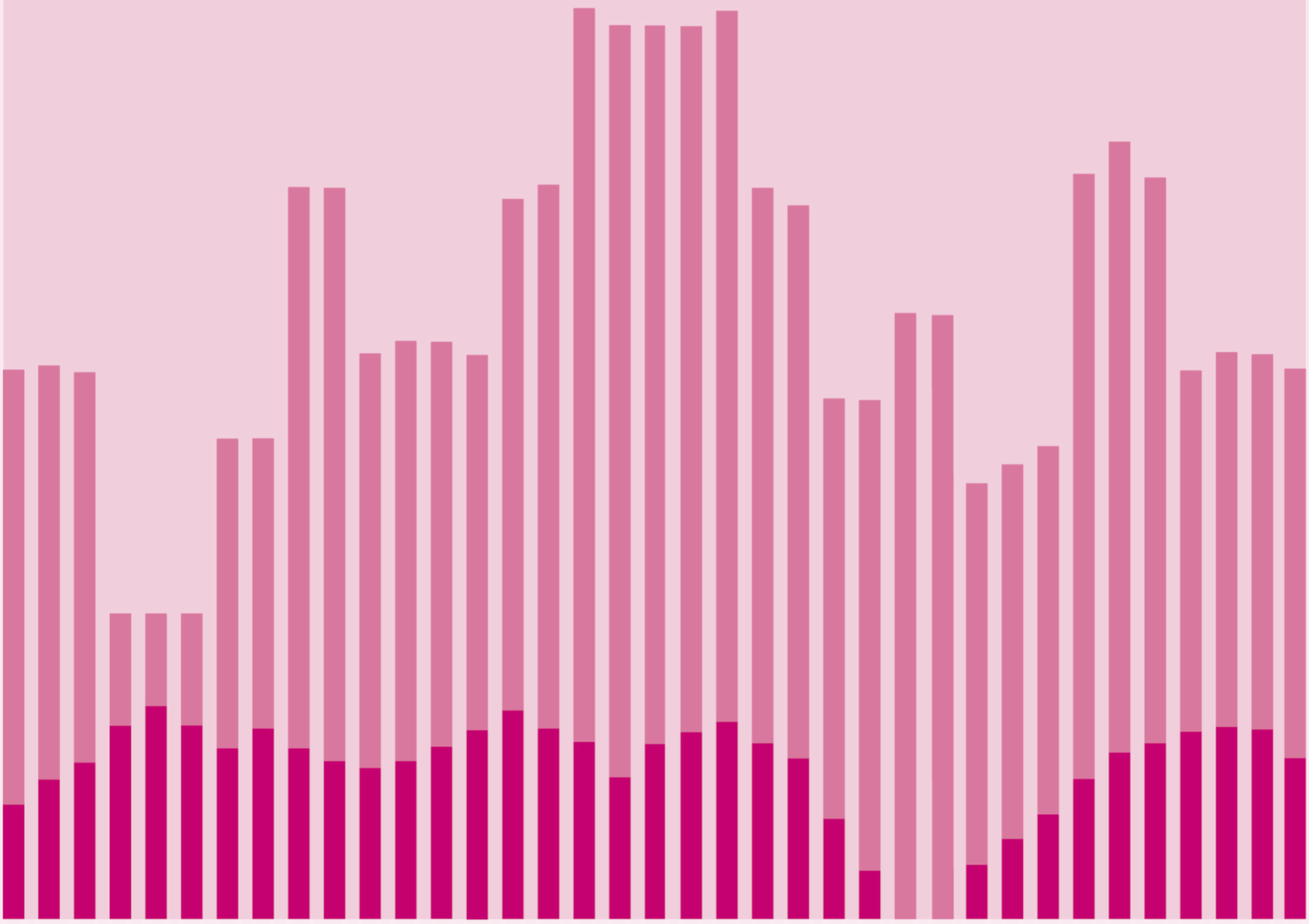
Environment Agency

Closed Pension Fund
Annual Report and Financial Statements 2011 - 2012



Environment Agency Closed Pension Fund
Annual Report and Financial Statements 2011 - 2012

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

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

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Chairman's statement

As Chairman of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Closed Pension Fund (the "Fund"), I am pleased to present the Fund's Annual Report and Financial Statements for the year ended 31 March 2012.

This year our annual report and financial statements has, for the first time, been prepared using the new CIPFA guidance on narrative reporting and accounting disclosures for LGPS pension funds, and I am pleased to say it is compliant with the CIPFA guidance.

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 Fund.

During the year the total number of current pensioners and deferred members fell by 875 (4.3%) to 19,544.

As at 31 March 2012 the Fund's net assets are valued at £152m (2011: £134m) and the Fund's liabilities are £921m (2011: £898m). The investment management of the assets in two long dated gilts is undertaken by Sarasin & Partners LLP. The investment return for 2011/12 was +23.5% (2011:+4.7%). The triennial valuation of the Fund carried out on 31 March 2010 indicated the funding level of the Fund was 14%. The funding level as at 31 March 2012 is 17% (2011: 15%).

Since the Fund has no contribution income, the Government has, under Section 173 of the Water Act 1989, a statutory obligation to ensure that the Fund can always meet its pensions and other related liabilities. Deferred members, pensioners and their dependants can therefore be reassured about the long-term security of their pension benefits.

Under the terms of letters between Her Majesty's Treasury and the Department for Environment Food & Rural Affairs (Defra), and between Defra and the Environment Agency and the Memorandum of Understanding between the Accounting Officers of Defra and the Environment Agency; the Fund has, since 1 April 2006, received grant-in-aid from Defra. During the year payments amounting to £80.9 million were received and used to meet the Fund's obligations to meet pensions and other liabilities.

During the year we have undertaken a project to simplify the funding, management and administration of its inherited historical 'unfunded' liabilities. During 2011/12 bulk transfers amounting to £11.4m have been paid to 47 local authorities and 1 water company. I would like to thank the officers in the receiving funds for their co-operation and support, allowing us to reduce the administration costs for the fund and reduce Defra's future annual payment by around £2m per annum.

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

This will be my last Annual Report for the Fund. In the three years I have been Chair, and indeed in the six years I have been on the Pensions Committee, we have seen some of the most dramatic times for Pensions – the global financial crisis and its effect on stock markets, the new Government's proposals on public sector pensions, the Hutton Report, and the, yet to be finalised, future of the LGPS, of which the EA pension funds are a part.

With the statutory underpinning and funding agreement we have in place with Defra, the Fund members' pension benefits are protected. I now pass the baton to the next Chairman of the Committee knowing the Fund is in good hands but knowing also that there will continue to be serious challenges.

Larry Whitty
Chairman
Environment Agency Pensions Committee
12 July 2012

Membership of the Pensions Committee for the year ended 31 March 2012

	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members				
Larry Whitty (Chair)	18/09/06	5 yr 6 mth	17/09/12	0 yr 6 mth
Suzanne Warner	18/09/06	5 yr 6 mth	17/09/12	0 yr 6 mth
Robert Light	07/07/09	2 yr 9 mth	30/06/12	0 yr 3 mth
John Varley	01/11/09	2 yr 4 mth	30/09/12	0 yr 6 mth
Executive members				
Mark McLaughlin	03/01/09	2 yr 5 mth	n/a	n/a
Graham Ledward *	01/11/06	6 yr 3 mth	n/a	n/a
Howard Pearce	12/02/03	9 yr 2 mth	n/a	n/a
Kevin Ingram	07/07/09	2 yr 9 mth	06/07/15	3 yr 3 mth
Active member nominees				
Jackie Hamer	01/04/08	4 yr 0 mth	31/03/14	2 yr 0 mth
Huw Williams	06/07/10	1 yr 8 mth	05/07/13	1 yr 4 mth
Stuart Martin	17/11/09	2 yr 5 mth	16/11/15	3 yr 7 mth
Phil Chappell	17/05/06	5 yr 10 mth	16/05/15	3 yr 2 mth
Simon Peate	07/07/11	0 yr 8 mth	06/07/14	2 yr 4 mth
Pensioner member				
Brian Engel	22/05/05	6 yr 10 mth	22/05/15	3 yr 2 mth
Deferred member				
John Kerr	09/02/10	2 yr 2 mth	08/02/16	3 yr 10 mth
Chief Executive - ex officio				
Paul Leinster	01/06/08	3 yr 9 mth	n/a	n/a

** Left the Environment Agency on 30 April 2012*

Committee member biographies

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

Larry Whitty has been a member of the Committee since 2006 and Chairman since 2009. He has received training on actuarial valuations, investment strategy and the LGPS. Larry has extensive knowledge of public sector pensions as trade union negotiator and in his work for Consumer Focus. He also has extensive experience of strategic financial investment from his experience as a Government Environment Minister.

Suzanne Warner has been a member of the Committee since she joined the Board in 2006. She is Chair of the Environment Agency Audit and Risk Committee which has oversight of the management and accounts of the Committee. At an earlier stage in her career she was the senior manager in the Department of Health and Social Security with responsibility for national pension policy and worked closely with the National Association of Pension Funds. She has been an Accounting Officer for an Executive Agency and for a Non-Departmental Public Body. She has undertaken specific training on the LGPS as well as attending relevant events to keep her knowledge up to date on developments in pension policy.

Robert Light has been a member of the Committee since 2009 and chaired the Benefits Sub-Group since 2010. He has 19 years experience of the LGPS as a member of Kirklees Council and as Leading member for 12 years. In addition, he has knowledge of the Firefighters Pension Scheme as a member for 15 years of the West Yorkshire Fire Service and a former Chair & Deputy Chair. Being a member of the Local Government Association (LGA) Board, he actively contributes to the development of policy on the LGPS. He is also a member of the Audit Commission which audits most LGPS funds. He was also a contributing member to the West Yorkshire LGPS fund.

