Agriculture &	Cash	Other net investments inc. Derivatives	£m Total
				North America	Europe (exc UK)	Emerging Markets &	Asia Pacific (exc Japan)	Japan							
<b>Brunel Sterling Corp Bonds</b>									681.8						<b>681.8</b>
<b>Brunel-BlackRock LDI</b>										469.6					<b>469.6</b>
<b>Generation</b>				320.0	84.6		7.3						19.8	0.4	<b>432.1</b>
<b>Brunel-GSE</b>			18.4	304.3	76.6	3.1	9.0	14.5							<b>425.9</b>
<b>Brunel Low Vol</b>			33.0	276.1	39.7	0.9	15.4	25.5					0.1		<b>390.7</b>
<b>Townsend</b>											171.2	196.8	13.4	0.1	<b>381.5</b>
<b>Brunel-MAC</b>	213.7								150.6						<b>364.3</b>
<b>Brunel Paris Aligned Benchmark</b>			10.5	254.1	53.5		7.7	22.5							<b>348.3</b>
<b>Targeted Ops</b>		174.5									41.1				<b>215.6</b>
<b>Robeco SEVE</b>			9.0	127.5	31.7		4.2	16.6							<b>189.0</b>

<b>Brunel-BlackRock Buy &amp; Maintain</b>									188.2						<b>188.2</b>
<b>Illiquid Credit</b>	186.1														<b>186.1</b>
<b>Cash &amp; Other</b>													172.4	-2.4	<b>170.0</b>
<b>Impax</b>			12.4	80.7	42.4	5.4	11.5	1.8					2.0	0.5	<b>156.7</b>
<b>Brunel - Private Markets</b>	15.0											20.9	0.1		<b>36.0</b>
<b>Robeco PE</b>		11.0											0.4	0.1	<b>11.5</b>
<b>£m Total</b>	<b>414.8</b>	<b>185.5</b>	<b>83.3</b>	<b>1,362.7</b>	<b>328.5</b>	<b>9.4</b>	<b>55.1</b>	<b>80.9</b>	<b>1,020.6</b>	<b>469.6</b>	<b>212.3</b>	<b>217.7</b>	<b>208.2</b>	<b>-1.3</b>	<b>4,647.3</b>
<b>% of Fund</b>	8.9%	4.0%	1.8%	29.3%	7.1%	0.2%	1.2%	1.8%	22.0%	10.1%	4.6%	4.7%	4.5%	0.0%	<b>100.0%</b>

## Pension Fund administration

### Administration Arrangements

The Environment Agency Pension Fund (EAPF) is responsible for administering the current and future pension benefits, built up under the Local Government Pension Scheme (LGPS), with over 30,000 members of the Active pension fund, made up from 3 participating scheme employers:

- 1) Environment Agency (EA) (scheduled body)
- 2) Natural Resources Wales (NRW) (admission body)
- 3) Shared Services Connected Ltd (SSCL) (admission body)

While the EAPF Pensions Committee (referred to as the 'Committee') provides strategic direction and regular oversight, day-to-day pension Fund administration is delivered through a third-party pension administrator, Capita Employee Benefits (a subsidiary of Capita Group Plc). This is because it involves specialist knowledge, complex activity, and significant investment in the latest technology, 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 all member records.
- paying member benefits (pension & lump sum).
- managing a monthly pensioner payroll.
- handling all member enquiries via a dedicated team of call handlers.
- distributing all statutory publications, such as pension increase statements, benefit statements, and pension savings statements.
- issuing monthly pension payment advice slips.
- operating fraud prevention and debt collection.
- undertaking all HMRC returns.
- producing audited annual accounts for Parliament.
- providing technical advice on LGPS and overriding legislation.
- support and training for scheme employers.
- as well as a wide range of other tasks.

### Benefits Working Group

The EAPF management team continues to engage with the EAPF's Benefits Working Group quarterly. The group is made up of Committee members, management team officers, representatives from Capita, and associates from Aon (EAPF's professional advisor). Meetings are held virtually and in person, with all agenda items recorded and action points monitored to completion.

Just over a year since inception in February 2023, the main purpose of the group is to provide a deeper focus and higher level of scrutiny to benefit administration items prior to approval by the full Committee. Thus, the group enables officers to draw on the appropriate skills, knowledge, and stakeholder input, as well as consider strategic and external factors that might impact the EAPF and review operational objectives and improvements.

All stakeholders acknowledge the group provides a real focus for addressing key issues, with the correct level of scrutiny and support for management team officers. Members are fully engaged and always willing to provide invaluable feedback on all agenda items. The commitment from group members was shown in February 2024, when a site visit was held at Capita's office in Darlington. It gave members a real opportunity to gain an invaluable insight into the Member Events operation at Capita (inc. the contact centre).

Looking ahead to 2024/2025, the group will continue to monitor Capita's service delivery and development / improvement plans, as well as on-going projects and compliance with statutory items, such as McCloud, TPR's General Code of Practice, and Pensions Dashboards.

## Our Pension Fund membership

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

The 12 months ended 31 March 2024 has seen a 7.1% increase in the Fund's active members (2022/23: increase of 12.2%). Deferred membership has decreased by 0.05% (2022/23: increase of 1.2%) and there has been a 4.9% increase in pensioners (2022/23: increase of 6.7%).

### Movement in number of members and pensioners

	Active members	Deferred members	Current pensioners	Total
<b>As at 1 April 2023</b>	<b>12,962</b>	<b>8,410</b>	<b>8,082</b>	<b>29,454</b>
Adjustment for late notifications	2	(86)	91	7
Revised opening balance	<b>12,964</b>	<b>8,324</b>	<b>8,173</b>	<b>29,461</b>
<b>Add:</b>				
New active members	1,759			1,759
New deferred members		366		366
New pensioners – retirement			424	424
New pensioners - dependent			79	79
	<b>1,759</b>	<b>366</b>	<b>503</b>	<b>2,628</b>
<b>Less:</b>				
Deferred benefits	(366)			(366)
New retirement pensions	(229)	(195)		(424)
Deaths in service	(11)			(11)
Refunds of contributions	(71)			(71)
Options pending	(164)			(164)
Transfers out - individual		(77)		(77)
Deaths in deferment		(10)		(10)
Commutation of pension		(2)	(4)	(6)
Death in retirement			(180)	(180)
Suspended/Ineligible pensions			(11)	(11)
	<b>(841)</b>	<b>(284)</b>	<b>(195)</b>	<b>(1,320)</b>
<b>As at 31 March 2024</b>	<b>13,882</b>	<b>8,406</b>	<b>8,481</b>	<b>30,769</b>

### Summary of active member retirements

	2024	2023
Ill Health Retirements (all ages) Tier 1	21	27
Ill Health Retirements (all ages) Tier 2	1	1
Ill Health Retirements (all ages) Tier 3	4	4
Early Retirements - with employer consent	32	34
Flexible retirements - over age 55	37	38
Early Retirements - age 60 and under age 65	94	78
Normal Retirements - age 65	0	2
Late Retirements - over age 65	40	62
<b>Total retirements</b>	<b>229</b>	<b>246</b>

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](http://www.eapf.org.uk)

## Age profiles of members and pensioners

Age profile of active members as at 31 March	2024		2023	
	No.	%	No.	%
15-19	27	0.2	54	0.4
20-24	561	4.0	738	5.7
25-29	1,431	10.3	1,236	9.5
30-34	1,500	10.8	1,374	10.6
35-39	1,669	12.0	1,678	13
40-44	2,021	14.6	2,035	15.7
45-49	2,051	14.7	1,844	14.2
50-54	1,841	13.3	1,859	14.3
55-59	1,739	12.5	1,419	11
60-64	832	6.0	603	4.7
65-69	175	1.3	105	0.8
70-74	35	0.3	17	0.1
<b>Total</b>	<b>13,882</b>	<b>100</b>	<b>12,962</b>	<b>100</b>

Age profile of deferred members as at 31 March	2024		2023	
	No.	%	No.	%
20-24	23	0.3	3	0.1
25-29	159	1.9	41	0.5
30-34	438	5.2	226	2.6
35-39	850	10.1	492	5.9
40-44	1,530	18.2	1,087	12.9
45-49	1,669	19.8	1,672	19.9
50-54	1,635	19.4	1,600	19.0
55-59	1,490	17.7	1,641	19.5
60-64	525	6.2	1,233	14.7
65-69	69	0.8	367	4.3
70-74	13	0.2	38	0.4
75-79	4	0.1	9	0.1
80+	1	0.1	1	0.1
<b>Total</b>	<b>8,406</b>	<b>100</b>	<b>8,410</b>	<b>100</b>

Age profile of current pensioners at 31 March	2024		2023	
	No.	No.	No.	%
<b>Child dependents</b>	76	0.9	64	0.9
<b>Pensioners and spouses</b>				
Under 50	49	0.6	53	0.6
50-54	46	0.5	78	0.7
55-59	318	3.7	485	3.8
60-64	1,320	15.6	1,336	15.2
65-69	1,817	21.4	1,886	23.3
70-74	1,837	21.7	1,796	23.3
75-79	1,595	18.8	1,340	17.5
80-84	884	10.4	683	9.6
85-89	427	5.1	301	4.1
90-94	104	1.2	57	0.9
95-99	8	0.1	3	0.1
<b>Total</b>	<b>8,481</b>	<b>100</b>	<b>8,082</b>	<b>100</b>
<b>Total membership</b>	<b>30,769</b>		<b>29,454</b>	

## Increases to Pensions

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 are linked to the change in the Consumer Prices Index (CPI).

From 8 April 2024 pensions in payment and deferred benefits received an increase of 6.7% (compared to 10.1% on 10 April 2023).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 2015:

April	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
% increase	1.2	0.0	1.0	3.0	2.4	1.7	0.5	3.1	10.1	6.7

## Performance Measurement

The Committee measures Capita's performance through monthly, quarterly, and annual reports showing progress against the contractual Service Level Agreements (SLAs). The perspectives with which the Committee assess performance include accuracy, timeliness, quality, helpfulness, feedback, service improvements and complaints.

We thank Capita for resolving 54,028 member requests/queries during 2023/24 (across both the Active and Closed pension funds), as well as paying pensions to 8,481 pensioner members under the Active pension fund. The casework completed during the year has increased by just under 13% on last year (2022/23: 47,825). Over the year, Capita achieved service compliance of 48.03% against the casework completed, which is significantly lower than expected. This is attributable to the strain caused by the cyber incident in March of last year; the higher than forecasted volume of casework, and the resultant under sizing of the Member Events team at Capita (responsible for processing all casework for scheme members).

During 2023/24, Capita re-structured the Member Events team to manage this higher demand and implement an agreed Recovery Plan to remove a backlog of casework and stabilise service levels. The EAPF management team has worked closely with Capita during this time to better understand and forecast current and future demands i.e., EA recruitment spikes, as well as all regulatory demands. As a result, service levels are due to improve by mid-2024/25.

