



CORPORATE  
PLANNING  
STAFF



*Guardians of the Water Environment*



**NRA**

*National Rivers Authority  
Superannuation Funds*

**Report and Accounts  
MARCH 1992**



ENVIRONMENT AGENCY

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**The Occupational Pension Schemes  
(Disclosure of Information) Regulations, 1986 (as amended)**

As public service pension schemes, the NRA Superannuation Fund (the Active Members' Fund) and the NRA New Main and New Second Funds (the Closed Funds) are statutorily exempt from the overriding provisions relating to the issue and content of a pension fund's annual report; nevertheless, every effort has been made to ensure that this Report meets the major requirements imposed on other funds, allowing for the differences between statutory schemes and those operating under trust.

ENVIRONMENT AGENCY



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## **CHAIRMAN'S STATEMENT**

I am pleased to present the Report and Accounts for the National Rivers Authority Superannuation Funds.

The main aim of this report is to account for the Funds' income, expenditure, assets and liabilities for the financial year ended 31 March 1992. The report also provides information about the management structure of the Funds, the membership and a summary of the Funds' benefits.

The investment management arrangements were reviewed during the past year in line with the National Rivers Authority's commitment to competition. Three new managers were appointed last September to manage the Funds on a balanced management basis. They are Phillips & Drew, Gartmore and M & G in addition to our existing manager, Queen Anne's Gate Asset Management.

I would like to express my thanks to all those who are involved with the investment, accounting and pension activities of the Funds. I hope you will find the report interesting. If you require further information, please refer to the contact point shown on page 40.

**P.A. BRANDT**  
Chairman,  
NRA Pensions Committee

**10 September 1992**

## The Pensions Committee

### Chairman

Mr P A Brandt  
*Board Member, National Rivers Authority*

### Members

Dr J C Bowman CBE (to 21 June 1991)  
*Chief Executive, National Rivers Authority*

Mr P J Humphreys  
*Personnel Director, National Rivers Authority*

Mr N Reader (from 1 January 1992)  
*Finance Director, National Rivers Authority*

Mr C Savory (to 30 December 1991)  
*Finance Director, National Rivers Authority*

Mr R J F Taylor  
*Board Member, National Rivers Authority*

Mr J Wheatley (from 22 June 1991 to 31 March 1992)  
*Acting Chief Executive, National Rivers Authority*

Mr R A E Herbert  
*Chairman, Leopold Joseph & Sons Ltd*

Sir Richard Baker Wilbraham, Bt (to 30 December 1991)  
*Adviser, Schroder Investment Management Ltd*

### Secretary to the Committees

Mr J C Richards MBE (to 30 June 1991)  
Mr R Bertram (from 1 July 1991 to 29 January 1992)  
Mrs S J Timbrell (from 30 January 1992)

### Auditors

### Bankers

### Consulting actuaries

### Estate managers

### Investment managers

### Pension scheme administrator

### Property valuers

## The Pensions Advisory Committee

### Chairman

Dr J C Bowman CBE (to 21 June 1991)  
Mr J Wheatley (from 22 June 1991 to 31 March 1992)

### PC Members

Mr P A Brandt  
Mr P J Humphreys  
Mr N Reader (from 1 January 1992)  
Mr C Savory (to 30 December 1991)  
Mr R J F Taylor  
Mr J C Richards MBE (to 30 June 1991)  
Mr R Bertram (from 1 July 1991 to 29 January 1992)  
Mrs S J Timbrell (from 30 January 1992)

### Regional General Managers

Mr K W Newham  
Dr J H Stoner

### Member Representatives

Mr M Duery  
Mr A J Golding  
Mr R M Watson  
Mr D White  
Mr M E Wragg

### Price Waterhouse

Bank of Scotland  
Coutts & Co.  
National Westminster Bank plc

### Bacon & Woodrow

### Jones Lang Wootton

### Queen Anne's Gate Asset Management Limited

Gartmore Pension Fund Managers Limited  
(from 4 September 1991)

Phillips & Drew Fund Management Limited  
(from 4 September 1991)

M & G Investment Management Limited  
(from 4 September 1991)

### Hartshead Pensions Management Limited

### Weatherall Green and Smith





# INTRODUCTION

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## NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

The National Rivers Authority (NRA) is the legal administering authority of a Superannuation Fund for the Authority's employees. It is a statutory public service pension scheme under the Local Government Superannuation Regulations 1986 (as amended) (the Regulations) and is contracted-out of the State Earnings Related Pension Scheme (SERPS).

