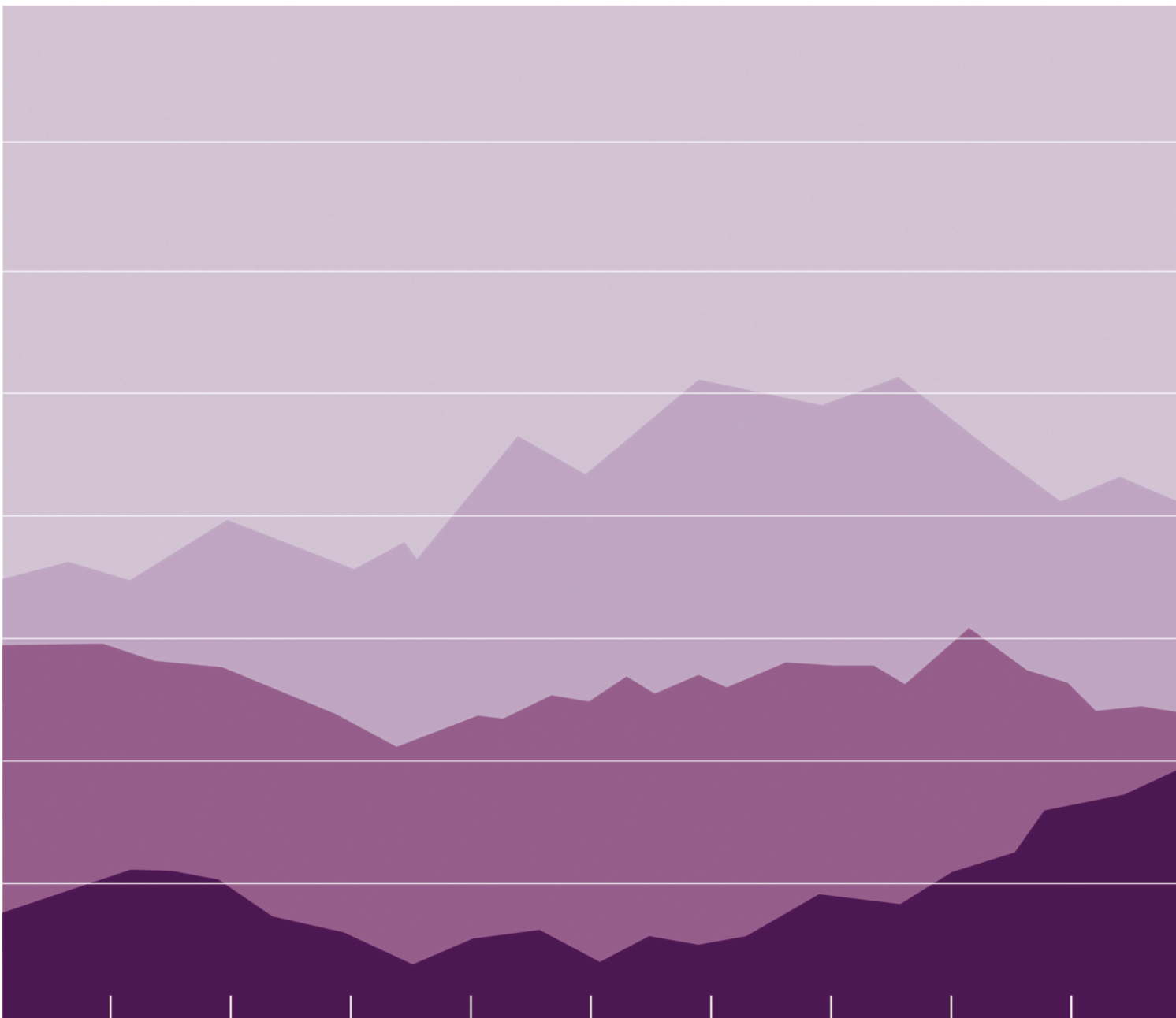


Closed Pension Fund Annual Report and Financial Statements 2009 - 2010



**Environment Agency Closed Pension Fund
Annual Report and Financial Statements 2009-2010**

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

Ordered by the House of Commons to be printed 27 July 2010

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Contents

	Page No.
The report	
Chairman's statement	1
Report by the Pensions Committee	2
Pension Fund membership	7
Pension Fund investment	9
The financial statements	
Foreword to the financial statements	11
Accounting Officer's statement on internal control	13
Statement by the Consulting Actuary	17
Certificate and Report of the Comptroller and Auditor General	18
Financial statements for the year ended 31 March 2010	20
Notes to the financial statements	21
The annexes	
Governance compliance statement	26
Communications policy statement	29
Funding strategy statement	33
Statement of investment principles	37
Government funding agreement	40
Additional information	
Statistical summary of Fund membership and value	43
Enquiries	44

Chairman's statement

As Chairman of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Closed Pension Fund (the "Fund"), I am pleased to present the Fund's Annual Report and Financial Statements for the year ended 31 March 2010.

These accounts have been prepared using the Statement of Recommended Practice (SORP) for pension funds issued by the Pensions Research Accountants Group (PRAG), which is recognised by the Accounting Standards Board as the appropriate body within the pensions industry for issuing statements of recommended practice governing the form and content of financial statements for pension schemes.

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

During the year the total number of current pensioners and deferred members fell by 890 (4.0%) to 21,337.

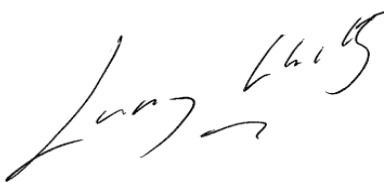
The triennial valuation of the Closed Fund carried out on 31 March 2007 indicated the solvency of the Closed Fund was 9%. As at the 31 March 2010 the Fund's assets are valued at £125 million. The investment management of the assets into two long dated gilts is undertaken by Sarasin & Partners LLP. The investment return for 2009/10 was +13.0%. The 31 March 2010 triennial valuation process is underway with results becoming available later in the year which will feed into 2010/11 accounts.

Since the Closed Fund has no contribution income, the Government has, under Section 173 of the Water Act 1989, a statutory obligation to ensure that the Closed Fund can always meet its pensions and other related liabilities.

Under the terms of letters between Her Majesty's Treasury and the Department for Environment Food & Rural Affairs (Defra), and between Defra and the Environment Agency and the Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency; the Closed Fund has, since 1 April 2006, received Grant-in-Aid from Defra. During the year payments amounting to £87.1 million were received and used to meet the Fund's obligations to meet pensions and other liabilities.

Deferred members, pensioners and their dependants can therefore be reassured about the long-term security of their pension benefits.

May I take this opportunity to thank everyone involved, both Environment Agency staff and external contractors, for helping the Pensions Committee to manage the Closed Fund over the last year.



Larry Whitty
Chairman
Environment Agency Pensions Committee
06 July 2010

Report by the Pensions Committee

Governance

Chairman and members

Larry Whitty was re-appointed to the Pensions Committee by the Board for a second term and became Chairman with effect from 1 June 2009, following the retirement of John Edmonds on 31 May 2009. In July 2009, the Board re-appointed Suzanne Warner for a second three-year term to September 2012 and appointed Robert Light for an initial three-year term until 30 June 2012 to replace John Edmonds. John Varley was appointed by the Board in November 2009 for an initial three-year term following the retirement of Richard Percy in October 2009.

In October 2009 Environment Agency Director of Finance Nigel Reader retired from the Environment Agency and Pensions Committee and was replaced by the new Director of Finance Mark McLaughlin with effect from 1 November 2009. Ric Navarro, Director of Legal Services, retired from the Committee on 30 June 2009. Kevin Ingram was appointed in July 2009 as the Executive Management nominee for Environment Agency Wales for an initial three-year term until July 2012 following the resignation of David Edwell in March 2009.

In May 2009, active member Alan Broughall was re-appointed for a further one-year term until his retirement from the Committee on 31 March 2010. In November 2009, following the resignation of Gary Barker in July 2009, Stuart Martin was appointed as an active member for an initial three-year term until November 2012 and pensioner member Brain Engel was re-appointed for a third term to May 2013. In February 2010 John Kerr was appointed as the new deferred member of the Committee for an initial three-year term until February 2013.

Committee governance

During the past year the Pensions Committee met on four occasions to fulfill its responsibilities as a sub-committee of the Environment Agency Board. The Board appoints members in accordance with the Governance compliance statement. The Committee has delegated responsibility to manage the investment and administration of the Environment Agency's pension funds. The Committee's Investment Sub-Group met on five occasions, including one special meeting to consider Active Fund investment issues. The Committee's Benefits Sub-Group met on four occasions.

In December 2008 the Government issued statutory guidance on the preparation of Governance compliance statements. With the appointment of a deferred member nominee, our statement, which incorporates the Pensions Committee Terms of Reference and Standing Orders and the Pension Funds Scheme of Delegation, demonstrates our compliance with this guidance. The statement of compliance with Government guidelines has been updated this year and may be found at Annex 1. The full Governance compliance statement may be found at www.environment-agency.gov.uk/pensions.

Committee training

The Pensions Committee's training strategy takes account of the requirements of the Pensions Act 2004. The Act requires that trustees of occupational pension schemes should have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

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

In each subsequent year of membership they are expected to undertake two to three days training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A self-assessment training needs questionnaire has been developed to help members to focus on the most important areas for their training. A detailed log of all training undertaken and planned by Committee members is maintained and is available for inspection on request. During 2009/10 two special training sessions were held for the Pensions Committee, the first covered part one of the Active Fund investment strategy review and the second covered the new cost sharing proposals within the LGPS.

A record of members' attendance at Committee meetings through the year is shown below:

	Committee business	Committee training	Investment Sub Group	Benefits Sub Group	TOTAL
Number of meetings	4	2	5	4	15
Board members					
Larry Whitty (Chair) <i>from 1/6/09</i>	4	2	4	4	14
John Edmonds (Chair) <i>to 31/05/09</i>	0	0	2	1	3
Suzanne Warner	4	2			6
Richard Percy <i>to 31/10/09</i>	2	0	2		4
Robert Light <i>from 01/07/09</i>	3	2		2	7
John Varley <i>from 01/11/09</i>	2	2	2		6
Executive members					
Nigel Reader <i>to 31/10/09</i>	1	0	2	2	5
Mark McLaughlin <i>from 01/11/09</i>	3	2	3	3	11
Graham Ledward	4	2		0	6
Ric Navarro <i>to 30/06/09</i>	1	0			1
Howard Pearce	4	2	5	4	15
Active members					
Alan Broughall <i>to 31/03/10</i>	4	2	5	2	13
Phil Chappell	4	2	3		9
Jackie Hamer	4	2	0		6
Aileen Parry	4	2		2	8
Kevin Ingram <i>from 07/07/09</i>	3	2			5
Stuart Martin <i>from 17/11/09</i>	2	2			4
Gary Barker <i>to 31/07/09</i>	0	0			0
Pensioner member					
Brian Engel	4	2		4	10
Deferred member					
John Kerr <i>from 09/02/10</i>	1	0			1
Chief Executive - ex officio attendee					
Paul Leinster	1	0			1

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

Pensions changes

Government pensions reform

During the year, the following statutory instruments were made:

- *The Local Government Pension Scheme (Amendment) Regulations 2009 (SI 2009/1025) – applicable from 1 April 2009.*

The amending regulation was issued to stakeholders on 24 April 2009 by Department for Communities and Local Government (CLG) and was effective from 1 April 2009.