The five largest case types processed by Capita for the Active Pension Fund during 2023/24 were:

Case type	2024	2023
Joiners	1,984	2,357
Retirement estimates	1,243	1,317
Leavers with deferred pensions	779	864
Transfers out including quotations	770	704
Retirements	627	900

Active Fund administration costs for the year to the 31 March 2024 were £1,696k (2022: £991k) including work on GMP reconciliation, member tracing and data reviews plus member communications and postage costs. The EAPF benchmarks its Fund administration costs annually through the public accounting body CIPFA. For 2022/23 the CIPFA average cost per member was

£22.55 (2021/22: £20.82). Across both the Active and Closed funds, the EAPF's average cost per member for 2022/23 was £24.93 (2021/22: £23.10).

The total number of staff allocated by Capita to the EAPF administration contract is 23, of which 15 deal solely with pension benefits administration. Based on a membership of 40,115 across both the Active and Closed Funds on 31 March 2024, this represents an average of 2,674 members per administrator.

We take a value for money approach looking for an 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 EAPF's policies, aims and objectives.
- evaluate the likelihood of risks being realised, the impact should they occur, and the subsequent efficient, effective, and economical management of those risks.

The system of internal controls has been in place at the EA and in the operation of the EAPF for the year ended 31 March 2024, in accordance with LGPS and Treasury guidance, as well as best practice.

### Report on Internal Controls

The Directors of Capita Pension Solutions Limited (CPSL) produce an audited annual Assurance Report on internal controls, in relation to pension administration services, under ISAE 3402 and AAF 01/20, which is reviewed by Officers. In considering the effectiveness of the internal controls for the Fund, account has been taken of the findings of the Independently audited report by accountants (KPMG LLP (UK)) in their assurance report for CPSL for the reporting period to 31 December 2023.

CPSL have confirmed that all controls testing was completed by their auditor. This was a qualified report resulting from the previously disclosed cyber incident that impacted Capita plc in March 2023. The Hartlink pension administration platforms were not affected by the cyber incident and this has been evidenced to KPMG LLP (UK) as the Service Auditor.

CPSL Directors have confirmed that none of their key controls have materially changed from the date of this reporting period, 31 December 2023 to 31 March 2024.

### National Fraud Initiative/Mortality Checks

The EAPF 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, monthly mortality screening helps reduce overpaid pensions and potential fraud.

The results of the most recent exercise identified 14 cases where the EAPF had not been notified of the death of a member. 10 of the 14 were for pensioner members and the remaining four were deferred members. The necessary follow-up actions are in progress on these cases.

As a general principle, the EAPF investigates cases where fraud is suspected. The case is pursued, and any overpayment recovered via an agreed repayment plan, or, if necessary, legal action is taken, which may involve police intervention. The monthly mortality checks are therefore in place to help reduce potential fraud on the EAPF. There were no reported fraud cases for 2023/24.

## Data Quality

Excellent 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 using electronic interfaces between scheme employers and Capita on a weekly and monthly basis. Guidance issued by The Pensions Regulator (TPR) recommends that the Fund regularly assesses the quality of its member data.

To interrogate and cleanse client data, Capita has partnered with Intellica in 2023/24 - a pension data specialist with unique software solutions to provide deep data analytics and insights. The software is installed on a Capita server, meaning EAPF data doesn't leave the Capita environment. Capita are therefore using Intellica to enable the EAPF to:

- Become Pensions Dashboard ready; and
- Perform Common Data and Scheme Specific Tests.

The Intellica tests are based on a much more stringent interpretation of the TPR guidelines and typically identify more failures than former methods because it reviews data in three areas:

- 1) Presence of the data.
- 2) Consistency of the data.
- 3) Validation of the data.

With member data being readily available via the EAPF Online portal and with the upcoming requirements of Pensions Dashboards to hold all relevant data electronically, the EAPF management team believe it to be more important than ever to have full sight on the overall completeness and quality of its data. As a result, the Funds common data was cleansed during 2023 and further cleansing of its scheme specific data has been approved in May 2024, with the final results due in September 2024.

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 Pension Fund annually and a certificate is issued reflecting compliance with TPR standards. The latest available results from our May 2023 certificates showed our post June 2010 data as 97.05%, with pre-June 2010 data at 88.15%, which gives an overall score of 94.98%. The missing data for both categories relates to members moving address and not informing Capita. Regular mortality screening and address tracing continues, and member records are updated accordingly.

## Data Security

The EAPF and 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 participating scheme employers. This is through the secure transmission of monthly and weekly electronic data interface files.

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

- Maintaining the confidentiality, integrity, and availability of information, while ensuring information is only accessible by those who are entitled to access it.
- Protecting information assets consistently to a high standard to prevent compromise by external and internal threats, both deliberate and accidental.

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

## Cyber Incident

Following the Capita Cyber Incident of March 2023, Capita took extensive steps to recover and secure the customer, supplier and colleague data contained within the impacted server estate, and to remediate any issues arising from the incident. Capita worked closely with all appropriate regulatory authorities and with customers, suppliers, and colleagues to notify those affected and take any remaining necessary steps to address the incident.

The EAPF provided comprehensive support to its affected members which took the form of writing to affected members, offering free membership of a leading identity protection service, Experian, in conjunction with Capita, with the Fund extending this service to 24 months from Capita's initial 12-month offer. Forums were provided so that members could ask questions and receive answers on these live sessions, with officers present as well as subject experts, both from Capita and Experian. These questions were compiled into categories which allowed the supporting Q&A to be adapted and better targeted, as well as being able to address these concerns at subsequent Cyber webinars. An online information hub has been set up for members. Key stakeholders continue to be kept informed and regular meetings are held with representatives of the Trade Unions. . TPR published its report into the incident on 2 February 2024 and sets out their expectations of Pensions Schemes and Trustees on cyber security.

On 3 February 2024, the Information Commissioner's Office (ICO) confirmed that it had considered the information the EAPF had provided on the cyber incident and decided not to take any action against the Fund. So far as the EAPF is concerned, the ICO now considers the matter to be closed. This indicates the ICO is satisfied with the information provided, and that the ICO has no concerns with respect to the EAPF's compliance with its regulatory obligations.

Capita's engagement with the ICO is continuing. The ICO has not provided Capita with a timescale for completion of their enquiries.

The EAPF received the forensic audit report from Capita at the end of March 2024 (which was commissioned initially in August 2023), and this provides a forensic review of the exfiltrated data and then compared this with the manual data review undertaken by Capita in 2023. The outcome of the audit identified 671 further, newly impacted members. This increased the percentage of affected members from 95.95% to 96.65%. These new cases are 'low risk' in line with ICO data definitions.

Letters have been issued to these new, in scope members in May 2024, providing the same level of support as the initial exercise, which includes the 24-month membership of Experian.

The EAPF has instigated an audit, in conjunction with other Capita clients, through an Aon Cyber Security Review, which is currently going through a data gathering phase, with results being shared in late July or August 2024. The Audit questionnaire uses the National Institute of Standards and Technology's (NIST) Cyber Security Framework, which ensures a best practice approach and consistency.

The EAPF continues to treat the incident with the utmost importance, with help from various specialists and advisors. Work continues with Capita, internal security teams and take appropriate legal advice

to measure every aspect of the incident and to further underpin cyber security controls, protect the fund's data and avoid any recurrence.

### **Joint Benefits Assurance Project**

Following several reportable and non-reportable TPR Breaches in 2022/23, the EAPF management team, with support from the Benefits Working Group, consulted with Aon (the EAPF's independent advisor) to perform a joint audit to review benefit processes and provide assurance to the Committee that Capita's administration was being carried out effectively, in line with the EAPF's objectives, the LGPS regulations and overriding legal requirements. The investigation started in October 2023 and focused on benefit calculations and processes, including the wider revaluation process.

With full agreement from Capita, Aon reviewed data covering 11 casework areas, including benefit statements and pension savings statements, as well as focusing on team structures, systems, collaboration, business continuity, and the overriding requirements of the impending TPR General Code of Practice. The audit was performed via the secure transfer of data from Capita to Aon, and by carrying out a desk review at Capita's office in Darlington in November 2023. The exercise has been very well received by all parties and thanks to Capita for providing full co-operation throughout.

Aon's project lead delivered an update of the preliminary findings to the Benefits Working Group in February 2024, to the full Committee in March and the final recommendations to the Benefit Working Group in May 2024. The final report was presented to the EAPF management team and Capita in April 2024 and was largely positive, although recommendations for improvements to certain processes and the levels of automation were made. These recommendations are being considered by Capita and reviewed by the Benefits Working Group before a collaborative approach to service development is agreed for 2024/25.

### **Deferred Member Engagement (Over NPA)**

As part of the EAPF's deferred member strategy (approved by the Committee in June 2022), campaigns have been run in October 2022, April, and October 2023 (and thereafter, every October) to specifically target members over their Normal Pension Age (NPA) (circa. 500) to re-engage with their deferred benefit entitlements – a challenge common to all LGPS funds.

Given the financial climate and the rise in the cost of living, the aim has always been to raise awareness among this population - whether members wish to receive their benefits or not. If not, then it serves to keep members connected, or indeed reconnect members to their deferred benefit entitlement under the EAPF.

The next campaign is due in October 2024, but the EAPF will continue to engage will all deferred members via the annual newsletter (March), benefits statements (June), deferred webinar (July) and Pensions Awareness Week (September).

### **Pensionable Pay Project Update**

As reported in the Annual Report last year, there was one report made to TPR during 2021/22, which relates to the identification of incorrect final pensionable pay figures provided by SSCL (Shared Services Connected Ltd) to Capita for employees who had left employment or retired from the EA.

The EAPF had identified that the Environment Agency's third-party payroll provider, SSCL, provided incorrect final pensionable pay figures to Capita for some employees who had left or retired from the EA since 2015. The impact of this was that the affected employees' pensions are incorrect.

LGPS regulations outline that pay for final salary purposes should be allocated to the months earned. Instead, SSCL had allocated Performance Related Pay (PRP) payments to the month paid or the month of pay award. This caused an inequity in final pensionable pay figures, either under or overstating pay.

A project team was formed, comprising of representatives from the EAPF management team, EA Corporate Management, EA Legal, DEFRA Employee Benefits & Pensions team, DEFRA Group Shared Services, Capita and SSCL - with project governance in place, regular communications and calls and the right level of technical expertise and decision makers to resolve this issue.

The timetable for this project has taken much longer than expected due to the complexity and widened scope of this exercise. The initial issue of allocating performance related pay has widened and now includes Final pay and CARE pay with multiple error types. The Project Group is now confident that the pensioner rectification phase will complete in due course and the in-scope members and beneficiaries will be written to in September 2024. This will be followed by deferred members and transferees in 2025.

The EAPF has received Legal advice on its regulatory requirements and undertaken a comprehensive Cost Benefit Analysis to identify the full financial impact on overpayments, the cost of recovery, legal costs, and potential legal challenges. HM Treasury (HMT) approved the EA's decision to write off overpayments, which are expected to be an estimated £405K. Underpayments are currently estimated to be around £450k. This agreement will roll over into next financial year.

