

Closed Pension Fund Fundfare 2012



We are the Environment Agency. We protect and improve the environment and make it **a better place** for people and wildlife.

We operate at the place where environmental change has its greatest impact on people's lives. We reduce the risks to people and properties from flooding; make sure there is enough water for people and wildlife; protect and improve air, land and water quality and apply the environmental standards within which industry can operate.

Acting to reduce climate change and helping people and wildlife adapt to its consequences are at the heart of all that we do.

We cannot do this alone. We work closely with a wide range of partners including government, business, local authorities, other agencies, civil society groups and the communities we serve.

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

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Aims and contents

Fundfare is issued annually to all members of the Environment Agency's Closed Pension Fund.

Fundfare summarises the key information from the Annual Report and Accounts and informs members of important matters relating to their pension. It also reminds members of the substantial benefits available through the Fund.

The Pensions Committee can confirm that this Fundfare report is a fair, accurate and consistent representation of the Environment Agency Closed Pension Fund for the year ended 31 March 2012, in which the financial statements have an unqualified opinion. The full Report and Accounts is available on request or from www.eapf.org.uk.

The Environment Agency's Pensions Committee welcomes feedback on Fundfare from all Fund members. Please send any suggestions or comments you may have to:

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If you have any questions about your own pension benefits or pension payments, please contact Capita whose details are on page 14.

Chairman's statement

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

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

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

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

As at 31 March 2012 the Fund's net assets are valued at £152m (2011: £133m) and the Fund's liabilities are £921m (2011: £898m). The investment management of the assets in two long dated gilts is undertaken by Sarasin & Partners LLP. The investment return for 2011/12 was +23.5% (2011:+4.7%). The triennial valuation of the Fund carried out on 31 March 2010 indicated the funding level of the Fund was 14%. The funding level as at 31 March 2012 is 17% (2011: 15%).

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

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

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

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

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

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



Larry Whitty

Chairman, Environment Agency Pensions Committee

July 2012

Environment Agency Pensions Committee and advisers

The Pensions Committee, a formal sub-committee of the Environment Agency Board, has overall responsibility for pensions and investments. The Committee has 15 members – 4 Board members, 4 senior managers, 5 employee member nominees, 1 deferred member nominee and 1 pensioner nominee.

The Environment Agency Board appoints all Committee members, initially for a three-year term of office, after which members are eligible for re-appointment subject to Board approval. Active Pension Fund member nominees are nominated for selection by the recognised trade unions. They must be current employees of the Environment Agency and members of the Fund. The Committee nominates the deferred and pensioner members.

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

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

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

Since the year end there have been some further changes to the Committee's membership. Larry Whitty (Chair) and Suzanne Warner retired from the Committee on 17 September, at the end of their second term on the Environment Agency Board. John Varley has been appointed as the new Chair of the Committee with effect from 18 September. Clive Elphick has been appointed to the Committee from 1 September and will chair the Investment Sub-Group. A further Board member will be appointed to the Committee in the autumn.

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

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

Pensions Committee membership at 31 March 2012

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

Pensions Committee training

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

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

The training needs of Committee members are assessed on an individual basis and take account of members' existing expertise and interests in specific areas. Within this flexible framework the following structure is operated. New members receive a comprehensive Pensions Committee Handbook and a half-

day induction session before attending their first meeting. They are also given the opportunity to attend more specialist courses on specific core competencies, presented by our actuary and investment consultants as well as regional pension briefings for Environment Agency employees presented by Capita and Human Resources (HR) staff.

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

Professional advisers to the Pensions Committee

The Pensions Committee takes overall responsibility for the Fund but, to ensure that the administration and management of the Fund is handled appropriately, they employ specialist external advisers to assist them. Capita carries out the day-to-day administration of the Fund from its Sheffield office. A list of advisers is shown below:

