

Environment Agency
Pension Fund

Closed Pension Fund

Annual Report and Financial Statements for the year ending 31 March 2018



Environment Agency Closed Pension Fund Annual Report and Financial Statements 2017/18

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

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Chair's statement

As Chair of the Environment Agency's Pensions Committee, which is responsible for overseeing the management and administration of the Environment Agency Closed Pension Fund (the 'Fund'), I am pleased to present the Fund Annual Report and Financial Statements for the year ended 31 March 2018.

Our Annual Report and Financial Statements are prepared using the 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 Closed Fund.

During the year the total number of current pensioners and deferred members fell to 13,739 from 14,560 the previous year. At 31 March 2018, the net assets of the Fund are valued at £276m (2017: £273m) and the Fund's liabilities are £730m (2017: £702m). In order to better match the duration of the funds liabilities, the investment management of the assets is now spread across six index linked gilts managed by Sarasin & Partners LLP. Over the three years to 31 March 2018 the annualised investment rate of return was +8.2% (2017: +16.2%). Our last formal triennial valuation of the Fund on 31 March 2016 reflected a funding level of 31%. The estimated funding level as at 31 March 2018 is 38%.

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 £63.4m (2017: £66.9m) were received and used to meet the Fund's obligations to meet pensions and other liabilities.

Over the year, we have continued to work with nine other Local Government Pension Scheme (LGPS) Funds to implement Government's requirement to pool the management and investment of our assets with other LGPS Funds. Our pooling company, the Brunel Pension Partnership Ltd. (Brunel), was launched on 18 July 2017 and obtained authorisation from the Financial Conduct Authority (FCA) in March 2018.

The aim of LGPS pooling is to reduce the costs of running LGPS Funds, improve their performance and governance, and create greater capacity for them to invest in infrastructure. Whilst not without its challenges, we see the creation of Brunel as an opportunity to innovate, demonstrate and promote responsible investment leadership, not just across the LGPS but on a wider scale. This area continues to be a critical area of work for the Pensions Committee. The Fund has a legal duty to act in the best interests of its members and the Committee's top priority is to ensure that the pensions of our past, present and future members are secure and well managed.

Finally, I would like to take this opportunity to thank Clive Elphick for chairing the Pensions Committee so successfully over the last few years. I'd also like to thank everyone involved, including our employers, staff and external contractors, for helping the Committee manage the Closed Pension Fund over the last year. I would also like to thank the Committee itself for its hard work and diligence over the year. We will continue to keep you updated on our work through www.eapf.org.uk



Joanne Segars
Chair, Environment Agency Pensions Committee
26 June 2018

About the Environment Agency Pension Fund (EAPF)

EAPF background

With 5.1 million members, the Local Government Pension Scheme (LGPS) is one of the largest public service pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the Scheme.

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

LGPS regulations

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

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

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

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

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

LGPS responsibilities

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

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

The Fund Actuary sets each employer's contribution rates and our 'Grant in Aid' funding as part of the actuarial valuation of our assets and liabilities, which takes place every three years.

Changes to the Local Government Regulations during 2017/18

There were no changes to the Local Government Pension Scheme Regulations during 2017/18.

Pensions Act 2014

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

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

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

Other significant legislative changes affecting LGPS during 2017/18

Although the regulations didn't change, actuarial guidance was issued by the Secretary of State which affected the late retirement increases which are added to any member's pension entitlement when they retire after their normal pension age (NPA). The new factors were applied for all EAPF late retirements after 31 August 2017.

From 6 April 2016, the government changed the way that any Guaranteed Minimum Pension (GMP) in respect of contracted-out employment between 6 April 1978 and 5 April 1997 would be increased for people who became eligible to receive the new single tier State Pension. Prior to 6 April 2016, the State generally provided increases to the pre 1988 GMP and post 1988 GMP in excess of 3%.

From 6 April 2016 LGPS Funds became responsible for paying the full amount of the increase on the GMP for those members receiving the new single tier State Pension; the State would continue to provide increases to the pre 1988 GMP and post 1988 GMP in excess of 3% for members who reached State Pension Age (SPA) before 6 April 2016. This interim solution to the indexation of GMP was set to end on 5 December 2018, at which point the government would determine how GMP increases could be dealt with for members reaching SPA after this date.

However, following a HM Treasury consultation, the government announced that they will be extending the interim solution period and LGPS Funds will be responsible for providing the full amount of the increase on the GMP for members reaching SPA up to at least 5 April 2021.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 SI 2016/946 came into force on 1 November 2016 and changed the provisions in relation to the management and investment of pension funds held and maintained by administering authorities under the requirements of the Local Government Pension Scheme Regulations 2013. We have implemented these Regulations during 2017/18 with the creation of the Brunel Pension Partnership in July 2017. A more detailed update on this is provided in our Governance section.

IAS 8 disclosure: A new standard for IFRS 9 (Financial Instruments) will be implemented for periods commencing on or after 1 April 2018. The Fund holds balances that will be impacted by the introduction of IFRS 9. However, the effect of applying the new IFRS on the financial statements is not expected to be material. Investment consultants and Investment managers will continue to be consulted, as required, with regard to the potential impact of the new standard and the effect this may have on any balances. Additionally, IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases) may impact on some of the Fund's investment holdings. Again, investment consultants and Investment managers will continue to be consulted, as required, with regard to any potential impact of the new standards on balances, but the effect of applying the new IFRS is not expected to be material.

In April 2017, we highlighted that there had been a Supreme Court ruling on a case in Northern Ireland (Brewster V NILGOSC) regarding the non-payment of a pension to a cohabiting partner due to the lack of a nomination form. LGPS regulations changed in 2014, removing the need to nominate a cohabiting partner. Following this Supreme Court ruling, and in similar circumstances, in the case of Elmes V MHCLG (Ministry of Housing, Communities and Local Government), the High Court has determined that the outcome of this case heard before the High Court on Tuesday 18 January 2018, effectively removes the requirement for a nomination form from regulations. This means it enables the EAPF, where appropriate to do so, to pay a pension to the partner of a deceased member who died without completing a nomination form, and who left active membership on or after 1 April 2008 and before 1 April 2014. We have publicised this through our newsletters and on www.eapf.org.uk

We understand that following the Government's consideration of the implications for public service pension schemes of the outcome to the Walker (Appellant) v Innospec Limited and others (Respondents) case, regulatory changes may be introduced to allow survivors of same-sex marriages and civil partnerships to be treated in the same way as widows of opposite sex marriages. MHCLG have confirmed that they are currently considering their position to determine what recommendation they will make to Ministers on how to proceed with regards to the LGPS.

We understand that these decisions will have no material financial impact on the Fund.

Pensions increase

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

Our pensions in payment and deferred pensions received an increase from 9 April 2018 of 3.0% (10 April 2017: 1.0%).

The following table shows the rate of increases that have applied to pensions in payment and deferred pensions since 1992:

Year (April)	% rate of increase	Year (April)	% rate of increase	Year (April)	% rate of increase
1992	4.1	2001	3.3	2010	0.0
1993	3.6	2002	1.7	2011	3.1
1994	1.8	2003	1.7	2012	5.2
1995	2.2	2004	2.8	2013	2.2
1996	3.9	2005	3.1	2014	2.7
1997	2.1	2006	2.7	2015	1.2
1998	3.6	2007	3.6	2016	0.0
1999	3.2	2008	3.9	2017	1.0
2000	1.1	2009	5.0	2018	3.0

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 2017, the number of deferred members has fallen by 15.1% from 1,637 to 1,389 (2017: fell by 14.1%). The number of pensions in payment fell by 4.4% from 12,923 to 12,350 (2017: fell by 4.3%). With no contributing members in the Fund, this will be a similar 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. The following tables illustrate the movement in number of pensioners and members over the financial year.

Movement in pensioners and members	Current pensioners	Deferred members	Total
At 1 April 2017	12,923	1,637	14,560
Adjustment for late notifications	43	(40)	3
Revised opening balance	12,966	1,597	14,563
Add:			
New pensioners	200	-	200
New dependants pensions	168	-	168
	368	-	368
Less:			
Deaths/no longer eligible/suspended	(975)	(3)	(978)
Transfers to other schemes		(7)	(7)
Deferred pensions into payment		(198)	(198)
Commutated benefits	(9)		(9)
	(984)	(208)	(1,192)
At 31 March 2018	12,350	1,389	13,739

Age profile of current pensioners at 31 March				
	2018		2017	
	No.	%	No.	%
Child dependants	62	0.5	61	0.5
Pensioners and spouses				
Under 55	20	0.1	26	0.2
55-59	82	0.7	109	0.8
60-64	1,331	10.8	1,401	10.8
65-69	1,564	12.7	1,570	12.2
70-74	1,465	11.9	1,459	11.3
75-79	1,399	11.3	1,546	12.0
80-84	2,127	17.2	2,350	18.2
85-89	2,409	19.5	2,558	19.8
90-94	1,485	12.0	1,469	11.3
95-99	373	3.0	347	2.7
100-109	33	0.3	27	0.2
Total	12,350	100.0	12,923	100.0

Age profile of current deferred members at 31 March				
	2018		2017	
	No.	%	No.	%
45-49	61	4.4	105	6.4
50-54	333	24.0	408	25.0
55-59	754	54.3	904	55.2
60-64	189	13.6	175	10.7
65-69	37	2.6	36	2.2
70-74	11	0.8	7	0.4
75-79	4	0.3	2	0.1
Total	1,389	100.0	1,637	100.0

Pension Fund governance

Introduction

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

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

Objectives

Our main governance objectives are to:

- act in the best interests of the Fund's members and employers;
- have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies;
- understand and monitor risk;
- deliver our services through people who have the appropriate knowledge and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape; and
- ensure those persons responsible for governing the EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