John Varley has been a member of the Committee since 2009 and chaired the Investment Sub Group since 2010. In these roles he has undertaken actuarial and investment training. John has previously undertaken business finance courses as part of a Masters Degree at McGill University in Montreal and in programmes at the Institute of Management Development (IMD) in Lausanne. Previously, John chaired the Audit Committee of both the Countryside Agency and Commission for Rural Communities. In his current role as Director of Clinton Devon Estates, John chairs the Investment Committee and works closely with external fund managers in achieving investment objectives. John is also a trustee of Clinton Devon Estates pension scheme.

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

Graham Ledward has been a member of the Committee since 2006. Prior to this, Graham chaired the Investment Sub-Committee of a FTSE100 bank for 6 years and was throughout that time, a member of the bank's Pensions Committee, including a 12 month stint as Chair. Until 20 April 2012 Graham was Director of Resources at the Environment Agency and was an active contributing member of LGPS between January 2006 and March 2012. He undertook appropriate training, as necessary, throughout this period.

Howard Pearce has been a member of LGPS since 1988. As Head of Corporate Planning for the National Rivers Authority (1989-1996) and Environment Agency (1996-2002) he was involved in the transfer and development of their pension fund management arrangements. Howard has been Head of the Pension Fund Management Team and member of the Committee since 2003 to date. Howard has received extensive training on pension fund governance, investments, benefits administration and communications to fund members. He is a member of the DCLG LGPS Policy Review Group, Technical Group, Procurement Group, and Investment Regulations Review Group.

Kevin Ingram has been a member of the fund since 2007. He is a qualified accountant (ACA) with a background in audit and financial management in both the public and private sectors. His substantive role is as Finance Manager for EA Wales, and he is currently working on the set up of the new Single Body for Wales. Kevin has been a member of the Committee since 2009 and during this period has received training on the LGPS and pension fund management.

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

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

Philip Chappell has been a member of the Committee since 2006. He is a Regional Incident and Emergency Planning Manager in the Environment Agency and has been an active member of the LGPS for 24 years. To keep his knowledge up to date Phil has attended numerous training events and conferences on the LGPS and on pension fund investment and management over the last 6 years. He has been the Pensions Representative of Prospect Union's Environment Agency Branch since 2005.

Simon Peate has been a member of the Committee since 2011. He has worked for the Environment Agency as an Environment Officer since 2001. Prior to this, over a period of 25 years, he held a number of senior management positions in the coal industry. He has been active in Unison since 2004 and is currently the Branch Secretary of the Environment Agency Midlands Branch. He is member of the British Coal Staff Superannuation Scheme, the Industry Wide Coal Staff Superannuation Scheme and the EAPF. He has attended the 3 day LGPS Trustee Training Fundamentals course.

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

John Kerr has been a deferred member of the Environment Agency's Closed Fund since 1976 following employment with the Anglian Water Authority and joined the Committee in 2009. John qualified as a chartered surveyor and was Chief Executive of two legal businesses for eight years until 2010. With a broad knowledge of the financial and property markets, he has 7 years private sector, final salary, pension scheme management experience of three occupational schemes plus personal experience of a further two and three personal pension plans. He has represented two employers on their occupational pension schemes as Chief Executive and Trustee, restoring low funding back to acceptable levels. In 2004 he oversaw an increase in the employees' contributions to their final salary scheme through extensive consultation and by agreement with the workforce. He has received training on many aspects of pensions management and investment regularly since 1989.

Professional advisers to the Committee

Actuarial Adviser	Hymans Robertson (Richard Warden)
Bankers	National Westminster Bank plc and Cater Allen Private Bank Ltd
Benefits Adviser	Hymans Robertson (Karen McWilliam)
Custodian	The Northern Trust Company
External Auditor	Comptroller and Auditor General
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd. (Carolan Dobson)
Investment Adviser	Hymans Robertson (Paul Potter)
Legal Adviser	Osborne Clarke (Mark Womersley)
Pensions Administrator	Capita Hartshead Limited

Report by the Pensions Committee

Governance

Chairman and members

There were no changes in Board appointed members during the year and Larry Whitty continued as Chair of the Committee. John Varley is Chair of the Investment Sub-Group and Robert Light is Chair of the Benefits Sub-Group.

There were no changes in executive members during the year but following the resignation of Graham Ledward, Director of Resources, from the Environment Agency in April 2012, Jonathan Robinson, Director of Resources and Legal Services, was appointed to the Committee. Following the retirement of active member Aileen Parry at the end of April 2011, Simon Peate has been appointed as an active member for an initial three-year term from July 2011 until July 2014.

At the end of 2011 the Committee reviewed its membership to ensure continuity over this continuing period of pensions change and at the February 2012 Board meeting the following extensions to Committee appointments were agreed. Executive member Kevin Ingram's membership was extended to July 2015. Active members Phil Chappell and Stuart Martin were extended to May 2015 and November 2015 respectively. Deferred member nominee John Kerr's membership was extended to February 2016 and pensioner nominee Brian Engel's membership was extended to May 2015, at which time he will have served 10 years on the Committee.

Committee governance

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

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

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

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.

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

In December 2008 the Government issued statutory guidance on the preparation of Governance Compliance Statements. Our own statement, which incorporates the Pensions Committee Terms of Reference and Standing Orders and the Pension Funds Scheme of Delegation, demonstrates our compliance with this guidance. The statement of compliance with Government guidelines has been updated this year and may be found at page 20. The full Governance Compliance Statement may be found at www.eapf.org.uk and www.environment-agency.gov.uk/pensions.

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

Committee training

As an administering authority of the LGPS, the Committee recognizes the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge those responsibilities. The Committee seeks to ensure that membership is both capable and experienced and will provide/arrange training for its members so that they can acquire and maintain an appropriate level of expertise, knowledge and skills.

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

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

In each subsequent year of membership they are expected to undertake two to three days’ training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. A detailed log of all training undertaken and planned by Committee members is maintained and is presented on the next page. During 2011/12 one special training session was held for the Committee on strategic asset allocation.

Committee training log

Member name	Training log
Larry Whitty (Board Member) Appointed to PC: 18/09/2006	2006 2 days EA PC induction training and special PC meeting on new LGPS proposals 2007 2 days actuarial valuation training 2008 1 day training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Suzanne Warner (Board Member) Appointed to PC: 18/09/2006	2006 2 days EA PC induction training and special PC meeting on new LGPS proposals 2007 2 days actuarial valuation training 2007 1 day IIGCC training seminar - climate change and investments 2008 1 day training on the new LGPS 2008 2 day 6th Annual LGPS Trustees' Conference 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
John Varley (Board Member) Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Robert Light (Board Member) Appointed to PC: 07/07/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy
Phil Chappell (Member Rep) Appointed to PC: 17/05/2006	2006 6 days EA PC Induction training, special PC meeting for briefing on New Look LGPS, annual LGPS Trustees Conference, LGE Trustee Fundamentals 2007 2 day actuarial valuation training 2008 1 day training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Stuart Martin (Member Rep) Appointed to PC: 17/11/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 Half day PC induction training on the new LGPS 2011 Investment strategy 2011 2 day LGPS "Trustees" conference 2011 Strategic asset allocation/investment strategy
Jackie Hamer (Member Rep) Appointed to PC: 01/04/2008	2008 1 day PC induction training on the new LGPS 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Huw Williams (Member Rep) Appointed to PC: 06/07/2010	2010 1 day PC induction training on the new LGPS 2011 Investment strategy 2011 2 day LGPS "Trustees" conference