CLG are committed to the introduction of “cost sharing” between employers and scheme members to ensure that the LGPS remains affordable, viable and fair to all. “All” represents employees, employers and taxpayers. The LGPS (Amendment) Regulations 2009 are based upon the responses received following the statutory consultation, further consideration of key issues from the recent Policy Review Group (PRG) and subsequent meetings with other key interested parties and introduce a cost sharing mechanism to facilitate this process.

- *The Local Government Pension Scheme (Amendment) Regulations 2008 (SI 2008/1083) – Correction – applicable from 1 April 2008*

The amending regulation was issued by CLG on 7 October 2009 and was effective from 1 April 2008.

The amending regulation corrects some erroneous dates and references to overriding legislation and correctly re-inserts indents to paragraphs within the benefit regulations.

- *The Local Government Pension Scheme (Miscellaneous) Regulations 2009 (SI 2009/3150) – applicable from 1 April 2008*

The amending regulation was issued by CLG on 23 December 2009 and is effective in parts from 1 April 2008. A summary of the main amendments is listed below:

Technical amendments to the: -

- LGPS (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 including, an amendment to prevent the award of discretionary compensation where the employing authority has granted the member additional membership or additional pension.
- LGPS (Benefits, Membership and Contributions) Regulations 2007 including amendments to the definition of Pensionable Pay, Final Pay Reductions.
- LGPS (Transitional Provisions) Regulations 2008 allowing for the inclusion of Pre 6 April 1988 periods of membership when calculating a Civil Partner’s pension.
- LGPS (Administration) Regulations covering payments in relation to the purchase of Additional Survivor Benefits and the payment of Guaranteed Minimum Pensions.

New regulations permitting: -

- Employing authorities to resolve, before 31 March 2012, to convert periods of Compensatory Added Years, annual compensation or annuities awarded under Discretionary Compensation Regulations into membership.
 - Members with nominated co-habiting partners to elect, before 1 April 2011, to pay additional survivor benefit contributions so that pre 6 April 1988 membership can count in the calculation of the nominated co-habiting partner’s benefits.
- *The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) – applicable from 1 January 2010*

The amending regulation was issued by CLG on 14 December 2009 and was effective from 1 January 2010 revoking the previous Management and Investment of Funds Regulations and subsequent amendments. A summary of the main amendments is listed below: -

The 2009 investment regulations require that from 1 April 2011, administering authorities must hold all monies for the purpose of the pension fund in a separate account with a deposit-taker. A deposit taker is defined as the Bank of England, the central bank of any other EEA state, the National Savings Bank, a person who has permission under Part 4 of the Financial Services and Markets Act 2000 to accept deposits or an EEA firm which can accept deposits by virtue of paragraphs 5(b), 12 and 15 of Schedule 3 to the Financial Services and Markets Act 2000.

The accompanying letter from CLG highlighted that administering authorities should refer to the guidance published by CIPFA on 11 December 2009 when showing in their Statement of Investment Principles the extent to which they have complied with guidance or, to the extent the authority does not so comply, the reasons for not complying. The CIPFA guidance is entitled “Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles”. The new guidance supersedes the previous CIPFA guidance on the application of the original Myners principles issued in 2002.

Pensions administration

The Environment Agency has a contractual arrangement with Capita Hartshead, a trading division of Capita Business Services Limited, to undertake the day-to-day administration of the Fund. We would like to express our thanks to Capita for resolving almost 2,800 Fund member requests/queries and for paying pensions to over 17,000 pensioners.

National Fraud Initiative

The Fund has a formal policy and procedure for handling frauds linked to the unreported deaths of pensioners. As part of this policy it participates in the Audit Commission's bi-ennial National Fraud Initiative and undertakes life certificate exercises covering pensioners who live overseas or in care homes as well as those where power of attorney is held by a third party. The latest National Fraud Initiative highlighted a total of 8 cases that required further investigation. Of these cases, 3 have been resolved successfully and the remaining 5, with overpayments valued at just over £11,000 in total are still being pursued. We will seek to resolve these cases by agreeing a repayment plan or, where necessary, taking legal action or involving the police.

External audit

The Comptroller and Auditor General is the appointed external auditor of the Fund under the Government Resources and Accounts Act 2000 (Audit of Public Bodies) Order 2003.

Fund management and investment**Fund manager**

Sarasin & Partners LLP are responsible for managing the Fund's investments, with a mandate to invest in long-dated index-linked gilts.

Ongoing Government funding of the Closed Fund

Before privatisation in August 1989, the basic pensions of the water authorities' staff were funded by contributions to the Water Authorities Superannuation Fund (WASF). This fund fell within the Local Government Superannuation Scheme. On privatisation, the WASF was divided in three ways: company schemes for employees transferring to the new water companies; an Active Fund for employees joining the National Rivers Authority; and a Closed Fund for existing and deferred pensioners. As part of the pension rationalisation carried out in 1989, the Government recognised that, in the longer term, the Closed Fund would require support to meet its ultimate liabilities. Parliament therefore placed a legal obligation on the Secretary of State for the Environment (under section 173 of the Water Act 1989 above) to meet the pension and other related liabilities of the Closed Fund.

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

A detailed Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency was completed in 2005. Since 1 April 2006, ring-fenced Grant-in-Aid that is sufficient to meet pension obligations and the running costs of the Fund has been paid. Members and their dependants can rest assured that the future of their benefits are statutorily guaranteed and are safe. Extracts from relevant letters and the full text of the Memorandum of Understanding are reproduced at Annex 5.

Membership of the Pensions Committee and its advisers for the year ended 31 March 2010

Chairman and Board members

Larry Whitty *Chairman – appointed 1 June 2009*

John Edmonds *Chairman – retired 31 May 2009*

Suzanne Warner *Board member*

Richard Percy *Board member – retired 31 October 2009*

Robert Light *Board member – appointed 1 July 2009*

John Varley *Board member – appointed 1 November 2009*

Executive members

Mark McLaughlin *Director of Finance – appointed 1 November 2009*

Nigel Reader *Director of Finance – retired 31 October 2009*

Graham Ledward *Director of Resources*

Ric Navarro *Director of Legal Services – retired 30 June 2009*

Howard Pearce *Head of Environmental Finance and Pension Fund Management*

Kevin Ingram *Environment Agency Wales Finance Manager – appointed 7 July 2009*

Active members

Alan Broughall *Member nominee – retired 31 March 2010*

Phil Chappell *Member nominee*

Jackie Hamer *Member nominee*

Aileen Parry *Member nominee*

Gary Barker *Member nominee – resigned 31 July 2009*

Stuart Martin *Member nominee – appointed 17 November 2009*

Pensioner member

Brian Engel *Pensioner member nominee*

Deferred member

John Kerr *Deferred member nominee – appointed 9 February 2010*

Chief Executive – ex officio attendee

Paul Leinster *Board member and Chief Executive - ex officio attendee of PC as Accounting Officer*

Professional advisers

External Auditor - National Audit Office (Comptroller and Auditor General)

Bankers - National Westminster Bank plc and Cater Allen Private Bank Ltd

Custodian - The Northern Trust Company

Pensions Administrator - Capita Hartshead

Actuarial Consultants - Hymans Robertson (Douglas Anderson and Richard Warden)

Legal Adviser - Osborne Clarke (Mark Womersley)

Independent Investment Adviser – Investment Trustee and Adviser Services Ltd (Carolan Dobson)

Pension Fund membership

The Fund exists to pay the current and deferred benefits of employees of the former water authorities and associated bodies, which existed prior to 1 September 1989. There are no contributing members.

During the year since 1 April 2009, the number of deferred members has fallen by 5.9%, from 4,525 to 4,256 (2009: 5.7%). The number of pensions in payment fell by 3.5% from 17,702 to 17,081 (2009: 3.4%). With no active members in the Fund, this will be the pattern for the future. However, dependants' and deferred pensions coming into payment will serve to maintain the number of current pensioners for some years to come.

Movement in number of pensioners	Current pensioners	Deferred members	Total
At 1 April 2009	17,702	4,525*	22,227
Adjustment for late notifications	12	(23)	(11)
Revised opening balance	17,714	4,502	22,216
Add:			
Deferred pensions into payment	235	-	235
New spouse's/children's pensions	253	-	253
	488	-	488
Less:			
Deaths/no longer eligible/suspended	(1,121)	(5)	(1,126)
Transfers to other schemes	-	(6)	(6)
Deferred pensions into payment	-	(235)	(235)
	(1,121)	(246)	(1,367)
At 31 March 2010	17,081	4,256*	21,337

*The figure for deferred members includes 635 (2009: 637) cases where there is no entitlement to a deferred pension, and the only entitlement is to a refund of contributions. These are members we are unable to trace, with refunds being paid as and when we do make contact with them.

Age profile of current pensioners at 31 March	2010		2009	
	No.	%	No.	%
Child dependants	72	0.4	80	0.5
Pensioners and spouses				
Under 55	172	1.0	192	1.1
55 – 59	254	1.5	279	1.6
60 – 64	1,491	8.7	1,489	8.4
65 – 69	1,444	8.5	1,436	8.1
70 – 74	2,065	12.1	2,375	13.4
75 – 79	3,350	19.6	3,649	20.6
80 - 84	3,933	23.0	4,063	22.9
85 - 89	3,047	17.8	2,995	17.0
90 - 94	1,011	6.0	946	5.3
95 - 99	224	1.3	183	1.0
100 +	18	0.1	15	0.1
TOTAL	17,081	100.0	17,702	100.0

Age profile of current deferred members at 31 March	2010		2009	
	No.	%	No.	%
35 - 39	7	0.1	36	0.8
40 - 44	310	7.3	398	8.8
45 - 49	731	17.2	843	18.6
50 - 54	1,357	31.9	1,477	32.6
55 - 59	1,528	35.9	1,497	33.1
60 - 64	200	4.7	167	3.7
65 - 69	57	1.3	47	1.1
70 - 74	37	0.9	37	0.8
75 - 79	29	0.7	23	0.5
TOTAL	4,256*	100.0	4,525*	100.0

*The figure for deferred members includes 635 (2009: 637) cases where there is no entitlement to a deferred pension, and the only entitlement is to a refund of contributions. These are members we are unable to trace, with refunds being paid as and when we do make contact with them.