Regulatory background

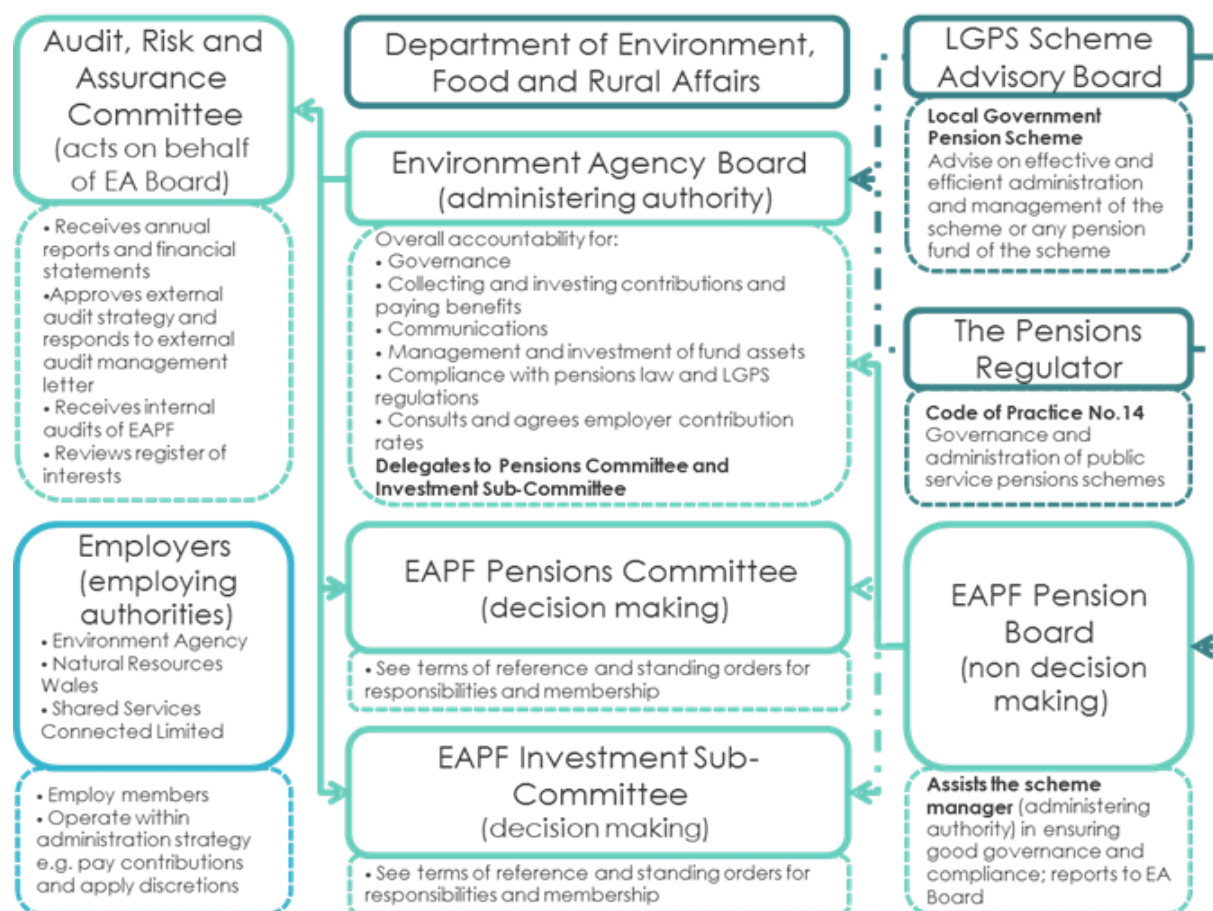
The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 outline the key responsibilities of administering authorities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

Our Governance Structure

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

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

The Environment Agency Board delegates the management and oversight of the Fund in the main to a Pensions Committee, an Investment Sub-Committee and a Pension Board. This governance structure and interaction with some other stakeholders is illustrated further in the following diagram:



Key governance documents

The following are the key documents relating to the governance of the Fund. These can all be found here: www.eapf.org.uk/trustees/governance-policies

Title	Description
The Environment Agency's Framework Document	This is issued to the Environment Agency by Defra and sets out the Environment Agency's responsibilities with respect to pensions.
The Pensions Committee, Investment Sub-Committee and Pension Board Terms of Reference and Standing Orders	As defined by the Environment Agency Board, this details the delegated responsibilities of the PC, ISC and Pension Board as well as detailing the membership and meeting procedures such as frequency, quorum and reporting.
Committee and Board Operational Guidance	Approved by the Pensions Committee, this provides more information relating to how the PC and Pension Board will operate and items of business they may wish to consider.

Statement of delegation	The Environment Agency's Scheme of Delegation is approved by the Environment Agency Board. This prescribes the scope of the delegation of powers beyond those included in the PC, ISC and Pension Board Terms of Reference. In particular it details specific delegations to officers and the third party administrators relating to the management of the Scheme. The statement of delegation details the pension extract from the Environment Agency's Non-Financial and Financial Scheme of Delegation; day to day management by Pension Fund Management team; and employing authorities responsibilities and discretions.
Governance Compliance Statement	As approved by the Pensions Committee, this is required by regulation 55 of the Local Government Pension Scheme Regulations 2013. It states how the EAPF complies with Secretary of State guidance. A copy of this can be found on page 20.
Training Policy	As approved by the Pensions Committee, this outlines the EAPFs approach to ensuring all key decision makers have the appropriate knowledge and skills.
Conflicts of Interest Policy	As approved by the Pensions Committee, this outlines how potential and actual conflicts of interest will be managed in relation to EAPF matters.

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

Monitoring governance of the EAPF

The Fund's governance objectives are monitored as follows:

Objective	Monitoring Arrangements
Act in the best interests of the EAPF's members and employers.	The PC, ISC and Pension Board include representatives from scheme members and employers in the EAPF with equal voting rights.
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	The Risk and Governance Adviser undertakes a regular review of the effectiveness of the EAPF's governance arrangements, the findings of which are reported to the PC and the Environment Agency Board. In line with the Regulations the Governance Compliance Statement will be filed with the MHCLG.
Understand and monitor risk	A Risk Management Strategy is in place and integral to day to day management of the EAPF. An annual risk and compliance internal audit is carried out and reported to the Pension Board and Environment Agency Audit Risk and Assurance Committee. Ongoing consideration of key risks at PC and ISC meetings.
Deliver our services through people who have the appropriate knowledge and expertise, and ensure that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.	Outsourced providers' selected for their expertise, professional knowledge and capabilities to deliver quality and value for money services. Agreed measures, as part of robust contract management, are in place to ensure our objectives are achieved through third parties as appropriate. A Training Policy is in place together with appropriate measures to ensure its objectives are being achieved.
Ensure those persons responsible for governing EAPF have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.	A Training Policy and Conflicts of Interest Policy are both in place together with appropriate measures to ensure its objectives are being achieved.

Pensions Committee and Pension Board membership

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

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

Membership of the Investment Sub Committee (ISC) will be appointed by the Environment Agency Board and will normally be 7 Committee Members as follows:

- 2 Non-Executive Environment Agency Board members (one of whom should be nominated as Chair of the ISC by the PC).
- 2 from the Executive Environment Agency and Employer Representative members (or deputies).
- 3 Scheme Member Representatives (active, pensioner or deferred).

During the year, we had one change in our Board appointed members. Clive Elphick's tenure on the Environment Agency Board ended on 31 July 2017. Joanne Segars has replaced him as Pension Committee and Pension Board Chair from 1 August 2017.

We had 2 changes to our Executive member nominees during the year. Mark McLaughlin resigned on 30 September 2017 and has been replaced by Peter Kellett with effect from 1 February 2018. Ian Randall resigned on 31 October 2017 and has been replaced by Phil Lodge from 16 May 2018.

There was 1 change to our Active member nominees during the year. Dot Holding resigned on 31 October 2017 and was replaced by Danielle Ashton for a 3 year period to 31 January 2021.

Pensions Committee business 2017/18

The Pensions Committee made a number of key recommendations and decisions throughout the year on a significant number of large changes that will have a long term impact on the performance of the Fund. It has been essential that we have received and responded to quality information and made timely and strategic decisions in line with the foundation of the policies we have in place:

- (a) LGPS Investment Pooling – We worked with nine other Administering Authorities to implement Government's requirement to pool the management and investment of our assets with other LGPS Funds, and established the Brunel Pension Partnership Ltd. (Brunel). Brunel was launched on 18 July 2017 as a new company wholly owned by the ten Administering Authorities. We agreed our participation in Brunel in July 2017 following significant due diligence and appropriate financial and legal assurance. Given its long term implications, final approval on Brunel was agreed by Environment Agency Board following our recommendation. We are now one of 10 Shareholders in this new company and the implementation will continue to be a big focus for the Committee during 2018/19.
- (b) Continuing development, engagement and promotion of our Responsible Investment Strategy and Policy to Address the Impacts of Climate Change (which was updated during the year) - these include key areas for engagement with stakeholders and have already achieved national and global recognition. We also continued to promote and expand the work of the Transition Pathway Initiative (TPI), which we co-founded in 2016.

- (c) We looked at ways to improve our member annual benefit statement delivery and member communications in general through our ongoing commitment to Customer Service Excellence (CSE). We rolled out of the EAPF digital engagement plan including audience segmentation and educating different target groups.
- (d) Development and implementation of new risk register to support the Committee's Risk Management policy.

Annual Statement by Chair of the EAPF Pension Board

Role of Pension Board

From April 2015, the Department for Communities and Local Government (now called Ministry of Housing, Communities and Local Government – 'MHCLG') introduced new governance arrangements for Local Government Pension Schemes. Each administering authority had to establish a Pension Board to provide oversight and assurance to the administering authority (scheme manager i.e. the EAPF Pensions Committee) of effective governance of their pension Fund. The Pension Board is a non-decision making body responsible for assisting the administering authority in:

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

Membership

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

Employer Representatives

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

Member Representatives

- 3 Active Scheme Member Representatives.
- 2 Pensioner or 1 Pensioner and 1 Deferred Scheme Member Representatives.

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

Pension Board business 2017/18

The Pension Board met twice during 2017/18, 14 December 2017 and 28 March 2018, immediately after Pensions Committee meetings.

The key focus of the meetings is reviewing the effectiveness of the Pensions Committee meeting. Overall the Board acknowledged that the meetings during the year had been well run with good content, and with Committee members taking an active part in the meetings. No concerns were raised about the overall effectiveness of the meetings but it was noted that the amount of business continues to mean longer meetings are necessary, and these have become the norm.