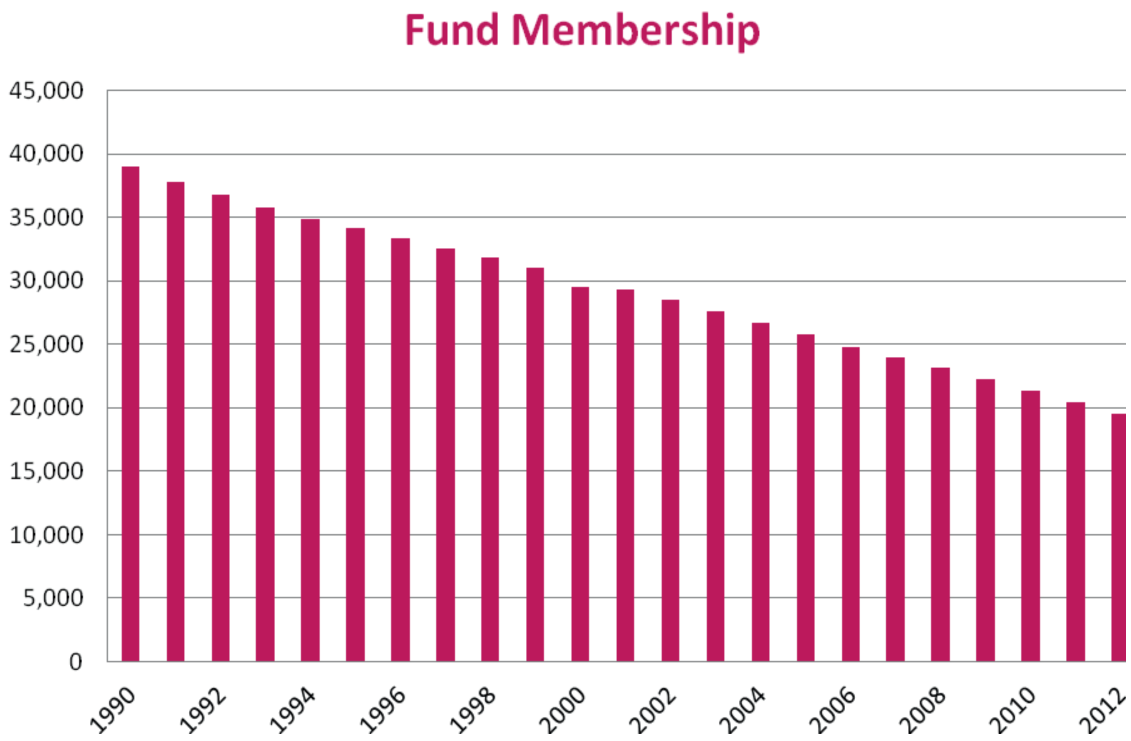
Member name	Training log
Simon Peate (Member Rep) Appointed to PC: 07/07/2011	2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2012 Half day induction training 2011 Strategic asset allocation/investment strategy
Brian Engel (Pensioner Rep) Appointed to PC:22/05/2005	2005 3 days EA PC induction training and LGPS trustee fundamentals course 2006 Half day Defra seminar on changes to the LGPS 2006 1 day special PC meeting for briefing on New Look LGPS 2007 1day Hymans Robertson actuarial valuation training. 2008 1 day training on the new LGPS 2008 2 day 6th Annual LGPS Trustees' Conference 2009 1 day training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
John Kerr (Deferred Member Rep) Appointed to PC: 09/02/2010	2011 Half day training on the new LGPS 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Mark McLaughlin (Management Rep) Appointed to PC: 01/11/2009	2009 Half day induction training 2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Graham Ledward (Management Rep) Appointed to PC: 03/01/2006	2006 2.5 days Pension Committee induction training, actuarial training, and special PC briefing on new LGPS proposals 2007 1 day actuarial training and briefing on 2008 triennial valuation results 2008 1 day visit to, and refresher briefing on, the work of Capita Hartshead 2008 1 day New LGPS 2009 1 day Hymans Robertson training on outsourcing and pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review
Kevin Ingram (Management Rep EA Wales) Appointed to PC: 07/07/2009	2009 Half day training on cost sharing 2009 Half day training on Active Fund strategy review 2011 3 days LGPS trustee training fundamentals 2011 Investment strategy 2011 Strategic asset allocation/investment strategy
Howard Pearce (Management Rep) Appointed to PC: 12/02/2003	2004 3+ days CPD on LGPS changes, investment strategy and SRI. 2005 3+ days CPD on LGPS changes, investment strategy and SRI. 2006 4+ days CPD on LGPS changes, actuarial and investment matters 2007 4+ days CPD on LGPS changes, actuarial and investment matters 2008 1 day visit to, and refresher briefing on, the work of Capita Hartshead 2008 Specialist fund investment, accounting and benefits administration training 2009 1 day Hymans Robertson training on outsourcing/pension issues 2009 1 day training on bulk transfers and admitted bodies 2009 Half day training on cost sharing 2009 Half day training on Active Fund funding strategy review 2010 Investment strategy reviews 2011 Investment strategy 2011 Strategic asset allocation/investment strategy

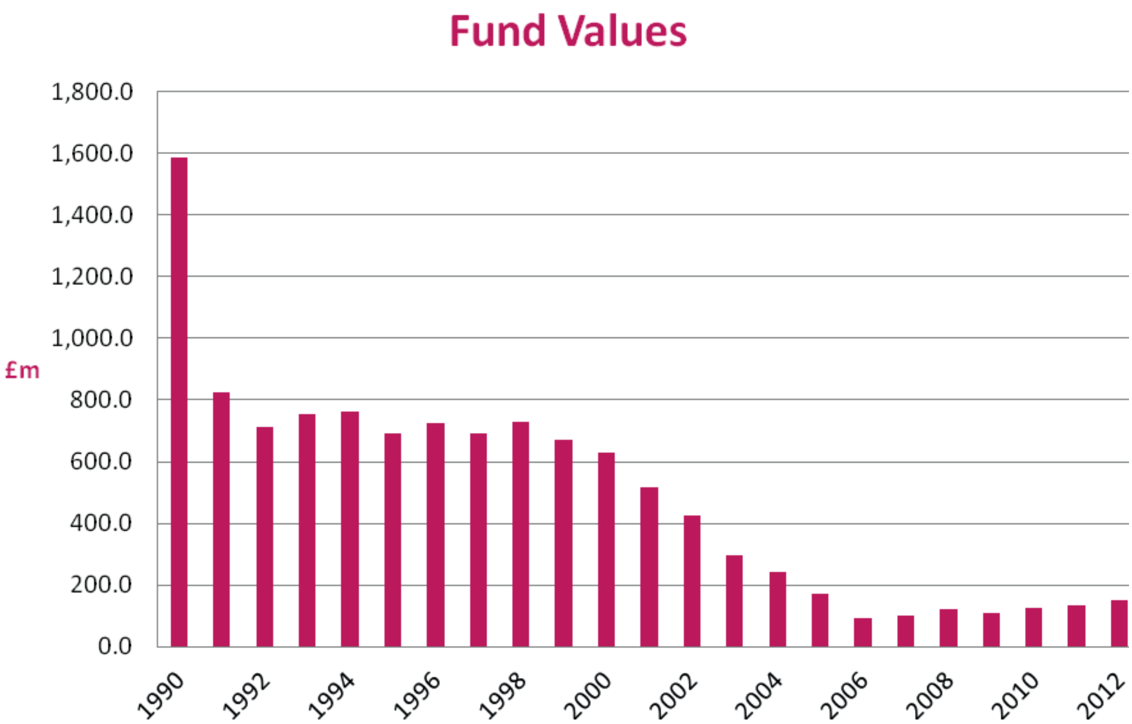
Members' attendance at Committee meetings through the year

	Committee business	Committee training	Investment Sub Group	Benefits Sub Group	TOTAL
Number of meetings	**4**	**1**	**4**	**3**	**12**
Board members					
Larry Whitty (Chair)	4	1	3	3	11
Suzanne Warner	4	1			5
Robert Light	3	0		3	6
John Varley	4	1	4		9
Executive members					
Mark McLaughlin	4	1	4	3	12
Graham Ledward	1	0		0	1
Howard Pearce	4	1	4	3	12
Kevin Ingram	3	1			4
Active members					
Phil Chappell	3	1	4		8
Jackie Hamer	3	1	4		8
Stuart Martin	3	1		3	7
Aileen Parry (to 30/4/11)	0	0	0	0	0
Simon Peate (from 7/7/11)	3	1			4
Huw Williams	3	0			3
Pensioner member					
Brian Engel	4	1		3	7
Deferred member					
John Kerr	4	1		2	6
Chief Executive - ex officio					
Paul Leinster	0	0			0

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

Fund membership and value of assets





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 2011, the number of deferred members has fallen by 8.6%, from 3,982 to 3,640 (2011: 6.4%). The number of pensions in payment fell by 3.2% from 16,437 to 15,904 (2011: 3.8%). 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 2011	16,437	3,982*	20,419
Adjustment for late notifications	65	(94)	(29)
Revised opening balance	16,502	3,888	20,390
Add:			
Deferred pensions into payment	229	-	
New spouse's/children's pensions	231	-	
	460	-	460
Less:			
Deaths	(1,029)	(3)	
No longer eligible	(4)		
Suspended	(24)		
Transfers to other schemes	-	(14)	
Deferred pensions into payment	-	(229)	
Commuted benefits	(1)	(2)	
	(1,058)	(248)	(1,306)
At 31 March 2012	**15,904**	**3,640***	**19,544**

*The figure for deferred members includes 622 (2011: 633) 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	2012		2011	
	No.	%	No.	%
Child dependants	66	0.4	69	0.4
Pensioners and spouses				
Under 55	118	0.8	149	0.9
55 – 59	220	1.4	239	1.5
60 – 64	1,527	9.6	1,515	9.2
65 – 69	1,502	9.4	1,441	8.8
70 – 74	1,612	10.1	1,832	11.1
75 – 79	2,743	17.2	3,002	18.3
80 – 84	3,602	22.6	3,805	23.2
85 – 89	3,005	19.0	3,000	18.2
90 – 94	1,258	7.9	1,122	6.8
95 – 99	235	1.5	236	1.4
100 -104	16	0.1	27	0.2
TOTAL	**15,904**	**100.0**	16,437	100.0

Age profile of current deferred members at 31 March	**2012**		2011	
	No.	**%**	No.	%
40 – 44	139	3.8	217	5.5
45 – 49	563	15.5	631	15.8
50 – 54	1,089	30.0	1,260	31.7
55 – 59	1,509	41.5	1,516	38.1
60 – 64	197	5.4	224	5.6
65 – 69	59	1.6	58	1.4
70 – 74	37	1.0	38	0.9
75 – 79	36	1.0	37	0.9
80 – 84	9	0.2	1	0.1
TOTAL	**3,638***	**100.0**	3,982*	100.0

*The figure for deferred members includes 622 (2011: 633) 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.

Benefits administration

Administration
The Environment Agency is responsible for administering the current and future pension benefits for over 19,500 members of the Closed Pension Fund.

While the Committee (and Benefits Sub-Group) provides strategic direction and regular oversight, day to day pension fund administration is delivered through our third party pension administrator, Capita Hartshead Limited (a subsidiary of Capita Group Plc). We do this because it involves specialist knowledge, complex activity and significant investment in IS/IT which is considered beyond the core business of the Environment Agency. Capita Hartshead is the largest UK outsourced third party administrator and was awarded a new contract by the Environment Agency in 2010 following a EU procurement exercise.

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

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

Over the year, Capita Hartshead achieved the required service levels for 99% of casework processed.

The five largest case types processed by Capita Hartshead for the Closed Pension Fund during 2011/12 were:

Case type	2012	2011
Dealings with HMRC	649	469
Death of pensioner	620	685
Death of spouse	520	524
Retirements	354	331
Life Certificates	253	599

We would like to express our thanks to Capita Hartshead for resolving 10,281 Fund member requests/queries and for paying pensions to over 15,900 pensioners during the year.

The total number of staff allocated by Capita Hartshead to the EAPF administration contract is 23, of which 13 deal solely with pension benefits administration. Based on a membership of 41,642 across Active and Closed Funds at 31 March 2012, this represents an average of 3,202 members per pension administrator. This compares favorably with the CIPFA LGPS average of 3,500 (2010).