Communications

Our summary Statement of policy on communications can be found at Annex 2 and a more detailed version is available on our website at www.environment-agency.gov.uk/pensions and www.eapf.org.uk.

Our new Environment Agency Pension Funds static website was launched in September 2009 to provide our members with more access to information online via the internet. One of the website's main aims is to give members a better understanding of the benefits of the national Local Government Pension Scheme (LGPS) and the Environment Agency Pension Funds. Information about the LGPS, the pension Fund, Fundfare and the latest Annual Report are available on the new website. More information will be added during 2010/11 including secure online access to personal information for members.

Fundfare 2010 is mailed to deferred members and pensioners each year. It will summarise the Fund's Annual Report and Financial Statements as at 31 March 2010 and provide information on other pension-related matters. Deferred members also receive an annual statement of their accrued pension benefits each year.

Pensions publications for members are provided in bi-lingual versions in order to satisfy the Environment Agency's Welsh Language Scheme. Electronic versions are available on our pensions web site www.eapf.org.uk.

Pensions increase

Pensions in payment and deferred benefits are subject to annual review under the Pensions (Increase) Act 1971. This review is based on the annual change in the Retail Prices Index (RPI) for the 12 months to 30 September each year and applies to all public sector pensions schemes. Any review is reduced proportionately for pensions in payment for less than 12 months.

HM Treasury confirmed the Pre Budget announcement that there would be no increase to members' pensions from 12 April 2010 (6 April 2009: 5%). This is because the change in the Retail Prices Index (RPI) during the 12 months ended 30 September 2009 was a negative 1.4%. There is no provision in the regulations to reduce pensions in the event of a reduction in RPI.

The following table shows the rate of increases that have applied over the last 10 years to pensions in payment and deferred pensions:

Year (April)	Rate of Increase %
2001	3.3
2002	1.7
2003	1.7
2004	2.8
2005	3.1
2006	2.7
2007	3.6
2008	3.9
2009	5.0
2010	0.0

Pension Fund investment

Funding strategy statement

All LGPS funds are required to publish a Funding strategy statement. This statement is used by the Actuary to inform his valuation. The Funding strategy statement was adopted by the Pensions Committee on 21 June 2007 and is reproduced in Annex 3 to this document.

Statement of investment principles

All LGPS funds are required to publish a Statement of investment principles. The current Statement of investment principles was adopted by the Pensions Committee on 23 June 2010 and is reproduced in Annex 4 to these financial statements.

Custody arrangements

The Northern Trust Company ("Northern Trust") acts as global custodian on behalf of the Fund's assets. All assets are held in the name of Nortrust Nominees.

In the interest of prudence, the lending of stock, a process managed by our custodian, was discontinued in December 2008. This aligns the stock lending policy for the Closed Fund with that of the Active Fund.

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

Regular service reviews are held with Northern Trust to ensure continuous monitoring of service commitments. Other procedures and controls are reviewed by an independent reporting accountant in accordance with the Statement on Auditing Standards document – SAS 70.

Investment limits

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

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

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 prescribe limits on the type and extent of investments which the Environment Agency may pursue.

However, of the total value of the Fund's investments no more than the percentages shown below can be invested in the form of investment described:

- 5%** - a single sub-underwriting contract, i.e. a contract with a person who is underwriting a share issue to acquire the shares from him/her if that is what he/she requires, but with the total value of all sub-underwriting contracts not exceeding 15%;
- as a limited partner in any single partnership (but not exceeding more than a total of 15% in such partnerships).
- 10%** - total deposits with any single bank, or similar institution except the National Savings Bank;
- any single holding unless the investment is made by an external investment manager in a unit trust scheme.
- 15%** - total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange.
- 35%** - all investments in unit trust schemes managed by any one body;
- all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
- all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
- the value of any single insurance contract
- all securities transferred under stock lending arrangements.

Investment management

Following the agreement with Defra in 2005 over the future funding arrangements of the Fund, the Committee agreed that the Fund's investment strategy should be simplified by switching to investment in long-dated index-linked gilts. During the year Sarasin & Partners LLP managed the long dated gilt portfolio. They had full discretion in the management of their portfolio, subject to complying with the statutory limits, the Statement of investment principles and the ranges of asset distribution defined by the Pensions Committee.

Portfolio analysis

Distribution of investment assets by market value as at 31 March 2010

	Sarasin & Partners LLP	Other	Total Fund	% of Total Fund
	£m	£m	£m	
UK Index linked gilts	120.9	-	120.9	96.0
Cash	-	4.6	4.6	3.7
Other (mainly accrued income)	-	0.4	0.4	0.3
	120.9	5.0	125.9	100.0

Unquoted investments

With the agreement of the Environment Agency Board, the value of the unquoted investments was written down to £nil during 2007. Income from capital distributions of the residual holdings being liquidated is credited to the Fund as it arises.

Investment performance

The Fund's overall performance in 2009/10 was +13.0% (2009: -5.5%). Over the 3 years to 31 March 2010 the annualised rate of return was +7.4%.

The financial statements

Foreword to the financial statements

The Environment Agency Closed Pension Fund (“the Fund”) provides benefits for current and deferred pensioners of the ten former statutory water authorities in England and Wales, the Foundation for Water Research, WRc plc, Water Training International, the former Water Authorities Association and the former British Water International.

The Fund is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993) under the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended), the LGPS (Administration) Regulations 2008 (as amended) (“the 2007 regulations”) and the Local Government Pension Scheme Regulations 1997 and earlier regulations (saved provisions). As all of the membership became deferred members or pensioners before September 1989, the benefits are covered by the earlier regulations.

It provides the minimum contracted-out pensions required by the State Second Pension Scheme (“S2P”) and is a registered exempt approved Pension Scheme.

Roles and responsibilities of the Pensions Committee

With a membership of nominated Environment Agency Board members, senior officers and member representatives, 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 Environment Agency Pensions Committee (“the Committee”) is responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Fund and the disposition of its assets and liabilities at the year end, other than the liabilities to pay pensions and benefits after the scheme year end. In preparing the financial statements the Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- followed applicable accounting standards, in particular the *Financial Reports of Pension Schemes*, Statement of Recommended Practice (Revised May 2007) “SORP”.

The Committee is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Fund and enable it to ensure that the financial statements comply with Schedule 8 to the Financial Memorandum issued by the Department for Environment, Food & Rural Affairs. However, responsibility for the regulations governing the Local Government Pension Scheme (LGPS) lies with the Local Government Pensions Unit at the Department for Communities and Local Government (CLG).

The Committee is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities, including the maintenance of an appropriate system of internal control.

This Annual Report and Financial Statements is available on the Pension Funds’ website and the Environment Agency’s website. The maintenance and integrity of those websites is the responsibility of the Environment Agency. The work carried out by the Auditors and the Scheme Administrator does not involve consideration of these matters. Accordingly, the Auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the websites.

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

Summary of the financial statements

The financial statements have been prepared in accordance with the SORP, and quoted securities valued at bid prices at the year end. After realised gains and changes in portfolio valuations, and Grant-in-Aid funding for benefits and other outgoing payments, the value of the Fund has increased by £14.1m to £125.2m (2009: decreased by £8.4m to £111.1m).

Retirement benefits payable in the year have decreased by less than £0.1m to remain at £83.6m (2009: decreased by £1.5m to £83.6m), and transfers to other schemes increased by £0.1m to £0.5m (2009: increased by less than £0.1m to remain at £0.4m).

Since 1 April 1990 the Fund has been liable for the pensions increase costs arising in respect of local authority pensioners formerly employed on water or sewerage functions. The total costs for the 12 months ended

31 March 2010 fell to £1.8m (2009: £2.5m), 2009 costs were higher due to a £0.7m payment to Cornwall County Council. There was a continuing decrease in pensioners and deferred members and all the beneficiaries or their late spouses ceased pensionable employment before 1 April 1974.

In overall terms the net additions from dealings with pensioners and deferred members after Grant-in-Aid funding in the year was £0.2m (2009: net withdrawals of £3.2m after Grant-in-Aid funding). Responsibility for ensuring that the Fund can meet all future liabilities rests with the Secretary of State at the Department for Environment, Food and Rural Affairs.

Accounting Officer's statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Environment Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. I am personally accountable to the Board and Parliament and the Board is accountable to central Government.

The Environment Agency is responsible for the administration of the Environment Agency Active and Closed Pension Funds and the disbursement of their benefits. The Board has assigned responsibility for the investment and custody of both Funds' assets and administration of both Funds' benefits to the Pensions Committee ("the Committee").

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

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

- a) *Schedule 8 of the Environment Agency's Financial Memorandum*
- b) *Pension Funds Governance Compliance Statement* which includes:
 - *The Statement of Compliance* which details the level of compliance with Government Guidance;
 - *The Pensions Committee Terms of Reference and Standing Orders* which details the status, composition and responsibilities of Pensions Committee members;
 - *Pension Funds Scheme of Delegation* which prescribes the arrangements for, and limitations to, the delegation of powers and duties within the Environment Agency under The Local Government Pension Scheme (Administration) Regulations 2008 (as amended), and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 in its capacity as Administering Authority and encompassing the Employing Authority Discretions.

The responsibilities of the Environment Agency Accounting Officer in respect of propriety and regularity in the use of Grant-in-Aid from the Government to fund the Fund's outgoings is the same as for other funding from Government for the Environment Agency as a whole.

The Pensions Committee reviewed, and the Board approved, the statutory Governance Policy and Compliance Statement in April 2008 to ensure compliance with the 2007 and 2008 LGPS Regulations and associated statutory guidance. A further review to take account of some new and amended LGPS regulations and associated statutory guidance issued since 1 April 2008 was undertaken during 2009/10 and approved by the Board.

Members of the Committee, its Sub-Groups and the Environment Agency officers and specialist advisers who manage and administer the Fund, are required to pay due regard to the nature of their responsibilities and the need to avoid potential conflicts of interest. Written guidance is issued to each Committee member and professional adviser on the meaning of and procedures for dealing with conflicts of interest. A register of interests is maintained and reviewed by the Chairs of the Environment Agency Pensions Committee and Audit and Risk Committee annually.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place within the Environment Agency and in the operation of the Fund for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts and accords with LGPS and Treasury guidance and best practice. It has identified the significant issues set out on page 16.

Capacity to handle risk

The Environment Agency has a statement setting out its strategic approach to risk management that has been agreed with the Pensions Committee and Board.