### **Guaranteed Minimum Pension (GMP) Rectification – Project Update**

The final rectification phase of the project has continued to progress during 2023/24, although it's proved challenging due to cross over with other projects and because further investigation was required for a cohort of members, where a GMP value was assigned as part of the reconciliation exercise, but the pension in payment stems from service after 5 April 1997. This investigation concluded in April 2024. The final plan for fully rectifying records, notifying members and making the necessary payroll adjustments is currently being reworked to align with other rectification projects in train, but the aim is very much for completion by 31 March 2025.

### **McCloud Judgement Rectification – Project Update**

As you may recall, the Court of Appeal determined in December 2018 that the transitional protection afforded under the Firefighters' and Judicial Pension Schemes (as part of the 2015 pension reforms) was age discriminatory. HM Treasury took the view that this judgment applied to all public service pension schemes (PSPS), including the LGPS, despite its reform being different. The Public Service Pension Schemes & Judicial Offices Act 2022 was laid in March 2022 and set out the scope for the 'McCloud remedy'.

LGPS members in-scope of the remedy were those that have:

- contributed on or before 31 March 2022.
- contributed at some point between the remedy period – from 1 April 2014 to 31 March 2022.
- not had a disqualifying break from contributing to a PCSP (a single break of more than 5 years).

However, being 'in-scope' simply means that a member's case will be assessed for the underpin. It doesn't necessarily mean that a member will receive an increase in their benefits. Further information regarding the McCloud remedy can be found on the EAPF website.

The final consultation for the McCloud remedy and draft regulations (published by the Department for Levelling Up, Housing and Communities (DLUHC) in May 2023) closed on 30 June 2023. DLUHC

published its consultation response on 8 September 2023. The regulations were subsequently laid on 11 September 2023 and come into effect on 1 October 2023. Unfortunately, the general view shared by all stakeholders in the industry at the time was that implementing such a wide and complex change in such a short time was beyond possible, especially with other demands increasing and recruitment proving to be another challenge.

Little lead in time meant inevitable delays in publishing statutory guidance, effecting the necessary software changes, and notifying scheme members. Actuarial guidance not being in place for 1 October 2023 meant that several benefit calculations had to be paused, causing service delays to member requests and a period of uncertainty. As of May 2024, most benefit calculations are now fully aligned with the underpin remedy, but some are still on hold while the Government Actuary's Department (GAD) produces the necessary guidance for administrators.

Since mid-2023, the EAPF management team have worked closely with Capita to review and monitor the remedy proposals and plan accordingly. A designated rectification team was put in place and deployed once the deferred and pensioner member populations were fully scoped shortly after the 1 October 2023. The in-scope deferred population (circa 1,600 cases) was re-calculated by the end of 2023, and all members notified of the regulatory change in the winter newsletter issued in December. The EAPF website was also updated to provide members with more information.

The rectification work for the pensioner population started in January 2024 and is earmarked for completion in the autumn of 2024. There are circa 2,100 cases in-scope of re-calculation to identify whether the underpin bites. The rectification for trivial commutations, transfers, deaths, and survivor benefits have yet to be considered, as much guidance and clarification is still needed from DLUHC and industry experts.

The EAPF management team continues to work closely with Scheme Employers to help support with the additional demands caused by the underpin remedy for members claiming benefits after their Normal Pension Age (NPA) under the pre-2014 final salary scheme. Employers must now submit additional pay details shortly after a member's NPA, even though they're not leaving or retiring from the scheme at that time. This is an additional step in an already complex process, which is adding extra strain to service levels.

### **Abolition of the Lifetime Allowance (LTA)**

At the Spring Budget 2023, the Government announced it would abolish the Lifetime Allowance (LTA) charge for 2023/24 and then remove the threshold from 6 April 2024. The Finance Bill 2023/24 received Royal Assent in February 2024 and has become UK law as the Finance Act 2024. As a result, the LTA was removed from the pensions tax regime from 6 April 2024. It has been replaced by three new allowances (as below).

- 1) Lump Sum Allowance (LSA)
- 2) Lump Sum and Death Benefits Allowance (LSDBA)
- 3) Overseas Transfer Allowance (OTA)

HMRC have confirmed that further amending regulations will follow to address unintended consequences posed by the legislation currently written into the Act. The amending regulations will follow in 2024/25.

As LTA charges had already been removed from 6 April 2023, in real terms, the new allowances are broadly intended to replicate the tax-free allowances which were available to members under the previous regime. For instance, the standard LSA has been set at £268,275, mirroring the maximum tax-free Pension Commencement Lump Sum (PCLS) a member could receive previously. The LSDBA and the OTA operate separately from one another but are both set at £1,073,100 (the former LTA limit).

Capita has successfully managed this change, having to navigate many challenges in such a short period. However, there's still much to be confirmed by HMRC. The EAPF management team continue to work with Capita to fully understand the residual changes due and to ensure all relevant processes are up to date. The necessary training has been delivered to the Member Events team and all guidance and letter templates have been updated.

### **TPR General Code of Practice**

In March 2024, the DWP introduced a refreshed statutory code of practice (the 'Code') for pension providers, including public service pension schemes, setting out administration and governance standards. The Code is divided into five sections, each of which contains core and good practice modules.

- 1) The Governing Body
- 2) Funding and Investment
- 3) Administration
- 4) Communications & Disclosure
- 5) Reporting to TPR

The intention is that the Code will make it easier for administrators to distinguish between their legal duties and compliance expectations, which was previously unclear and challenging.

The EAPF management team are engaging with Capita and Aon (professional advisor) to review the Code's requirements and evaluate current practices, so that the relevant gap analysis can be performed.

### **Pensions Dashboards**

This is an initiative being introduced by the Department for Work & Pensions (DWP) to help individuals view all their pensions (inc. the state pension) online in a secure environment. The Money and Pensions Service (MaPS) set up the Pensions Dashboards Programme (PDP) in 2019 to support and enable the introduction of the Pensions Dashboard. Originally, this meant pension administrators would need to connect systematically from June 2023 to October 2025 (based on scheme size and type). This meant the LGPS had a staging deadline of 30 September 2024 to allow for the implementation of the McCloud remedy. However, the DWP confirmed in March 2023 that the PDP was unable to meet the connection deadlines set out in legislation, due to the scale and complexity of the challenge.

In June 2023, draft regulations were laid for approval and confirmed a single connection deadline of 31 October 2026. These regulations came into force in August 2023 and allowed MaPS to issue guidance on a staged connection timeline for individual schemes. This followed in March 2024 and specified that all public service pension schemes will need to connect by 31 October 2025. However, the Dashboard Availability Point (DAP) has yet to be confirmed, i.e. when it will be made live to public users.

The EAPF management team has been kept well informed of all governance items and will be actively engaging with Capita's dedicated delivery team in June 2024 to formulate a tailored implementation plan, leading to 31 October 2025.

### **Virgin Media vs NTL Pension Trustees II Limited ruling**

Virgin Media has announced it will appeal the July 2023 ruling which invalidated past pension changes in the contracted-out NTL Pension Plan. We have consulted our actuaries and auditors and agreed to make no additional allowance for this initial legal judgement. We have taken this approach because at the time of writing, the ruling only applies to the above-named private sector

pension scheme and it is unknown whether there would be any potential remedy required to public service schemes (including the LGPS).

## Complaints

The Fund has a formal process for dealing with complaints. The Pensions Committee defines a 'complaint' as any expression of oral or written dissatisfaction about how a service has been carried out and can be made by any scheme members (inc. prospective members and those in receipt of survivor benefits), a scheme employer, the EAPF, and/or third parties.

In addition, the Internal Dispute Resolution Procedure (IDRP) is a formal two stage procedure for settling disputes under the LGPS Regulations 2013, supported by The Pensions Ombudsman (TPO) and other bodies, such as the MoneyHelper service, and The Pensions Regulator (TPR).

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 a member disagrees with the Stage 1 decision, they can progress to Stage 2 where the dispute will be reviewed by a representative of the Administering Authority. If still in disagreement, a member can apply to TPO for further adjudication, but their decision will be binding decision. If justified, TPO also has the power to award compensation for any distress, inconvenience, or financial loss.

In 2023/24, Capita received 254 formal complaints from Active Fund members (compared to 91 in 2022/23), which attributed to less than 0.6% of the casework started during the year. All complaints have since been resolved. The significant increase in dissatisfaction stems from the continued strain to service levels caused by the cyber incident in March 2023, a higher than forecasted volume of incoming casework, and the subsequent rightsizing of the Member Events team. Despite the recruitment challenges across the industry, the team has since become fully resourced and trained, meaning service levels are due to return to a state of BAU later this year.

There were two new Stage 1 IDPR cases raised during the year against the Active Fund. Neither of which progressed to Stage 2 and there have not been any referrals to TPO. In contrast, there were five Stage 1 cases logged in the previous year (2022/23), with one progressing to Stage 2 and being referred to TPO.

No formal complaints have been registered by any of the EAPF's scheme employers during 2023/24. The EAPF's management team prides itself on the strong relations built with relevant personnel at NRW, the DEFRA Employee Benefits & Pensions team (on behalf of the Environment Agency) and SSCL to ensure all administration issues are actively managed and resolved with Capita in a timely manner.

## Foreword to the financial statements

### 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 are 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 2024 have increased by £369m to £4.7bn (2023: decreased by £243m to £4.3bn). Over the past year, events such as the continued conflict in Eastern Europe and wider global economic factors have had significant impacts on the financial markets and the economy. Our Fund has stood up to those challenges and its diverse portfolio has helped protect the Fund well.

Total contribution income has increased by £42.6m to £141.0m (2023: increased by £8.7m to £98.4m). This can be attributed to a number of factors, which include advanced contributions being paid across for future service by the Environment Agency and Natural Resources Wales in March 2024, plus a 7% increase in active membership from 31 March 2023 and pay increases awarded in year.

Net income from all transfer values received in the year has risen on the prior year as a result of individuals transferring from previous arrangements into the Fund. This increased by £3.0m to £10.7m (2023: increased by £3.4m to £7.7m). Retirement benefits in respect of members during the year has increased by £11.3m to £120.2m (2023: increased by £7.5m to £108.9m).

Management expenses have increased on the prior year by £1.7m to £23.8m (2023: decreased by £15.2m to £22.1m). This is primarily due to an increase in expenditure on various administration projects to manage areas such as the GMP reconciliation, McCloud ruling, Pensionable Pay correction and an internal review and implementation of our own Cyber Security environment.

The Fund experienced a positive net return on investments of £363.2m (2023: negative return of £215.2). The reason for the positive return was due to generated investment income, a net profit from trading of investments followed by an increase in unrealised gains at the reporting date.

The net investments of the Fund have increased by £364k on the prior year to £4.6bn, which also includes the long-term investment in the Brunel Pension Partnership Limited, its pooling provider. As at the 31 March 2024 this had a reported fair value of £722k (2023: £707k).

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 are disclosed for information purposes only in Note 22.

## Statement by the Consulting Actuary

### Environment Agency Active Fund ('the Fund') Actuarial Statement for 2023/24

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

#### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated December 2022. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term)
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations
- manage the fund in line with the stated ESG policies.