Closed Fund administration costs for the year to the 31 March 2012 were £559k (2011: £556k) including member communications and postage costs.

New administration contract implementation
Over the last 18 months, the Environment Agency has been working with Capita Hartshead to implement our new pension administration contract. This has now been successfully completed with a large number of new initiatives introduced including lower annual fees, more challenging service levels, new detailed monthly reports, better complaints reporting, revised quarterly reporting, free phone member helpline, data quality/integrity improvements, a member survey, fiche scanning onto computers, plus a significant number of new member guides.

In addition, work on the Committee approved new e-communications strategy through www.eapf.org.uk has been completed, with a "live" launch of EAPFOnline later in 2012. Part of this e-communications strategy includes the ceasing of pension payslips for new pensioners and the phased optional removal of pension payslips for all existing pensioners.

Data quality
Good quality data is vital to the efficient and accurate payment of retirement benefits and general administration of member records. Guidance issued by the Pensions Regulator (tPR) requires the Committee to regularly assess the quality of EAPF member data by December 2012.

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

Data quality testing has been carried out for the Fund during 2011/12 and a certificate issued reflecting compliance with the Pension Regulator guidance. Our post June 2010 data is 100% with pre June 2010 data at 98.01%. The missing data was mainly missing/incorrect addresses and an exercise has been carried out to update these records.

More member specific data called "Conditional data" has also been reviewed with positive results and both these tPR data checks will be tested again on an annual basis.

Government pensions reform

The Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011 (SI 2011/561) – applicable from 1 April 2011.

The above amendment regulations were issued to stakeholders on 8 March 2011 by the Department for Communities and Local Government (DCLG) and came into force on 1 April 2011. They amend the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

The Regulation makes a small number of minor technical amendments to the ill health provisions that have been necessitated by an error in the recent miscellaneous regulations (SI 2010.2090) together with a small clarifying amendment to death grants and dependants' benefits for active members.

Pensions increase

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

This change applied to EAPF pensions from April 2012 and pensions in payment and deferred pensions were increased by 5.2% with effect from 9 April 2012 (12 April 2011: 3.1%). Any pension which had been in payment for less than a year was increased by a proportionate amount depending upon the number of months it has been in payment.

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1989:

Year (April)	Rate of Increase %	Year (April)	Rate of Increase %	Year (April)	Rate of Increase %
1989	5.9	1997	2.1	2005	3.1
1990	7.6	1998	3.6	2006	2.7
1991	10.9	1999	3.2	2007	3.6
1992	4.1	2000	1.1	2008	3.9
1993	3.6	2001	3.3	2009	5.0
1994	1.8	2002	1.7	2010	0.0
1995	2.2	2003	1.7	2011	3.1
1996	3.9	2004	2.8	2012	5.2

National Fraud Initiative/mortality checks

The Fund has a formal policy and procedure for handling frauds linked to the unreported deaths of pensioners. As part of this policy it participates in the Audit Commission's biennial National Fraud Initiative (NFI) and undertakes life certificate exercises for pensioners who live overseas or in care homes as well as those where power of attorney is held by a third party. In 2012 we also undertook, for the first time, a mortality checking exercise via Capita tracing as part of the administration contract with Capita Hartshead. As a general principle, where we investigate cases and fraud is suspected, we will pursue the case and will seek to agree a repayment plan or, where necessary, take legal action or involve the police.

All of the cases from the 2010 NFI exercise have been recovered or written off. The 2012 mortality screening via Capita Tracing highlighted three cases where members had passed away and their pensions have been suspended. There remain two life certificates outstanding from those issued in February 2011 to those living overseas, in residential care or where power of attorney is held and these pensions have been suspended since January 2012. There has been no further contact received from any of these members yet but investigation is continuing.

Pre-74 pension increase and Water Company recharges

A change to LGPS regulations has given the Fund the opportunity to streamline the funding, management and administration of its inherited historical 'unfunded' liabilities. During 2011/12 bulk transfers amounting to £11,356m have been paid to 47 local authorities in order to discharge the liability to meet pre-1974 pension increase recharges. In addition, we have made one capital payment to a Water company and are aiming to make capital payments to up to a further seven Water Company schemes relating to pension recharges dating back to the 1989 water privatisation. The total amount of assets and liabilities expected to be released from the Fund in relation to historical recharges is likely to be in the region of £15-20m, with £5m of that remaining to be discharged as at 31 March 2012. The aim of the project has been to reduce the administration costs of the fund and reduce Defra's future annual contributions by around £2m per annum that would otherwise have been paid for around 20 years.

Communications

Our summary statement of policy on communications can be found at Annex 4 and a more detailed version is available on our website at www.environment–agency.gov.uk/pensions and www.eapf.org.uk.

In 2011/12 our focus continued to be ensuring that members were well informed about their benefits from the Environment Agency Pension Fund. Details of specific communications for the year and some of our plans for 2012/13 are shown below:

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

Review of public sector pensions – Members have been kept regularly informed on the progress of towards the Government's public sector pension reform. Updates have been issued in our *Your pension* newsletters throughout the year, with other notices and links added to our website. This will continue to be an important part of our communication work for 2012/13 as the Government's plans for the LGPS become clearer.

Your pension - Several newsletters were sent to all members during the year to provide information on matters of interest to Fund members as well as the updates on the review of public sector pensions.

Annual Benefit Statements – these were issued to all deferred members in August 2011. Active member statement included information on members' service history and transfers into the Fund. The 2012 benefit statements for active and deferred members will be issued around the end of July.

Fundfare 2011 – this was issued to all active, deferred and pensioner members in December 2011 summarising the Fund's Annual Report and Financial Statements as at 31 March 2011 and providing information on other pension related matters. Fundfare 2012 will be issued to all members in autumn 2012.

Pension briefings – briefings for our pensioner members took place in Manchester and London and we held a pilot deferred member briefing for members based in the South East during May 2011. For 2012 we will be combining the briefings for deferred and pensioner members and holding one in the North East and one in the South West.

E-communications – Last year the Committee agreed a new strategy that will see the Fund move to an increased use of e-communications with members. The plans include allowing members to access a variety of pension publications and pension pay slips via the internet instead of receiving paper copies, with significant environmental and financial benefits for the Fund. Key to introducing this change was improving the information available via www.eapf.org.uk and launching secure online access to personal pension information and calculations. Work has been progressing well towards this objective and this first stage will be completed during 2012.

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

- The latest contribution bands
- Transferring benefits in or out of the EAPF
- A summary of the key benefits of membership
- Things members should consider before opting out
- Final pay protections
- Reductions that apply for early payment of pension

- The key points about flexible retirement
- The latest tax controls on pensions
- How pension increases are applied in the LGPS
- A guide to the Internal Dispute Resolution Procedure

Since the year end we have added two new short guides to help people thinking about retirement and those who have just retired.

We are finalising a complete review of the site layout and content and the new look site will be launched in the summer alongside the launch of our interactive service for members that will enable all members to access information about their benefits including benefit statements for active and deferred members and payslips for pensioner members.

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

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

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

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

Out of 10,281 cases processed in 2011/12 by Capita Hartshead, eight formal complaints from members were received and these have all been resolved. There were no cases raised under the Internal Dispute Resolution Procedure (IDRP) during the year by Fund members.

Pension Fund investment

Ongoing Government funding of the Closed Fund

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

The valuation of the Fund as at March 2004 indicated that assets available would not meet the future liabilities. The Chief Secretary to the Treasury therefore agreed in April 2004 that provisions should be made by The Department for Environment Food and Rural Affairs (Defra) to allow 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 1.

Funding Strategy Statement

All LGPS funds are required to publish a Funding Strategy Statement. This statement is used by the Actuary to inform his valuation. The Funding Strategy Statement was adopted by the Committee on 14 December 2010 and is reproduced in Annex 2 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 Committee on 14 December 2010 and is reproduced in Annex 3 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.

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

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

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

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

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%; and
- 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; and
- any single holding unless the investment is made by an external investment manager in a unit trust scheme.

15%
- total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange.

35%
- all investments in unit trust schemes managed by any one body;
- all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
- all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
- the value of any single insurance contract; and
- all securities transferred under stock lending arrangements.

Investment management

Following the agreement with Defra in 2004, over the future funding arrangements of the Fund, the Committee agreed that the Fund's investment strategy should be simplified by switching to investment in long-dated index-linked gilts. Sarasin & Partners LLP manage the long-dated gilt portfolio. They have full discretion in the management of their portfolio subject to complying with the statutory limits, the Statement of Investment Principles and the range of asset distribution defined by the Committee.

Portfolio analysis

Distribution of investment assets by market value as at 31 March 2012:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Total Fund
UK Index linked gilts	144.3	-	144.3	94.5
Cash	-	8.0	8.0	5.2
Other (mainly accrued income)	-	0.4	0.4	0.3
	144.3	**8.4**	**152.7**	**100.0**

Distribution of investment assets by market value as at 31 March 2011:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Total Fund
UK Index linked gilts	126.4	-	126.4	94.5
Cash	-	6.9	6.9	5.2
Other (mainly accrued income)	-	0.4	0.4	0.3
	126.4	**7.3**	**133.7**	**100.0**

Unquoted investments

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

Investment performance

The Fund's overall performance for the year to 31 March 2012 was +23.5% (2011: +4.7%). Over the 3 years to 31 March 2012 the annualised rate of return was +13.5% against the benchmark return of +3.8%.

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 LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Transitional Provisions) Regulations 2008 (as amended), the LGPS (Administration) Regulations 2008 (as amended) ("the 2007 regulations") and the LGPS Regulations 1997 and earlier regulations (saved provisions). 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 Pension Scheme.