The NRA Superannuation Fund (the Active Members' Fund) is "exempt approved" for purposes of Chapter I, Part XIV of the Income and Corporation Taxes Act 1988. Consequently, income from investments is relieved of UK tax and the NRA and its employees enjoy tax relief on contributions paid to the Fund.

## NEW MAIN AND NEW SECOND FUNDS

The NRA New Main Fund [the Main Fund of the former Water Authorities Superannuation Fund (WASF) up to 31 August 1989] provides benefits for current and deferred pensioners of the ten former statutory water authorities in England and Wales, and the NRA New Second Fund (the former WASF Second Fund) for pensioners of the Foundation for Water Research, WRc plc, Water Services Association of England and Wales, Water Training international and the former British Water International.

Like the Active Members' Fund, the New Funds (known as the "Closed Funds") are statutory public service pension schemes under the Regulations and are "exempt approved" for purposes of Chapter I, Part XIV of the Income and Corporation Taxes Act 1988. Income from the investments of each Fund is therefore relieved from UK tax. Both Funds provide the minimum contracted-out pensions required by the State Earnings Related Pension Scheme (SERPS).

# MANAGEMENT

## GENERAL

As the designated administering authority of the Active Members' and the Closed Funds, the NRA has two specific areas of responsibility:

- Scheme administration (maintaining membership and pensioners' records, collecting contributions and paying benefits);
- Management of the investments of each of the Funds.

With a membership of nominated NRA Board members, senior officers and external advisers, the Pensions Committee (PC) has total responsibility for NRA Pension Fund matters and is a direct sub-committee of the NRA Board. As such it is charged with appointing managers and agents required for the effective management of the NRA's Pension Fund duties outlined above. In addition to reporting to the NRA Board it also provides information to the Pensions Advisory Committee (PAC) which comprises the PC membership excluding the external advisers, two managerial representatives from the NRA's regions, and five member representatives. Having this local representation, the PAC is responsible for overseeing the central communications link with employees in the regions.

NRA has contractual arrangements with Hartshead Pensions Management Limited to undertake the day to day administration of the Funds. At the start of the year, Queen Anne's Gate Asset Management Limited (Queen Anne's Gate) managed all the Funds' investments but since 4 September 1991 these responsibilities have been allocated as follows:

### NRA New Main Fund

Quoted securities portfolio	-	M & G Investment Management Limited
	-	Phillips & Drew Fund Management Limited
Residual quoted securities, unquoted securities and property portfolios	-	Queen Anne's Gate Asset Management Limited

### NRA New Second Fund

-	M & G Investment Management Limited
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### NRA Superannuation Fund

-	Gartmore Pension Fund Managers Limited
-	Queen Anne's Gate Asset Management Limited

## REMUNERATION BASIS FOR THE YEAR TO 31 MARCH 1992

### Pension Scheme Administration

Active Members' Fund	-	£152,503 (1991: £110,069)
Closed Funds	-	£717,527 (1991: £683,156)

The above amounts which include a management fee and activity fees based on an agreed scale of charges have been met from the respective Funds.