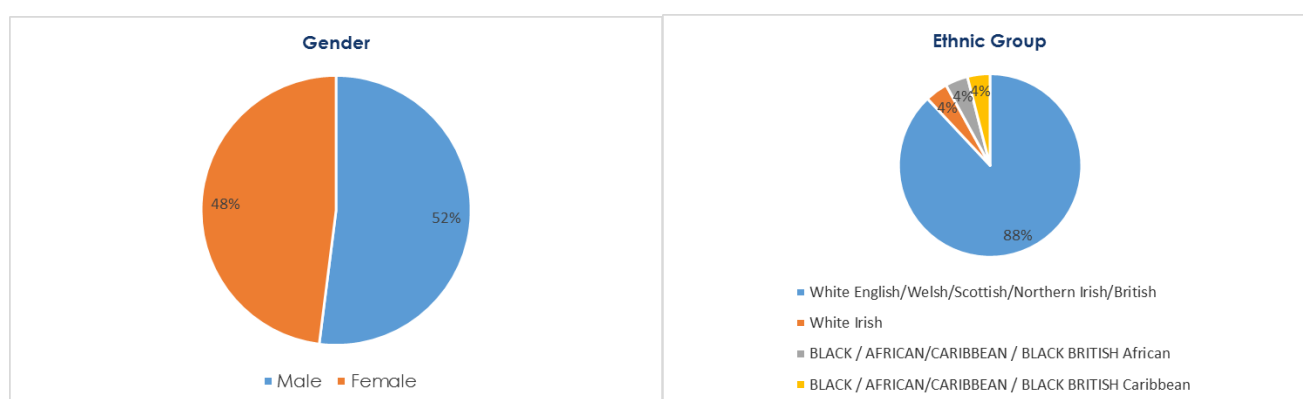
The Board continued to encourage the EAPF Management Team to consider whether the quantity of information being provided to the Committee is necessary and providing value. This was also something that was highlighted by the EAPF's Governance Adviser in their annual report the format of some of the standard reports is now being reviewed.

In relation to specific EAPF matters, a key area of discussion and guidance from the Board during 2017/18 related to the ongoing concerns around the magnitude of work relating to the establishment of Brunel and the transition of EAPF assets to it. The Board actively encouraged the EAPF Management Team to look for ways to fill resourcing gaps and prioritise work. The Board also encouraged the ongoing oversight of the transition and welcomed the way the Committee engaged with those involved in the project, including providing challenge where appropriate.

During the year, the Board also spent time considering its own role and highlighted the need to ensure that it added value without placing unnecessary demand on officers, nor repeating or replacing the role of the Committee. The Board considered some items that could be considered at future meetings and also asked for some investigation to be carried out in relation to how some other Boards operated, particularly where there was already strong representation of scheme members and employers on the Committee.

Diversity

The fund is a member of the 30% Club Investor group, which promotes gender diversity on the boards and executive committees of [UK] listed companies, and promotes wider diversity and inclusion in the companies in which we invest. To demonstrate best practice in the Fund's own approach we have disclosed our own performance on diversity below¹



¹ Diversity indicators relating to combined personnel within the Pension Committee, Pension Board and Officers.

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

As at 31 March 2018	Membership	Date of appointment	Length of service	End of current appointment	Residual period of current appointment
Board members					
Joanne Segars	PC, ISC, PB	01/08/2017	8 mth	28/02/2020	1 yr 11 mth
Emma Howard Boyd	PC, ISC, PB	18/10/2012	5 yr 6 mth	30/06/2019	1 yr 3 mth
Karen Burrows	PC, PB	08/02/2016	2 yr 2 mth	31/07/2018	4 mth
Maria Adebowale-Schwarte	PC, PB	01/08/2016	1 yr 8 mth	31/07/2019	1 yr 4 mth
Dr. Clive Elphick	PC, ISC, PB	01/09/2012	4 yr 7 mth	31/07/2017	Tenure ended
Executive members					
Peter Kellett	PC	01/02/2018	2 mth	N/A	N/A
Kevin Ingram	PC, ISC, PB	07/07/2009	8 yr 9 mth	06/07/2018	3 mth
Phil Lodge	PC, ISC	16/05/2018	N/A	N/A	N/A
Mark McLaughlin	PC, ISC	01/11/2009	7 yr 11 mth	30/09/2017	Resigned
Ian Randall	PC	01/09/2016	0 yr 7 mth	31/10/2017	Resigned
Active members					
Colin Chiverton	PC, ISC, PB	01/04/2013	5 yr 0 mth	31/03/2019	1 yr 0 mth
Ian Brindley	PC, ISC, PB	01/11/2014	3 yr 5 mth	31/10/2020	2 yr 7 mth
Will Lidbetter	PC, PB	01/08/2016	1 yr 8 mth	31/07/2019	1 yr 4 mth
Marion Maloney	PC, ISC	15/12/2016	1 yr 4 mth	31/03/2020	2 yr 0 mth
Danielle Ashton	PC	01/02/2018	0 yr 2 mth	31/01/2021	2 yr 10 mth
Jackie Hamer	PC, ISC, PB	01/04/2008	9 yr	31/03/2017	Tenure ended
Dorothy Holding	PC	01/01/2015	2 yr 3 mth	31/10/2017	Resigned
Pensioner member					
Peter Smith	PC, PB	14/05/2015	2 yr 10 mth	13/05/2018	2 mth
Pensioner member (previously a Deferred member)					
Hywel Tudor	PC, PB	14/05/2015	2 yr 10 mth	13/05/2021	3 yr 2 mth

Committee member biographies

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

Joanne Segars was appointed to the Board of the Environment Agency in March 2017 and chairs its pension fund. In addition, she serves on the Flood & Coastal Risk Management Committee, the Remuneration and Audit, Risk & Compliance Committees. She is the Area Board member for Lincolnshire and Northamptonshire. She was previously the Chief Executive of the Pensions and Lifetime Savings Association (formerly the NAPF) for 13 years. She joined the organisation from the ABI where she was Head of Pensions and Savings. Joanne held the pensions brief at the Trades Union Congress from 1988-2001 and started her career as a pensions researcher and journalist. She was a Board member of PensionsEurope, the EU trade association for pensions, and its Chair from 2012-2015. In December 2017 Joanne joined the Board of NOW: Pensions. She was appointed Chair of LGPC Central in May 2017. She is also a Director of the Pensions Policy Institute. Joanne has a degree in economics from John Moores University and an MA in Industrial Relations from the University of Warwick. She was awarded the OBE for services to pensions in the 2003 Queen's Birthday Honours.

Emma Howard Boyd Emma has spent her 25 year career working in financial services, initially in corporate finance, and then in fund management, specialising in sustainable investment and corporate governance. As Director of Stewardship at Jupiter Asset Management until July 2014, Emma was integral to the development of their reputation in the corporate governance and sustainability fields. Emma is currently Chair of the Environment Agency and serves on various boards and advisory committees including, Green Finance Taskforce (Member), ShareAction (Chair of Trustees), Menhaden Capital PLC, the Aldersgate Group, the 30% Club and the Executive Board of The Prince's Accounting for Sustainability Project.

Karen Burrows joined the Pensions Committee in February 2016. She has a legal and commercial professional background and has held several general management roles. She started her career practising as a commercial lawyer for Linklaters. She joined BG Group Plc in 1985 and had many years of legal and management team experience with BG Group Plc from 1985 including being Deputy General Counsel for BG Group Plc from 1997 to 1999. Later roles included being Vice President and President of BG Canada, Vice President (South and East Asset) for BG Trinidad and Tobago and Commercial Director for BG Advance.

Maria Adebowale Schwarte is a place making and urban renewal strategist, focusing on inclusive urban place making, green spaces, and regeneration. She is the Founding Director of Living Space Project, an urban place making think tank and consultancy that works with charitable foundations, government, the social, community, public and private sector. Maria is also a philanthropy and grant making advisor, and has advised funding programmes run by the Big Lottery, NESTA, Artists Project Earth and Natural England. She is also a Commissioner, for London Mayor's Sustainable Development Commission. Maria has received training on many aspects of pension's management and investment, and has assisted in the development of an equitable investment portfolio for the Local Trust. Maria joined the Pensions and Investment Committee in 2016 when she was appointed on to the Environment Agency Board and is also a member of the Board's Environment and Business Committee.

Peter Kelleff is a solicitor and Director of Legal Services for the Environment Agency. He has been an active EAPF member since 1997. He attends the Environment Agency's Executive Directors Team and is an Executive nominated Member of the Pensions Committee. Peter has a Masters in Environmental Law and works on environmental regulation from its design to implementation. He has worked on the creation of Natural Resources Wales, Environmental Permitting, Civil Sanctions and the creation of Brunel Pension Partnership. He leads a legal team providing legal advice and litigation services to the Environment Agency. He is a former trustee and Chair of the UK Environmental Law Association and currently chairs St Werburghs City Farm in Bristol.

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. From 1 April 2013 Kevin has taken on the role of Executive Director of Finance and Corporate Services for Natural Resources 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.

Colin Chiverton has been a member of the Committee since 2013. He is an Area Environment Manager in Thames Area and has been an active member of the LGPS for 28 years. Colin has attended many training events on the LGPS and completed the Pensions Regulator's Public Service training. He has developed his knowledge on pension fund investment and management. He is the Pensions Representative of Prospect Union's Environment Agency Branch.

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

Danielle Ashton has been a member of the LGPS for 20 years. She is a contributing member representative of the committee since 2017 following open recruitment. She is employed by the Environment Agency as a Research Manager in Environment and Business working on land and soil issues. She has attended a series of induction training events over the last year run by the LGPS and will continue to develop her knowledge on pension management and investment.

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

Marion Maloney has been a member of the LGPS for over 20 years. She is a contributing member representative of the committee since 2016 following open recruitment and joined the investment sub-committee in 2017. She is employed by the Environment Agency as a Senior Adviser in Environment and Business working on energy issues and is a member of Unison. Previous to working for the EA, Marion worked for public sector bodies in England and Brussels. She has attended a series of training events over the last year and is continuing to develop her knowledge on pension management and investment.

Peter Smith is a retired solicitor and a commissioned and ordained Salvation Army officer. He has extensive experience of the running of charities and also financial institutions both as International Legal Advisor to the Salvation Army and as a director and chairman of a friendly society. He currently serves on the boards of two charitable companies namely Bethany Kids International and Guideposts

Hywel Tudor is a pensioner member of the EAPF. He was originally appointed as a deferred member of the Pensions Committee and Pension Board in 2015, having previously worked for the NRA and Environment Agency in Wales. Since taking up the position, Hywel has undertaken regular pension training, including the three day LGPS Trustee Training Fundamentals course, and also has over 16 years' experience of defined benefit schemes as a member of the Arts Council Retirement Plan's Pension Trustee Board. A qualified accountant (FCMA, CGMA) by profession, Hywel held senior managerial roles in the public, private and charity sectors. His last role was Director of Finance & Resources for the Arts Council of Wales, a role held for over 16 years.

Committee training

As an administering authority of the LGPS, the Committee recognises 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 Pensions Committee seeks to ensure that its membership is both capable and experienced and provides training so the members can acquire and maintain an appropriate level of expertise, knowledge and skills.