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 employers whose covenant was considered by the Administering Authority to be sufficiently strong, 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 73% 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £4,548 million, were sufficient to meet 103% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £154 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 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 2022 valuation report and FSS.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; 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 2022 valuation were as follows:

Financial Assumptions (% p.a.)	31 March 2022
Discount Rate	3.1%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.5%

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

Pensioners	Males	Females
Current pensioners	22.0 years	24.5 years
Future pensioners*	23.1 years	26.2 years

\*Aged 45 as at 2022 valuation.

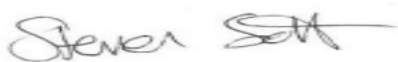
Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

## Experience over the period since 31 March 2023

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures over the year to 31 March 2024, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in higher than expected LGPS benefit increases of 10.1% in April 2023, and an increase of 6.7% applies in April 2024.

Asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). The significant shift in the wider economic environment experienced in 2022/23, which led to reductions in the value of the Fund's liabilities, has persisted and the funding level of the Fund as at 31 March 2024 is estimated to be 153% (higher than that reported at the 2022 valuation and higher than that estimated at the 2023 year end).

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



Steven Scott FFA  
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
14 May 2024

## 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 2024 which comprise the:

- Fund Account;
- Net Assets Statement as at 31 March 2024; 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 2023/24.

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 2024 and of the amount and disposition at that date of the Fund's assets and liabilities; and
- have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and applicable law.

### Opinion on regularity

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

### Basis for opinions

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

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

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

### Conclusions relating to going concern

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

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

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

## Other Information

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

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

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

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

I have nothing to report in this regard.

## Opinion on other matters

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

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

## Matters on which I report by exception

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- 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 responsibility for the audit of the financial statements**

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

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

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

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

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

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

- considered the nature of the sector, control environment and operational performance including the design of the Fund's accounting policies.
- inquired of management, the Fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Fund's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Fund's controls relating to compliance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.
- Inquired of management, the Fund's head of internal audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud.
- Discussed with the engagement team 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: posting of unusual journals, bias in management estimates, selection of inappropriate methodology or assumptions underpinning the valuation of the pensions liability and the misappropriation of investment assets. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the legal and regulatory frameworks in which the Fund operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Fund. The key laws and regulations I considered in this context included the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, The Local Government Pension Scheme (Environment Agency) Regulations 1996, The Local Government Pension Scheme Regulations 2013, the Public Service Pensions Act 2013, Managing Public Money and the regulations set by The Pensions Regulator.

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

### **Audit response to identified risk**

To respond to identified risks resulting from the above procedures:

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

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my report.

### **Other auditor's responsibilities**

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

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

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

Date: 22 July 2024

## Financial statements for the year ending 31 March 2024

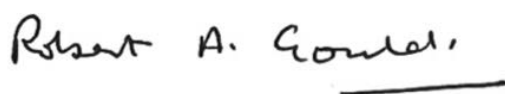
Fund account	Notes	2024 £000	2023 £000
<b>Dealings with members, employers and others directly involved with the Fund</b>			
Contributions	7	140,973	98,440
Transfer values in from other pension funds	8	10,684	7,678
		<b>151,657</b>	<b>106,118</b>
Benefits	9	(120,204)	(108,882)
Payments to and on account of leavers	10	(1,842)	(3,164)
		<b>(122,046)</b>	<b>(112,046)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>29,611</b>	<b>(5,928)</b>
<b>Management expenses</b>	11	<b>(23,818)</b>	<b>(22,138)</b>
<b>Return on investments</b>			
Investment income	12	47,028	54,474
Taxes on income	13	(156)	(234)
Profit and loss on disposal of investments and changes in the value of investments	14a	316,353	(269,467)
<b>Net returns on investments</b>		<b>363,225</b>	<b>(215,227)</b>
<b>Net increase/(decrease) in the Fund during the year</b>		<b>369,018</b>	<b>(243,293)</b>
<b>Opening net assets of the Fund at 1 April</b>		4,294,089	4,537,382
<b>Closing net assets of the Fund at 31 March</b>		<b>4,663,107</b>	<b>4,294,089</b>

The notes on pages 61 to 98 form part of these financial statements.

Net assets statement	Notes	2024 £000	2023 £000
Long-term investments	14a	722	707
Investment assets	14c	4,651,092	4,286,793
Investment liabilities	14c	(3,822)	(3,157)
<b>Total net investments</b>		<b>4,647,992</b>	<b>4,284,343</b>
Current assets	20	22,379	17,876
Current liabilities	21	(7,264)	(8,130)
<b>Closing net assets of the Fund at 31 March</b>		<b>4,663,107</b>	<b>4,294,089</b>

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 53 to 54 and these financial statements should be read in conjunction with it.

The Actuary's statement dated 14 May 2024 is based on a formal valuation as at 31 March 2022. The notes on pages 61 to 98 form part of these financial statements.



Robert Gould  
Chair  
Environment Agency Pensions Committee  
17 July 2024



Philip Duffy  
Accounting Officer  
Environment Agency  
17 July 2024

## 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 Fund. The Fund is overseen by the Environment Agency Pension Fund Committee. The EAPF is 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.

#### 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 2024, total membership of the Fund is 30,769 (2023: 29,454), represented by 13,882 active members, 8,406 deferred members and 8,481 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 2022. This became effective from 1 April 2023 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 2024.

#### 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 1/49<sup>th</sup>. 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](http://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 2023/24 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.

<b>Apportionment of common expenditure</b>	<b>2023/24 AF/CF %</b>	<b>2022/23 AF/CF %</b>
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.

Any gains or losses arising on derivative contracts are reported within Change in Market Value.

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 £707k in 2023 to £722k as at 31 March 2024. 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 2024 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 2023 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 an impairment model for financial assets not held at Fair Value through Profit and Loss ('FVPL'). As a result, the Fund must now determine forward looking expected credit losses ('ECL') for all its financial assets held at amortised cost. Financial assets held at amortised 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.

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).

### 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.

## Defined Benefit Obligation

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Pensions Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the Statement by the Consulting Actuary on pages 53-54.

## 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 2024 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 2024 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 2024 is £1,031million as shown on page 79 under the 'sensitivity of assets valued at Level 3' table.

## 6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 26 June 2024 and Audit and Risk Assurance Committee on 1 July 2024. The financial statements are signed under delegated authority of the Board. They will also be noted at the next available meeting of the Board. Since the 31 March 2024 we have recorded the following events.

### New investments

The Fund agreed to invest 4% (c.£170m) of assets in Schrodgers Greencoat Renewable Income (GRI), a Secured Sustainable Finance fund, which will be funded from the Fund's equity portfolio.

## 7. Contributions

By contribution type	2024 £000	2023 £000
<b>Employer</b>		
Normal	92,231	60,497
Advanced	11,794	6,894
Special	-	(82)
	<b>104,025</b>	<b>67,309</b>
<b>Members</b>		
Normal	36,625	30,607
Purchase of added years	323	524
	<b>36,948</b>	<b>31,131</b>
<b>Total</b>	<b>140,973</b>	<b>98,440</b>

Normal contributions are regular employer and employee contributions paid across by our employers. Advanced contributions are payments towards future service requirements. Details of normal and advanced contributions and employee payments are given in the table below. Special contributions are additional amounts paid by our employers in respect of early retirements. A negative amount is shown for 2022/23 due to the reversal of an over accrual from the prior year.

By employer	2024 £000	2023 £000
<b>Environment Agency</b>		
Employer normal	92,188	60,458
Employer advanced	4,900	-
	<b>97,088</b>	<b>60,458</b>
Employee normal	34,343	28,423
Employee purchase of added years	313	501
	<b>34,656</b>	<b>28,924</b>
	<b>131,744</b>	<b>89,382</b>
<b>Natural Resources Wales</b>		
Employer normal	5	4
Employer advanced	6,894	6,894
Employer special	-	(82)
	<b>6,899</b>	<b>6,816</b>
Employee normal	2,271	2,174
Employee purchase of added years	10	23
	<b>2,281</b>	<b>2,197</b>
	<b>9,180</b>	<b>9,013</b>
<b>SSCL</b>		
Employer normal	38	35
Employee normal	11	10
	<b>49</b>	<b>45</b>
<b>Total</b>	<b>140,973</b>	<b>98,440</b>

## 8. Transfer values in from other pension funds

	2024 £000	2023 £000
Individual transfers from other schemes	9,433	6,665
AVC transfers	1,251	1,013
<b>Total</b>	<b>10,684</b>	<b>7,678</b>

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

	2024 £000	2023 £000
Retirement and dependant's pensions	101,016	89,744
Lump sum retirement grants	17,226	16,537
Lump sum death grants	1,909	2,344
Taxation where annual allowance exceeded	53	257
<b>Total</b>	<b>120,204</b>	<b>108,882</b>

## 10. Payments to and on account of leavers

	2024 £000	2023 £000
Individual transfers to other schemes	1,679	3,105
AVC transfers	15	-
Refunds of contributions	148	59
<b>Total</b>	<b>1,842</b>	<b>3,164</b>

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

	2024 £000	2023 £000
<b>Administration costs</b>		
Scheme administration	1,696	991
<b>Oversight and governance costs</b>		
Specialist advice	2,435	1,753
Environment Agency Pension Fund management	911	896
External audit	120	101
	<b>3,466</b>	<b>2,750</b>
<b>Investment management expenses</b>		
Management fees	18,455	21,885
Transaction costs	147	489
Custody fees	54	66
Performance related fees	-	(4,043)
	<b>18,656</b>	<b>18,397</b>
<b>Total</b>	<b>23,818</b>	<b>22,138</b>

Increased Scheme administration costs are due to spending on key projects including GMP reconciliation and the administration of McCloud. Specialist costs are higher this year due to continued expenditure on the Pensionable Pay correction project.

In the prior year, an investment performance fee accrued for Generation (£4.0m) did not materialise and therefore was reversed in the 2022/23 financial year.

Investment management expenses can be further analysed as follows:

2023/24	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Private equity	6,818	6,818	-	-
Pooled equities	4,980	4,833	-	147
Equities	3,063	3,063	-	-
Private debt	2,002	2,002	-	-
Long term investments	929	929	-	-
Pooled property and infrastructure	749	749	-	-
Cash and FX	61	61	-	-
Pooled fixed interest	-	-	-	-
<b>Total</b>	<b>18,602</b>	<b>18,455</b>	<b>-</b>	<b>147</b>
Custody fees	54	-	-	-
<b>Total</b>	<b>18,656</b>			

2022/23	Total £000	Management fees £000	Performance related fees £000	Transaction costs £000
Private equity	10,493	10,493	-	-
Pooled equities	4,145	4,091	-	54
Private debt	2,038	2,038	-	-
Long term investments	930	930	-	-
Pooled property and infrastructure	840	840	-	-
Cash and FX	53	52	-	1
Pooled fixed interest	41	41	-	-
Equities	(209)	3,400	(4,043)	434
<b>Total</b>	<b>18,331</b>	<b>21,885</b>	<b>(4,043)</b>	<b>489</b>
Custody fees	66	-	-	-
<b>Total</b>	<b>18,397</b>			

Private equity fees were higher in 2023 due to historic charges being accounted for.