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

Pension Fund benefits

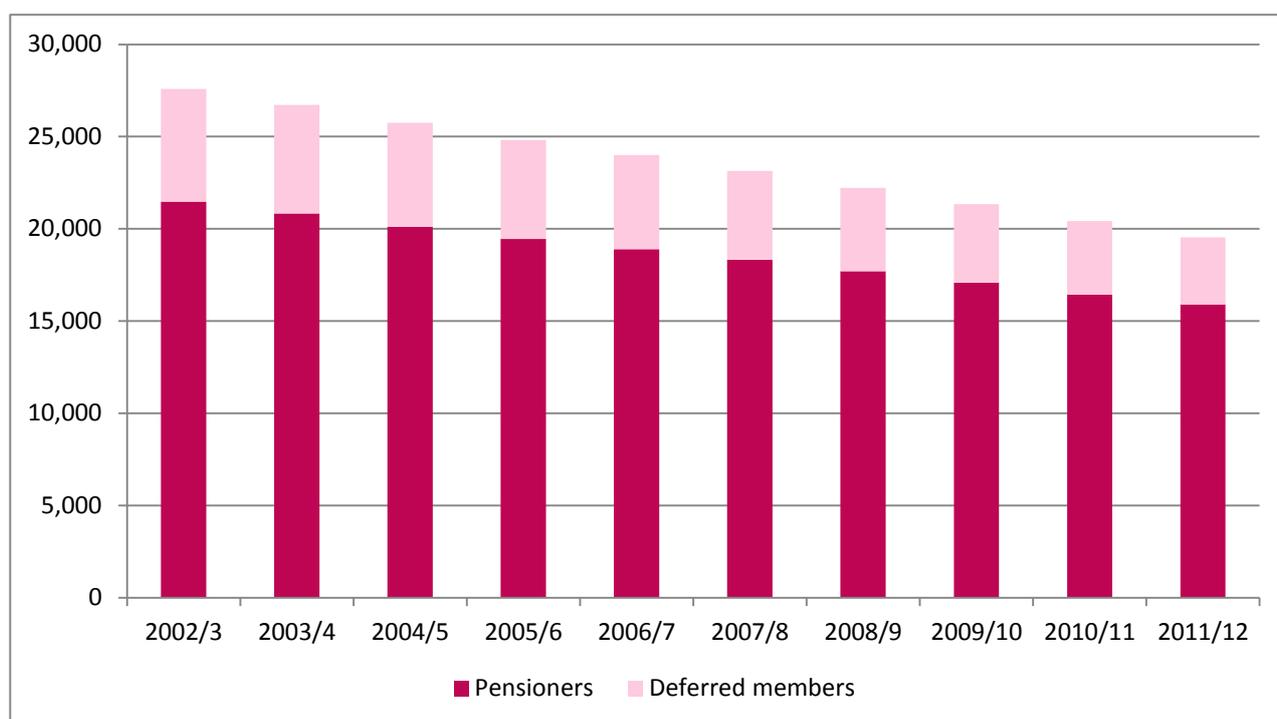
Pension Fund membership

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

During the year since 1 April 2011, the number of deferred members has fallen by 8.6%, from 3,982 to 3,640 (2011: 6.4%). The number of pensions in payment fell by 3.2% from 16,437 to 15,904 (2011: 3.8%). With no active members in the Fund, this will be the pattern for the future. However, dependants' and deferred pensions coming into payment will serve to maintain the number of current pensioners for some years to come.

Year	Deferred members	Pensioners	Total
2002/03	6,102	21,476	27,578
2003/04	5,880	20,833	26,713
2004/05	5,641	20,113	25,754
2005/06	5,368	19,456	24,824
2006/07	5,102	18,907	24,009
2007/08	4,801	18,329	23,130
2008/09	4,525	17,702	22,227
2009/10	4,256	17,081	21,337
2010/11	3,982	16,437	20,419
2011/12	3,640*	15,904	19,544

*The figure for deferred members includes 622 (2011: 633) cases where there is no entitlement to a deferred pension, and the only entitlement is to a refund of contributions. These are members we are unable to trace, with refunds being paid as and when we do make contact with them.



Age profile of current pensioners

	2012		2011	
	No	%	No	%
Children	66	0.4	69	0.4
Pensioners and spouses				
Under 55	118	0.8	149	0.9
55-59	220	1.4	239	1.5
60-64	1,527	9.6	1,515	9.2
65-69	1,502	9.4	1,441	8.8
70-74	1,612	10.1	1,832	11.1
75-79	2,743	17.2	3,002	18.3
80-84	3,602	22.6	3,805	23.2
85-89	3,005	19.0	3,000	18.2
90-94	1,258	7.9	1,122	6.8
95-99	235	1.5	236	1.4
100+	16	0.1	27	0.2
Total	15,904	100.0	16,437	100.0

Pension benefits

The Environment Agency Closed Pension Fund is part of the LGPS. The Fund is registered with the Pension Schemes Registry, part of the Pensions Regulator (TPR), and its Registered No. is 10079068. It is a statutory, funded pension scheme. As such, it is very secure because its benefits are defined and guaranteed in law. The LGPS is contracted-out of the State Second Pension (S2P), formerly the State Earnings Related Pension Scheme (SERPS), and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