Roles and responsibilities of the Pensions Committee

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

The Committee and Accounting Officer is responsible for obtaining audited financial statements for each financial year which give a true and fair view of the financial transactions of the Fund and the disposition of its assets and liabilities at the year end, other than the liabilities to pay pensions and benefits after the scheme year end. In preparing the financial statements the Committee has:

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

The Committee and Accounting Officer is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Fund and enable it to ensure that the financial statements comply with Schedule 8 to the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Workforce Pay and Pensions Division at DCLG.

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

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 Auditor and the Scheme Administrator does not involve consideration of these matters. Accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the websites.

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

Summary of the financial statements

The financial statements have been prepared in accordance with CIPFA guidance including that on narrative reporting and accounting disclosures for LGPS funds, with quoted securities valued at bid prices at the year end. After realised gains and changes in portfolio valuations, and grant-in-aid funding for benefits and other outgoing payments, the value of the Fund has increased by £18.8m to £152.2m (2011: increased by £8.2m to £133.4m).

There was a continuing decrease in pensioners and deferred members and all the beneficiaries or their spouses who ceased pensionable employment before 1 April 1974.

Retirement benefits payable in the year to 31 March 2012 have decreased from £79.4m in 2011 to £78.4m and transfers to other schemes has increased from £0.2m in 2011 to £1.0m.

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. During 2011/12 we undertook a project to discharge our responsibilities for these payments. The total costs for the 12 months ended 31 March 2012 was £11.4m reflecting the costs of permanently discharging these liabilities. The project will continue in 2012/13.

In overall terms the net withdrawals from dealings with pensioners and deferred members after grant-in-aid funding in the year was £10.7m (2011: £2.5m). Responsibility for ensuring that the Fund can meet all future liabilities rests with the Secretary of State at Defra.

Governance Compliance Statement

Introduction

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) an administering authority must, after consultation with such persons as it considers appropriate, prepare, publish and maintain a Governance Compliance Statement.

This statement is required to set out:

(a) whether the administering authority delegate its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;

(b) if it does—
  (i) the terms of reference, structure and operational procedures of the delegation;
  (ii) the frequency of any committee or sub-committee meetings; and
  (iii) whether the committee or sub-committee includes representatives of employing authorities (including non-Scheme employers) or members, and if so, whether those representatives have voting rights;

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

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

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

This Statement was made and approved by the Environment Agency Pensions Committee on 13 March 2012 and will be reviewed again in 2013.

Compliance status – We are compliant with all 20 standards.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Our PC has 15 members, appointed by the EA Board and includes: 4 Non-Executive EA Board members 4 Executive members 5 EA Employees (Trades Union nominees) 1 Pensioner nominee 1 Deferred member nominee. 2 Employee nominees are also members of the Investment Sub-Group (ISG) 1 Employee nominee and the deferred and pensioner nominees are members of the Benefits Sub-Group (BSG).
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chairman of the Pensions Committee reports to each EA Board meeting. Reports of the ISG and BSG meetings are circulated to all PC members. Recommendations from the ISG and BSG are presented to the main Committee.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The membership of our ISG and BSG comprises members of the main PC.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, eg, admitted bodies);	Compliant	The employers of our Closed Fund members no longer exist. Our Active Fund is currently a single employer fund and the EA is represented on the main PC, the ISG and BSG. It is likely we will become a multi-employer fund in 2013 arising from the splitting off of the EA Wales into the Single Body for Wales. The current representation of EA Wales on the PC will be reviewed in order to accommodate this change.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	The main PC has 11 scheme members on it, including 5 EA Employees (Trades Union nominees), 1 pensioner nominee and 1 deferred member nominee. Our ISG includes 2 EA Employees (Trades Union nominees) and our BSG includes 1 EA Employee (Trades Union nominees)and 1 deferred member and 1 pensioner nominee. Our deferred member and pensioner nominees are members of our decision making main PC.
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISG and all relevant main PC meetings. Our other professional advisers also regularly attend our PC, ISG and BSG meetings.
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC, ISG and BSG meetings as needed. This includes our actuary, legal adviser, investment consultants, pension fund administration consultants, and external auditors.
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members of the PC, ISG and BSG receive equal access to the papers and training and have full and equal speaking and voting rights in our meetings and decision making processes.
C – Selection and role of lay members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	New PC members receive induction training and a handbook that describes the role of the PC, ISG and BSG. Our PC members understand that their primary fiduciary duty of care is our funds' beneficiaries, in whose best interests they are required to act at all times, particularly in terms of investment and financial decisions. They also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of either a financial or non-financial nature arising from any other roles they may perform and abstain from participation in that item on the agenda.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
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		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Our PC makes decisions by discussion and by building and creating a consensus. All members have equal voting rights on our main Committee and BSG and ISG.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Our PC has a training strategy which is reviewed regularly. We provide induction training and a members handbook. All members undergo further developmental, specialist, and/or “top-up” refresher training for 2-3 days each year during their terms of office. We maintain a log of all PC member training. Members of the main PC, the ISG and BSG are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC, ISG and BSG training is met from the pension funds budget.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	All PC, ISG & BSG members have equal access and rights.
F – Meetings (frequency/quorum)		
a) That an administering authority’s main committee or committees meet at least quarterly.	Compliant	Our PC usually meets 4 times a year, for normal business and at least once for briefing or training. 7 of the 15 PC members (including at least 1 Board member and 1 employee nominee) constitute a quorum).
b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Our ISG and BSG meetings are synchronised to meet 4 times a year before the PC so they can report to and make recommendations to the full PC.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have 7 “lay” members on our main PC, comprising 5 employee nominees, 1 pensioner nominee and 1 deferred member nominee. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM. We do not feel this is necessary as we hold annual briefings which provide a forum for fund members and stakeholders to be informed about changes to the LGPS and to allow them to ask questions. All active fund members are invited to attend regional pension briefings each year at different locations around England and Wales. We also organise an annual briefing for deferred and pensioner members. The briefings are presented by Capita Hartshead (Pension Fund Administrator), with either administering authority or HR staff also in attendance. PC members chair or attend some briefings.

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

Statement by the Consulting Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated 14 December 2010. The Fund's benefits are underwritten by the Department for the Environment, Food and Rural Affairs ("the Guarantor"). The Fund's approach to funding the Guarantor's pension liabilities is focused on ensuring that sufficient funds are available to meet all liabilities as they fall due for payment. The Guarantor has committed to a funding plan that involves half-yearly cash injections to meet the following 6 months' expected benefit expenditure.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £125 million, were sufficient to meet 14% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £781million.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 14 March 2011.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial Assumptions	31 March 2010 % p.a. Nominal	31 March 2010 % p.a. Real
Discount Rate	4.5%	1.5%
Price Inflation / Pension Increases	3.0%	-

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

	Males	Females
Current Pensioners	19.5 years	21.9 years
Future Pensioners	20.1 years	23.0 years

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

Experience over the year since April 2011

The real discount rate (i.e. the discount rate net of price inflation) has reduced resulting in an increase to the Fund's liabilities. However, asset returns have been greater than anticipated. Investment returns in the year to 31 March 2012 were +23.5% and assets had a market value of £152m as at 31 March 2012. Liabilities were estimated to be £921m on an ongoing funding basis as at 31 March 2012, implying that the Fund's assets were sufficient to meet 17% of the liabilities accrued up to that date.

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

Richard Warden
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
13 June 2012

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 2012 under the Environment Act 1995. These comprise the Fund Account, the Net Assets Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2012, 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 LGPS regulations and guidance.

Report

I have no observations to make on these financial statements.

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

13 July 2012

Financial statements for the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Fund account			
Income			
Grant-In-Aid		**80,865**	84,796
Benefits and other payments			
Benefits payable	7	(78,418)	(79,430)
Payments to and on account of leavers	8	(950)	(241)
Other payments	9	(11,356)	(1,648)
Administration expenses	10	(872)	(934)
		(91,596)	(82,253)
Net (withdrawals)/additions from dealings with pensioners and deferred members		**(10,731)**	2,543
Return on investments			
Investment income	11	1,635	1,560
Change in market value of investments	13	27,971	4,125
Investment expenses	12	(48)	(45)
Net returns on investments		**29,558**	5,640
Net increase in the Fund during the year		**18,827**	8,183
Opening net assets of the Fund at 1 April		133,405	125,222
Net assets of the Fund at 31 March		**152,232**	133,405
Net assets statement			
Investment assets	13	152,740	133,725
Current assets	18	1,267	1,519
Current liabilities	19	(1,775)	(1,839)
Net assets of the Fund at 31 March		**152,232**	133,405

The financial statements summarise the transactions and net assets of the Fund. The financial statements do not take account of liabilities to pay pensions and other benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the statement by the Consulting Actuary on page 24 and these financial statements should be read in conjunction with it. The Actuary's statement, dated 13 June 2012 is based on a valuation as at 31 March 2010.

The notes on pages 27 to 38 form part of these Financial Statements.

Larry Whitty
Chairman
Environment Agency Pensions Committee
12 July 2012

Paul Leinster
Accounting Officer
Environment Agency
12 July 2012

Notes to the financial statements

1. Description of the Fund

The Environment Agency Closed Pension Fund is part of the Local Government Pension Scheme and is administered by the Environment Agency. The Environment Agency is the reporting entity for this pension fund. The Fund is overseen by the Environment Agency Pension Fund Committee.

The following description is a summary only. For more detail, reference should be made to the Government Funding Agreement (Annex 1) and Funding Strategy Statement (Annex 2).

General

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

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

The 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 (17 May 2005) sets out the mechanism whereby the Guarantor makes payments to the Fund.

Membership

The Fund has been closed to new entrants and accruals of future service since 1989. As at 31 March 2012, total membership of the Fund is 19,544, represented by 15,904 current pensioners and 3,640 deferred members.

Funding

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

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.