## 12. Investment income

	2024 £000	2023 £000
Income from private equity	18,065	5,571
Income from pooled property and infrastructure	9,242	13,101
Interest on cash deposits	8,258	3,175
Income from pooled investment vehicles	5,055	13,014
Dividends from equities	4,850	5,713
Fee rebate	1,496	14,386
Other investment income	62	59
Income from fixed interest securities	-	(545)
<b>Total</b>	<b>47,028</b>	<b>54,474</b>

To minimise credit risk exposure on cash, most of the Active Fund's cash is held in money market funds managed by the custodian State Street which has enjoyed favorable interest rates in 2023/24.

## 13. Taxes on income

	2024 £000	2023 £000
Withholding tax – equities	(156)	(234)
<b>Total</b>	<b>(156)</b>	<b>(234)</b>

## 14. Investments

### a) Investment movements summary 2023/24

Financial year to the 31 March 2024	Market value at 01.04.23	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Asset transfer purchases	Asset transfer sales	Change in market value	Market value at 31.03.24
	£000	£000	£000	£000	£000	£000	£000
Pooled fixed interest	1,452,711	178,258	(178,258)	-	-	37,460	1,490,171
Pooled equities	1,162,112	5,055	(77)	592,833	(592,833)	186,792	1,353,882
Equities	477,322	124,324	(119,802)	18,617	(18,617)	84,249	566,093
Pooled property and infrastructure	437,796	45,617	(28,974)	-	-	(24,455)	429,984
Private debt	427,191	30,812	(68,763)	-	-	25,512	414,752
Private equity	171,472	35,903	(18,697)	-	-	(3,125)	185,553
FX and derivatives	11,183	16,578	(41,940)	-	-	11,025	(3,154)
	<b>4,139,787</b>	<b>436,547</b>	<b>(456,511)</b>	<b>611,450</b>	<b>(611,450)</b>	<b>317,458</b>	<b>4,437,281</b>
Cash deposits and instruments	143,590	-	-	-	-	(1,120)	208,165
Other investment balances	259	-	-	-	-	-	1,824
<b>Total</b>	<b>4,283,636</b>					<b>316,338</b>	<b>4,647,270</b>

Long-term investments	<b>707</b>	-	-	-	-	<b>15</b>	<b>722</b>
<b>Total</b>	<b>4,284,343</b>					<b>316,353</b>	<b>4,647,992</b>

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.

Asset transfer purchases and sales are in respect of assets that were reclassified from one investment category to another investment category during the year. These transfers were reclassifications of investments and did not involve any actual transfer of securities.

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

### Investment movements summary 2022/23

Financial year to the 31 March 2023	Market value at 01.04.22	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Asset transfer purchases	Asset transfer sales	Change in market value	Market value at 31.03.23
	£000	£000	£000	£000	£000	£000	£000
Pooled fixed interest	1,371,294	354,000	-	-	-	(272,583)	1,452,711
Pooled equities	925,432	5,571	(247,893)	775,613	(315,084)	18,473	1,162,112
Equities	1,087,417	196,213	(310,706)	16,920	(477,449)	(35,073)	477,322
Fixed interest securities	-	-	140	-	-	(140)	-
Pooled property and infrastructure	346,394	56,744	(59,519)	65,826	-	28,351	437,796
Private debt	374,494	85,083	(34,160)	-	-	1,774	427,191
Private equity	225,500	52,708	(38,924)	-	(65,826)	(1,986)	171,472
FX and derivatives	(1,221)	61,623	(40,211)	-	-	(9,008)	11,183
	<b>4,329,310</b>	<b>811,942</b>	<b>(731,273)</b>	<b>858,359</b>	<b>(858,359)</b>	<b>(270,192)</b>	<b>4,139,787</b>
Cash deposits and instruments	219,064	-	-	-	-	856	143,590
Other investment balances	(674)	-	-	-	-	-	259
<b>Total</b>	<b>4,547,700</b>					<b>(269,336)</b>	<b>4,283,636</b>

Long-term investments	<b>838</b>	-	-	-	-	<b>(131)</b>	<b>707</b>
<b>Total</b>	<b>4,548,538</b>					<b>(269,467)</b>	<b>4,284,343</b>

Included in asset transfers is £526,335,000 in respect of assets that were reclassified from one investment category to another investment category during the year. These transfers were reclassifications of investments and did not involve any actual transfer of securities.

## Investment value details

Investment assets	2024 £000	2023 £000
<b>Equities</b>	<b>566,093</b>	<b>477,322</b>
<b>Pooled equities</b>	<b>1,353,882</b>	<b>1,162,112</b>
<b>Pooled fixed interest</b>	<b>1,490,171</b>	<b>1,452,711</b>
<b>Private equity</b>	<b>185,553</b>	<b>171,472</b>
<b>Pooled property and infrastructure</b>		
Infrastructure funds	217,680	219,446
Pooled property	212,304	218,350
	<b>429,984</b>	<b>437,796</b>
<b>Private debt</b>	<b>414,752</b>	<b>427,191</b>
<b>Derivatives</b>		
Forward foreign exchange	(3,154)	10,749
Futures	-	434
<b>Cash deposits and instruments</b>		
Cash with custodian and fund managers	208,165	143,590
<b>Other investment balances</b>		
Accrued income	1,165	761
Amounts due from trade and currency brokers	351	1,232
Income tax recoverable	624	883
Amounts due to trade and currency brokers	(316)	(2,617)
	<b>1,824</b>	<b>259</b>
<b>Net investment assets</b>	<b>4,647,270</b>	<b>4,283,636</b>
<b>Long-term investments</b>	<b>722</b>	<b>707</b>
<b>Total investment assets</b>	<b>4,647,992</b>	<b>4,284,343</b>

## b) Investment assets and liabilities

	2024 £000	2023 £000
<b>Financial assets</b>		
Equities (includes pooled and private equity)	2,105,528	1,810,906
Bonds (includes pooled and gilts)	1,490,171	1,452,711
Pooled property and infrastructure	429,984	437,796
Private debt	414,752	427,191
Cash	208,165	143,590
Other investment assets	2,140	2,876
Derivatives – Futures and forward foreign exchange	352	11,723
<b>Total financial assets</b>	<b>4,651,092</b>	<b>4,286,793</b>
<b>Financial liabilities</b>		
Amounts due to trade and currency brokers (including cash margin with brokers)	(316)	(2,617)
Derivatives – Futures and forward foreign exchange	(3,506)	(540)
<b>Total financial liabilities</b>	<b>(3,822)</b>	<b>(3,157)</b>
<b>Long-term investments</b>	<b>722</b>	<b>707</b>
<b>Net investment assets</b>	<b>4,647,992</b>	<b>4,284,343</b>

## c) Derivative contracts

Derivatives	2024		2023	
	Asset £000	Liability £000	Asset £000	Liability £000
Forward foreign currency contracts	352	(3,506)	11,289	(540)
Futures	-	-	434	-
<b>Net derivatives</b>	<b>352</b>	<b>(3,506)</b>	<b>11,723</b>	<b>(540)</b>

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 2024 there was an unrealised loss of £3,858,000 on the currency forwards (2023: unrealised gain of £10,749,000). The current position relates to specific hedging undertaken by individual managers.

Currency bought	Local value £000	Currency sold	Local value £000	Settlement dates	2024 Asset £000	2024 Liability £000	2023 Asset £000	2023 Liability £000
Australian Dollar	26	Sterling	13	Two to six months	-	-	-	(117)
Canadian Dollar	-	-	-	One to six months	-	-	-	(52)

Chinese Yuan	-	-	-	One to six months	-	-	20	-
Japanese Yen	948,000	US Dollar	6,511	One to six months	-	(185)	-	(297)
Sterling	89,652	Euro	104,894	Two to six months	-	(272)	1,231	-
Sterling	29,308	Australian Dollar	56,788	Two to six months	-	(72)	857	-
Sterling	13,347	Japanese Yen	2,478,940	Two to six months	230	-	251	-
Sterling	196,958	US Dollar	252,674	Two to six months	-	(2,977)	8,764	-
US Dollar	18,171	Sterling	14,378	Two to six months	-	-	-	(12)
US Dollar	-	Canadian Dollar	-	One to six months	-	-	-	(10)
US Dollar	8,693	Euro	7,970	One to six months	63	-	-	-
US Dollar	-	Australian Dollar	-	One to six months	-	-	-	(5)
US Dollar	-	Japanese Yen	-	One to six months	-	-	-	(47)
US Dollar	5,035	Chinese Yuan	35,800	One to six months	59	-	166	-
				<b>Total</b>	<b>352</b>	<b>(3,506)</b>	<b>11,289</b>	<b>(540)</b>

Type of futures contract	Expiration	2024 Nominal value £000	2023 Nominal value £000	2024 Fair Value £000	2023 Fair Value £000
E-mini S&P 500 US exchange traded June 2023 (Generation)	3 months	-	5,355	-	-
Eurostoxx 50 index exchange traded June 2023 (Generation)	3 months	-	5,803	-	-
<b>Total</b>		<b>-</b>	<b>11,158</b>	<b>-</b>	<b>-</b>

In the table above, the 'nominal value' of the futures contracts is the 'economic exposure' of those futures and the 'Fair value' is the unrealised profit or loss of the futures as at 31 March.

#### d) Investments exceeding 5% of net assets

The following tables represent the investments of the Fund that exceed 5% of the net assets in 2024 and 2023.

Holding	2024	
	Market value £m	% of net assets
Brunel Sterling Corporate Bond Fund	681.8	14.7
Brunel BlackRock LDI Fund	469.6	10.1
Brunel Global Sustainable Equities Fund	425.9	9.2
Brunel Low Volatility Equity Fund	390.6	8.4
Brunel FTSE PAB Developed Hedged	348.3	7.5

Holding	2023	
	Market value £m	% of net assets
Brunel BlackRock LDI Fund	694.5	16.2
Brunel Sterling Corporate Bond Fund	626.3	14.6
Brunel Global Sustainable Equities Fund	376.2	8.8
Brunel Low Volatility Equity Fund	342.9	8.0
Brunel FTSE PAB Developed Hedged	283.3	6.6

## 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 2024	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
<b>Financial assets</b>			
Pooled fixed interest	1,490,171	-	-
Pooled equities	1,353,882	-	-
Equities	566,093	-	-
Pooled property and infrastructure	429,984	-	-
Private debt	414,752	-	-
Cash deposits and instruments	208,165	-	-
Private equity	185,553	-	-
Long-term investments	722	-	-
Derivatives	352	-	-
Debtors (excluding VAT)	-	21,744	-
Other investment assets	-	2,140	-
	<b>4,649,674</b>	<b>23,884</b>	-
<b>Financial liabilities</b>			
Derivatives	(3,506)	-	-
Creditors (excluding PAYE)	-	-	(5,884)
Other investment liabilities	-	-	(316)
	<b>(3,506)</b>	-	<b>(6,200)</b>
<b>Total</b>	<b>4,646,168</b>	<b>23,884</b>	<b>(6,200)</b>
<b>Grand Total</b>		<b>4,663,852</b>	

31 March 2023	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
<b>Financial assets</b>			
Pooled equities	1,162,112	-	-
Pooled fixed interest	1,452,711	-	-
Equities	477,322	-	-
Fixed interest securities	-	-	-
Pooled property and infrastructure	437,796	-	-
Private debt	427,191	-	-
Private equity	171,472	-	-
Cash deposits and instruments	143,590	-	-
Derivatives	11,723	-	-
Long-term investments	707	-	-
Debtors (excluding VAT)	-	17,380	-
Other investment assets	-	2,876	-
	<b>4,284,624</b>	<b>20,256</b>	-
<b>Financial liabilities</b>			
Derivatives	(540)	-	-
Creditors (excluding PAYE)	-	-	(7,024)
Other investment liabilities	-	-	(2,617)
	<b>(540)</b>	-	<b>(9,641)</b>
<b>Total</b>	<b>4,284,084</b>	<b>20,256</b>	<b>(9,641)</b>
<b>Grand Total</b>		<b>4,294,699</b>	

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

	2024 £000	2023 £000
<b>Financial assets</b>		
Gain / (loss) on fair value through profit and loss	310,015	(273,296)
<b>Financial liabilities</b>		
Gain / (loss) on fair value through profit and loss	6,338	3,829
<b>Total change in market value</b>	<b>316,353</b>	<b>(269,467)</b>

#### 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	EBITDA multiple	Valuations could be affected by post

		accordance with International Private Equity and Venture Capital Valuation Guidelines	Revenue multiple Discount for lack of marketability Control premium	balance sheet events, changes to expected cash flows, or by any differences between audited and unaudited accounts
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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.