### Investment Management Services

Active Members' Fund	-	£500,750 (1991: £415,810)
Closed Funds	-	£1,118,320 (1991: £1,967,683)

These amounts which have also been met from the appropriate Fund are calculated by means of an agreed scale of charges applied to the market value of quoted securities using an independent end-month valuation and to the historic book cost of unquoted investments. For the direct property portfolio the fee is based on the time and materials involved



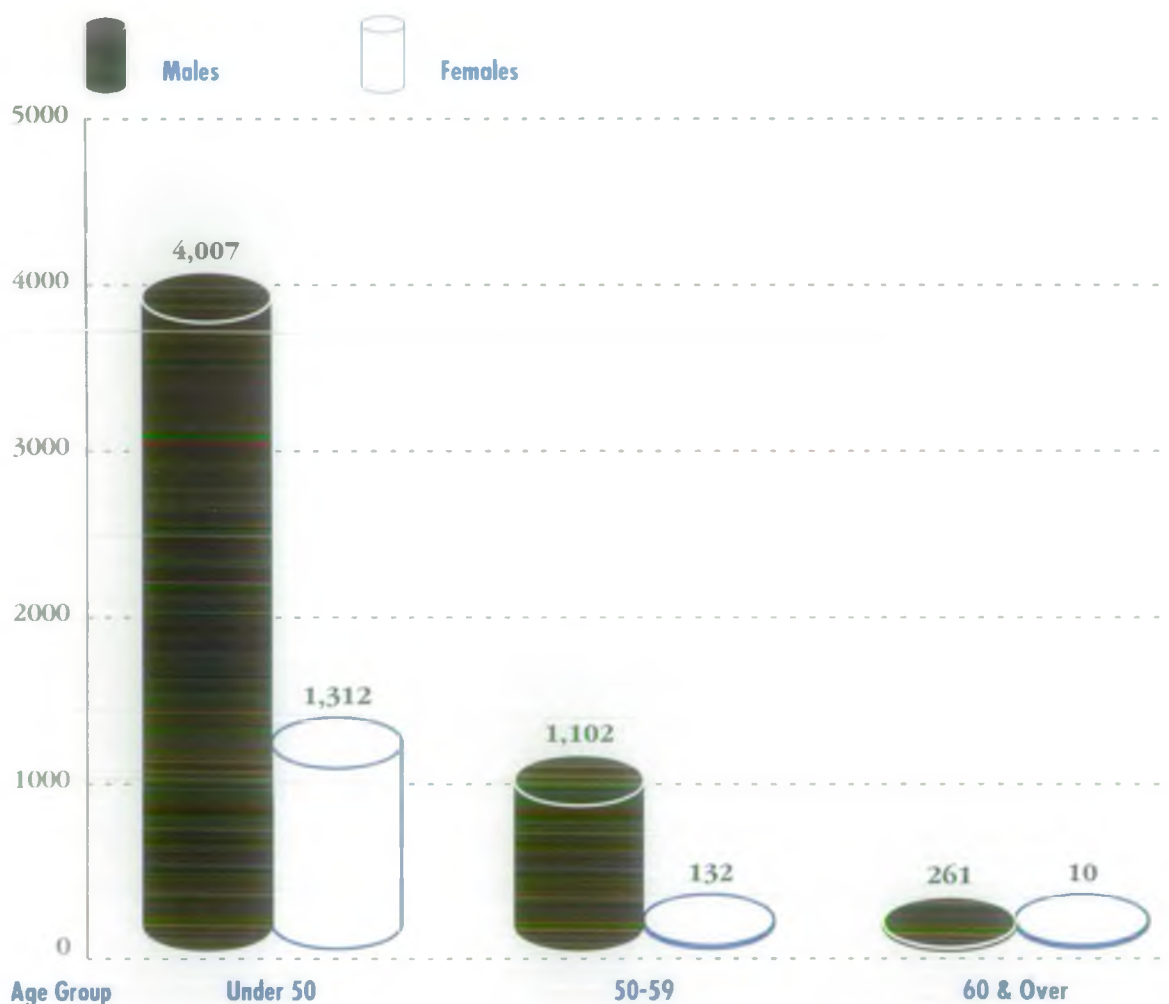
# MEMBERSHIP

## NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

Membership of the Active Members' Fund is available to employees who transferred on 1 September 1989 from the former statutory water authorities and who contributed to the Water Authorities Superannuation Fund or to a Water Pension Scheme prior to that date, and to all subsequent employees. The former group are still a high proportion of the total contributing membership of the Active Members' Fund.

Whole-time eligible employees appointed on or after 1 April 1990 become members automatically with the right to opt out. However, part-time eligible employees and, before that date, all new employees are required to make written application to contribute to the Fund. As a result there are still some NRA employees who are not members but every effort is being made to encourage them to join.