We have a training policy which addresses the strategy for the Pensions Committee and senior officers responsible for the management of the fund. The strategy adopts the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework. The Pensions Committee's training policy was updated in March 2016. Following the implementation of the local Pension Boards CIPFA extended their framework to include the knowledge and skills required for the Pension Board members to exercise their functions under the Pensions Acts 2004 (as amended by the Public Services Pension Act 2013).

The training needs of Pensions Committee members and Pension Board members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. We also provide for our Fund members knowledge of their Pension Scheme and run a series of webinar briefings for employees presented by Pension Fund officers, our third party administrator Capita and Human Resources (HR) staff.

In each year Pensions Committee members are expected to undertake two to three days' training aimed at building or refreshing their knowledge and skills in specific topics in greater depth. In 2015 we introduced an enhanced training log system that provides an individual certificate of Knowledge and Understanding. These certificates are published on our website and show the full training log throughout membership of the Pensions Committee for each individual member during the last financial year.

The key strategic training focus in 2017/18 for the Pensions Committee as a whole has been asset pooling and our participation in the Brunel partnership. We held 2 specific Pensions Committee trainings days, one in June 2017 and another in February 2018 covering this and other relevant topics. We also provided additional training through Committee meetings, as required, and supplemented this through external training events and conferences. We have summarised these in the following tables.

Asset pooling and our participation in Brunel continues to be a strategic training focus for 2018/19 in addition to important projects including our actuarial valuation and investment strategy review.

PC Training Log 2017/18	Financial Services Procurement & Relationship Management	Addressing the Impact of Climate Change	Benefits & Pensions Administration	Risk Management	Financial Markets & Product Knowledge: MIFID II, Investment Strategy and Portfolios	Pensions Accounting & Auditing Standards	Pensions Legislation & Governance Context	Actuarial Methods, Standards & Practice	Investment Definitions
EA Board Members									
Joanne Segars - PC Chair (from 1 August 2017)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Emma Howard Boyd - ISC Chair	✓		✓	✓	✓				
Karen Burrows	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maria Adebowale-Schwarte	✓	✓	✓	✓	✓	✓	✓	✓	
Clive Elphick - PC Chair (to 31 July 2017)									✓
Executive Members									
Kevin Ingram Natural Resources Wales					✓				
Peter Kellett (from 1 Feb 2018)	✓	✓	✓	✓	✓	✓	✓	✓	
Mark McLaughlin (to 30 Sept 2017)									
Ian Randall (to 31 Oct 2017)						✓	✓		
Active Member Nominees									
Danielle Ashton	✓	✓	✓	✓	✓	✓	✓	✓	
Colin Chiverton	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ian Brindley	✓	✓	✓	✓	✓	✓	✓	✓	✓
Marion Maloney	✓		✓	✓	✓	✓	✓	✓	
Will Lidbetter	✓	✓	✓	✓	✓			✓	
Dot Holding (to 31 Oct 2017)									
Pensioner Member									
Peter Smith	✓	✓	✓	✓	✓	✓	✓	✓	✓
Deferred/Pensioner Member									
Hywel Tudor	✓	✓	✓	✓	✓	✓	✓	✓	

PC Training Log 2017/18	Benchmarking	Review of Real Assets	Sustainable Development Goals	Brunel Pensions Partnership Working	Role of Custodian & Administrator	EAPF Closed Fund	Data Protection & GDPR	Wider Pension Conferences & Training
EA Board Members								
Joanne Segars - PC Chair (from 1 August 2017)	✓	✓	✓	✓	✓	✓	✓	
Emma Howard Boyd - ISC Chair	✓	✓	✓	✓	✓	✓	✓	
Karen Burrows	✓	✓	✓	✓	✓	✓	✓	
Maria Adebawale-Schwarte	✓	✓	✓	✓	✓	✓	✓	✓
Clive Elphick - PC Chair (to 31 July 2017)	✓	✓	✓	✓	✓	✓	✓	
Executive Members								
Kevin Ingram Natural Resources Wales	✓	✓	✓	✓	✓	✓	✓	
Peter Kellett (from 1 Feb 2018)								
Mark McLaughlin (to 30 Sept 2017)	✓	✓	✓	✓	✓	✓	✓	
Ian Randall (to 31 Oct 2017)	✓	✓	✓	✓	✓	✓	✓	
Active Member Nominees								
Danielle Ashton	✓	✓	✓	✓	✓	✓	✓	✓
Colin Chiverton	✓	✓	✓	✓	✓	✓	✓	
Ian Brindley	✓	✓	✓	✓	✓	✓	✓	✓
Marion Maloney	✓	✓	✓	✓	✓	✓	✓	✓
Will Lidbetter	✓	✓	✓	✓	✓	✓	✓	✓
Dot Holding (to 31 Oct 2017)								
Pensioner Member								
Peter Smith	✓	✓	✓	✓	✓	✓	✓	✓
Deferred/Pensioner Member								
Hywel Tudor	✓	✓	✓	✓	✓	✓	✓	

Members' attendance at Committee and Board meetings through the year

During the past year the Pensions Committee met on 5 occasions (including 1 extraordinary meeting). The Investment Sub-Committee met on 4 occasions and the Pensions Board on 2 occasions.

Committee members	Pensions Committee meeting 5 in total	Investment Sub-Committee 4 in total	Pension Board meeting 2 in total	Total attendance
Board members				
Joanne Segars (Chair)	3/3	2/2	1/2	6/7
Emma Howard Boyd	5	2	1	8
Karen Burrows	5	-	2	7
Maria Adebowale-Schwarte	5	-	2	7
Clive Elphick	2/2	2/2	-	4/4
Executive members				
Peter Kellett	1/1			1/1
Kevin Ingram	3	3	0	6
Mark McLaughlin	2/3	1/2	-	3/5
Ian Randall	3/5	-	-	3/5
Active members				
Colin Chiverton	5	4	2	11
Ian Brindley	5	3	2	10
Will Lidbetter	5	-	2	7
Marion Maloney	5	4	-	9
Danielle Ashton	1/1	-	-	1/1
Dorothy Holding	2/3	-	-	2/3
Pensioner Member				
Peter Smith	5	-	2	7
Deferred member				
Hywel Tudor	5	-	2	7

Professional advisers to the Committee

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

Actuarial Adviser	Hymans Robertson
Bankers	National Westminster Bank Plc
Benefit Adviser	Hymans Robertson
Custodian	The Northern Trust Company
External Auditor	Comptroller and Auditor General
Governance and Risk	Aon Hewitt
Investment Adviser	Hymans Robertson
Independent Investment Adviser	Investment Adviser and Trustee Services Ltd
Legal Adviser	Osborne Clarke
Pensions Administrator	Capita Employee Services

Governance Compliance Statement

Introduction

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

This statement is required to set out:

- a) Whether the administering authority delegates its functions, or part of its functions, under these Regulations to a committee, a sub-committee or an officer of the administering authority.
- b) If the authority does so
 - i) The terms, structure and operational procedures of the delegation
 - ii) The frequency of any committee or sub-committee meetings
 - iii) Whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights
- c) the extent to which a delegation, or the absence of delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reason for not complying and
- d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

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

This Statement was made and approved by the Environment Agency Pensions Committee on 25 March 2015. It was effective from 1 April 2015 and is reviewed at least annually as part of the annual report and financial statement to ensure it remains up to date and meets the necessary regulatory requirements. The statement included in the annual report and financial statements becomes the approved statement for the year unless updated during the year.

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

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

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

Email: eapf@environment-agency.gov.uk

Statement

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

Details to be provided	EAPF
Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority.	All key pension fund management responsibilities are delegated to the Pensions Committee (PC) other than implementing the Fund's investment strategy which is delegated to the Investment Sub-Committee (ISC).
If the authority does so (i) the terms, structure and operational procedures of the delegation	See the Terms of Reference for specifically delegated responsibilities. PC has 14 members and ISC has 7 members.
(ii) the frequency of any committee or sub-committee meetings	The ISC and PC meetings are scheduled quarterly.
(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights	The EAPF has three employers. The PC includes 1 Non EA Employer Representative, 5 Active Scheme Member Representatives and 2 Pensioner or 1 Pensioner and 1 Deferred Member Representatives. The ISC includes 3 Scheme Member Representatives and potentially the 1 Non EA Employer Representative. All members have voting rights.
The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.	See Compliance Statement below.
Details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).	<p>The Pension Board is a non-decision making body responsible for assisting the administering authority in:</p> <ul style="list-style-type: none"> a) Securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator b) Ensuring the effective and efficient governance and administration of the LGPS by the Environment Agency Pension Funds. <p>Membership of the Pension Board comprises of 10 members of the Pensions Committee which excludes the 2 Executive Directors members of the Environment Agency and 2 Active Scheme Members.</p> <p>Further information is in the Terms of Reference and Standing Orders and the Operational Guidance.</p>

Statement of Compliance with Secretary of State Guidance

Compliance status – we are compliant with all 20 standards

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) are set out in the Pensions Committee Terms of Reference and Standing Orders approved by the EA Board.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	<p>Our PC has 14 members, appointed by the EA Board and includes:</p> <ul style="list-style-type: none"> 4 Non-Executive EA Board members 2 EA Executive members 1 Non EA Employer Representative 5 Active Scheme Member Representatives 2 Pensioner or 1 Pensioner and 1 Deferred Member Representatives. <p>3 Scheme Member Representatives and the 1 Non EA Employer Representative are also members of the Investment Sub-Committee (ISC)</p>
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Chair of the Pensions Committee reports to each EA Board meeting. Reports of the ISC meetings are available to all PC members. The Chair of the ISC provides a summary report and draft minutes to the following PC meeting.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The membership of our ISC comprises members of the main PC.
B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies);	Compliant	The employers of our Closed Fund members no longer exist. Our Active Fund has three employers – EA, NRW and SSCL. We have a non EA employer member representing NRW and SSCL on the main PC and who may also be on the ISC.