Financial assets at fair value through profit and loss at 31 March 2024	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Pooled fixed interest	-	1,490,171	-	1,490,171
Pooled equities	-	1,353,882	-	1,353,882
Equities	566,093	-	-	566,093
Infrastructure	-	-	217,680	217,680
Pooled property	-	-	212,304	212,304
Private debt	-	-	414,752	414,752
Cash deposits	208,165	-	-	208,165
Private equity	-	-	185,553	185,553
Investment income due	1,789	-	-	1,789
Long term investments	-	-	722	722
FX and derivatives	-	352	-	352
Amounts receivable for sales	351	-	-	351
<b>Total</b>	<b>776,398</b>	<b>2,844,405</b>	<b>1,031,011</b>	<b>4,651,814</b>
<b>Financial liabilities at fair value through profit and loss</b>				
FX and derivatives	-	(3,506)	-	(3,506)
Payable for investment purchases	(316)	-	-	(316)
<b>Total</b>	<b>(316)</b>	<b>(3,506)</b>	<b>-</b>	<b>(3,822)</b>
<b>Total</b>	<b>776,082</b>	<b>2,840,899</b>	<b>1,031,011</b>	<b>4,647,992</b>

Financial assets at fair value through profit and loss at 31 March 2023	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Pooled fixed interest	-	1,452,711	-	1,452,711
Pooled equities	-	1,162,112	-	1,162,112
Equities	477,322	-	-	477,322
Infrastructure	-	-	219,446	219,446
Pooled property	-	-	218,350	218,350
Private debt	-	-	427,191	427,191
Private equity	-	-	171,472	171,472
Cash deposits	143,590	-	-	143,590
FX and derivatives	-	11,723	-	11,723
Investment income due	1,644	-	-	1,644
Amounts receivable for sales	1,232	-	-	1,232
Long term investments	-	-	707	707
<b>Total</b>	<b>623,788</b>	<b>2,626,546</b>	<b>1,037,166</b>	<b>4,287,500</b>
<b>Financial liabilities at fair value through profit and loss</b>				
FX and derivatives	-	(540)	-	(540)
Payable for investment purchases	(2,617)	-	-	(2,617)
<b>Total</b>	<b>(2,617)</b>	<b>(540)</b>	<b>-</b>	<b>(3,157)</b>
<b>Total</b>	<b>621,171</b>	<b>2,626,006</b>	<b>1,037,166</b>	<b>4,284,343</b>

### Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, 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 2024. It is assessed that there is no market risk associated to our long-term investment, our shareholding in Brunel.

Level 3 assets	Assessed valuation range % (+/-)	Value at 31 March 2024	Value on increase	Value on decrease
		£000	£000	£000
Infrastructure	14.4	217,680	249,025	186,334
Pooled property	14.8	212,304	243,725	180,883
Private debt	12.4	414,752	466,181	363,323
Private equity	24.6	185,553	231,199	139,907
Long-term investments	N/A	722	722	722
<b>Total</b>		<b>1,031,011</b>	<b>1,190,852</b>	<b>871,169</b>

### Reconciliation of fair value measurements within level 3

Period 2023/24	Market value 1 April 2023 £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 2024 £000
Infrastructure	219,446	-	-	29,707	(19,902)	(11,571)	217,680
Pooled property	218,350	-	-	15,910	(9,072)	(12,884)	212,304
Private equity	171,472	-	-	35,903	(18,697)	(3,125)	185,553
Private debt	427,191	-	-	30,812	(68,763)	25,512	414,752
Long-term investments	707	-	-	-	-	15	722
<b>Totals</b>	<b>1,037,166</b>	<b>-</b>	<b>-</b>	<b>112,332</b>	<b>(116,434)</b>	<b>(2,053)</b>	<b>1,031,011</b>

## 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.

Further information on the Fund's approach to risk management, credit and market risk is set out below. This does not include AVC investments as these are not considered significant in relation to the

overall investments of the Fund, though these assets are subject to periodic formal 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 Responsible Investment Strategy Statement ('RISS').

The Active Fund's assets as at 31 March 2024 and 31 March 2023 are detailed in the table below.

Active Fund	2024 £000	2023 £000
<b>Return Seeking Assets</b>	<b>2,899.7</b>	<b>2,574.7</b>
Private Equity inc TOP	185.5	171.5
Emerging Market Equity	9.4	12.2
Global Equity	1,910.5	1,627.2
Infrastructure / Real Estate	430.0	437.8
Multi Asset Credit	364.3	326.0
<b>Risk Reducing Assets</b>	<b>1,747.6</b>	<b>1,708.9</b>
Private Debt	201.1	233.0
Corporate Bonds	870.0	626.3
LDI	469.6	694.6
Cash*	206.9	155.0
<b>Total</b>	<b>4,647.3</b>	<b>4,283.6</b>

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 looking to keep contributions stable and affordable.

The Strategic Asset Allocation for the Fund as at 31 March 2024 and 31 March 2023 is set out as follows:

Asset Classes	2024 (%)	2023 (%)
<b>Return Seeking Assets</b>	<b>58.0</b>	<b>58.0</b>
Private Equity inc TOP	4.0	4.0
Global Equity	34.0	34.0
Real Estate	3.0	3.0
Infrastructure*	9.0	9.0
Multi Asset Credit	8.0	8.0
<b>Risk Reducing Assets</b>	<b>42.0</b>	<b>42.0</b>
Private Debt	5.0	5.0
Corporate Bonds	19.0	19.0
Secured Finance	4.0	4.0
LDI	12.0	12.0
Cash	2.0	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*Includes a 4% target allocation to Natural Capital.

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) and through investments in Private Debt.

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 2024 and 31 March 2023 are disclosed in the table below.

Fund	Balance as at 31 March 2024 (£000)	Balance as at 31 March 2023 (£000)
Money Market fund: State Street	124,120	91,210
Bank current account: National Westminster Bank plc	12,472	9,565
<b>Total</b>	<b>136,592</b>	<b>100,775</b>

**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

**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 collective investment funds and is therefore directly exposed to credit risk arising from vehicles and is indirectly exposed to credit risk arising on the underlying investments held by a number of these. Direct credit risk is mitigated by the underlying assets being ring-fenced from the manager, the regulatory environments in which the 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 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 and collective investment fund 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	
Bridges Property Alternatives Fund III	
Bridges Property Alternatives Fund IV	
Bridges Property Alternatives Fund V	
DBL Partners III	US Limited Partnership
Generation Climate Solutions Fund	Cayman Islands Limited Partnership
Barings North America PL Fund	
SA Impact Forestry Fund	
Anterra F&A Ventures II	Private Fund Limited Partnership
Circularity European Growth Fund II	
World Fund I	
Brunel Infrastructure Cycle 3	
Brunel Private Debt Cycle 3	
Summa Equity III	Swedish Private Limited Company
Ambienta III	Luxembourg Limited Partnership
Ambienta IV	
ICG Europe Fund VIII	
Ares Capital Europe V	
Arcmont Direct Lending UK Fund	
Arcmont Senior Lending Fund	
Arcmont Direct Lending III	

Ambienta Sustainable Credit Opportunities	Luxembourg Special Limited Partnership
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	
Carlyle Credit Opportunities II	Luxembourg Feeder
Lombard Odier Sustainable Private Credit	UK Exempt Unauthorised Unit Trust into Luxembourg Limited Partnership
Blackrock Liability Driven Investment	Irish Authorised Unit Trust
BlackRock Buy and Maintain ESG Credit	
State Street Liquidity Fund	OEIC UCITS

The Pensions Committee carries out due diligence checks on the appointment of new pooled investment or collective investment fund 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 investment vehicles. Indirect credit risk is managed by investing in funds that are well diversified.

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 are not strategically 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 2024

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	11.5
Targeted Opportunities Portfolio (see below)	See below				
Generation Global Equity	Segregated	0.1	99.9	0.0	431.8
Impax Global Equity	Segregated	9.2	90.8	0.0	142.2
Robeco SEVE	Pooled	5.0	95.0	0.0	179.7
Brunel Low Volatility Equity	Pooled	2.7	97.3	0.0	380.1
Brunel Passive Dev Eq Paris Aligned	Pooled	3.0	97.0	0.0	337.9
Brunel Global Sustainable Equities	Pooled	4.3	95.7	0.0	407.5
Townsend Real Assets	Segregated	35.9	64.1	100.0	0.0
Brunel Infrastructure Cycle 3 <sup>1</sup>	Pooled	2.8	97.2	0.0	20.3
Brunel Private Debt Cycle 3 <sup>1</sup>	Pooled	25.1	74.9	100.0	0.0
Private Debt Portfolio (see below)	See below				
Brunel Multi Asset Credit	Pooled	4.9	95.1	94.6	18.7
BlackRock Buy and Maintain ESG Credit	Pooled	57.4	42.6	100.0	0.0
Brunel Sterling Corporate Bonds	Pooled	96.7	3.3	100.0	0.0
Blackrock Liability Driven Investment	Pooled	100.0	0.0	0.0	0.0
Cash	Segregated	87.6	12.4	0.0	17.7
<b>Total</b>		<b>36.3</b>	<b>63.7</b>	<b>37.5</b>	<b>2,170.8</b>