The 2004 Pensions Act requires trustees of occupational pension schemes to have training, knowledge and understanding of the law relating to pensions and the role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

Whilst the LGPS is exempt from these requirements, the Committee has a structured training programme covering new member induction and ongoing training for those with extended periods of service. Training for Committee members is assessed on an individual needs basis, taking account of existing expertise, and individual's interests in specific areas and a training log is maintained. Environment Agency officers' training needs are identified in individual performance plans.

The risk and control environment

The Environment Agency's risk management strategy recognises that effective risk management is a key component for the delivery of its objectives. The strategy promotes the taking of well-managed risks when necessary to meet the needs of stakeholders. The strategy recognises the importance of prioritising how the Fund responds to risk to reduce the residual risk to an acceptable and justifiable level. Clear accountability for risk ownership and the regular monitoring and reporting of progress to management are mandated to ensure risk management plans are delivered.

Pensions administration

The Environment Agency has a contractual arrangement with Capita Hartshead for third-party administration of the Fund. This includes administration of all member and pensioner records, maintenance of LGPS and Fund rules, processing of contributions, payment of benefits, communications and scheme accounting in accordance with the applicable Local Government Pension Scheme Regulations. Arrangements are in place for checking the validity of pension claims to avoid fraud and ensure propriety. Quarterly reports are provided to the Environment Agency and reviewed by the Benefits Sub-Group with summary reporting to the Pensions Committee. More information about Capita Hartshead's risk and control environment is provided in its AAF01/06 report which is reviewed annually by officers.

Global custody

The Environment Agency also has a contractual arrangement with the Northern Trust Company who act as global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity during the period.

Northern Trust is a strong company that is 'AA' rated by Standard and Poor's. Also the Fund's assets are not held in the name of Northern Trust and so are segregated from those of Northern Trust, safeguarding them in the event of a failure by Northern Trust. Cash held by the Fund in euros, dollars and sterling (over £/Euro/US\$1000) is invested in Northern Trust Global Cash Funds, which also would not be affected in the event of a failure by Northern Trust as they reside off the Northern Trust balance sheet. Only small amounts of cash are left on deposit at Northern Trust. The Northern Trust Global Cash Funds are rated AAA by Moody's and are invested in short term money instruments to preserve capital and liquidity. These cash funds are also closely monitored by Environment Agency officers, and have had no defaults during the year.

Regular service reviews are held with Northern Trust to ensure continuous monitoring of service commitments. More information about Northern Trust's internal control framework is included in its service level agreement, risk management document and SAS 70 report which is reviewed annually by officers. From December 2008 the Pensions Committee agreed to stop stock lending on the Closed Fund.

In addition to the above, the key elements of the internal control environment include:

Procedures for the setting and monitoring of the achievement of the Fund objectives

The Fund has an established strategic planning process in place. The Pensions Committee prepares triennial Funding Strategy Statements after taking advice from the Actuary, investment advisers and officers. The Actuary uses the Funding Strategy Statements to aid preparation of the triennial actuarial valuation of the Fund. The Fund's investment strategies are established taking into account the results of the triennial actuarial valuations.

The Fund operates within a framework of common procedures and control points as a means of ensuring all staff work towards, and identify with, common aims. This includes the Pensions Committee members' handbook, Financial Scheme of Delegation and performance management arrangements, which authorise officers to act on behalf of the Fund within a defined framework of procedural control.

A risk management process is used to identify the principal risks to the achievement of the Fund's objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

A detailed risk register has been developed and is actively maintained by officers covering all aspects of the Fund's management, together with a key risks document which highlights the top risks for the Pensions Committee. These documents assist the Pensions Committee and its sub-groups in managing strategic risks across all pensions activities. This has been enhanced for ongoing risk management purposes and informs the basis of the internal and external audit strategy and planning. Management actions are taken to mitigate the prioritised risks, and these are monitored and reported to the Pensions Committee on a regular basis.

The facilitation of policy making and decision making

The Pensions Committee, and senior management of the Environment Agency together with external advisers, contribute to the Fund's strategic planning process including reviews of strengths, weaknesses, opportunities, threats and risks combined with consideration of the impact of updated, new or proposed legislation.

Key performance targets and benchmarks, including financial commitments, for fund managers are set by the Investment Sub-Group, for approval by the Pensions Committee. Lead Officers cascade Pensions Committee strategy requirements to managers, teams and individuals through policies and procedures, performance appraisal and individual performance plans.

Ensuring compliance with established policies, procedures, laws and regulations

The Pensions Committee and its Investment and Benefits Sub-Groups meet regularly to consider plans, performance and the strategic direction of the Fund through formal monitoring reports.

An annual report is submitted to the Environment Agency Board on the performance of the fund managers, pensions administrator, and other professional advisers. Qualitative and quantitative information is provided on their compliance with the Myners principles for good investment management.

Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Fund are exercised

The Pensions Committee is committed to optimising the efficiency and effectiveness of the Fund's administration and investment management through continuous improvement of key processes, regular contract reviews, competitive tendering and benchmarking exercises.

The Fund has a formal policy and procedure for handling frauds linked to the unreported deaths of pensioners. It also participates in the Audit Commission's bi-annual National Fraud Initiative and undertakes life certificate exercises. Where fraud is suspected, full repayment is sought and the police and courts are involved as required.

The financial management and reporting of the Fund

The system of financial management is based on a financial control framework that includes the Environment Agency's procurement, purchase order management and financial accounting systems, the Environment Agency's Financial Memorandum and Scheme of Delegation, and the Funds' Scheme of Delegation (included in the Funds' Governance Compliance Statement), together with administrative procedures, and management supervision. This includes:

- comprehensive annual budget setting process and monitoring systems;
- setting targets to measure financial and other performance; and
- regular reviews of periodic and annual financial reports which include administration and investment expenses and returns against budgets, targets and forecasts.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner.

The performance management of the Fund and the reporting of performance management

The performance of the Fund is reported quarterly to the Investment Sub-Group and Pensions Committee and annually to the Board. Team Business Plans are monitored and the Head of Environmental Finance & Pension Fund Management monitors individual performance, continually and annually.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Environment Agency managers of the Fund who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review by the Board and the Audit and Risk Committee and plans to address weaknesses and ensure continuous improvement of the system are in place.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- a) The operation of the Environment Agency Board and Pensions Committee who set strategic direction, approve the Fund's investment and administration strategies and review performance. The Board receives reports from the Pensions and Audit and Risk Committees on the standards of corporate governance and internal control operating in the Fund.
- b) The operation of the Audit and Risk Committee that reviews standards of internal control and financial reporting. It also considers audit reports and advises on the Fund's approach to risk management and corporate governance, and discusses with the appointed external and internal auditors the nature and scope of forthcoming audits.
- c) The independent reviews by Internal Audit on the adequacy and effectiveness of the internal controls which are informed by an analysis of the risks to which the Fund is exposed and are conducted in accordance with Government Internal Audit Standards.
- d) Actions taken by Environment Agency officers in response to the recommendations made by external and internal auditors.

Significant internal control issues

The annual reviews undertaken and reported by internal audit have concluded that the governance framework in place to manage the Fund is well designed and covers all the main areas of activity.

Defra have confirmed receipt of the External Audit Management Letter for 2008/09 and the Environment Agency's formal response to the External Audit Report for 2008/09. They have also confirmed their receipt of the Internal Audit Compliance Review.

The Pensions Committee, Investment Sub Group and Benefit Sub Group have continued to use the Pension Funds risk register to assist in the management of strategic risks across all the Fund's pension activities. Actions are taken to ensure these risks, once recognised, are managed by Environment Agency officers.

The Internal Audit Compliance Review for 2010 highlights one issue. The current Financial Memorandum Pensions Schedule, issued in 2005, does not reflect the current requirements of the LGPS. Substantial changes have taken place in the LGPS, especially since 2008, and there were delays reflecting these changes in statutory guidance issued by the Department for Communities and Local Government (CLG). The Financial Memorandum is being reviewed and updated by Defra, in consultation with the Environment Agency.



Paul Leinster
Accounting Officer
Environment Agency
06 July 2010

Statement by the Consulting Actuary

Actuarial statement for the purpose of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

As required by regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2007.

The Fund's liability profile is particularly mature, with only pensions in payment and a declining number of deferred pensioners. There are no new accruals of benefits.

The Fund's benefits are underwritten by the Department for Environment, Food and Rural Affairs ("the Guarantor"). The Guarantor has committed to a funding plan that involves half-yearly cash injections to meet the following 6 months' expected benefit expenditure. Assets are invested wholly in two long-dated inflation-protected government bonds, known as index-linked gilts.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund, as required by the Regulations. In giving this opinion I have taken into account the contributions payable by the Guarantor.

Summary of Methods and Assumptions Used

My opinion on the security of the prospective rights is based on the projected accrued benefits method. A comparison is made of the value of the assets with the value of benefits for past service (but allowing for future pension increases).

In order to value the liabilities for future pension and lump sum payments, I have anticipated returns from a notional portfolio consisting of 100% government bonds.

Pensioner mortality over the 3 year period was heavier than anticipated in the 2004 valuation assumptions. This is surprising given evidence of increased longevity that has been seen elsewhere. The actual experience over the last 3 years will not necessarily be repeated in the future, and lighter mortality assumptions than at the 2004 valuation were used for the 2007 results, to provide a buffer against future adverse experience. I recommend that the Fund's mortality experience is monitored regularly to assess the adequacy of this longevity reserve (£58m at 2007) and give early warnings of developing trends.

The 2007 valuation revealed that at 31 March 2007 the Fund's assets were sufficient to meet 9% (21% at 31 March 2004) of the liabilities accrued up to that date. Assets were taken into account at their then market value of £100m (£240m at 31 March 2004). Actual investment returns in the three years to 31 March 2007 were 8.4% p.a. (0.5% p.a. in the three years to 31 March 2004). Full details of the method and assumptions are described in my valuation report dated 26 March 2008.

Separate valuations are carried out in respect of the Active Fund.

Experience since the 2007 Valuation

The two key assumptions that affect the liabilities of this mature pension fund are mortality and inflation.

An allowance for improvements to the life expectancy of the membership was made at the 2007 valuation. The actual mortality experience will continue to be monitored with appropriate adjustments made to the assumptions for mortality at the 2010 valuation if necessary. Current inflation expectations are higher than those at the 2007 valuation and, all other things being equal, will increase the value placed on the Fund's liabilities.

Investment returns in the year to 31 March 2010 were +13.0% and assets had a market value of £125m at 31 March 2010. Liabilities were estimated to be £1,165m on a funding basis as at 31 March 2010, implying that the Fund's assets were sufficient to meet 11% of the liabilities accrued up to that date.