Highlights of the benefits provided by the LGPS are:

- a guaranteed pension based on your final pay
- an automatic tax-free lump sum when you retire on benefits built up before 31 August 1989
- when your deferred pension is put into payment, the option to exchange some of your pension for an increased tax-free lump sum (up to 25% of the capital value of your LGPS pension benefits)
- voluntary retirement from age 60
- early retirement from age 55 with Environment Agency consent
- an ill-health pension from any age
- a widow's/widower's pension
- death cover for pensions in payment and deferment subject to eligibility
- eligible children's pensions
- the index-linking of benefits to ensure that they keep pace with cost of living

LGPS changes

The Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011 (SI 2011/561) – applicable from 1 April 2011 These amendment regulations were issued on 8 March 2011 by the Department for Communities and Local Government (DCLG) and came into force on 1 April 2011. They amend the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. They include some minor technical amendments to the ill health provisions, necessitated by an error in earlier regulations (SI 2010.2090) together with a small clarifying amendment to death grants and dependants' benefits for active members.

LGPS 2014 In July the Local Government Association (LGA) and trade unions announced the outcome of their negotiations with the Government on new LGPS proposals (for England and Wales) for 2014. This means the LGPS will be the first public sector pension scheme to implement the strategic reforms proposed by Lord Hutton. The Government will need to issue formal consultations on the proposals and this is likely to happen in the autumn, with the aim of having regulations in place by April 2013 for implementation in April 2014. We will keep you informed via newsletters as this process continues; in the meantime there is more information about the LGA and trades union proposals at www.lgps.org.uk, under the News and Updates section. Please note that we do not expect these changes to affect members of the Closed Fund.

Annual pension increase

The average pension paid from the Fund in 2011/12 was £5,200 p.a.

Pensions in payment and deferred benefits are subject to an annual review by the Government under the Pensions (Increase) Act 1971.

In June 2010 the Government announced a change the method of indexation used for public sector pensions from April 2011. This means that increases to pensions in payment and deferred pensions under the Local Government Pension Scheme (LGPS) are now linked to the rise in the Consumer Price Index (CPI), rather than to the rise in the Retail Prices Index (RPI).

This change applied to EAPF pension increases from April 2011 and pensions in payment and deferred pensions were increased by 5.2% with effect from 11 April 2012 (12 April 2011: 3.1%). Any pension in payment for less than a year increased by a proportionate amount, depending upon the number of months it has been in payment.

Year	Increase (%)
2002	1.7
2003	1.7
2004	2.8
2005	3.1
2006	2.7
2007	3.6
2008	3.9
2009	5.0
2010	0.0
2011	3.1
2012	5.2

State Pension increase

The Government changed the way that it increases basic State Pension from April 2011. The 'triple guarantee' that was introduced means that basic State Pension now rises by the higher of either:

- a) earnings – the average increase in UK wages that year; or
- b) prices – how much the cost of living (CPI) increases that year; or
- c) 2.5%.

The basic State Pension increased by 5.2% in April 2012.

Death Grant Expression of Wish form

Have you completed an Expression of Wish form? If you have, is it up to date?

If eligible, lump sum death grants are payable in the event of your death at any time before you reach age 75 and are subject to regulatory limits. The pension fund has the ultimate discretion over who receives payment of a death grant, so it is helpful if you let them know your wishes. An Expression of Wish form allows you to tell your pension fund who you would like to receive such a payment. Normally, this allows the pension fund to make the payment much more quickly, direct to the person, persons or charities you have nominated. Payment is also made outside of the estate and so avoids any potential inheritance tax.

If you are unsure if you have made a nomination or who you have nominated, simply complete a new form which will replace any previous expression of wish you may have made. Please remember that if your personal circumstances change, you may also need to update your Expression of Wish form to ensure that it continues to reflect your wishes.

Forms are available from www.eapf.org.uk or from Capita whose helpline details are on page 14.

Benefit administration

Performance measurement

The Committee measures the performance of Capita through 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.

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

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

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

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

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

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

New administration contract implementation

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

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

Data quality

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

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

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

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

Complaints and Internal Dispute Resolution Procedure

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).

Please remember that, if you disagree with a decision about your pension, it is really important that you first contact the person who made the decision to see if you can reach agreement informally. Many problems can be resolved in this way because they are often caused by misunderstandings, or incorrect information, that can be explained or corrected quickly and easily.