<sup>1</sup>currency data as at 31 December 2023

### Targeted Opportunities Portfolio – 2024

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	2.0
Activate Capital Fund II	Pooled	0.0	100.0	0.0	9.4
Ambienta III	Pooled	10.1	89.9	0.0	17.8
Ambienta IV	Pooled	0.0	100.0	0.0	3.3
Anterra F&A Ventures II	Pooled	0.5	99.5	0.0	8.9
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 V	Pooled	95.0	5.0	0.0	0.6
Circularity European Growth Fund	Pooled	28.0	72.0	0.0	8.0
DBL Partners III LP	Pooled	0.0	100.0	0.0	25.1
DBL Partners IV LP	Pooled	0.0	100.0	0.0	19.1
Generation Climate Solutions Fund	Pooled	2.4	97.6	0.0	14.4
Generation Sustainable Solutions Fund IV	Pooled	0.0	100.0	0.0	13.3
GHO Capital Fund III	Pooled	34.0	66.0	0.0	8.4
Palatine Impact Fund	Pooled	100.0	0.0	0.0	0.0
SA Impact Forestry Fund	Pooled	0.0	100.0	0.0	7.6
Summa Private Equity	Pooled	0.0	100.0	0.0	5.7
Verdane Idun I	Pooled	0.0	100.0	0.0	5.7
World Fund I	Pooled	25.1	74.9	0.0	4.6

### Private Debt Portfolio – 2024

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Ambienta Sustainable Credit Opportunities <sup>1</sup>	Pooled	0.0	100.0	0.0	0.0
Arcmont Direct Lending UK Fund	Pooled	28.0	72.0	100.0	0.0
Arcmont Direct Lending Fund III	Pooled	16.0	84.0	100.0	0.0
Arcmont Senior Loan Fund	Pooled	20.0	80.0	100.0	0.0
Ares Capital Europe V <sup>1</sup>	Pooled	51.0	49.0	98.2	0.2
Barings North America PL Fund	Pooled	0.0	100.0	0.0	2.1
Carlyle Credit Opportunities II	Pooled	14.5	85.5	0.0	20.7

ICG Europe Fund VIII <sup>1</sup>	Pooled	16.0	84.0	0.0	6.2
Lombard Odier Sustainable Private Credit Fund	Pooled	0.0	100.0	0.0	18.2
Neuberger Berman Private Debt Fund IV	Pooled	1.0	99.0	0.0	12.9
Newmarket IIFC Feeder Fund III <sup>1</sup>	Pooled	2.7	97.3	0.0	7.7
P Capital Partners Transition Partner Fund	Pooled	12.0	88.0	0.0	6.0
Permira Credit Solutions Fund III <sup>1</sup>	Pooled	29.4	70.6	100.0	0.0

<sup>1</sup> Currency data as at 31 December 2023.

### 31 March 2023

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Stafford Private Equity	Segregated	0.0	100.0	0.0	22.7
Targeted Opportunities Portfolio (see below)	See below	29.0	71.0	0.0	132.4
Generation Global Equity	Segregated	2.6	97.4	0.0	341.9
Impax Global Equity	Segregated	8.5	91.5	0.0	139.3
Robeco SEVE	Pooled	4.0	96.0	0.0	153.3
Brunel Low Volatility Equity	Pooled	2.2	97.8	0.0	335.4
Brunel Passive Dev Eq Paris Aligned	Pooled	2.2	97.8	100.0	0.0
Brunel Global Sustainable Equities	Pooled	4.7	95.3	0.0	358.5
Townsend Real Assets	Segregated	38.9	61.1	100.0	0.0
Brunel Infrastructure Cycle 3	Pooled	100.0	0.0	0.0	0.0
Brunel Private Debt Cycle 3	Pooled	17.3	82.7	100.0	0.0
Private Debt Portfolio (see below)	See below	19.7	80.3	62.8	67.2
Brunel Multi Asset Credit	Pooled	11.3	88.7	87.8	35.3
Brunel Sterling Corporate Bonds	Pooled	95.3	4.7	100.0	0.0
Blackrock Liability Driven Investment	Pooled	100.0	0.0	0.0	0.0
Cash	Segregated	90.7	9.3	0.0	9.1
<b>Total<sup>1</sup></b>		<b>40.8</b>	<b>59.1</b>	<b>41.1</b>	<b>1,595.1</b>

<sup>1</sup>Excludes residual holding in Royal London Corporate Bond Fund.

### Targeted Opportunities Portfolio – 2023

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Actis Energy Fund IV	Pooled	0.0	100.0	0.0	3.7
Activate Capital Fund II	Pooled	0.0	100.0	0.0	5.6
Ambienta III	Pooled	10.4	89.6	0.0	14.8
Ambienta IV	Pooled	0.0	100.0	0.0	0.3
Anterra F&A Ventures II	Pooled	0.6	99.4	0.0	7.9
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	97.0	3.0	0.0	0.2
Circularity European Growth Fund	Pooled	52.0	48.0	0.0	2.7
DBL Partners III LP	Pooled	0.0	100.0	0.0	28.4
DBL Partners IV LP	Pooled	0.0	100.0	0.0	18.9
Generation Climate Solutions Fund	Pooled	2.8	97.2	0.0	24.9
Generation Sustainable Solutions Fund IV	Pooled	0.0	100.0	0.0	4.4
GHO Capital Fund III	Pooled	17.0	83.0	0.0	8.0
Palatine Impact Fund	Pooled	100.0	0.0	0.0	0.0
SA Impact Forestry Fund	Pooled	0.0	100.0	0.0	6.7
Summa Private Equity	Pooled	0.0	100.0	0.0	1.3
Verdane Idun I	Pooled	0.0	100.0	0.0	4.6
World Fund I	Pooled	12.9	87.1	0.0	5.1

### Private Debt Portfolio – 2023

Manager and fund(s)	Pooled / Segregated	GBP exposure (%)	Non-GBP exposure (%)	Non-GBP exposure hedged back to GBP (%)	Implied unhedged overseas currency exposure (£m)
Arcmont Direct Lending UK Fund	Pooled	23.2	76.8	98.5	0.1
Arcmont Direct Lending Fund III	Pooled	17.6	82.4	99.2	0.1
Arcmont Senior Loan Fund	Pooled	19.3	80.7	98.9	0.0
Ares Capital Europe V	Pooled	53.0	47.0	102.9	-0.2
Barings North America PL Fund	Pooled	0.0	100.0	0.0	21.7
Carlyle Credit Opportunities II	Pooled	19.0	81.0	0.0	20.6
ICG Europe Fund VIII	Pooled	18.0	82.0	0.0	4.1
Neuberger Berman Private Debt Fund IV	Pooled	1.0	99.0	0.0	10.8

Newmarket IIFC Feeder Fund III	Pooled	0.0	100.0	0.0	8.6
P Capital Partners Transition Partner Fund	Pooled	0.0	100.0	0.0	1.5
Permira Credit Solutions Fund III	Pooled	35.0	65.0	100.0	0.0

## 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, principally through 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 12.0% to Liability Driven Investments (LDI), as well as a strategic allocation to corporate bonds of 19%. Together these help to match a proportion of 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 a proportion of the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these matching assets are expected to fall in value, as will the actuarial liabilities because of an increase in the discount rate.

### Interest Rate Sensitivity Analysis

The following table outlines the duration of the Fund's listed fixed income mandates:

	Duration	
	As at 31 March 2024	As at 31 March 2023
Blackrock Liability Driven Investment	20.6	17.6*
Brunel Sterling Corporate Bonds	6.1	5.9
BlackRock Buy and Maintain ESG Credit	5.6	-
Brunel Multi Asset Credit	2.8	2.3

\*Duration including the holding of a single gilt held within QIAIF. The gilt was being held to broadly match the interest rate sensitivity of an upcoming investment into corporate bonds. Duration of LDI portfolio excluding gilt is 21.5.

## 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 58.0% of investments being held in return seeking assets. 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	✓	✓	✓	✓
Brunel Infrastructure Cycle 3	✓	✓	✓	✓
Brunel Private Debt Cycle 3	✓	✓	✓	
Private Debt portfolio	✓	✓	✓	
Brunel Multi Asset Credit	✓	✓	✓	✓
Brunel Sterling Corporate Bonds	✓	✓	✓	
BlackRock Buy and Maintain ESG Credit	✓	✓	✓	
Blackrock Liability Driven Investment			✓	
State Street Liquidity Fund	✓	✓	✓	

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 2023/24 reporting period. This gives an overall fund volatility of 10.8% (2023: 10.0% using assumptions provided by the investment consultant as at 31 March 2023).

Asset Class	Absolute 1 year expected volatility (+/-)%	% of Fund value	
		2024	2023
Private Equity	24.6	4.0	4.0
Global Equity	18.4	41.3	38.3
Real Assets	14.8	4.6	5.1
Infrastructure	14.4	4.7	5.1
Multi Asset Credit	9.3	7.8	7.6
Private Debt	12.4	4.3	5.4
Corporate Bonds	10.4	18.7	14.6
Secured Sustainable Finance	3.3	0.0	0.0

Liability Driven Investment	10.1	10.1	16.2
Cash	0.0	4.5	3.6
<b>Total Fund Volatility</b>	<b>10.8</b>	<b>100</b>	<b>100</b>

Figures may not sum due to rounding.

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):

	<b>As at 31 March 2024</b>	<b>As at 31 March 2023</b>
Total net investment assets (£000)	4,647,270	4,283,677
Percentage change (%)	10.8%	10.0%
Value on increase (£000)	5,419,175	4,714,053
Value on decrease (£000)	4,145,365	3,853,301

## 18. Funding arrangements as at 31 March 2022

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

The key elements of the funding policy are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.
- manage the fund in line with the stated ESG policies.

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 2022 actuarial valuation, the Fund was assessed as 103% funded (106% at the March 2019 valuation). This corresponded to a surplus of £154m (2019 valuation: surplus of £211m) at that time. The following table shows the minimum contributions payable after allowing for advanced lump sum contributions paid to the Fund in March 2024.

Employer name	Minimum contributions for the year ending:	
	31 March 2025	
	% pay	Monetary amount
EA	14.5	£13,620,000
NRW*	0.0	£nil
SSCL	22.7	£nil

\*The Environment Agency paid a lump sum contribution of £4.9m in March 2024, towards their 2024/25 contribution requirement.

\*\*Natural Resources Wales paid a lump sum contribution of £6.9m in March 2024, which met the entirety of the 2024/25 contribution requirement.

Full details of the contribution rates payable can be found in the 2022 actuarial valuation report (dated 29 March 2023), and the FSS (dated December 2022).

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%
Consumer Price Index (CPI)	2.5	Median projected CPI at the valuation date
Pension Increases	2.5	The annual rate of change of the Consumer Prices Index (CPI)
Salary Increases*	3.0	CPI inflation plus 0.5% (with the adjustment applied geometrically)

\*An allowance is also made for promotional pay increases.

### Longevity assumptions

Life expectancy at the 2022 valuation was based on the Fund's Vita Curves with improvements in line with the CMI 2021 model with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current pensioners	22.0 years	24.5 years
Future pensioners *	23.1 years	26.2 years

\* Figures assume members are aged 45 as at 31 March 2022

### Commutation assumption

It is assumed that future retirees will take 60% 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 18). 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 £3,759m (2023: £3,719m). The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

### Assumptions used

The assumptions used are the same as those adopted for the Environment Agency's IAS19 report.