ii) scheme members (including deferred and pensioner scheme members);	Compliant	The main PC has 7 scheme member representatives on it, including 5 active scheme member representatives and 2 pensioner/deferred member representatives, ideally one of each. Our ISC includes 3 scheme member representatives (active, deferred or pensioner).
iii) independent professional observers; and	Compliant	Our independent investment adviser attends all ISC and PC meetings. Our other professional advisers also regularly attend our PC and ISC meetings.
iv) expert advisers (on an ad-hoc basis).	Compliant	We invite our expert advisers to attend our PC and ISC meetings as needed. This includes our actuary, legal adviser, risk and governance advisor and investment consultants, pension fund administration consultants, and external auditors.
v) that where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	All members of the PC and ISC receive equal access to the papers and training and have full and equal speaking and voting rights in our meetings and decision making processes.
C – Selection and role of lay members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	New PC members receive an induction and appropriate training that details the role, function and activities of the PC and ISC. Our PC members understand that their primary fiduciary duty of care is our funds' beneficiaries and employers, in whose best interests they are required to act at all times, particularly in terms of investment and financial decisions. They also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of either a financial or non-financial nature arising from any other roles they may perform and abstain from participation in that item on the agenda. The EAPF has a Conflicts of Interest Policy which is made available to all PC members.
b) That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all PC and ISC meetings. A register of interests is also maintained 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 Pensions Committee and ISC.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Compliant	Our PC has a Training Policy which is reviewed regularly. We provide induction training. All members undergo further developmental, specialist, and/or 'top up' refresher training for 2-3 days each year during their terms of office. We maintain a log of all PC member training needs and training undertaken. Members of the main PC and the ISC are reimbursed the cost of travel and overnight hotel expenses. The cost of all PC and ISC training is met from the pension fund's budget.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The Training Policy applies equally to all PC and ISC members.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	Our PC usually meets 4 times a year, for normal business and at least once for briefing or training. 8 of the 14 PC members (including at least 1 Board member, 1 EA executive member and 1 scheme member representative) constitute a quorum.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Our ISC meetings are synchronised to meet 4 times a year before the PC so it can report to and make recommendations to the full PC. 4 members (including at least 1 Board Member, 1 EA executive member and 1 scheme member representative) constitute a quorum for the ISC.
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	We have 7 'lay' members on our main PC, comprising 5 active scheme member representatives and 2 pensioner/deferred member representatives. Due to the geographical spread of our organisation and fund membership across England and Wales we do not hold an AGM but do hold annual briefings which provide a forum for fund members and stakeholders to be informed about the fund, particularly about changes to the LGPS. All active fund members are invited to attend regional or webinar pension briefings each year.

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

Signed on behalf of the Environment Agency

Joanne Segars
Chair
Environment Agency Pensions Committee
26 June 2018

Sir James Bevan
Accounting Officer
Environment Agency
27 June 2018

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) 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 23 March 2017 and is reproduced in Annex 2 to this document.

Investment Strategy Statement

All LGPS funds are required to publish an Investment Strategy Statement. Our Investment Strategy Statement was adopted by the Committee on 23 March 2017 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 rated by Standard and Poor's as 'A+' for long term / senior debt and 'A-1' for short term / deposits. The Fund's assets are not held in the name of Northern Trust and so are segregated from those of Northern Trust, safeguarding them in the event of a failure by Northern. Cash held by the Fund at Northern Trust in Sterling and United States 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-mf' 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) and in accordance with International Standard on Assurance Engagements 3402 (ISAE 3402).

On 1 April 2018 we transitioned custodian from the Northern Trust Company to State Street Bank and Trust Company. This was a result of a competitive tender exercise within the Brunel Pension Partnership.

Investment management

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

The existing funding strategy relies upon regular payments (known as Grant in Aid) being received from Defra to meet the pension and administrative costs until the present value of the remaining liabilities is equal to the value of the Fund assets at that time. At that point, the Fund will take on the responsibility for meeting the costs of the Closed Fund. Hymans have estimated that the Fund could reach the point of being regarded as 'self-sufficient' by 2028.

Portfolio analysis

Distribution of investment assets by market value as at 31 March 2018:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Total Fund
UK Index linked gilts	257.7		257.7	93.3
Cash		18.1	18.1	6.6
Accrued income		0.3	0.3	0.1
Net investment assets	257.7	18.4	276.1	100.0

Distribution of investment assets by market value as at 31 March 2017:

	Sarasin & Partners LLP £m	Cash & Other £m	Total Fund £m	% of Total Fund
UK Index linked gilts	255.9	-	255.9	94.1
Cash	-	15.5	15.5	5.7
Accrued income		0.5	0.5	0.2
Net investment assets	255.9	16.0	271.9	100.0

Unquoted investments

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

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

Investment performance

The investment performance of the Fund for the year to 31 March 2018 was +0.8% (2017: +22.8%). Over the three years to 31 March 2018 the annualised rate of return was +8.2% (2017: +16.2%) against a benchmark return +9.3% (2017: +18.3%).

Pension Fund administration

Administration arrangements

The Environment Agency is responsible for administering the current and future pension benefits for over 13,700 members of the Closed Pension Fund.

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

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

Performance measurement

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

We would like to express our thanks to Capita for resolving 22,422 (2017: 27,295) Active and Closed Fund member requests/queries and for paying pensions to over 12,300 Closed Fund pensioners. Over the year, Capita achieved the required service levels for 96% of all casework processed.

The 5 largest case types processed by Capita for the Closed Pension Fund during 2017/18 were:

Case Type	2018	2017
Death of pensioner	414	555
Death of spouse	278	446
Retirements	265	319
Transfer Out quotes/finalisation	49/6	52/4
Changes of address	161	93

Closed Fund administration costs for the year to the 31 March 2018 were £540k (2017: £499k) including member communications and postage costs. We benchmark our Fund administration costs annually through the public accounting body CIPFA. For 2016/17 the CIPFA average was £21 per member. Across both our Active and Closed Funds, our average cost for 2016/17 was £24 (2015/16: £22) per member.

The total number of staff allocated by Capita to the EAPF administration contract is 24, of which 14 deal solely with pension benefits administration. Based on a membership of 39,568 across both the Active and Closed Funds at 31 March 2018, this represents an average of 2,998 members per administrator. The CIPFA LGPS average for 2016/17 was 4,025 members per administrator.

We take a value for money approach looking for appropriate balance between cost, service and quality in pension administration delivery. For example, in all 9 industry standard performance indicators measured by CIPFA for 2016/17, we achieved 96% compared to the average of 70% to 94% across the range of those indicators. The CIPFA 2017/18 figure will not be available until October 2018.

Internal controls

The EAPF system of internal controls is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Environment Agency and in the operation of the Fund for the year ended 31 March 2018, in accordance with LGPS and Treasury guidance and best practice.

The Environment Agency Internal Audit Team tested our compliance, adequacy and effectiveness of internal controls and Pension Fund risks which was conducted in accordance with Government Internal Audit Standards during the year.

The Pension Fund Internal Audit concluded that we complied with the provisions of the Environment Agency Framework Document and with the requirements from the Pensions Regulator's public sector Code of Practice. We also received positive assurance on our risk management process and our approach to the mitigation actions of Pension Fund risks.

Capita produce an audited AAF 01/06 and ISAE 3402 Assurance Report on internal controls which is reviewed annually by Officers and our external auditors.

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) recommends that the Fund regularly assess the quality of EAPF member data.

Common data is defined by tPR as the key data items that are essential to the identification of the member's identity and are common to all schemes including items such as National Insurance number, surname, gender and address. The Guidance recommends that 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 is carried out for the Closed Fund annually and a certificate issued reflecting compliance with tPR guidance. The latest available results from our May 2018 certificates showed our post June 2010 data as 99%, with pre June 2010 data at 95%. The missing data for both categories relates to members moving house and not informing our administrators. We are carrying out an exercise to trace these members and will update their records accordingly.

More member specific data called 'Conditional data' has also been reviewed with positive results and both these tPR data checks are tested on a regular basis. We will be doing further work on this during 2018/19.

Data security

The Environment Agency Pension Fund and Pensions Committee take data security very seriously.

Capita hold member data in line with the requirements of the Data Protection Act and complies with the Cabinet Office Security Policy Framework. All Capita employees are required to undertake annual data protection training which covers 'Personal Data' and actions required to protect this data. Capita are managing Information security and cyber risks through adherence to Capita Group policy requirements and Baseline Information Security Standards.

We had no incidents involving loss of personal data in 2017-18 which were required to be reported to the Information Commissioner.

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. In addition, from November 2012 monthly mortality screening has been implemented to help reduce overpaid pensions and potential fraud.

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. There are no reported cases for 2017/18.

Communications

To read our full Communications Policy Statement please see annex 4. The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This has been aligned to a totally restructured website using rich media (which includes the use of calculators, flowcharts and audio and visual presentations) which help enhance member experience and encourage regular use.

Both our public facing website and web portal facility, EAPF Online are 'device enabled' which means they allow users to access information on any mobile phone or tablet in an easily readable format, so our members can look up information or access online tools at a time of their choosing. We continue to engage with members through a number of channels to establish a view on how our members prefer to communicate and interact with the Fund.

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

These sessions are supported by newsletters, a poster campaign, E Shots and promotion through our Fund employers' internal communication channels. The EAPF has successfully transitioned to using webinars. Members are based nationwide across England & Wales, so It provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.

Webinars allow us to:

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

All topics are recorded and the recorded presentation slides are made available on our website. As part of our long term strategy, 2017/18 saw us continue our move to digital communications by analysing our pension data for the purpose of segmenting our members into 5 recognisable groups so that we could improve the way we engage, ensuring the relevance and purpose of the contact.

Our segmented groups are:

- Spontaneous spender – adventure
- Pension Sceptic – protection
- Assured saver – relaxed
- Responsible worrier – detail and focus
- Mature planner – companionship

The Fund has introduced the use of segmented 'E Shots' and we tested different imagery, and messaging with our different groups to establish preferences. We have completed one full year of a digital campaign with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We are able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

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

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

Complaints

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

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

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

In 2017/18 Capita received nine (7 for 2017/18) formal complaints from Closed Fund members and these have all been resolved. There were no IDRP cases on the Closed Fund raised during the year and no cases went to the Pensions Ombudsman.

Foreword to the financial statements

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

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

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

Roles and responsibilities of the Pensions Committee

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

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

- Selected suitable accounting policies and then applied them consistently.
- Made judgments and estimates that are reasonable and prudent.
- Followed applicable accounting standards, in particular the 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 the Financial Memorandum issued by Defra. However, responsibility for the regulations governing the LGPS lies with the Workforce Pay and Pensions Division at MHCLG.

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

Summary of the financial statements

The financial statements have been prepared in accordance with CIPFA guidance including narrative reporting and accounting disclosures for LGPS funds, with quoted securities valued at bid prices at the year end. After realised gains and changes in portfolio valuations, and grant-in-aid funding for benefits and other outgoing payments, the value of the Fund has increased by £3.8m to £276.3m (2017: increased by £53.3m to £272.5m).