Richard Warden

Fellow of the Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
8 June 2010

Hymans Robertson LLP
20 Waterloo Street
GLASGOW
G2 6DB

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

I certify that I have audited the financial statements of the Environment Agency Closed Pension Fund for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Fund Account, the Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Accounting Officer of the Environment Agency and the Pensions Committee are responsible for preparing an annual report and financial statements under Schedule 8 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations and for ensuring the regularity of financial transactions. These responsibilities are set out in the section entitled Roles and responsibilities of the Pensions Committee.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Environment Agency Financial Memorandum issued by Defra. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Pension Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Pension Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Pension Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual report, which comprises the Chairman's statement, the Report by the Pensions Committee, the Pension Fund investment report and the Statement by the Consulting Actuary, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and under Schedule 8 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Schemes Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), and other related regulations, of the state of the scheme's affairs as at 31 March 2010, of the financial transactions of the Fund for the year ended 31 March 2010 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- the financial statements have been properly prepared in accordance with Schedule 8 to the Environment Agency Financial Memorandum issued by Defra, in accordance with the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and other related regulations.

Opinion on Regularity

In my opinion, in all material respects, the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

14 July 2010

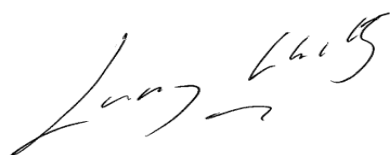
The maintenance and integrity of the Environment Agency's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Financial statements for the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Fund account			
Income			
Grant-in-Aid	3	87,137	84,393
Benefits and other payments			
Benefits	4	(83,560)	(83,614)
Leavers	5	(503)	(413)
Other payments	6	(1,796)	(2,504)
Administration expenses	7	(1,069)	(1,056)
		(86,928)	(87,587)
Net additions/(withdrawals) from dealings with pensioners and deferred members			
		209	(3,194)
Return on investments			
Investment income	8	1,498	2,427
Change in market value of investments	9	12,477	(7,566)
Investment management expenses	10	(44)	(58)
Net returns on investments		13,931	(5,197)
Net increase/(decrease) in the Fund during the year			
		14,140	(8,391)
Opening net assets of the Fund at 1 April		111,082	119,473
Net assets of the Fund at 31 March		125,222	111,082
Net assets statement			
Investment assets	9	125,885	111,252
Current assets	11	1,163	1,505
Current liabilities	11	(1,826)	(1,675)
Net assets of the Fund at 31 March		125,222	111,082

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 Fund's year end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement by the Consulting Actuary on page 17 and these financial statements should be read in conjunction with it. The Actuary's statement, dated 8 June 2010 is based on a valuation as at 31 March 2007.

The notes on pages 21 to 25 form part of these financial statements.



Larry Whitty
Chairman
Environment Agency Pensions Committee
06 July 2010



Paul Leinster
Accounting Officer
Environment Agency
06 July 2010

Notes to the financial statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the 'Financial Reports of Pension Schemes', Statement of Recommended Practice, (Revised May 2007) (the "SORP").

2. Accounting policies

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

Investments

Investments are included at their market values, which are determined as follows:

- (i) Quoted securities listed on recognised stock exchanges are valued at bid prices at the year end.
- (ii) Residual unquoted securities including private equity investments have been written down to nil value.
- (iii) Acquisition costs are included in the purchase cost of investments.
- (iv) Investment management fees are accounted for on an accruals basis.

Investment income

- (i) Income from fixed interest and index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on an accruals basis on the date when stocks are quoted ex-dividend.
- (ii) Income from capital distributions of residual private equity holdings being liquidated is included as a realised gain in the changes in market value.
- (iii) Income from previously held overseas investments is recorded net of any withholding tax where this cannot be recovered.
- (iv) Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.
- (v) Income from cash and short-term deposits is accounted for on an accruals basis.

Exchange rates

- (i) Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.
- (ii) Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

The Environment Agency Closed Pension Fund has no contributing members. Unlike other statutory Local Government Pension Funds, it is being maintained solely to pay current and deferred benefits (or transfer values to other pension arrangements) awarded to or in respect of employees of former water authorities and associated bodies which existed prior to 1 September 1989.

The valuation of the Closed Fund as at 31 March 2007 indicated that assets available would not meet the future liabilities, reaffirming the conclusions of the valuation in 2004. The Chief Secretary to the Treasury agreed in 2004 that provisions and Grant-in-Aid payments should be made to the Fund by Department for Environment, Food and Rural Affairs to allow the Secretary of State's statutory obligation under the 1989 Act to be met from April 2006. Grant-in-Aid is accounted for on an accruals basis.

Benefits

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

Transfers to other schemes

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

Other expenses

Investment management and administration expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Fees are also payable to the Fund's global custodian.

Taxation

UK income tax and capital gains tax

The Fund is an exempt approved registered pension scheme and is therefore not liable to UK income tax on interest and dividend income (other than dividends arising from UK equities), or to capital gains tax.

Value added tax

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

3. Financial security

The Secretary of State at the Department for Environment, Food and Rural Affairs has a duty under section 173(3) of the Water Act 1989 to ensure the Fund can always meet its liabilities, including future indexation awards. This has been formally documented in a Memorandum of Understanding and is included in Annex 5. Since 1 April 2006, Grant-in-Aid has been paid that is sufficient to meet the pensions obligations and running costs of the Fund.

4. Benefits

	2010	2009
	£000	£000
Retirement and dependants' pensions	80,437	80,868
Lump sum retirement grants	3,043	2,592
Lump sum death grants	80	154
	83,560	83,614

Benefits payable exclude £11.7m (2009: £11.6m) for historic unfunded pensions liabilities of the Environment Agency in respect of compensatory added years and water company pension scheme charges paid via the pensions administrator. These have been recharged to the Environment Agency and funded by Grant-in-Aid from Defra.

5. Leavers

	2010	2009
	£000	£000
Individual transfers to other schemes	503	412
Refunds of contributions	-	1
	503	413

6. Other payments

	2010	2009
	£000	£000
Pre-1 April 1974 local authority pensions increase recharges	1,796	2,504

Until 31 March 1990, local authorities recovered from the former water authorities and successor water plc's the pensions increase costs in respect of pensioners employed on water functions prior to their leaving, retirement or death in service before 1 April 1974.

Since 1 April 1990 the regulations have provided for such costs to be charged to the appropriate pension fund. The regulations require the Fund to meet the corresponding increase in the pensions liabilities previously recovered from the water authorities/water plcs.

7. Administration expenses

	2010	2009
	£000	£000
Scheme administration	573	580
Professional fees:		
Actuarial	116	68
Investment and administration	58	69
Legal	36	14
Audit	18	18
Other administration costs:		
Environment Agency administration	218	232
Communications to members	34	46
Miscellaneous	16	29
	1,069	1,056

The auditors' remuneration in respect of non-audit services for 2009/10 was £nil (2008/09: £nil).

8. Investment income

	2010	2009
	£000	£000
Income from index linked gilts	1,373	1,348
Interest on cash deposits	119	1,072
Stock lending income	-	1
Income from unquoted overseas equities	6	6
	1,498	2,427

9. Investments

	Market value at 01.04.09	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.10
	£000	£000	£000	£000	£000
Index linked gilts	106,991	1,346	-	12,516	120,853
Unquoted securities	-	-	(2)	2	-
	106,991	1,346	(2)	12,518	120,853
Cash deposits and instruments	3,836			(2)	4,632
Other	425			(39)	400
	111,252			12,477	125,885

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

Unquoted investments were written down to £nil in 2007 as they were not considered to be readily marketable, although further returns of capital arise as residual holdings are liquidated. During the year capital distributions totalling £1,707 (2009: £19,794) were received from funds in which the Closed Fund was a limited partner.

As the Fund has invested in long-term bonds, no transaction costs have been incurred during this or previous years.

Investment assets	2010 £000	2009 £000
Index linked		
UK index linked gilts	120,853	106,991
Cash deposits and instruments		
Sterling	4,581	3,788
US Dollar	51	48
	4,632	3,836
Other		
Accrued income	400	386
Insurance policies and associated shares	-	39
	400	425
Total investments	125,885	111,252

With effect from December 2008 the Fund's global custodian is no longer authorised to enter into stock lending arrangements. This aligns the stock lending policy for the Closed Fund with that of the Active Fund.

10. Investment management expenses

	2010 £000	2009 £000
Global custody	26	29
Fund manager fees	15	25
Investment advisers	1	2
Performance and risk measurement	2	2
	44	58

11. Current assets and liabilities

	2010	2009
	£000	£000
Current assets		
Debtors	98	78
Cash at bank	1,065	1,427
	1,163	1,505
Current liabilities		
Creditors		
PAYE	(793)	(793)
Pre 1 April 1974 local authority recharges (see note 6)	(660)	(559)
Administration and investment expenses	(214)	(192)
Benefits payable	(159)	(131)
	(1,826)	(1,675)

12. Related party transaction

During the year ended 31 March 2010, the Environment Agency recharged pensions administration costs to the Fund of £218,000 (2009: £232,000) – see Note 7.

Benefits payable exclude £11.7m (2009: £11.6m) for historic unfunded pensions liabilities of the Environment Agency in respect of compensatory added years and water company pension scheme charges paid via the pensions administrator. These have been recharged to the Environment Agency and funded by Grant-in-Aid from Defra - see note 4.

13. IAS 26: Accounting and reporting by retirement benefit plans

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS 19) assumptions, is estimated to be £1,086m (2009: £930m). This figure is used for statutory accounting purposes by Defra. The assumptions underlying the figure are set out in Defra's statutory accounts. The figure is only prepared for the purposes of IAS 19 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.

14. Apportionment of common expenditure

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

	2010	2009
	%	%
Custodial arrangements	20/80	20/80
Other (e.g. Environment Agency administration costs)	40/60	40/60

15. Events after the net asset statement date

The financial statements were approved by the Pensions Committee on 23 June 2010, and were approved and signed at a meeting of the Board on 6 July 2010. It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This non-adjusting event will have an impact upon the future operation of the Closed Fund. There are no adjusting events that need to be recognised in the financial statements after the net asset statement date. The authorised date for issue is the 14 July 2010.