2. Basis of preparation

The financial statements have been prepared in accordance with CIPFA (2011) Accounting Disclosure checklist for LGPS pension funds which is sourced from the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. Summary of significant accounting policies

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

Investments

Investments are included at their market values, 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.

Transfers to other schemes

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

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

Apportionment of common expenditure	**2012** **%**	2011 %
Custodial arrangements	20/80	20/80
Other (e.g. Environment Agency administration costs)	40/60	40/60

Taxation

UK income tax and capital gains tax

The Fund was an exempt approved registered pension scheme and is registered under the Finance Act 2004. It is 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 expenses. The accounts are shown exclusive of VAT.

4. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

There are no items in the net assets statement as at 31 March 2012 or 31 March 2011 for which there is a significant risk of material adjustment.

6. Events after the net asset statement date

The financial statements were approved by the Pensions Committee on 25 June 2012, the Audit and Risk Committee on 26 June 2012 and were approved and signed at a meeting of the Board on 12 July 2012. There are no adjusting or non-adjusting events that need to be recognised in the financial statements after the net asset statement date. The authorised date for issue is the13 July 2012.

7. Benefits payable

	2012 £000	2011 £000
Retirement and dependants' pensions	75,344	76,765
Lump sum retirement grants	2,919	2,578
Lump sum death grants	155	87
Total	**78,418**	79,430

8. Payments to and on account of leavers

	2012 £000	2011 £000
Individual transfers to other schemes	**950**	241

9. Other payments

	2012 £000	2011 £000
Pre-1 April 1974 local authority pensions increase recharges – see b)	**11,356**	1,648

a) Benefits payable in Note 7 exclude £11m (2011: £11.2m) 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.

b) 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.

10. Administration expenses

	2012 £000	2011 £000
Environment Agency Pension Fund Management	216	239
External Professional fees:		
Scheme administration	559	556
Specialist advice	77	121
External audit	20	18
Total	**872**	934

The external auditors remuneration does not included any fees in respect of non-audit services for 2011/12 or 2010/11.

11. Investment income

	2012 £000	2011 £000
Income from index linked gilts	1,421	1,440
Interest on cash deposits	150	115
Income from unquoted overseas equities	64	5
Total	**1,635**	**1,560**

12. Investment expenses

	2012 £000	2011 £000
Global custody	29	28
Fund managers fees	15	15
Performance and risk measurement	4	2
Total	**48**	45

13. Investments

(a) Investment movement summary

	Market value at 01.04.11 £000	**Purchases at cost and derivative payments £000**	**Sales proceeds and derivative receipts £000**	**Change in market value £000**	**Market value at 31.03.12 £000**
Index linked gilts	126,383	1,414	(11,359)	27,829	144,267
Unquoted securities	-	-	(141)	141	-
	126,383	1,414	(11,500)	27,970	**144,267**
Cash deposits and instruments	6,918			1	8,066
Other	424				407
	133,725			27,971	**152,740**

	Market value at 01.04.10 £000	**Purchases at cost and derivative payments £000**	**Sales proceeds and derivative receipts £000**	**Change in market value £000**	**Market value at 31.03.11 £000**
Index linked gilts	120,853	1,405	-	4,125	126,383
Unquoted securities	-	-	(2)	2	-
	120,853	1,405	(2)	4,127	**126,383**
Cash deposits and instruments	4,632			(2)	6,918
Other	400			-	424
	125,885			4,125	**133,725**

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 £141k (2011: £2k) were received from funds in which the 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.

The Fund does not participate in stock lending.

Investment Assets	2012 £000	2011 £000
Index linked		
UK index linked gilts	**144,267**	126,383
Cash deposits and instruments		
Sterling	7,869	6,864
US Dollar	197	54
Other		
Accrued income	**407**	424
Total investments	**152,740**	133,725

14. Financial Instruments

(a) Classification of financial instruments

The accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2012	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest	144,267	-	-
Cash deposits and instruments	-	9,255	-
Other investment balances	407	-	-
Debtors	-	78	-
	144,674	9,333	-
Financial liabilities			
Creditors	-	-	(1,775)
	-	-	(1,775)
Total	**144,674**	**9,333**	**(1,775)**

31 March 2011	Designated as fair value through profit and loss £000	Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest	126,383	-	-
Cash deposits and instruments	-	8,348	-
Other investment balances	424	-	-
Debtors	-	89	-
	126,807	**8,437**	**-**
Financial liabilities			
Creditors	-	-	(1,839)
	-	**-**	**(1,839)**
Total	**126,807**	**8,437**	**(1,839)**

(b) Net gains and losses on financial instruments

	2012 £000	2011 £000
Financial assets		
Fair value through profit and loss	27,971	4,125
Total	**27,971**	4,125

(c) Fair value of financial instruments and liabilities

	2012		2011	
	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Financial assets				
Fair value through profit and loss	89,164	144,267	96,152	126,383
Receivables	9,740	9,740	8,861	8,861
Financial liabilities				
Receivables	(1,775)	(1,775)	(1,839)	(1,839)
Total	**97,129**	**152,232**	103,174	133,405

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

(d) Valuation of financial instruments carried at fair value

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

Level 1

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

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

Level 2

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

Level 3

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

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

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2012	**Quoted market price Level 1 £000**	**Using observable inputs Level 2 £000**	**With significant unobservable inputs Level 3 £000**	**Total £000**
Financial assets				
Financial assets at fair value through profit and loss	152,740	-	-	152,740
Receivables	1,267	-	-	1,267
Total financial assets	**154,007**	**-**	**-**	154,007
Financial liabilities				
Financial liabilities at amortised cost	(1,775)	-	-	(1,775)
Total financial liabilities	**(1,775)**	**-**	**-**	**(1,775)**
Net financial assets	**152,232**	**-**	**-**	**152,232**

Values at 31 March 2011	**Quoted market price Level 1 £000**	**Using observable inputs Level 2 £000**	**With significant unobservable inputs Level 3 £000**	**Total £000**
Financial assets				
Financial assets at fair value through profit and loss	133,725	-	-	133,725
Receivables	1,519	-	-	1,519
Total financial assets	**135,244**	**-**	**-**	135,244
Financial liabilities				
Financial liabilities at amortised cost	(1,839)	-	-	(1,839)
Total financial liabilities	**(1,839)**	**-**	**-**	**(1,839)**
Net financial assets	**133,405**	**-**	**-**	**133,405**

15. Nature and extent of risks arising from financial instruments

Risk and risk management

The investments of the fund are sufficient to meet one year's liabilities, but also provide a mechanism for the Fund to becoming self funding in due course. Investments are held to match a proportion of the liabilities and not to generate excess return or material risk.

Considerations of investment risk are integrated into the Fund's Investment strategy, responsibility for which rests with the Pension Fund Committee. In addition, the Fund maintains a Register of risks which includes investment risks, and the Fund, working its adviser, regularly monitor investment risks within the fund, enable the pension committee to consider risk as required.

(a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. All securities investments present a risk of loss of capital. The fund is exposed to market risk from its investment holdings. However, the fund only holds a single class of low risk assets, which provide a match to long term liabilities, so long term risks are low, and short term risks are only relevant in the context of maintaining sufficient assets to meet the next year's liabilities.

Market risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2012/13 reporting period.

Asset Type	Potential Market Movements (+/-) %
UK bonds	8.5
Cash	0.8

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

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

	31 March 2012	31 March 2011
Total fund (£000)	152,232	133,405
Percentage change (%)	8.1	8.1
Value on increase (£000)	164,563	144,211
Value on decrease (£000)	139,901	122,599

Interest rate risk

The principal investments of the Fund are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risks forms the majority of the market risk the Fund is exposed to. Most of the investment assets of the Fund are exposed to changes in "real" yields rather than nominal yields. There is a small exposure short term interest rate arising from the our cash holdings, where changes in interest rates will change the income received from cash, however, capital values will not be affected.

More significantly, the Fund's liabilities are also estimated using long term real interest rates. The interest rate exposure in the Fund's liabilities is materially greater than, and in an opposite direction to, the exposures in our fixed interest portfolios. Thus the overall impact of interest rate movements on the funding level of the Fund is significantly different from that implied below. Effectively, the Fund's holdings of fixed income assets provide a partial hedge to the interest rate risk in our liabilities. The Fund monitors this position through regular estimation of its funding position which includes sensitivity analysis of these risks.

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. This interest rate exposure has to be multiplied by the modified duration of the investments to obtain the risk to capital values.

The analysis that follows assumes that all other variables, in particular exchange rates; remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next,

	As at 31 March 2012 £000	As at 31 March 2011 £000
Holdings of Fixed interest securities	144,267	126,383
Estimated Duration of assets	30.1	30.5
Change in Value of Fund if rates rise 1%	(43,443)	(38,526)
Change in Value of Fund if rates fall 1%	43,443	38,526

Currency risk
Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund has not material exposure to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK).

(b) Credit risk
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. Furthermore, the majority of the Fund's investments are in British Government securities with minimal credit risk.

Credit risk also arises inevitably with transactions and trading. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

To minimise credit risk exposure in our cash holdings, most of our cash is held in a "Aaa" rated money market fund run by our custodian Northern Trust – this fund invests in a wide range of cash instruments and has limited exposure to any individual institution, Furthermore it is legally separate from our custodian, which should safeguard our investment in the case of the default of the custodian.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default in cash deposits or uncollectible deposits over the past five financial years. The fund's cash holding under its treasury management arrangements at 31 March 2012 was £9.3 million (31 March 2011: £8.3million), This was held with the following institutions:

Summary	**Ratings by Moody's**	**Balances as at 31 March 2012 £000**	Balances as at 31 March 2011 £000
Money market funds			
Northern Trust	Aaa	8,066	6,918
Bank deposit accounts			
National Westminster Bank plc	A2	-	3
Cater Allen Private Bank Ltd	A2	1,271	1,427
Bank current accounts			
National Westminster Bank plc	A2	(82)	-
Total		**9,255**	8,348

(c) Liquidity risk
Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings. The fund defines liquid assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three-months to convert in to cash. As at 31 March 2012 the fund has no material exposure to illiquid assets.