Retirement benefits payable in the year to 31 March 2018 have decreased from £63.8m in 2017 to £59.9m in 2018 and transfers to other schemes were £0.3m in 2017 and £0.3m in 2018.

In overall terms the net additions from dealings with pensioners and deferred members after grant-in-aid funding in the year was £3.1m (2017: £2.8m). Responsibility for ensuring that the Fund can meet all future liabilities rests with the Secretary of State at Defra.

Statement by the Consulting Actuary

Environment Agency Closed Fund ('the Fund') Actuarial Statement for 2017/18

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

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2017. 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 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £219 million, were sufficient to meet 31% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £492 million.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report dated 31 March 2017.

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 2016 valuation were as follows:

Financial Assumptions	31 March 2016	
	% p.a. Nominal	% p.a. Real
Discount rate	2.2	0.4
Price inflation/Pension increases	1.8	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming that the current rate of improvements has reached a peak and will converge to a long term rate of 0.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Pensioners	Males	Females
Current Pensioners	20.6 years	22.7 years
Future Pensioners*	21.1 years	23.3 years

*Members are assumed to be age 55 at the valuation date

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Environment Agency, the administering authority to the Fund.

Experience over the period since 31 March 2016

Investment returns in the year to 31 March 2018 were estimated to be 0.8% and the Fund assets had a market value of £276.1m as at 31 March 2018. Liabilities were estimated to be £729.7m on an ongoing funding basis as at 31 March 2018, implying that the Fund's assets were sufficient to meet 38% of the liabilities accrued up to that date.

The next actuarial valuation will be carried out as at 31 March 2019. 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
11 May 2018

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

Opinions on the financial statements

I certify that I have audited the financial statements of the Environment Agency Closed Pension Fund for the year ended 31 March 2018 under the Environment Act 1995. These financial statements comprise the Fund Account, the Net Assets Statement and the related notes, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In my opinion:

- the financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018, and of the amount and disposition at that date of the fund's assets and liabilities; and
- the financial statements have been properly prepared in accordance with Schedule 7 to the Environment Agency Framework Document issued by Defra, and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK). My responsibilities under those standards are further described in the Auditor's responsibility for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Environment Agency Closed Pension Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer of the Environment Agency, the Pensions Committee

As explained more fully in the section entitled roles and responsibilities of the Pensions Committee, the Accounting Officer and the Pensions Committee are responsible for preparing the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibility for the audit of the financial statements

My responsibility is to audit the financial statements in accordance with the Environment Agency Act 1995.

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Environment Agency Closed Pension Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other information

The Accounting Officer and Pensions Committee are responsible for the other information. The other information comprises information included in the annual report, other than the financial statements and my auditor's certificate thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinions on other matters

In my opinion:

- in the light of the knowledge and understanding of the Environment Agency Closed Pension Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and

- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

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

Date: 9 July 2018

Financial statements for the year ending 31 March 2018

	Notes	2018 £000	2017 £000
Fund account			
Income			
Grant-In-Aid		63,353	66,871
		63,353	66,871
Benefits and other payments			
Benefits payable	7	(59,944)	(63,752)
Payments to and on account of leavers	8	(299)	(346)
		(60,243)	(64,098)
Net increase from dealings with pensioners and deferred members		3,110	2,773
Management expenses	9	(993)	(1,036)
Return on investments			
Investment income	10	1,592	1,686
Profit and loss on disposal of investments and changes in the market value of investments	11	82	49,918
Net returns on investments		1,674	51,604
Net increase in the Fund during the year		3,791	53,341
Opening net assets of the Fund at 1 April		272,514	219,173
Net assets of the Fund at 31 March		276,305	272,514
Net assets statement			
Investment assets	11	276,131	271,938
Current assets	16	1,414	1,734
Current liabilities	17	(1,240)	(1,158)
Net assets of the Fund at 31 March		276,305	272,514

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 34 and these financial statements should be read in conjunction with it. The Actuary's statement, dated 11 May 2018 is based on a valuation as at 31 March 2016. The notes on pages 40 to 52 form part of these financial statements.



Joanne Segars
Chair
Environment Agency Pensions Committee
26 June 2018



Sir James Bevan
Accounting Officer
Environment Agency
27 June 2018

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)
- 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 2018, total membership of the Fund is 13,739, represented by 12,350 current pensioners and 1,389 deferred members.

Funding

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

2. Basis of preparation

The financial statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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.
- (ii) Acquisition costs are included in the purchase cost of investments.
- (iii) Investment management fees are accounted for on an accruals basis.

Investment income

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.

Income from capital distributions of residual private equity holdings being liquidated is included as a realised gain in the changes in market value.

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

Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

Income from cash and short term deposits is accounted for on an accruals basis.

Exchange rates

Other assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Benefits

Members can choose whether to take a proportion of their retirement benefits as a pension and/or lump sum.

Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised. Lump sum death grants and refunds of contributions are included from the date of death or date the member leaves the Scheme.

Transfers to other schemes

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

Other expenses

Investment management and administration expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT. Fees are also payable to the Fund's global custodian. In cases where expenditure relates to both the Active Pension Fund and the Closed Pension Fund, this has been respectively apportioned during the year as follows:

Apportionment of common expenditure	2017/18 %	2016/17 %
Custodial arrangements	80/20	80/20
Other (e.g. Environment Agency administration costs)	80/20	60/40

From 1 April 2017, both custodial and other common expenditure has been apportioned 80/20.

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. The accounts are shown exclusive of VAT.

4. Critical judgments in applying accounting policies

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 14. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

There are no items of estimation in the net assets statement as at 31 March 2018 or 31 March 2017 for which there is a significant risk of material adjustment.

6. Events after the net asset statement date

The financial statements were approved by both the Pensions Committee on 13 June 2018 and Audit and Risk Assurance Committee on 19 June 2018. The financial statements are signed under delegated authority of the Board. They were also noted at a meeting of the Board on 12 July 2018. There are no adjusting events that need to be recognised in the financial statements after the net asset statement date.

On 1 April 2018 we transitioned to a new custodian from Northern Trust to State Street Bank.

The LGPS (Amendment) Regulations 2018 [SI 2018/493] were laid before parliament on 19 April 2018 and came into force on 14 May 2018, with the exception of the provisions listed in regulation 1(3), which have effect from 1 April 2014.

7. Benefits payable

	2018	2017
	£000	£000
Retirement and dependants pensions	57,528	61,319
Lump sum retirement grants	2,395	2,372
Lump sum death grants	21	61
Total	59,944	63,752

8. Payments to and on account of leavers

	2018	2017
	£000	£000
Individual transfers to other schemes	299	346
Total	299	346

9. Management expenses

	2018 £000	2017 £000
Administration expenses		
Scheme administration	540	499
Environment Agency Pension Fund management	326	352
	866	851
Oversight and governance costs		
Specialist advice	46	104
External audit	24	24
	70	128
Investment management expenses		
Custody fees	30	27
Management fees	27	30
	57	57
Total	993	1,036

External audit does not include any fees in respect of non-audit services for 2017/18 or 2016/17. The investment management expenses include £nil (2017: £nil) in respect of transaction costs.

10. Investment Income

	2018 £000	2017 £000
Income from index linked gilts	1,537	1,597
Interest on cash deposits	55	89
Total	1,592	1,686

11. Investments
a) Investment movement summary

	Market value at 01.04.17	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.18
	£000	£000	£000	£000	£000
Index linked gilts	255,941	173,608	(171,970)	110	257,689
Cash deposits and instruments	15,533	-	-	(28)	18,099
Accrued income	464	-	-	-	343
Net investment assets	271,938	173,608	(171,970)	82	276,131

	Market value at 01.04.16	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Market value at 31.03.17
	£000	£000	£000	£000	£000
Index linked gilts	204,500	1,556	-	49,885	255,941
Cash deposits and instruments	14,349	-	-	33	15,533
Accrued income	456	-	-	-	464
Net investment assets	219,305	1,556	-	49,918	271,938

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 of £1k (2017: £nil) 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.

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

Investment assets	2018		2017	
	£m	%	£m	%
UK Government 0.125% Index Linked Gilt 2029	65.3	23.6	-	-
UK Government 1.25% Index Linked Gilt 2032	54.4	19.7	-	-
UK Government 2% Index Linked Gilt 2035	46.6	16.8	58.9	21.6
UK Government 0.125% Index Linked Gilt 2044	40.0	14.5	-	-
UK Government 1.25% Index Linked Gilt 2055	39.2	14.2	197.0	72.4

12. Investments

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 2018	Designated as fair value through profit and loss	Loans and Receivables	Financial liabilities at amortised cost
	£000	£000	£000
Financial assets			
Fixed interest	257,689	-	-
Cash deposits and instruments	-	19,132	-
Other investment balances	343	-	-
Debtors	-	381	-
Financial liabilities			
Creditors	-	-	(1,240)
Net assets of the Fund	258,032	19,513	(1,240)

31 March 2017	Designated as fair value through profit and loss	Loans and Receivables	Financial liabilities at amortised cost
	£000	£000	£000
Financial assets			
Fixed interest	255,941	-	-
Cash deposits and instruments	-	16,972	-
Other investment balances	464	-	-
Debtors	-	295	-
Financial liabilities			
Creditors	-	-	(1,158)
Net assets of the Fund	256,405	17,267	(1,158)

b) Net gains and losses on financial instruments

	2018 £000	2017 £000
Investment Assets		
Fair value through profit and loss	82	49,918
Total change in market value	82	49,918

c) 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 judgment 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 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	257,689	-	-	257,689
Receivables	19,856	-	-	19,856
Total financial assets	277,545	-	-	277,545
Financial liabilities				
Financial liabilities at amortised cost	(1,240)	-	-	(1,240)
Total financial liabilities	(1,240)	-	-	(1,240)
Net assets of the Fund	276,305	-	-	276,305

Values at 31 March 2017	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	255,941	-	-	255,941
Receivables	17,731	-	-	17,731
Total financial assets	273,672	-	-	273,672
Financial liabilities				
Financial liabilities at amortised cost	(1,158)	-	-	(1,158)
Total financial liabilities	(1,158)	-	-	(1,158)
Net assets of the Fund	272,514	-	-	272,514

13. 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 with its advisers, regularly monitor investment risks within the Fund, enabling the Pensions Committee to consider risk as required.