### CONTRIBUTORS AT 31 MARCH 1992



Although the Fund was only established in July 1989, it already has 286 current pensioners (including 30 spouses' and children's pensions) and 245 deferred pensioners.

## NEW MAIN AND NEW SECOND FUNDS

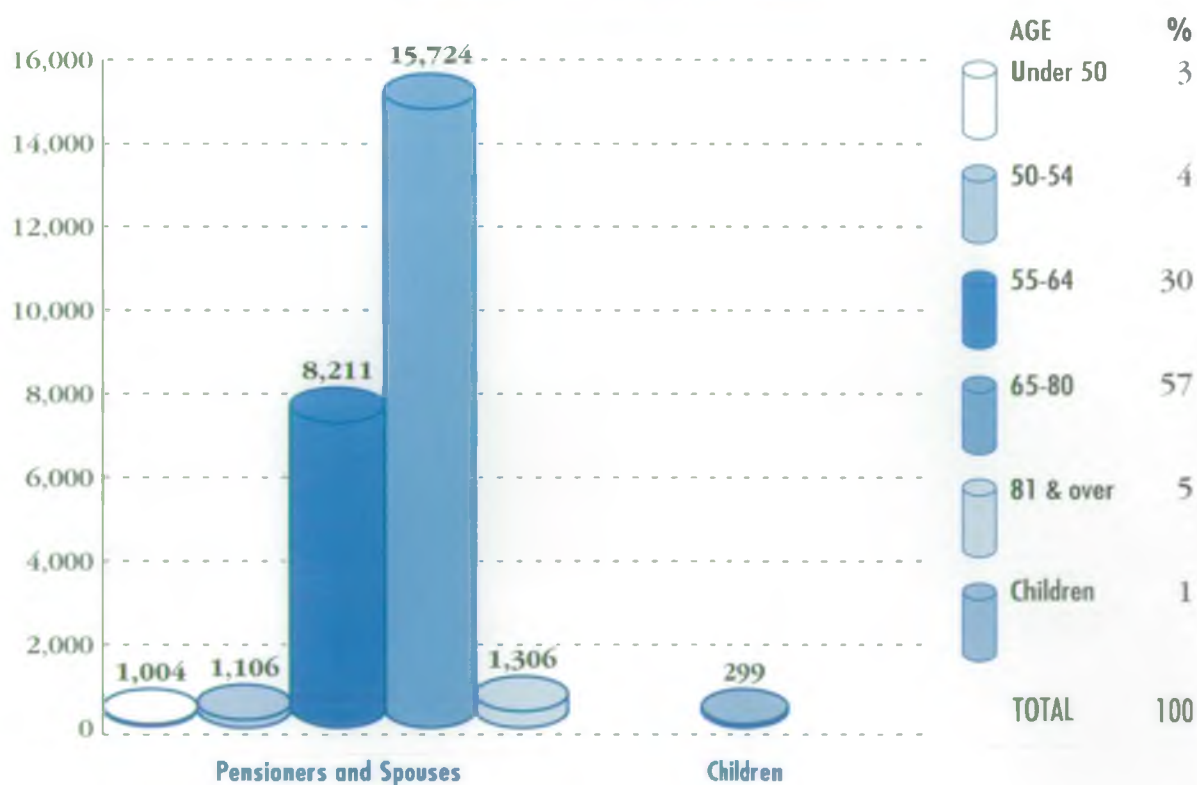
As Closed Funds, there are no contributing members. The Funds exist to pay pensioners as at 31 August 1989 and their dependants, and in due course, deferred pensioners.

During the year since 1 April 1991 the number of deferred pensioners has fallen by 7% from 9,792 to 9,143, and pensions in payment by 1% from 28,053 to 27,650. With no active members in the Funds, this will be the likely pattern for the future, although deferred pensions coming into payment will serve to buoy up the numbers for some years to come.