The annexes

Annex 1 - Governance compliance statement

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing Orders, and Pension Funds Scheme of Delegation set out responsibilities of the Environment Agency Board and Pensions Committee (PC) and its Sub-Groups.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC includes 4 Non-Executive Environment Agency Board members, 4 Executive members (Director of Finance, Director of Resources, Head of Environmental Finance & Pension Fund Management and Finance Manager EA Wales), 5 Active Fund Employee nominees 1 Pensioner nominee 1 Deferred member nominee. 2 Active Fund Employee nominees are also members of the Investment Sub-Group (ISG) 1 Active Fund Employee nominee and the pensioner nominee are also members of the Benefits Sub-Group (BSG).
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	Reports from the ISG and BSG are circulated to all PC members. Recommendations from the ISG and BSG are presented to the main Committee.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	Our ISG and BSG are made up of members of the main PC supported by officers
B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, eg, admitted bodies);	Compliant	We have only one employer, the Environment Agency, who is represented on the main PC, the ISG and the BSG. The employers of our Closed Fund members no longer exist.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	Our main PC membership includes 5 Trade Union nominated Active Fund employee nominees, one pensioner nominee and 1 deferred member nominee. Our ISG includes 2 Trade Union nominated nominees and our BSG includes 1 Trade Union nominated Active Fund employee nominee and 1 pensioner nominees. Our deferred member and pensioner nominees are members of our decision making main PC.
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISG and all relevant PC meetings. Our other professional advisers also regularly attend our PC, ISG and BSG meetings.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC, ISG and BSG meetings as needed. This includes our actuary, legal adviser, investment consultants, pension fund administration consultants, and external auditors.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members of the PC, ISG and BSG receive equal access to the papers and training and have equal speaking and voting rights in our decision making processes.
C – Selection and role of lay members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	On appointment new PC members receive induction training and a detailed member handbook that describes the role of the Committee, ISG and BSG. Our PC members understand that their primary role is to adopt and maintain a duty of care to our Fund's beneficiaries and they are required to act in their best interests 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 a financial or non-financial nature and abstain from participation in that item on the agenda.
b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all PC, ISG & BSG meetings. A register of interests is also maintained and audited annually.
D – Voting		
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main Committee and BSG and ISG.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Our PC has a training strategy, which it reviews annually. On appointment to the PC we provide general induction training and they are provided with a comprehensive PC member's handbook. The PC also has a policy that it and all its members should 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 undertaken. Members of the main PC, the ISG and BSG are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC, ISG and BSG training is met from the pension fund budget.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	All PC members have equal access and rights.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	Our PC usually meets four times a year, for normal business and at least once for briefing or training.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Our ISG and BSG meetings are synchronised to meet four times a year before the PC so they can report to and make recommendations to the full Committee.
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.	Partially compliant	<p>We have 7 "lay" members on our main PC, comprising 5 employee nominees, 1 pensioner nominee and 1 deferred member nominee. We hold annual Pensions Briefings (around 20 at different regional locations around England and Wales) to inform active members about changes to the LGPS and to allow them to ask questions of HR staff and Capita Hartshead (Pension Fund Administrator). In 2009/10 we also held our first Pensioner Briefing.</p> <p>Area of non compliance</p> <p>We do not have any representation of pensioners in 52 other LGPS funds or the 8 Water Company schemes who are legally allowed to re-charge us their annual pension increase which is paid via the Closed Fund and funded by Defra GiA.</p> <p>Due to the geographical spread of our organisation and Fund membership across England and Wales we do not hold an AGM. We do not feel this is necessary as 10-20% of active Fund members attend a regional pensions briefing each year.</p>
G – Access		
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	All members of our PC, ISG and BSG receive the same agenda and papers containing advice for each meeting. Members of the PC who are not members of the ISG or BSG can request full ISG or BSG papers and they receive reports of all meetings. All our PC, ISG and BSG members can ask questions of our professional advisers who attend the PC, ISG or BSG meetings.
H – Scope		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Each meeting of our PC receives a report on the performance of our pension funds benefits administration. Our PC also carries out an annual review of its key strategic risks and our statutory governance and communications policy statements. It also has carried out a review of its own effectiveness.
I – Publicity		
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	We publish our Governance Compliance Statement on our website, and it is available in hard copy from our Pension Fund Management Team. Since 2007/8 it has also been included in our Annual Report & Accounts. We have an agreed procedure for our recognised Trades Unions to nominate new employee nominee to our PC when a vacancy arises. We have also advertised in pensioners' and deferred member newsletters for nominees when vacancies arose.

Approved by the Pensions Committee 16 March 2010 and reviewed annually.

Annex 2 – Communications policy statement

Introduction

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

The purpose of this document is to summarise the Communications policy for the Environment Agency Active and Closed Pension Funds as required by the Local Government Pension Scheme Regulations. A more detailed version is available on our websites at www.environment-agency.gov.uk/pensions and www.eapf.org.uk.

The Active Fund is open to all Environment Agency employees with a contract of three months or more and has 12,000 active members – 1,300 manual and 10,700 non manual, 5,500 deferred members and 4,000 pensioners. Unlike most LGPS funds the EAPF has only one employer – the Environment Agency.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the privatised water companies' pension schemes in 1989. It has no active members, 4,200 deferred members and 17,000 pensioners.

The Environment Agency performs the roles of Administering and Employing Authorities with the Pensions Committee, supported by the Finance Director and the Pension Fund Management team and a variety of external advisers, taking overall responsibility for Administering Authority functions. The Environment Agency's Director of Resources and the Employee Performance team perform the role of Employing Authority. The day-to-day administration of the funds is out-sourced to Capita Hartshead.

The Pensions Committee is a sub-committee of the Environment Agency Board with 15 members made up of 4 Board members, 4 Executive members, 5 employee/Trades Union nominees, 1 pensioner nominee and 1 deferred member nominee. The Committee is supplemented by the Investment Sub Group and the Benefits Sub-Group, where specific advice can be provided by Officers, and external advisers. There are 2 Trade Union nominees on the Investment Sub-Group and 1 Trade Union nominee and the pensioner nominee on the Benefits Sub-Group.

This is the fifth Communications Policy Statement for the Environment Agency Pension Funds.

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

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Regulatory framework

With effect from 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities “...prepare, maintain and publish a written statement setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities.

Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

- (1) *This regulation applies to the written statement prepared and published by an administering authority under (1).*
- (2) *The authority—*
 - (a) *must keep the statement under review,*
 - (b) *make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3); and*
 - (c) *if revisions are made, publish the statement as revised.*

¹ Regulation 106B was inserted by S.I.2005/3199.

(3) *The matters are—*

- (a) *the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*
- (b) *the format, frequency and method of distributing such information or publicity; and*
- (c) *the promotion of the Scheme to prospective members and their employers.*

As a provider of an occupational pension scheme, we are also obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. The disclosure requirements are prescriptive, concentrating on time-scales rather than quality.

A summary of our expected time-scales for meeting the various disclosure of information requirements are set out in the section on performance measurement, alongside those defined by the Disclosure Regulations.

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

Responsibilities and resources

Administration of the Environment Agency Pension Funds is the responsibility of the Environment Agency but Capita Hartshead carries out the day-to-day administration of the Local Government Pension Scheme (LGPS) on our behalf.

Overall responsibility for communications rests with Directors of Finance and Resources supported by the Pension Fund Management team in Finance, the Benefits Team in Employee Performance and Capita Hartshead.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Employee Performance Benefits team and Capita Hartshead's Technical Consultants.

One or more of these groups is also responsible for arranging all forums, workshops and meetings covered within this statement. Either the Environment Agency or Capita Hartshead's contracted external suppliers carry out design work and printing.

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

Our expenditure on our hard copy and electronic communications is £120k per annum, which equates to approximately £2.75 per member.

Communication with key audience groups

Our audience

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

- active members;
- deferred members;
- pensioner members;
- prospective members;
- the Environment Agency as an employing authority – Human Resources (HR) & Payroll;
- the Board and executive managers;
- Pensions Committee members;
- Recognised Trades Union representatives;
- Pensions staff in Finance & HR and at the Fund administrator;
- Professional advisers and Fund investment managers;
- Our sponsors - Department for Environment Food and Rural Affairs (Defra) and Welsh Assembly Government (WAG);
- Our auditors - National Audit Office (NAO), Deloitte and Audit and Risk Committee;
- The LGPS Scheme regulator – Department for Communities and Local Government (CLG);
- Pensions and investment Media;
- Other stakeholders/interested parties and external bodies.

How we communicate

General communication

We currently still use paper-based communication as one of our main means of communicating, for example, by sending letters to our scheme members. Over the next two years we plan to start substantially increasing our use of electronic means to communicate with our members and other stakeholders. In particular we will be developing our websites www.environment-agency.gov.uk/pensions and www.eapf.org.uk as well as our internal Easinet. We accept e-mail communication and respond electronically where possible.

Capita Hartshead provide a telephone help line and a dedicated email address for all Fund members. Both are widely publicised in Fund literature. Each member of their team is responsible for a specific group of our scheme members. Any telephone calls are passed to the relevant person within the team.

Branding

All Pension Funds literature and communications conform to the corporate branding of the Environment Agency.

Accessibility

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

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

Performance measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme short guide	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Annual estimated Benefit Statements as at 31 March	Active & deferred members	By 1 April the following year	31 July each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at Normal retirement date)	Active members retiring	Within one months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of retirement benefits (early retirements)	Active members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners/active members	Within three months of request	Within two months
Transfers out	Leavers/deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Active/deferred members	Not applicable	Within five working days
Changes to scheme rules	Active/deferred and pensioner members, as required	Within three months of the change coming into effect	Within three months of change coming into effect
Pension Fund Annual Report and Accounts	All	Within two months of request	Within five working days (once published)
Fundfare	Active members	Not applicable	By 30 September each year
Fundfare	Deferred & pensioner members	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly 5 days before pay date

Quality

We make use of Informal mechanisms to monitor the quality of our communications. All our publications and our web site include invitations for comment on content and offer suggestions for future editions and contact details are provided.

Comments received in the past have provided many useful suggestions that we have been able to incorporate in later publications.

Results

We will publish an overview of how we are performing within our annual report and accounts and in our annual Fundfare. Full details will be reported regularly to our Pensions Committee.

Review process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every two years. A current version of the policy statement is always available via our website at www.environment-agency.gov.uk/pensions and paper copies are available on request.

Approved by the Pensions Committee on 23 June 2010 and reviewed annually.

Annex 3 – Funding strategy statement

1. Introduction

This document constitutes the Funding strategy statement (FSS) of the Environment Agency Closed Pension Fund (“the Fund”), which is administered by the Environment Agency (“the Administering Authority”).

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the regulations. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded.

1.1 Fund history

The Fund has been closed to new entrants and accruals of future service since 1989. The Fund’s liabilities are statutorily guaranteed by the Department for the Environment, Food and Rural Affairs (“the Guarantor”) under section 173 of the Water Act 1989 and it is unique in this respect in the family of Local Government pension funds. The Memorandum of Understanding between the Secretary of State for Environment, Food and Rural Affairs and the Environment Agency – Pensions Committee sets out the mechanism whereby the Guarantor makes payments to the Fund.

1.2 Profile of liabilities

As at 31 March 2007, the Fund contained some 18,900 pensioners and around 5,100 deferred pension members (including unpaid refunds) whose benefits have yet to come into payment. The average age of members in receipt of pensions in payment was around 75 years, and almost 54 years for the deferred pensioners.