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 advisers, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

Asset class	1 year expected volatility % (+/-)	% of Fund
UK index linked gilts(long term)	9.2	93.3
Cash	0.5	6.7
Total fund volatility	8.6	100.0

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

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

	31 March 2018	31 March 2017
Total net investment assets (£000)	276,305	272,514
Percentage change (%)	8.6	8.5
Value on increase (£000)	300,067	295,678
Value on decrease (£000)	252,543	249,350

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 form 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 to short term interest rate arising from the cash holding, 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 total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The table below shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates

	As at 31 March 2018 £000	As at 31 March 2017 £000
Holdings of fixed interest securities	257,689	255,941
Estimated duration of assets	19.4	34.3
Change in value of fund if rates rise 1%	(49,992)	(87,788)
Change in value of fund if rates fall 1%	49,992	87,788

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 no material exposure to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£GBP).

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-mf' 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 as at 31 March 2018 was £19.1m (31 March 2017: £17.0m).

This was held with the following institutions:

Summary	Ratings by Moody's	Balances as at 31 March 2018	Balances as at 31 March 2017
		£000	£000
Money market funds			
Northern Trust	Aaa-mf	18,099	15,533
Bank current accounts			
National Westminster Bank Plc	A2	1,033	1,439
Total		19,132	16,972

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 as those that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 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 2018 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 unfavorable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

14. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting the Guarantor's employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at March 2019.

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

At the 2016 actuarial valuation, the Fund was assessed as 31% funded (19% at the March 2013 valuation). This corresponded to a deficit of £492m (2013 valuation: £694m) at that time.

The level of contribution payable to the Fund is not directly determined from the past service deficit position. Instead a cash flow approach is used where the contributions are paid by Defra on a six monthly basis depending on expected benefits and expenses payable from the Fund for the following six months. The projected payments due from Defra over the two year period ending 31 March 2020 and are shown in the table below:

Year	Projected payments due £000
2018/19	67.1
2019/20	63.1

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

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

Financial assumptions

	%	Descriptions
Investment return (Discount rate)	2.2	Yield on long term fixed interest Government bonds
Retail price inflation (RPI)	2.9	The difference between yields on fixed and index-linked Government bonds at the valuation date less 0.3% p.a. in respect of the inflation risk premium
Pension increases	1.8	CPI (assumed to be 1.0% less than RPI with the adjustment applied geometrically)

Longevity assumptions

Life expectancy is based on the Fund's Vita Curves with improvements in line with the CMI 2013 model assuming that the current rate of improvement has reached a peak and will converge to the long term rate of 0.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Pensioners	Males	Females
Current pensioners	20.6 years	22.7 years
Future pensioners*	21.1 years	23.3 years

* Figures assume members aged 55 as at the last formal valuation date.

Commutation assumption

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

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

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

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 14). The actuary has also used valued ill health and death benefits in line with IAS19.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £636m (2017: £672m). 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 2018	% p.a.
Pension increase rate	2.5
Discount rate	2.6

16. Current assets

	2018 £000	2017 £000
Cash at bank	1,033	1,439
Debtors		
VAT debtor and bank interest receivable	239	224
Overpaid pensions due to be returned	76	71
Due from the Active Pension Fund	66	-
Total	1,414	1,734

Analysis of debtors

	2018 £000	2017 £000
Central government bodies – VAT return	239	224
Government agencies – Active Pension Fund	66	-
Other entities and individuals – Pensions to be returned/interest	76	71
Total	381	295

17. Current liabilities

	2018 £000	2017 £000
Creditors		
PAYE	628	672
Administration and investment expenses	511	419
Amount due to Active Fund	-	49
Benefits payable	101	16
Sundry	-	1
Tax payable on refunds	-	1
Total	1,240	1,158

Analysis of creditors

	2018 £000	2017 £000
Central government bodies – PAYE and tax on refunds	628	673
Other entities and individuals – admin fees and benefits payable	588	417
Government agencies – Environment Agency	-	49
Independent parliamentary bodies – NAO fees	24	19
Total	1,240	1,158

18. Related party transaction

During the year ended 31 March 2018 there have been the following related party transactions:

- Pensions administration costs of £341k (2017: £349k) were recharged to the Closed Fund by the Environment Agency.
- One member of the Committee is in receipt of pension benefits from the Closed Fund.
- Benefits payable exclude £9m (2017: £9m) for historical 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.

19. Contingent liabilities

There are no contingent liabilities as at 31 March 2018 (2017: £nil).

20. Contingent assets

There are no contingent assets as at 31 March 2018 (2017: £nil).

21. Impairment losses

For the year to 31 March 2018 the Fund has recognised an impairment loss of less than £0.1m (2017: less than £0.1m) for the non-recovery of pensioner death overpayments.

22. IAS10: Authorisation for issue

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

The annexes

Annex 1 – Government Funding Agreement

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

Environment Agency Closed Pension Fund

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

Paul Boateng

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

Environment Agency Closed Pension Fund

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

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

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

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

Margaret Beckett

Memorandum of understanding

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

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

Background

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

Payments into the Fund

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

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

- (ix) Such payments will be solely to finance the Closed Fund's annual outgoings and will be treated separately from the Environment Agency's mainstream finances. They will be made every six months, with the sums to be paid equaling the amount of the Fund's outgoings for the previous six months. The first payment into the Fund will be made in April 2006. These payments will continue until the liabilities of the Closed Fund have been met in full. Latest actuarial projections indicate that this will occur in 2062.
- (x) These payments will be in the form of ring-fenced grant-in-aid from the Secretary of State and will be paid twice each year in April and October through the normal grant-in-aid procedures to the Environment Agency
- (xi) The Environment Agency will provide the Secretary of State with a copy of actuarial advice received and such information as is reasonably required to illustrate how the payments certified as payable have been calculated. Any assets held in the Closed Fund in excess of the payments will be retained to protect against minor variations in outgoings until a certificate of the actuary to the Closed Fund confirms that their retention is unnecessary. A copy of any such certificate shall be provided by the Environment Agency to the Secretary of State.
- (xii) Payments made by the Secretary of State into the Closed Fund will be reported in Defra's annual accounts together with the Closed Fund's liability in accordance with FRS 17 (or any replacement accounting standard).

Payments to pensioners

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

Control, monitoring and review

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

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

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

Annex 2 – Funding Strategy Statement

Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Department for the Environment, Food and Rural Affairs (Defra – 'the Guarantor') and the Fund's investment adviser. It is effective from 23 March 2017.

Fund history

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK.

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

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

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

Profile of liabilities

As at 31 March 2016, the Fund's membership consisted of 13,511 pensioners and 2,139 deferred pension members whose benefits have yet to come into payment. The average age of members in receipt of pensions in payment was around 77 years, and 57 years for deferred pensioners.

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

The Fund's assets are expected to be sufficient to meet the outstanding benefit and expense outgo by 2029.

The discounted mean term of the liabilities – a measurement of duration that can be useful in matching liabilities to bond durations – was 9.2 years as at 31 March 2016 and will fall only gradually over time.

As at 31 March 2016, the Fund's assets were £219m (£166m at 31 March 2013) and the value placed on the liabilities (discounted in line with the minimum risk return available on UK government bonds) was £711m (£860m) resulting in a funding level of 31% (19%) and a deficit

of £492m (£694m). Benefit expenditure flowing out of the Fund is running at around £66m per annum.

All these figures exclude the additional 'unfunded' pension payments of around £10m per annum which are paid to Fund members for added years awarded on retirement. The Administering Authority receives Grant-in-Aid payments covering funded and unfunded benefit payments.

Regulatory framework

The FSS forms part of a framework which includes:

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

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

Reviews of FSS

The FSS applies with effect from 31 March 2017 for lump sum contributions payable in the Fund's financial year 2017/18 and thereafter. The principles documented herein have been used for the actuarial valuation as at 31 March 2016.

The FSS is reviewed in detail at least every three years alongside the triennial valuation being carried out, with the next valuation as at 31 March 2019 due to be completed by 31 March 2020. The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

Funding strategy objective

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

How do I find my way around this document?

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

In the Appendices we cover various issues in more detail:

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

Determining the solvency target and funding position

Reviews of funding position and Guarantor payments

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

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

Solvency target

The Fund defines 'solvency' to be the ability to meet ongoing benefit expenditure. As at 31 March 2016, the assets held by the Fund were only sufficient to cover 31% of its liabilities (19% in 2013).

Without the GiA payments made by the Guarantor, the Fund would expect to be exhausted by 2019.

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

Ongoing funding basis

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

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

The key financial assumption affecting the projected GiA payments is the rate of CPI inflation which will determine future benefit increases. This has been taken to be 1.8% p.a. at the 2016 valuation.

In determining the value placed on the liabilities it is also important to use a suitable discount rate. The Fund is invested almost entirely in index-linked UK government bonds, so the discount rate chosen is the expected nominal return on these assets as at the valuation date. As at 31 March 2016 this return is expected to be 2.2% p.a., leading to a real assumed return of 0.4% p.a. relative to CPI.

Funding strategy and links to investment strategy

What is the Fund's investment strategy?

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

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

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

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

What is the link between funding strategy and investment strategy?

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

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

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

Does the Fund monitor its overall funding position?

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

Statutory reporting and comparison to other LGPS Funds

Purpose

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to Defra on 9 March 2017 for comment;
- b) Comments were requested within 14 days;
- c) Following the end of the consultation period the FSS was updated where required and then published on 23 March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

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

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at www.eapf.org.uk

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

9. Notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary).
10. Monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Fund Actuary should:-

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

B3 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

- Financial
- Demographic
- Regulatory
- Governance

C2 Financial risks

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

C3 Demographic risks

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

C4 Regulatory risks

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

C5 Governance risks

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

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

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

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

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

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

a) Pension increases

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

As at the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. An inflation risk premium was then applied to the market-implied RPI, by means of a 0.3% deduction to allow for market distortions. This is then reduced to arrive at the CPI assumption, to allow for the 'formula effect' of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target and GiA projections (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

b) Investment return / discount rate

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

c) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 0.5% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy slightly (by around 0.1-0.2 years), which reduces the funding target and GiA projections (all other things being equal). The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2019.

Annex 3 – Investment Strategy Statement

Introduction

The Environment Agency Closed Pension Fund (the Fund or 'EAPF') is a closed, final salary (defined benefit) pension scheme with around 15,000 members and assets of approximately £280m as at 31 March 2017. Full details of the Environment Agency Pension Funds and our activities can be found on www.eapf.org.uk

This Investment Strategy Statement (ISS) sets out the principles and strategy that govern our process for investing the assets of the Fund as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. This Statement was made and approved by the Environment Agency Pension Committee on 23 March 2017, which acts on the delegated authority of the Environment Agency's Board, after taking advice from its investment staff, investment consultants, independent investment adviser and consulting actuary.