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.

All financial liabilities at 31 March 2012 are due within one year.

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

16. Funding arrangements

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

The funding policy focuses on ensuring that sufficient assets are available to meet all liabilities as they fall due for payment. The Fund's benefits are underwritten by the Department for the Environment, Food and Rural Affairs (Defra) who have agreed to a funding plan that involves half yearly cash injections to meet the following 6 months' expected benefit expenditure.

At the 2010 actuarial valuation, the fund was assessed as 14% funded (9% at the March 2007 valuation). This corresponded to a deficit of £781m (2007 valuation: £1,070m) at that time.

The level of contribution payable to the fund is not directly determined from the past service deficit position. Instead a cash flow approach is used where the contributions are paid by Defra on a six monthly basis depending on expected benefits and expenses payable from the Fund for the following six months. The forecast GiA claims are based on projected payments due from Defra over the four-year period ending 31 March 2015 and are shown in the table below:

Year	Forecast GiA claim as at 2010 £'000	Updated forecast GiA claim as at 2012 £'000
2011/12	81,462	-
2012/13	79,943	80,743
2013/14	77,752	77,380
2014/15	75,606	75,041

The valuation of the fund at the 2010 valuation was been undertaken using the projected accrued benefit method. The principal assumptions were:

Financial assumptions

	%	Descriptions
Investment return (Discount rate)	4.5%	Yield on long term fixed interest Government bonds
Retail price inflation (RPI)	3.8%	The difference between yields on fixed and index-linked Government bonds at the valuation date
Pension increases	3.0%	CPI (assumed to be 0.8% less than RPI)

Longevity assumptions

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

Pensioners	Males	Females
Current Pensioners	20.5 years	22.9 years
Future Pensioners *	21.5 years	24.0 years

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

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £787m (2011: £809m). This figure is used for statutory accounting purposes by Defra. The assumptions underlying the figure are set out in Defra's statutory accounts. The figure is only prepared for the purposes of IAS19 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Assumptions used

Year ended 31 March 2012	% p.a.
Pension increase rate	2.0
Salary increase rate*	3.8
Discount rate	4.9

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

18. Current assets

	2012 £000	2011 £000
Debtors		
Overpaid pensions due to be returned	78	89
Cash at bank	1,189	1,430
	1,267	1,519

Analysis of debtors

	2012 £000	2011 £000
Other entities and individuals – Pensions to be returned	78	89

19. Current liabilities

	2012 £000	2011 £000
Creditors		
PAYE	(742)	(760)
Administration and investment expenses	(390)	(254)
Benefits payable	(309)	(109)
Pre 1 April 1974 Local Authority Recharges (see note 9)	(243)	(716)
Sundry	(90)	-
Tax payable on refunds	(1)	-
	(1,775)	(1,839)

Analysis of creditors

	2012 £000	2011 £000
Central government bodies - PAYE	(743)	(760)
Other entities and individuals – Admin fees	(600)	(272)
Other local authorities – Pre-74 recharge	(243)	(716)
Government Agencies – Environment Agency	(170)	(73)
Independent parliamentary bodies – NAO fees	(19)	(18)
	(1,775)	(1,839)

20. Related party transaction

During the year ended 31 March 2012, the Environment Agency recharged pensions administration costs to the Fund of £227,000 (2011: £233,000).

Benefits payable exclude £11m (2011: £11.2m) 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. This has been recharged to the Environment Agency and funded by Grant-In-Aid from Defra, see Note 9.

21. Contingent liabilities

There are no contingent liabilities as at 31 March 2012 (2011: £nil).

22. Contingent assets

There are no contingent assets as at 31 March 2012 (2011: £nil).

23. Impairment losses

For the year to 31 March 2012 the Fund has recognised an impairment loss of less than £0.1m (2011: less than £0.1m) for the non-recovery of pensioner death overpayments.

The annexes

Annex 1 – Government Funding Agreement

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

Environment Agency Closed Pension Fund

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

Paul Boateng

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

Environment Agency Closed Pension Fund

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

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

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

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

Margaret Beckett

Memorandum of understanding

Between:

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

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

Background

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 totaling an amount equivalent to its total annual outgoings (defined as total anticipated payments to pensioners, transfers out of the Closed Fund, investment management or other agents' fees, administration costs, and all other liabilities or expenses whatsoever, less interest earned on such cash payments made to the Environment Agency for the Closed Fund during the year) to be calculated and properly certified by the Environment Agency in accordance with actuarial advice received.

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

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

Annex 2 – Funding Strategy Statement

Introduction

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

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.

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 (17 May 2005) – Pensions Committee sets out the mechanism whereby the Guarantor makes payments to the Fund.

Profile of liabilities

As at 31 March 2010, the Fund contained some 16,900 pensioners and around 4,300 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 76 years, and almost 55 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 9.5 years, and will only fall very gradually.

As at 31 March 2010, the fund assets were £125m (£100m at 31 March 2007) and the value placed on the liabilities (discounted in line with the minimum risk return available on Government bonds) were £906m (£1,170m) resulting in a funding level of 14% (9%) and a funding deficit of £781m (£1,070m). Benefit expenditure flowing out of the Fund is running at around £87m a year. 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.

Regulatory Framework

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulation 144 is particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (as amended)(regulations 35 and 36); 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.

Reviews of FSS

This FSS applies with effect from 31 March 2011 for lump sum contributions payable in the Fund's financial year 20011/12 and thereafter by Defra. The principles documented herein have been used for the actuarial valuation as at 31 March 2010.

The FSS is reviewed in detail at least every three years alongside the triennial valuations being carried out, with the 31 March 2013 valuation due to be completed by 31 March 2014. The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

Purpose

Purpose of FSS

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

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

These objectives are desirable individually, but 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.

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 £1.6m a year.

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

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

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.

Solvency issues and target funding levels

Reviews of funding position

The Fund's actuary is required by the regulations 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.

Solvency

The Fund defines 'solvency' to be the ability to continue to meet ongoing benefit expenditure. As at 31 March 2010, the liabilities of the Fund were only 14% (2007: 9%) covered by its assets. Without additional Government funding, the Fund would have been exhausted in 2007.

The accrued liabilities are the future payments of pensions and lump sums, allowing for annual CPI increases on pensions in payment (following the Government's announcement in June 2010 that it would link future pension increases in public service schemes such as the LGPS to the Consumer Prices Index (CPI) rather than to the Retail Prices Index (RPI)). 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.

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.

The key financial assumption is the rate of CPI inflation applied to pension increases, which has been taken to be 3.0% a year in the 2010 valuation.

For the 2010 valuation, it is assumed that the Fund's investments will deliver a long-term real return (i.e. in excess of retail price increases) in line with index-linked government bonds at the time of the valuation. As at 31 March 2010, the real return on index-linked gilts was 0.7% a year more than RPI increases. However, after allowing for CPI-linked rather than RPI-linked pension increases (which are assumed to be 0.5% a year lower) and for an assumed inflation risk premium of 0.3% a year (the premium that investors are prepared to pay for inflation protection in current bond markets), the real return on index-linked gilts was 1.5% a year more than assumed pension increases.

The Guarantor (Defra) agreed to commence making twice a year lump sum 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 £43m every six months (£86m 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.

Links to investment strategy

Funding and investment strategy are inextricably linked. However, going forward the Fund's assets are expected to be modest (approximately £125m) compared to the value of the prospective liabilities (some £906m as at 31 March 2010). The performance of the assets will only have a limited effect on the Fund's finances.

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.

Consistency with funding basis

The funding policy anticipates returns of 1.5% a year in excess of assumed pension increases, in line with the return on index-linked government bonds as at 31 March 2010. The valuation of liabilities makes an allowance for expected future investment expenses.

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 CPI than assumed increasing liabilities. Inability to re-invest investment income in future to achieve a return of 1.5% a year in excess of pension increases; and

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.

Inter-valuation 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.

Future benefit strategy

Pre 74 pension increase and Water Company recharges

The LGPS (Miscellaneous) Regulations 2009 have given the Fund the opportunity to streamline the funding, management and administration of its inherited historical 'unfunded' liabilities. The plan is to pay bulk transfer amounts from the Fund to around 50 or so local authorities in order to discharge the liability to meet pre-1974 pension increase recharges. In addition, capital payments will also be made to around 8 Water Company schemes relating to pension recharges dating back to the 1989 water privatisation. The total amount of assets and liabilities released from the Fund in relation to historical recharges is likely to be in the region of £15-£20m. The payments are expected to take place during 2011-12 and are likely to reduce the Guarantor's annual contributions by around £2m per annum that otherwise would have been paid for around 20 years.

Arm's length bodies review

The Government's review of Environment Agency Wales may affect the membership of the Fund and funding as Defra annual funding of c.£7m GIA for former employees in Wales. However it is not yet clear to what extent any changes will affect the funding and investment strategy. The Administering Authority will monitor this closely over the review period and ensure that any change to the Fund's membership does not adversely affect the finances of the Fund.

Key Risks & Controls

Types of risk

The Administering Authority's' 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.

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 PC has spent considerable resources over recent years to clean up and agree the underlying data with local authorities and hence minimise variations between the projected costs and actual expenditure. In addition, the plan to reduce these recharges by discharging the liabilities back to local authorities will further control this risk.

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 order to control this risk further the Fund now uses bespoke 'baseline' longevity assumptions, based on the pooled mortality experience of almost 100 large occupational pension schemes, to allow for the individual characteristics of each individual member in the Fund.

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.

Regulatory

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

Approved by the Pensions Committee on 14 December 2010 and this statement will be reviewed following the 2013 triennial valuation.