If, after making a complaint, you remain dissatisfied with a decision made by the Environment Agency or Capita related to your pension, you can use the EAPF's IDRP. You must start the process within six months of receiving the decision you are challenging.

At Stage 1 of the procedure, the Head of Environmental Finance & Pension Fund Management will consider your case. If you disagree with the outcome of the initial investigation, you can ask for your case to be reconsidered. This is Stage 2 and will be undertaken by the Chairman of the Pensions Committee. You must invoke Stage 2 within six months of the completion of Stage 1.

If you are still not satisfied, you may take your case to the Pensions Ombudsman, who will consider your case and make his determination. At any time during the disagreement, you may involve the Pensions Advisory Service (TPAS), which offers a free independent service and may help to resolve the case. Please note that the Pensions Ombudsman will not usually assess your case until it has been considered by TPAS.

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

National Fraud Initiative / mortality checks

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

All of the cases from the 2010 NFI exercise have been recovered or written off. The 2012 mortality screening via Capita Tracing highlighted three cases where members had passed away and their pensions have been suspended. There remain two life certificates outstanding from those issued in February 2011 to those living overseas, in residential care or where power of attorney is held, and these pensions have been suspended since January 2012.

Communications with Fund members

The Environment Agency understands the importance of communicating with members. Our statement of policy on communications is available at www.eapf.org.uk.

Although we do not expect Closed Fund members to be affected by the Government's public sector pension reform, we have made information available to members and will continue to do so during 2012/13 as the Government's plans for the LGPS become clearer. Relevant information is communicated to members of the Closed Fund in a number of ways, most notably through the following channels:

Benefit statements

We have issued benefit statements annually to deferred members of the Closed Fund since 2005. The 2012 benefit statements for deferred members were issued around the end of July.

Member information

Fundfare is issued each year to deferred members and pensioners of the fund, giving a brief summary of the Fund's formal Annual Report and Accounts. The full Annual Report is available on request or can be found at www.eapf.org.uk.

Since the year end we have replaced our retirement guide with 2 new short guides called *Thinking about retirement* and *Your life in retirement*. A *Pension increase* guide is also available. These guides can be found at www.eapf.org.uk or are available on request from Capita.

Newsletters called *Your pension* are issued to affected groups of members when there are changes to pension or tax rules. Several issues of *Your pension* were sent to all members during the year to provide information about the Lord Hutton's Pensions Commission and other matters of interest to Closed Fund members.

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

Pension briefings

The pension administration contract with Capita includes the provision of annual presentations for employees and HR staff on pensions and related matters in our Regions and at Head Office. These are known as *Pension briefings*. Following the success of previous briefings for deferred and pensioner members, we have arranged combined *Pension briefings* for deferred members and pensioners in Bristol and York this year.

E-communications

Last year the Committee agreed a new strategy that will see the Fund move to an increased use of e-communications with members. The plans include allowing members to access a variety of pension publications and pension payslips via the internet instead of receiving paper copies, with significant environmental and financial benefits for the Fund. Key to introducing this change was improving the information available via www.eapf.org.uk and launching secure online access to personal pension information and calculations.

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

We have also finalised a complete review of the site layout and content and re-launched the site alongside the launch of our interactive service for members that enables all members to access information about their benefits, including benefit statements for deferred members and payslips for pensioner members.

Investment management

Funding Strategy Statement (FSS)

As part of the LGPS the Fund is required to publish an FSS. This explains how the Pensions Committee plans to fund the liabilities of the Fund and is used by the actuary to inform his valuation. A copy of the statement is contained within the Report and Accounts, which can be found at www.eapf.org.uk.

Statement of Investment Principles (SIP)