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

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

Fund governance: Investment

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

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

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

We have appointed a performance measurer independent of the fund managers to calculate risk and return measures for each manager and the Fund overall. We have also appointed a global custodian who is responsible for the safekeeping of the directly-held assets of the Fund and who works in close liaison with each fund manager.

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

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

High Level Investment Principles

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

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

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

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

Responsible Investment

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

Being responsible investors to us is to;

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

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

account in our funding and investment strategies, and throughout the funding and investment decision-making process. Full details are contained in our **Responsible Investment Policy**, and other associated policies, notably our **Policy to Address the Impacts of Climate Change**. Managers are expected to comply with these policies when implementing the mandates on our behalf.

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

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

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

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

We do not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Investment objectives

This Statement is consistent with the Fund's funding strategy, which is set out in the Funding Strategy Statement adopted on 23 March 2017. The Fund's solvency is guaranteed by the Government, in the form of the Secretary of State for Environment, Food and Rural Affairs ('the Guarantor'). The level of the Guarantor's contributions is reviewed every six months.

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

The suitability of different types of investment

The Fund may invest in any investment considered appropriate. However, after considering the exceptional nature of the Fund, specifically the grant in aid provided by Defra, the Government guarantee underpinning the Fund, and the low risk nature of the investment objective, we have decided to 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. The range of assets we choose to invest in are always reviewed as part of our investment strategy review process.

Social and sustainable Investments

Social investment can be defined to include a wide spectrum of investment opportunities². The EAPF definition of social investment is an investment that addresses societal challenges but generates competitive financial returns. Societal challenges include all issues commonly regarded under social, environmental or governance headings.

Our wider definition of sustainable investments includes:

- a) Social investments and those with significant revenues (in excess of 20%³) involved in energy efficiency, alternative energy, water and waste treatment, public transport together,
- b) Property, infrastructure, agriculture or forestry investments with a low carbon or strong sustainability criteria⁴, and
- c) Companies (often equities and bonds) with a progressive⁵ environmental, social or governance practices that may enhance investor value.

The Active Fund has set itself the target to have over 25% of the fund invested, across all asset classes, in such opportunities. We report a breakdown of the types of investment in our Active Fund annual report and financial statements.

Asset allocation

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

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

- A portfolio of long dated index-linked government bonds, intended to broadly reflect the long tail of liabilities the Fund is exposed to;

² See Global Impact investor Network for more information <https://thegiin.org/>

³ We use the FTSE Environmental Markets classification and with the help of Impax Asset Management (our global equity manager who focuses on environment technologies) to analyse our public and private equity holdings including the pooled funds.

⁴ Strongly sustainable/ progressive are terms we use to describe companies or funds exceeding market norms and taking action on one or more areas of ESG that distinguishes their offering compared to their peers.

⁵ As above

- Cash held at our custodian and administrator, sufficient to meet pension payments until the next grant in aid payment, together with a small reserve; and
- A small portfolio of legacy unquoted equities – the value of which has been written down to nil - which is managed internally and is currently being run down.

Managers and mandates

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

Risk

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

We provide a practical constraint on the Fund's investments deviating from the intended approach by specifying the particular bonds to be held. Because of the low risk guaranteed nature of the investments the need for diversification of investments is not applicable.

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

The Committee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. In addition, the Committee has a process of regular scrutiny and audit of providers to the Fund.

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

Liquidity and the realisation of investments

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

Stewardship and the exercise of our rights as owners

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

Collaboration

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

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

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

Implementation: Approach to Asset Pooling

We are working with nine other Administering Authorities to pool investment assets through the Brunel Pension Partnership Ltd. (Brunel). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the EAPF, through the Pensions Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd. will be a new company wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The EAPF will be a client of Brunel, and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of Brunel, and our rights as a client. It includes a duty of care of Brunel to act in its clients' interests.

An Oversight Board will be established. This will comprise representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference, it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval, which will be remitted back to each Administering Authority individually.

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

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

We have approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from our existing investment managers to the portfolios managed by Brunel between April 2018 and March 2020 in accordance with a timetable that will be agreed with Brunel. Until such time as transitions take place, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of our assets will be invested through Brunel.

Statement of compliance with the Myners Principles

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

Approved by the Pensions Committee on 23 March 2017 and will be reviewed in 2018/19.

Annex 4 – Communications Policy Statement

Introduction

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

The Active Fund is open to all members of the Environment Agency and to those employees of NRW and SSCL who transferred from the EA on their relevant vesting day. It has 10,631 contributing members, 8,457 deferred members and 6,678 pensioners.

The Closed Fund exists solely for the purpose of paying pensions and related benefits of a group of former employees in the water industry in England and Wales who did not transfer to one of the Privatised Water Companies' schemes in 1989. It has no contributing members, 1,391 deferred members and 12,411 pensioners. This Communications Policy Statement is effective from 13 June 2018.

We have an agreed strategy for implementing a move to more electronic communication which continues to evolve. These developments are reflected in this policy statement. In particular we have developed our website www.eapf.org.uk to provide a knowledge centre for members. Further information with details of any employer related aspects of pensions such as policies on contributions, the use of discretions etc can be found on our Fund employer's respective intranets.

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

Pension Fund Management
Horizon House
Deanery Road
Bristol BS1 5AH
Email: info@eapf.org.uk
Tel: 0203 025 4205

Objectives

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

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

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:

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

The authority;

- Must keep the statement under review.
- Make such revisions as are appropriate following a material change in its policy on any of the matters mentioned in paragraph (3)
- If revisions are made, publish the statement as revised.

The matters are;

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

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

The Pensions Committee is a sub-committee of the EA Board with 14 members made up of 4 Board members, 2 Executive members, 1 NRW Executive member, 5 employee/Trades Union nominees, with 2 member nominees for pensioners and deferred members. The Committee is supplemented by an Investment Sub Group where specific advice can be provided by Officers, and external advisors. There are 2 Trade Union nominees on the Investment Sub-Group.

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

Responsibilities and resources

The EAPF is responsible for the administration of the Fund but Capita 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 and Pension Board supported by the Pension Fund Management team, the HR Pensions' team and Capita.

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

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

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

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

Communication with key audience groups

Our audience

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

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

How we communicate

General communication

The Fund continues to develop and enhance its communication program which started with the introduction of an easily recognisable brand and writing style. This was aligned to a totally restructured website using rich media (which included the use of calculators, flowcharts and audio and visual presentations) to help enhance member experience and encourage regular use.

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

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

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

These sessions are supported by newsletter, a poster campaign, E Shots and promotion through our Fund employers' internal communication channels. The EAPF has successfully transitioned to using webinars.

Members are based nationwide across England & Wales, so It provides an opportunity for all to participate, and helps those who are unable to make the time commitment or can't get to a location depending on where they are based.

Introducing webinars allows us to:

- reach a wider audience nationwide
- remove the need for travel and time out of the office
- deliver more sessions based on demand and more choice

All topics are recorded and the recorded presentation slides are made available on our website.

Our Communications strategy

As part of our long term strategy, 2017/18 saw us continue our move to digital communications by analysing our pension data for the purpose of segmenting our members into 5 recognisable groups so that we could improve the way we engage, ensuring the relevance and purpose of the contact.

Our segmented groups are:

Spontaneous spender – adventure
Pension Sceptic – protection
Assured saver – relaxed
Responsible worrier – detail and focus
Mature planner – companionship

The Fund has introduced the use of segmented 'E Shots', and we tested different imagery, and messaging with our different groups to establish preferences. We have completed one full year of a digital campaign with specific messages being targeted to the 5 main groups. Each communication has a 'call to action' (CTA) which may be to complete a form, or to click and watch a video etc. We are able to monitor how many messages are sent, how many are opened and how many complete the CTA, and this information is then made available in our Communication dashboard.

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

Here's an example

We introduced an online Self Service calculator in 2014/15 which allows members to model different retirement ages and pensions taking account of the complex protections and reductions within the Scheme. Capita were still receiving calls for estimates, so we spoke with our members and they told us that they felt they needed to understand the '85 year rule' before they could fully accept the figures produced by the calculator. So, we listened and introduced a flowchart showing how the '85 year rule' protections would impact a member and promoted this through our newsletters and internal communications. When we were satisfied that the charts worked, we then created a 85 year rule checker tool on our public website, which allows users to just click through yes/no answers to arrive at their protection status.

The tool has been well received and used by 37.5% of our active membership and has led to a reduction in queries to the Pension helpdesk.

Accessibility

In accordance with the Welsh Language Act 1993, we provide key 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 we aim to use plain English for our printed and online materials. We believe this is the most effective way to communicate with people for whom English is not their first language but we will arrange translation on request. Our website is compliant with Shaw Trust's usability standards.

Performance measurement

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
E Shot Introduction to the EAPF & video	New joiners to the LGPS	Within 2 months of joining	Within 1 month of joining the LGPS and on receipt of email address
Annual estimated Benefit Statements as at 31 March	Contributing & deferred members	31 August each year	31 August each year
Telephone calls	All	Not applicable	90% within 15 seconds
Issue of retirement benefits (at normal pension age)	Contributing members retiring	Within one month of retirement	On day of retirement - 90% of estimate if final details not known. Balance within five days of receipt of information
Issue of retirement benefits (early retirements)	Contributing members retiring	Within two months of retirement	On day of retirement - 90% of estimate if final details not known. Balance within 5 days of receipt of information
Issue of deferred benefits	Leavers	Within two months of notification	Within two months
Transfers in	Joiners & contributing members	Within three months of request	Within two months
Transfers out	Leavers & deferred members	Within three months of request	Within two months
Issue of forms i.e. expression of wish	Contributing & deferred members	Not applicable	Within five working days
Changes to scheme rules	Contributing & deferred & pensioner members, 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 two working days (once published)
Spotlight	All	Not applicable	By 31 December each year
Pensioner payslips	Pensioners	On change to pension amount due	Monthly five days before pay date

Quality

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

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

Capita became the first pension 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 financial statements and in our annual Spotlight which is available on our website. Full details will be reported regularly to our Pensions Committee.

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

Protecting member data

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

For more information about how we hold data, who we share it with and what rights our members' have to request information from the Fund, please read our [Full Privacy Policy](#). We have also produced a helpful [Q&A factsheet](#).

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 at www.eapf.org.uk. Paper copies are available on request.

Approved by the Pensions Committee on 13 June 2018 and reviewed annually.

Enquiries

Any enquiries regarding this Report should be addressed to:

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

Tel: 0203 025 4205
Email: info@eapf.org.uk

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

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

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

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

www.gov.uk/government/publications