Annex 3 – Statement of Investment Principles

Introduction

This is the Statement of Investment Principles adopted by the Environment Agency as Administering Authority of the Closed Pension Fund ("the Fund") on 14 December 2010, as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 It is subject to periodic review, and in the event of any material change in policy regarding any matter referenced in this statement, by the Pensions Committee ("the Committee"), which acts on the delegated authority of the Environment Agency's Board. In preparing this statement, the Pensions Committee has sought and taken written advice from the Investment Practice of Hymans Robertson LLP.

Funding objective

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 14 December 2010. 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 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 residual asset management on the appropriate balance between maximising the long-term return on investments and minimising volatility and risk. The Committee is adopting a low-risk approach by investing in index-linked government bonds.

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

The assets comprise a portfolio of index-linked government bonds invested with Sarasin & Partners LLP and a small portfolio of unquoted equities 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 Fund.

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.

The Fund is exposed to a number of other risks which pose a threat to the Fund meeting its objectives, such as changing demographics and custody and counterparty risk.

The Trustees keep mortality and other demographic assumptions, which could influence the cost of benefits, under review.

They also have a process of regular scrutiny and audit of providers to the Fund.

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 Fund.

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	
Administering authorities should ensure that: • 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.	**Our Fund fully follows this principle** • Our Financial Memorandum, the Pensions Committee Terms of Reference, Standing Orders and Pension Funds Scheme of Delegation, clearly set out the governance structure and levels of responsibility. Our statutory Governance Compliance Statement in our Annual Report and Financial Statements also 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 Financial Statements. A report on their performance is presented to the Pensions Committee and the Board annually. • The Pensions Committee has a training strategy which is reviewed annually. Conflicts of interest are identified and records maintained and form part of an annual audit. A record of meeting attendance and training is published in our Annual Report and Financial Statements. • Managers are appointed to invest funds following a comprehensive due diligence process and with input from independent investment advisers.
Principle 2: Clear Objectives	
An overall investment objective(s) should be set for the Fund taking account of the scheme's liabilities, the potential impact on local 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.	**Our Fund fully follows this principle** • In setting the investment objective(s), the Pensions Committee, as the Administering Authority, addresses the balance between risk and reward taking into account the funding arrangements for the Fund. This process is informed by actuarial and investment advice and the use of liability data from the actuarial valuation.
Principle 3: Risk and liabilities	
• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	**Our Fund fully follows this principle** • In setting the investment strategy, the Pensions Committee, as the Administering Authority, is informed by actuarial and investment advice The Statement of the Consulting Actuary summarises the assumptions used and the risks are detailed in the Fund Strategy Statement, both of which are included in our Annual Report and Financial Statements.

Myners Principle	Evidence of compliance and justifications for non-compliance
Principle 4: Performance assessment	
• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.	**Our Fund fully follows this principle** • The Environment Agency has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee. • The Pensions Committee meets 4 times a year and has set up an Investment Sub Group which also meets at least 4 times a year to monitor investment performance and developments. • The Administering Authority monitors investment performance relative to benchmarks and the change in the value of liabilities by means of periodic monitoring reports. • 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	
Administering authorities should: • Adopt, or ensure their investment manager adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents; and • Include a statement of their policy on responsible ownership in the statement of investment principle.	**Partially compliant** • 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	
Administering authorities should: • 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; and • Provide regular communications to scheme members in the form they consider most appropriate.	**Our Fund fully follows this principle** • Our Annual Report and Financial Statements details all the material issues relating to the Fund, its investments and administration. It is publicly available in hard copy and via our websites. • Fundfare is our annual publication to members, which includes financial information about the Fund and its investments. Two editions are published - one covering the Active Fund and one for the Closed Fund. • Our Communications Policy Statement details the stakeholders we have identified. It also details the communication channels and delivery targets for member communications.

Approved by the Pensions Committee on 14 December 2010 and will be reviewed following the 2013 triennial valuation.

Annex 4 – Communications Policy Statement

Introduction

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

The Active Fund is open to all Environment Agency employees with a contract of three months or more and has 10,700 active members, 6,400 deferred members and 4,900 pensioners.

Unlike most LGPS funds the EAPF currently has only one employer – the Environment Agency. Following confirmation on 22 May 2012 from Welsh Government Minister for the Environment and Sustainable Development that he is proceeding with his proposal to create a Natural Resource Body for Wales by 1 April 2013, the next update to this statement will reflect a second employer.

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, 3,600 deferred members and 15,900 pensioners.

This is the seventh Communications Policy Statement for the Environment Agency Pension Funds and is effective from 25 June 2012.

We have an agreed strategy for implementing a move to more electronic communication which will be implemented by 2013. These changes are reflected in this policy statement. In particular we are developing our websites www.eapf.org.uk to try to provide everything members want to know about their pensions in one place, we will continue to maintain a range of information at www.environment-agency.gov.uk/pensions. Our internal intranet (Easinet) contains details of the employer related aspects of pensions such as policies on contributions, use of discretions etc.

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

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Head of Environmental Finance & Pension Fund Management
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Deanery Road
Bristol BS1 5AH

Email: info@eapf.org.uk Tel: 0117 934 5094

Regulatory framework

With effect from 1 April 2005 regulation 106B of the Local Government Pension Scheme Regulations 1997 (as amended) required that administering authorities "*….prepare, maintain and publish a written statement setting out their policy concerning communications with members; representatives of members, prospective members and employing Authorities.*"
Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2007, effective from 1 April 2008, states:

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

(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.*

(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 is set out in the section on performance measurement, alongside those defined by the Disclosure Regulations.
Communication will always be in accordance with the provisions of Data Protection legislation.

Representation
The 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 advisors, taking overall responsibility for Administering Authority functions. The Environment Agency's Director of Resources and Legal Services and the HR Pensions Team perform the role of Employing Authority. The day-to-day administration of the funds is 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 advisors. There are 2 Trade Union nominees on the Investment Sub-Group and 1 Trade Union nominee, the deferred member nominee and the pensioner nominee on the Benefits Sub-Group.

Responsibilities and resources
Administration of the 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 the pensions Committee supported by the Pension Fund Management team in Finance, the HR Pensions team in Resources and Legal Services and Capita Hartshead.

All communications including any web based or electronic material are developed jointly by the Pension Fund Management team, Capita Hartshead's Technical Consultants and Communications team, with support from the HR Pensions team.

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 arranges design work and printing.

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

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

Communication with key audience groups

Our audience

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

- active members;
- deferred members;
- pensioner members;
- prospective members;
- the 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 Funds' administrator;
- Professional advisors and Funds' investment managers;
- Our sponsors - Department for Environment Food & Rural Affairs (Defra) & Welsh Government (WG);
- Our auditors - National Audit Office (NAO), Deloitte and Audit & Risk Committee;
- The LGPS Scheme regulator - Department for Communities and Local Government (DCLG);
- 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.

During 2012/13 we will continue to increase our use of electronic means to communicate with our members and other stakeholders. In particular, we will be complete refresh of our website www.eapf.org.uk making it easier to navigate and adding a range of new short guides for members as well as more information about the management of the funds. We will also add a link to a new section called EAPFonline, giving members access to their own personal information, including benefit statements and pensioner payslips. Alongside this work we will be reviewing the content we currently have at www.environment-agency.gov.uk/pensions and ensuring that our internal intranet (Easinet) holds all the employer related information that members and non-members need. We accept e-mail communication and respond electronically where possible.

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

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 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.

Our website is compliant with Shaw Trust's usability standards.

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

Timeliness
We will measure against the following target delivery timescales:

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

Quality
We make use of Informal mechanisms to monitor the quality of our communications. All our publications and our web site include invitations for comment on content and offer suggestions for future editions and contact details are provided. In March 2007 Capita Hartshead became the first pensions administration provider to be awarded the Investors in Customers (IIC) accreditation. Comments received in the past have provided many useful suggestions that we have been able to incorporate in later publications.

Results
We will publish an overview of how we are performing within our annual report and 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 websites at www.eapf.org.uk and www.environment-agency.gov.uk/pensions. Paper copies are available on request.

Approved by the Pensions Committee on 25 June 2012 and reviewed annually.

Additional information

Statistical summary of Fund membership and value

Fund membership	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	31.3.11	31.3.12
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	16,437	15,904
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	3,982	**3,640**
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**	**20,419**	**19,544**

Financial summary	31.3.96	31.3.97 £m	31.3.98 £m	31.3.99 £m	31.3.00 £m	31.3.01 £m	31.3.02 £m	31.3.03 £m	31.3.04 £m	31.3.05 £m	31.3.06 £m	31.3.07 £m	31.3.08 £m	31.3.09 £m	31.3.10 £m	31.3.11 £m	31.3.12 £m
Grant-in-aid income	-	-	-	-	-	-	-	-	-	-	-	91	90	84	87	85	81
Investment income	36	32	26	22	19	17	12	9	7	8	4	2	3	2	2	2	2
Benefits and other expenditure	(104)	(104)	(102)	(101)	(101)	(98)	(96)	(94)	(94)	(92)	(91)	(89)	(88)	(88)	(87)	(82)	(92)
Excess of benefits and other expenditure over income	(68)	(72)	(76)	(79)	(82)	(81)	(84)	(85)	(87)	(84)	(87)	4	5	(2)	2	5	(9)
Change in market value of investments	100	40	112	20	40	(28)	(9)	(44)	31	13	9	5	15	(7)	12	4	**28**
Net increase/ (decrease) in the Fund value	32	(32)	36	(59)	(42)	(109)	(93)	(129)	(56)	(71)	(78)	9	20	(9)	14	9	**19**
Market value of Fund	**724**	**692**	**728**	**669**	**627**	**518**	**425**	**296**	**240**	**169**	**91**	**100**	**120**	**111**	**125**	**134**	**153**

Any enquiries regarding this Report should be addressed to:

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

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

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

The Environment Agency Closed Pension Fund is registered with the Pension Schemes Registry No. 10079068

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