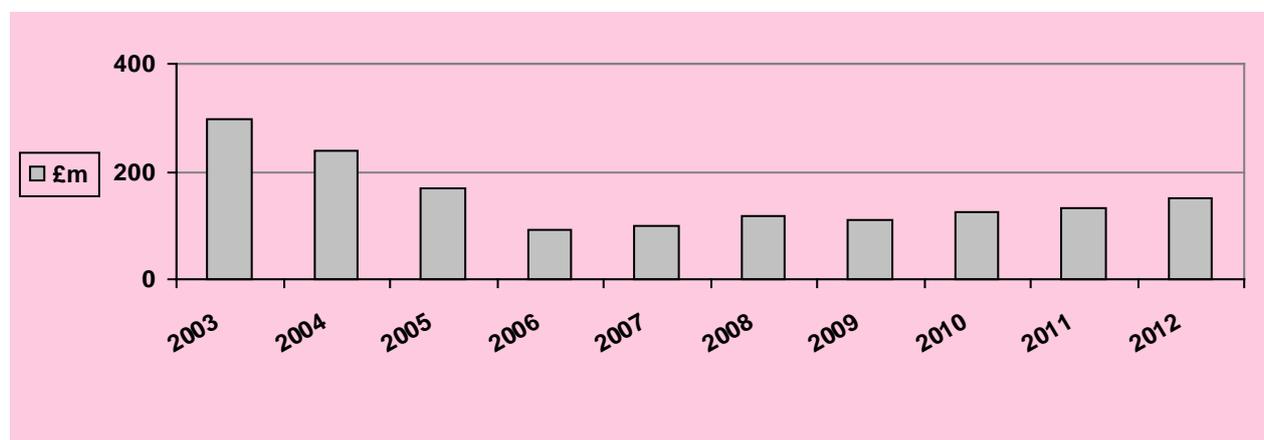
As well as an FSS, the Fund is also required to prepare, maintain and publish a written statement of the principles governing its decisions about investment policy. The latest SIP is also contained within the Report and Accounts, which can be found at www.eapf.org.uk.

Opening and closing balances of the Fund

As there are only deferred and pensioner members in the Fund, no member contributions are payable. This, combined with the increasing liabilities of the Fund, has meant that the Fund value in relation to its liabilities has decreased year-on-year. In order to ensure that the Fund can meet its pension obligations and running costs it has been agreed that Defra will make grant-in-aid payments to the Fund. The Fund's assets continue to be invested in index-linked government bonds. Investment returns over the year mean that the value of the Fund increased in 2011/12.

	£000
Opening value at 1 April 2011	133,405
Net increase in the value of the Fund	18,827
Closing value at 31 March 2012	152,232

Changes in the Fund value over the past 10 years



Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
£m	296	240	169	91	100	119	111	125	133	152

Triennial actuarial valuation

LGPS regulations require that the Fund is subject to a formal valuation by a qualified actuary every three years. This is in order to assess the strength of the Fund's financial position and its capability to meet its liabilities.

The last actuarial valuation was calculated as at 31 March 2010 and showed that the Fund could meet 14% of its liabilities. The Fund's assets have increased in value over the year, and the contributions made by Defra will mean that the Fund will continue to meet its liabilities as they fall due.

Investment performance

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

Fund managers

In line with the agreement with Defra over the future funding arrangements of the Fund, investments continued to be made in long-dated index-linked gilts during the year.

Sarasin & Partners LLP managed the long-dated gilt portfolio and sought to achieve returns in line with their benchmark, and in accordance with the guidance set down by the Pensions Committee in the SIP.

Distribution of the Fund's investments

Distribution of net assets at market value as at 31 March 2012

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

Member queries and complaints

If you have any queries relating to your pension benefits, you may either:

- Telephone the helpline on 0800 121 6593
- Email your query to info@eapf.org.uk
- Write to the Pensions Administrator, Capita, at the address below:

EAPF
Capita
2 Cutlers Gate
Sheffield
S4 7TL

If you have any queries about the Environment Agency's pension policies or the Internal Dispute Resolution Procedure (IDRP), you may either:

- Review the guide to using IDRP on www.eapf.org.uk
- Email your query to pensions.team@environment-agency.gov.uk
- Write to the Environment Agency's HR Pensions Team at the address below:

Environment Agency
Horizon House
Deanery Road
Bristol
BS1 5AH

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WaterAid

Pensioners – did you know that you can, if you wish, make donations to WaterAid or participate in the WaterAid lottery via deduction from your pension? All you need to do is write to Tammy Mills, Pension Payroll Manager at Capita, 2 Cutlers Gate, Sheffield, S4 7TL. Please quote your National Insurance number and tell her how much you want to donate and whether you want to make a one-off payment or monthly payments.

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

Annex 2 - Memorandum of Understanding

Between:

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

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

Background

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

Payments into the Fund

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

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

Payments to pensioners

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

Control, monitoring and review

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

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

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

Date of signature: 17 May 2005

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Enquiries concerning the Environment Agency Pension Funds, entitlement to benefits or pension payments should be addressed to:

EAPF
Capita
2 Cutlers Gate
Sheffield
S4 7TL

Email: info@eapf.org.uk

Telephone: 0800 121 6593

Feedback concerning this publication should be addressed to:

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

Email: info@eapf.org.uk

Telephone: 0117 934 5094



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