Around 50% of the liabilities are expected to be discharged over the next 10 years, but the remaining liabilities could take a further 40-50 years to come close to being extinguished. The final payment from the Fund may not be paid until the end of the 21st century.

The discounted mean term of the liabilities – a measurement of duration of the liabilities which can be useful in matching liabilities to bond durations - is currently around 10 years, and will only fall very gradually.

As at 31 March 2007, the Fund assets were £100.0m (£240.3m at 31 March 2004) and the value placed on the liabilities (discounted in line with the minimum risk return available on Government bonds) was £1,170m (£1,120m) resulting in a funding level of 9% (21%) and a funding deficit of £1,070m (£879.7m). Benefit expenditure flowing out of the Fund is running at around £90m a year².

1.3 Regulatory framework

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A, 77 and 144 are particularly relevant); and
- the Statement of investment principles.

The FSS has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Douglas Anderson of Hymans Robertson, after consultation with the Guarantor, and its investment consultant, Paul Potter of Hymans Robertson.

1.4 Reviews of FSS

This is Version 2.0 of the FSS, which is adopted with effect from 31 March 2008 for contributions payable in the Fund’s financial year 2008/09 and thereafter. The principles documented herein have been used for the actuarial valuation as at 31 March 2007.

The FSS is reviewed in detail at least every three years alongside the triennial valuations being carried out, with the next full review due to be completed by 31 March 2011. The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

² This excludes the additional ‘unfunded’ pension payments of around £12m a year which are paid to Closed Fund members for added years awarded on retirement. The Administering Authority receives grant-in-aid from DEFRA for these payments.

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (now the Department for Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

- *“to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities.”*

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

In developing the approach described in Section 3, the Administering Authority has focused on balancing the desirability of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is the vehicle used to pay the pensions and related benefits of certain former employees in the water industry in England and Wales prior to its privatisation. The Fund was created by the Water Act 1989 and the benefit payments are guaranteed by DEFRA. In addition to paying the pensions of its own scheme members, the Fund is also liable for the pension increase costs of pensioners in certain Local Authority funds who retired before 1974. The costs are billed to the Fund by the Local Authorities – they amount to around £2.4m a year.

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

- receiving contributions, transfer payments and investment income;
- paying scheme benefits, transfer values and administration costs.

2.3 Aim of the funding policy

The Fund’s approach to funding the Guarantors’ pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment.

3. Solvency issues and target funding levels

3.1 Reviews of funding position

The Fund’s actuary is required by the regulations³ to report the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target at least every three years. Unlike standard LGPS funds there is no requirement to certify an employer contribution rate.

Between formal valuations the Administering Authority works with the actuary to review the cash flow position of the scheme and the estimated expenditure for the following six months, which will fall to the Guarantor.

3.2 Solvency

The Fund defines ‘solvency’ to be the ability to continue to meet ongoing benefit expenditure. As at 31 March 2007, the liabilities of the Fund were only 9% (2004: 21%) covered by its assets. Without additional Government funding, the Fund was expected to be exhausted in 2006/07.

The accrued liabilities are the future payments of pensions and lump sums, allowing for annual RPI increases on pensions in payment. The valuation allows for future investment returns when placing a value on these liabilities. This reduces the value placed on the liabilities.

The ongoing basis does not anticipate future returns from equity investments in excess of Government bond investments.

3.3 Ongoing funding basis

The Fund actuary agrees the financial and demographic assumptions to be used for each triennial valuation with the administering authority.

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

³ Regulation 77, as amended by Regulation 144 for the Environment Agency Closed Fund

The key financial assumption is the rate of RPI inflation applied to pension increases, which has been taken to be 3.2% a year in the 2007 valuation.

For the 2007 valuation, it is assumed that the Fund's investments will deliver a long-term real return (i.e. in excess of price increases) in line with index-linked government bonds at the time of the valuation. As at 31 March 2007, the real return on index-linked gilts was 1.3% a year more than RPI increases.

The Guarantor agreed to commence making contributions to the Fund from April 2006. Payments are made every six months, and are calculated to meet projected benefit expenditure over the following six months. These payments are currently around £45m every six months (£90m a year). This mechanism is detailed in the Memorandum of Understanding between the Secretary of State for Environment, Food and Rural Affairs and the Environment Agency – Pensions Committee.

4. Links to investment strategy

Funding and investment strategy are inextricably linked. However, going forward the Fund's assets are expected to be modest (approximately £100m) compared to the value of the prospective liabilities (some £1,170m as at 31 March 2007). The performance of the assets will only have a limited effect on the Fund's finances.

4.1 *Investment strategy*

Investment strategy is set by the Administering Authority, after consultation with the employer and after taking investment advice.

The investment strategy currently being pursued is described in the Fund's Statement of investment principles.

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

4.2 *Consistency with funding basis*

The funding policy anticipates returns of 1.3% a year in excess of price increases, in line with the return on index-linked government bonds as at 31 March 2007. The valuation of liabilities makes an allowance for expected future investment expenses.

4.3 *Balance between risk and reward*

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward from altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities.

The principal remaining uncertainties for the funding and investment policies are:

Longer term – Greater longevity improvement than anticipated. Higher RPI than assumed increasing liabilities. Inability to re-invest investment income in future to achieve a return of 1.3% a year in excess of RPI.

Shorter term - Statistical variations between demographic assumptions and actual experience e.g. numbers of transfer payments. Unexpected surge of pension increase recharges from other local authority schemes.

4.4 *Intervaluation monitoring of funding position*

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

5. Key risks & controls

5.1 Types of risk

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

- financial;
- demographic; and
- regulatory.

5.2 Financial risks

The main financial risks are those relating to the level of future inflation and the ability to reinvest income. The development over time of these factors will be monitored regularly, alongside the cash flow monitoring.

A further risk relates to the pension increase recharges to local authorities, over which the Administering Authority has no direct control as it does not pay the individual pensions and is reliant on other funds to recharge the amounts. The Administering Authority is investigating practical ways of reducing the uncertainty associated with the amounts of the recharges, to minimise variations between the projected costs and actual expenditure.

5.3 Demographic risks

The main demographic risk is that improvements in longevity might be greater than allowed for. At the triennial valuations the Administering Authority and the actuary will make appropriate mortality assumptions. The appropriateness of these assumptions will be reviewed at the triennial valuations.

In the short term, there may be other areas where the demographic experience differs from that assumed (e.g. transfer payments). Such variations should be highlighted by the regular cash flow monitoring.

5.4 Regulatory

There is a risk that new legislation could impact on the Fund. The Administering Authority considers all consultation papers issued by the DCLG and comments where appropriate.

Approved by the Pensions Committee on 21 June 2007 and this statement will be reviewed following the 2010 triennial valuation.

Annex 4 – Statement of investment principles

This is the Statement of Investment Principles adopted by the Environment Agency as Administering Authority of the Closed Pension Fund (“the Fund”) on 23 June 2010, as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. It is subject to periodic review by the Pensions Committee, which acts on the delegated authority of the Environment Agency’s Board.

In preparing this statement, the Pensions Committee has taken advice from the Investment Practice of Hymans Robertson Consultants and Actuaries.

Funding objective

This Statement is consistent with the Fund’s funding strategy, which is set out in the Funding Strategy Statement adopted on 21 June 2007. The Fund’s solvency is guaranteed by the Government, in the form of the Secretary of State for Environment, Food and Rural Affairs (“the Guarantor”). The level of the Guarantor’s contributions is reviewed every six months. The Fund’s invested assets are small relative to the value of its prospective liabilities. The Fund’s assets are invested in long dated index linked gilts on the basis that the Guarantor will meet pension payments until the value of the remaining liabilities is equivalent to the Fund’s remaining assets.

Investment principles

The assets comprise a portfolio of index-linked government bonds invested with Sarasin & Partners LLP and a small unquoted portfolio which is managed internally and is currently being run down.

In order to achieve its investment objectives, the Pensions Committee has agreed the following in respect of the Sarasin & Partners LLP portfolio:-

Choosing Investments: The Committee will appoint an investment manager (currently Sarasin & Partners LLP) authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Committee, after seeking appropriate investment advice, has given the manager specific directions as to the securities to be held. The assets are held on a non-discretionary basis by Sarasin & Partners LLP.

Kinds of investment to be held: The Fund will invest in index linked government bonds and cash only. The Committee considers these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments: The Committee believes that the investments held represent an appropriate balance of investments relative to the Fund’s liabilities.

Risk: The Committee provides a practical constraint on the Fund’s investments deviating from the intended approach by specifying the particular bonds to be held.

Expected return on investments: Over the long term, the overall level of investment return is expected to be consistent with the rate of return assumed by the actuary in the Actuarial Valuation of the Scheme.

Realisation of investments: The bonds held within the Fund may be realised quickly if required.

Exercise of Voting Rights: There are no voting rights attached to index-linked government bonds.

Social, Environmental and Ethical Considerations: The Committee does not feel there are any such considerations by investing in index-linked government bonds.

Stock lending: The Fund does not engage in any stock lending.

Statement of compliance with the Myners Principles

In 2000 the UK Government commissioned a review of institutional investment in the UK. The review, undertaken by Lord Myners, set out ten principles codifying a model of best practice in pension fund governance, investment decision making and disclosure. In 2008 the Government published a revised set of six principles against which we have compared ourselves and provided a summary below. Further details and evidence is contained with the documents referenced in our Annual Report and Accounts and on our internet sites:

www.environment-agency.co.uk/pensions and www.eapf.org.uk .