### Financial assumptions

Year ended	31 March 2024 % p.a.	31 March 2023 % p.a.
Inflation/Pensions increase rate	2.75	2.95
Salary increase rate	3.25	3.45
Discount rate	4.85	4.75

### Demographic assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 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..

This has changed from last year to use future longevity improvement assumptions in line with the latest Continuous Mortality Investigation (CMI) results.

The other demographic assumptions used to determine the actuarial present value of promised retirement benefits as at 31 March 2024 are those adopted for the formal actuarial valuation as at 31 March 2022.

The actuary has estimated that the impact of the change in longevity assumptions to 31 March 2024 was to decrease the actuarial present value by £24m. The actuary has also estimated that the impact of the change in financial assumptions to 31 March 2024 was to decrease the actuarial present value by £249m.

### IAS26: Accounting and reporting by retirement benefit plans

CIPFA's Code of Practice on Local Authority Accounting 2023/24 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. I have 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 2024	31 March 2023
Active members (£m)	1,820	1,743
Deferred members (£m)	577	575
Pensioners (£m)	1,362	1,401
<b>Total (£m)</b>	<b>3,759</b>	<b>3,719</b>

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. 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

Assumptions used are those adopted for the Administering Authority's IAS19 report and are different at 31 March 2024 and 31 March 2023. I estimate that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £249m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £24m.

### Financial assumptions

Year ended	31 March 2024 % p.a.	31 March 2023 % p.a.
Pensions Increase Rate (CPI)	2.75	2.95
Salary Increase Rate	3.25	3.45
Discount Rate	4.85	4.75

### Demographic 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 2022 model, with a 25% weighting of 2022 data, 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	21.6 years	24.1 years
Future pensioners*	22.6 years	25.8 years

\*assumed to be 45 at the latest valuation date

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

## 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 2024	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount rate	2	79
1 year increase in member life expectancy	4	150
0.1% p.a. increase in Salary Increase Rate	0	4
0.1% p.a. increase in the Pension Increase rate (CPI)	2	77

## 20. Current assets

	2024 £000	2023 £000
<b>Debtors</b>		
Contributions due – employers	6,249	5,270
Contributions due – employees	2,958	2,502
VAT to be reimbursed to the Fund	635	496
Overpaid benefits to be refunded to the Fund	65	43
	<b>9,907</b>	<b>8,311</b>
<b>Cash at bank</b>	<b>12,472</b>	<b>9,565</b>
<b>Total</b>	<b>22,379</b>	<b>17,876</b>

### Analysis of debtors

Employers' and employees' contributions of £6,249k and £2,958k (2023: £5,270k and £2,502k) 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

	2023 £000	2023 £000
<b>Creditors</b>		
Administration and investment expenses	(2,397)	(4,121)
Benefits payable	(2,394)	(2,138)
PAYE	(1,380)	(1,106)
Sundry	(1,018)	(656)
Payroll deductions	(64)	(10)
Other – amount due to Closed Fund	(2)	(11)
Refunds	(5)	(2)
Tax payable on refunds	(4)	(86)
<b>Total</b>	<b>(7,264)</b>	<b>(8,130)</b>

### Analysis of creditors

£2,000 is due to the Environment Agency Closed Pension Fund (2023: £11,000) in respect of administration expenses.

## 22. Additional Voluntary Contributions

The table below shows information about these separately invested AVCs.

	<b>2024</b> <b>£000</b>	<b>2023</b> <b>£000</b>
Prudential	10,288	6,940
Standard Life	4,317	3,909
Clerical Medical	1,673	1,422
Utmost Life	751	723
<b>Total AVC investments</b>	<b>17,029</b>	<b>12,994</b>

AVC confirmations have not been received for 31 March 2024 from Clerical Medical, so these valuations are based on the closing value from 31 March 2023, 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 2024 there have been the following related party transactions:

- Pensions administration costs of £911k (2023: £896k) were recharged to the Active Fund by the Environment Agency;
- eight members of the Pensions Committee were contributing members of the Active Fund who pay contributions on an arm's length basis;
- one 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 £381k (2023: £362k) recharged to the Environment Agency and funded by grant-in-aid from Defra in respect of compensatory added years;
- £2k is due to the Environment Agency Closed Fund (2023: £11k) in respect of administration expenses and VAT reclaimed.
- The Environment Agency own 10% of BPP Ltd represented by the Long-term investment of £722k (2023: £707k). This was increased by £15k (2023: decreased by £131k) using the latest available valuation from the Brunel Pension Partnership Annual Report and Accounts as at 30 September 2023;
- The Environment Agency paid Brunel Pension Partnership £930k in the year, for its Investment Management services (2023: £930k); and
- The Environment Agency currently has eight portfolios with Brunel:
  - Sterling Corporate Bonds valued at £681.8m (2023: £626.3m);
  - BlackRock LDI Fund valued at £469.7m (2023: £694.6m)
  - Global Sustainable Equity Fund valued at £425.9m (2023: £376.2m);
  - Low Volatility Equity Fund valued at £390.7m (2023: £343.0m);
  - Multi Asset Credit Fund valued at £364.3m (2023: £326.0m);
  - Paris Aligned Equity Fund valued at £348.3m (2023: £283.3m);
  - Stepstone Infrastructure Fund at £20.9m (2023: £11.1m); and
  - BlackRock Private Debt Fund at £9.3m (2023: £5.2m).

## 24. Capital commitments, contingent assets and contingent liabilities

In accordance with authorised investment strategy and mandates, the outstanding Capital commitments at 31 March 2024 are: Real Estate/Infrastructure £128.7m (2023: £160.9m), Illiquid Credit £183.5m (2023: £166.1m) and Private Equity £136.2m (2023: £191.3m).

There are no contingent assets as at 31 March 2024 (2023: £nil).

In September 2020, Brunel shareholders entered into a Pension Recharge Agreement (PRA) to reimburse pension obligation cashflows. The value of the contingent liability at 31 March 2024 is £0k (2023: £0.1k). This is 1/10<sup>th</sup> of Brunel's pension reimbursement asset, reported in their September 2023 accounts, representing the amount of discounting future pension contribution streams to pay off any funding deficit.

## 25. Impairment losses

For the year to 31 March 2024 the Fund has recognised an impairment loss of less than £0.1m (2023: less than £0.1m) for the writing off 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 independent auditor's report.

## 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 that is valid for at least 3 months. If it is for less than 3 months, they will be brought into the scheme from either:

- The 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 beginning of the pay period after the one in which the employee opts to join the scheme.

\*Provided that the employee is, or during that period becomes, an 'Eligible Jobholder'

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 permanent pensionable earnings if the member chooses to be in the Main Section, or 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's In-House providers (Standard Life or Prudential) to buy a larger retirement pension, to improve other specific benefits, to provide additional cash, or to provide EAPF membership for pension purposes (if the employee has continuously paid additional voluntary contributions since before 13 Nov 2001).
- Purchase additional Environment Agency Pension Fund pension.

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

(b) Transfer payments for pension rights in almost any other scheme can be accepted by the Environment Agency Pension Fund to increase 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 **and** the 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 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	Final salary		Consumer Price Index
Pensionable pay	Pay <b>excluding</b> non-contractual overtime and non-pensionable additional hours		Pay <b>including</b> non-contractual overtime and non-pensionable additional hours
Lump sum	3/80ths (+ commutation 12:1)	No automatic lump sum (commutation 12:1)	
Ill health retirements	One tier	Three tiers	
Death benefits	<ul style="list-style-type: none"> <li>• 2 x salary</li> <li>• 5 year guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• 3 x salary</li> <li>• 10 year guarantee</li> </ul>	<ul style="list-style-type: none"> <li>• 3 x assumed pensionable pay</li> <li>• 10 year guarantee</li> </ul>
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 but with reductions		
85 year rule	Early payment protection when combined age and service equals 85	Removed, but existing staff have retained protections	
Normal retirement age	Age 65	Age 65	State Pension Age (minimum age 65)

## Contributions Table

The following table displays the 2023/24 employee contribution bands.

Pay range (based on actual Pensionable pay paid)	Contribution rate Main Section	Contribution rate 50:50 Section
Up to £16,500	5.50%	2.75%
£16,501 to £25,900	5.80%	2.90%
£25,901 to £42,100	6.50%	3.25%
£42,101 to £53,300	6.80%	3.40%
£53,301 to £74,700	8.50%	4.25%
£74,701 to £105,900	9.90%	4.95%
£105,901 to £124,800	10.50%	5.25%
£124,801 to £187,200	11.40%	5.70%
£187,201 or more	12.50%	6.25%

## Changes affecting the Local Government Regulations during 2023/24

Several key pieces of pensions legislation were introduced/amended during 2023/24, which affected the Local Government Pension Regulations 2013; these were:

- **The Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024 (SI 2024/356)** – Laid on 14 March 2024 and coming into effect from 6 April 2024, this is a major piece of overriding legislation that abolishes the Lifetime Allowance charge. It is replaced by a 'lump sum allowance' (LSA) and 'lump sum and death benefit allowance' (LSDBA).
- **The Pensions Dashboard (Amendment) Regulations 2023** – Following a revision of timescales by government for the Pension Dashboard "connection" timescales, these regulations have removed the different deadlines of the Dashboard process and have replaced them with a single 'connection deadline' of 31 October 2026.
- **The Local Government Pension Scheme (Amendment) (No.2) Regulations 2023 (SI 2023/522: valuation changes)** – These regulations changed the specified dates for the Scheme actuary to carry out the valuation from every 3 years to the dates specified in Treasury directions. In addition, the regulations changed the date on which the LGPS Scheme Advisory Board (SAB) must obtain the cost assessment from the Scheme actuary to conduct its review of the cost of the Scheme.
- **The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023 (2023/972: McCloud)** – Coming into force with effect from 1 October 2023, these regulations brought about the long-awaited changes to implement the McCloud remedy (i.e. introducing final salary underpin protection for qualifying younger members, similar to that introduced for qualifying older members in 2014).

## Annex 2 – Weblinks to Policy and Strategy documents

### Introduction

In March 2024, new Annual Report guidance has been jointly produced by the Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and, Department for Levelling Up, Housing and Communities (DLUHC) in consultation with funds, industry experts and other interested stakeholders. A section of this new guidance recognised an improvement to signpost members to the Funds policies and strategies on its website. As such, please use the links below to access our statutory documents and other important policies.

The Environment Agency Active Pension Fund:

- **Active Pension Fund - Funding Strategy Statement**
- **Active Pension Fund - Responsible Investment Strategy Statement**
- **Active Pension Fund - Communications Policy Statement**

Please note that some of the documents on this webpage (**EAPF Policies**) may not be suitable for users with assistive technology. If you need a version of any of our documents in a more accessible format, please tell us what format you need by emailing us at [engage@eapf.org.uk](mailto:engage@eapf.org.uk) or calling 0800 121 6593.

## Enquiries

Any enquiries regarding this Report should be addressed to:

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

Email: [info@eapf.org.uk](mailto: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](mailto:info@eapf.org.uk)

**The Annual Report and Financial Statements are also available on our website at [www.eapf.org.uk](http://www.eapf.org.uk)**

**[www.gov.uk/official-documents](http://www.gov.uk/official-documents)**



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