Myners Principle	Evidence of compliance and justifications for non-compliance
Principle 1: Effective decision making	
<p>Administering authorities should ensure that;</p> <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor their implementation and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Our Fund fully follows this principle</p> <ul style="list-style-type: none"> • Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing orders and Scheme of Delegation, clearly set out the governance structure and levels of responsibility. Our statutory Governance Compliance Statement (Annex 1) provides further detail. • All the above documents and other supporting material are contained in a Pensions Committee handbook that is regularly updated. • The Pensions Committee retains overall responsibilities for Fund and investment strategy. • The Pension Committee appoints a number of professional external advisers for investment, legal advice, administration and actuarial services. These are detailed in our Annual Report and Accounts. A report on their performance is presented to the Pensions Committee and the Board annually. • The Pensions Committee has a training strategy which is reviewed annually. Conflicts of interest are identified and records maintained and form part of an annual audit. A record of meeting attendance and training is published in our Annual Report and Accounts • Managers are appointed to invest funds following a comprehensive due diligence process and with input from independent investment advisers.
Principle 2: Clear Objectives	
<ul style="list-style-type: none"> • An overall investment objective(s) should be set for the Fund taking account of the scheme's liabilities, the potential impact on local tax payer, the strength of the covenant for non-local authority employer, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. 	<p>Our Fund fully follows this principle</p> <ul style="list-style-type: none"> • In setting the investment objective(s), the Pensions Committee, as the Administering Authority, addresses the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes such as equities. This process is informed by actuarial and investment advice and the use of asset-liability modeling techniques to model the range of potential future funding levels and the impact on future contribution rates (reference Funding Strategy Statement (Annex 3) and Statement of Investment Principles above for more details).
Principle 3: Risk and liabilities	
<ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<p>Our Fund fully follows this principle</p> <ul style="list-style-type: none"> • In setting the investment strategy, the Pensions Committee, as the Administering Authority, is informed by actuarial and investment advice and asset-liability modeling with inter-valuation monitoring, providing an early warning. A summary of the assumptions is detailed in the statement of the Consulting Actuary page 17 and risks in the Funding Strategy Statement page 33.
Principle 4: Performance assessment	
<ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make 	<p>Our Fund fully follows this principle</p> <ul style="list-style-type: none"> • The Environment Agency has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee. • The Pensions Committee meets 4 times a year and has set up an Investment Sub Group which also meets at least 4 times a year to monitor investment performance and developments. • The Administering Authority monitors investment performance relative to benchmarks and the change in the value of liabilities by

Myners Principle	Evidence of compliance and justifications for non-compliance
<p>a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<p>means of quarterly inter-valuation monitoring reports.</p> <ul style="list-style-type: none"> The Pension Committee reviews its effectiveness at each meeting and periodically and the outcomes reported to the Board of the Environment Agency.
Principle 5: Responsible ownership	
<p>Administering authorities should:</p> <ul style="list-style-type: none"> Adopt, or ensure their investment manager adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents Include a statement of their policy on responsible ownership in the statement of investment principle. 	<p>Partially compliant</p> <ul style="list-style-type: none"> Our Closed Fund assets are two long dated gilts. We undertake responsible investment to the extent practical given the nature of the assets. Responsible ownership policies and practices are reviewed as part of periodic investment strategy reviews.
Principle 6: Transparency and reporting	
<p>Administering authorities should:</p> <ul style="list-style-type: none"> Act in a transparency manner, communication with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives Provide regular communications to scheme members in the form they consider most appropriate. 	<p>Our Fund fully follows this principle</p> <ul style="list-style-type: none"> Our Annual Report and Accounts details all the material issues relating to the Fund, its investments and administration. It is publicly available in hard copy and via our websites. Fundfare is our annual publication to members, which includes financial information about the Fund and its investments. Two editions are published - one covering the Active Fund and one for the Closed Fund. Our Communications Policy Statement (Annex 2) details the stakeholders we have identified. It also details the communication channels and delivery targets for member communications.

Investment strategy

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

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

It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Approved by the Pensions Committee on 23 June 2010

Annex 5 – Government funding agreement

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

Environment Agency Closed Pension Fund

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

Paul Boateng

Extract from a letter sent on 15 July 2004 by the Rt Hon Margaret Beckett (Secretary of State for the Environment) to Mr John Edmonds (Chairman of the Environment Agency Pensions Committee)

Environment Agency Closed Pension Fund

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

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

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

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

Margaret Beckett

Memorandum of understanding

Between:

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

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

Background

1. The Environment Agency Closed Fund ("the Closed Fund") is vested in, and required to be maintained by, the Environment Agency by regulation 2(1) of the Local Government Pension Scheme (Environment Agency) Regulations 1996.
2. Before 1989, the Water Authorities Superannuation Fund ("WASF") served the former Regional Water Authorities in England and Wales. Under the Water Act 1989 their water supply and sewerage functions were transferred to newly created water companies, together with the relevant employees. The pension liabilities and assets in respect of such employees were transferred from the WASF to the new water company pension schemes. The pension liabilities and assets in respect of the remaining employees, and also of the former employees and pensioners, were transferred with the WASF to the National Rivers Authority ("the NRA"), which set up a pension fund for its own employees ("the Active Fund") into which were transferred the pension liabilities and assets in respect of the said remaining employees.
3. Following the transfer of active employed members to both the water company pension schemes and the Active Fund, the only remaining members of the WASF were deferred and pensioner members. No further members were admitted to it, so that it became a closed scheme ("the Closed Fund"). The Secretary of State and the NRA accepted the possibility that, in due course, the Closed Fund could have insufficient resources to meet its pension liabilities. With effect from 1 April 1996 the Agency assumed the functions of the NRA and the Closed Fund is now known as the Environment Agency Closed Fund.
4. The Closed Fund is maintained for the purposes of Section 7 of the Superannuation Act 1972, and accordingly the Secretary of State has the function conferred by Section 173 of the Act to make such payments into the Closed Fund as may be considered appropriate in respect of the actual and prospective liabilities falling from time to time to be met out of the Closed Fund for the benefit of its members ("the Closed Fund members").
5. As at 31 March 2004, the Closed Fund's FRS 17 valuation indicated that it had a net deficit for accounting purposes of £826,600,000 and its actuarial valuation indicated that it had a funding level of 21% which corresponded to a net past service reserve deficit of £880,000,000. The value of the liability under both valuations is sensitive to future mortality rates, inflation rates, and the discount rate used.
6. This Memorandum of Understanding sets out the mechanism whereby the Secretary of State will exercise the function under section 173 of the 1989 Water Act with a view to addressing the deficit in the Closed Fund.
7. This Memorandum has been agreed between the Secretary of State and the Environment Agency and the arrangements for funding the Closed Fund have been approved by Her Majesty's Treasury pursuant to that section, as indicated in the letter of 15 April 2004 from the Chief Secretary to the Secretary of State, subject to the conditions referred to in that letter.

Payments into the Fund

8. The Closed Fund's funding level continues to deteriorate, and on actuarial advice it is assumed that the value of the assets will reduce to a level of between £50 million and £60 million by about April 2006. With effect from that date the Secretary of State will ensure that cash payments are made into the Fund each year totalling an amount equivalent to its total annual outgoings (defined as total anticipated payments to pensioners, transfers out of the Closed Fund, investment management or other agents' fees, administration costs, and all other liabilities or expenses whatsoever, less interest earned on such cash payments made to the Environment Agency for the Closed Fund during the year) to be calculated and properly certified by the Environment Agency in accordance with actuarial advice received.
9. Such payments will be solely to finance the Closed Fund's annual outgoings and will be treated separately from the Environment Agency's mainstream finances. They will be made every six months, with the sums to

be paid equalling the amount of the Fund's outgoings for the previous six months. The first payment into the Fund will be made in April 2006. These payments will continue until the liabilities of the Closed Fund have been met in full. Latest actuarial projections indicate that this will occur in 2062.

10. These payments will be in the form of ring-fenced Grant-in-Aid from the Secretary of State and will be paid twice each year in April and October through the normal Grant-in-Aid procedures to the Environment Agency.
11. The Environment Agency will provide the Secretary of State with a copy of actuarial advice received and such information as is reasonably required to illustrate how the payments certified as payable have been calculated. Any assets held in the Closed Fund in excess of the payments will be retained to protect against minor variations in outgoings until a certificate of the actuary to the Closed Fund confirms that their retention is unnecessary. A copy of any such certificate shall be provided by the Environment Agency to the Secretary of State.
12. Payments made by the Secretary of State into the Closed Fund will be reported in Defra's annual accounts together with the Closed Fund's liability in accordance with FRS 17 (or any replacement accounting standard).

Payments to pensioners

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

Control, monitoring and review

14. The Environment Agency will manage the residual assets of the Closed Fund according to the high standards of financial integrity expected of those responsible for the management of public assets. The Environment Agency will invest any surplus funds, as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and in accordance with the Closed Fund's Statement of investment principles and Funding strategy statement. The Environment Agency's procedures and the accounts of the Fund will continue to be the subject of an annual external audit, and nothing in this Memorandum affects the need for an actuarial valuation of the Closed Fund as required by the LGPS Regulations.
15. For monitoring purposes, the Environment Agency will inform the Secretary of State of the Closed Fund's liabilities at the end of each financial year in accordance with FRS 17 (or any replacement accounting standard).
16. This information will be used to update provisions in the annual accounts of Defra. Significant variations from profiled Grant-in-Aid payments will be fully justified by the Environment Agency.
17. This Memorandum shall only be amended by the agreement in writing of both the Secretary of State and the Environment Agency.

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

Barbara Young,
Accounting Officer,
Environment Agency
On behalf of the Environment Agency

Date of signature: 17 May 2005

Additional information

Statistical summary of Fund membership and value

	31.3.96	31.3.97	31.3.98	31.3.99	31.3.00	31.3.01	31.3.02	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08	31.3.09	31.3.10
Fund membership															
Pensioners	25,671	25,128	24,575	23,996	23,364	22,761	22,117	21,476	20,833	20,113	19,456	18,907	18,329	17,702	17,081
Deferred members	7,721	7,460	7,241	7,054	6,815	6,568	6,335	6,102	5,880	5,641	5,368	5,102	4,801	4,525	4,256
Total	33,392	32,588	31,816	31,050	30,179	29,329	28,452	27,578	26,713	25,754	24,824	24,009	23,130	22,227	21,337
Financial summary															
	31.3.96	31.3.97	31.3.98	31.3.99	31.3.00	31.3.01	31.3.02	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08	31.3.09	31.3.10
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Grant-in-Aid income	-	-	-	-	-	-	-	-	-	-	-	91	90	84	87
Investment income	36	32	26	22	19	17	12	9	7	8	4	2	3	2	2
Benefits and other expenditure	(104)	(104)	(102)	(101)	(101)	(98)	(96)	(94)	(94)	(92)	(91)	(89)	(88)	(88)	(87)
Excess of benefits and other expenditure over income	(68)	(72)	(76)	(79)	(82)	(81)	(84)	(85)	(87)	(84)	(87)	4	5	(2)	2
Change in market value of investments	100	40	112	20	40	(28)	(9)	(44)	31	13	9	5	15	(7)	12
Net increase/ (decrease) in the Fund value	32	(32)	36	(59)	(42)	(109)	(93)	(129)	(56)	(71)	(78)	9	20	(9)	14
Market value of Fund	724	692	728	669	627	518	425	296	240	169	91	100	120	111	125

Any enquiries regarding this Report should be addressed to:

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Pension Fund Management
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BRISTOL
BS32 4UD**

**Tel: 01454 62 4332
Email : pensions.team@environment-agency.gov.uk**

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

**Environment Agency Pensions Team
Capita Hartshead
2 Cutlers Gate
SHEFFIELD
S4 7TL**

**Tel: 0114 273 7331
Fax: 0114 273 0299
Email: info@eapf.org.uk**

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

**www.eapf.org.uk
www.environment-agency.gov.uk/pensions
www.environment-agency.wales.gov.uk/pensions**

**The Environment Agency Closed Pension Fund is
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