### Movement in No. of Pensioners

		Current		Deferred
<b>At 1 April 1991</b>		28,053		9,792
<b>Add:</b>				
Deferred pensions into payment	123		-	
New spouses' pensions	533		-	
		656		
		28,709		9,792
<b>Less:</b>				
Deaths/No longer eligible	1,059		23	
Transfers to other schemes	-		503	
Deferred pensions into payment	-		123	
		1,059		649
<b>At 31 March 1992</b>		27,650		9,143

### AGE PROFILE OF CURRENT PENSIONERS



# ACTUARIAL VALUATION

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## THE NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

The Regulations require actuarial valuations of Local Government Superannuation Funds every three years with effect from 31 March 1989. Normally, the Consulting Actuary would use the result of a valuation to determine the level of employers' contributions required to ensure the future solvency of the Fund.

Whilst the Active Members' Fund has to fall into the triennial cycle with the first formal valuation being due as at 31 March 1992, the Local Government Superannuation (Water) Regulations 1989 require a Consulting Actuary to review and certify the continuing level of employer's contributions for the period up to 31 March 1993. Having regard to the advance funding of existing and future pensions increase liabilities, the 75% solvency requirement of all "active" Local Government Superannuation Funds, and as an interim measure pending a detailed assessment of the Fund's assets and liabilities, the NRA has paid an employer's contribution rate of 200% for the year ended 31 March 1992 as originally recommended by the Actuary to the former Water Authorities Superannuation Fund.

Although the first statutory valuation is required as at 31 March 1992 (with the resulting revised employer's contribution rate payable from 1 April 1993), the Consulting Actuary to the Active Members' Fund has undertaken an interim assessment as at 31 March 1991. This has resulted in the employer's contribution rate being reduced to 150% of the members' contributions from 1 April 1992. A certificate to this effect is reproduced on page 20.

## THE CLOSED FUNDS

The first statutory valuation of the Closed Funds is required as at 31 March 1992 when the Actuary must certify the amount by which, in his opinion, the assets of each Fund exceed or fall short of the amount required to meet their existing and prospective liabilities. These Funds are exempt from the 75% funding requirement and responsibility for ensuring that they can always meet their liabilities rests with the Secretary of State for the Environment; however, the method by which this will be achieved has still to be announced. Payments to pensioners and other outgoings are substantially more than income from investments; consequently, assets are being progressively realised to meet the short-fall in income. An actuarial statement on the Closed Funds is reproduced on page 27.



# INVESTMENT

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## REVIEW OF THE YEAR

The year under review to the end of March 1992 was characterised by uncertainty as to the timing of economic recovery in the USA and UK and the extent of the downturn in Europe and Japan. As a result the performance from equity markets was generally disappointing with the notable exception of the Pacific Rim (excluding Japan) where a return of over 20% was available to the sterling investor.

The UK equity market struggled to make progress over the period and achieved a total return of just 3.5%. In contrast UK gilts managed a return of 11.2%. The UK economy had been expected to stabilise at lower levels of activity in the summer with the prospect of some recovery in the final quarter of the calendar year. Such hopes were disappointed. The economy showed no signs of picking up and yet the authorities were constrained by ERM membership from cutting interest rates to provide the necessary stimulation to domestic demand. Indeed with German rates rising the fear was that UK mortgage rates might be raised, further undermining consumer confidence. The uncertain political background was an additional factor which both inhibited spending in the economy and came to have an increasing influence on the stockmarket. The prospect of a hung Parliament was not designed to find favour with investors, and at the period end, 31 March 1992, this outcome was considered the most likely.

In the USA, for the first nine months it was a similar tale of hope deferred. The boost to consumer confidence in the aftermath of the Gulf War proved unsustainable and fears developed of a "double dip" recession. The priority of the US authorities, with one eye on the 1992 Presidential elections, shifted clearly in favour of precipitating a recovery. Control of inflation was of secondary concern. With the Discount Rate reduced to 3.5% in December 1991 the economy did finally show some signs of life in the following three months. Consumer demand improved as witnessed by a revival in housing starts and auto sales and confidence indicators likewise pointed to some recovery albeit modest. Overall the US market returned 12.7% in sterling terms in the twelve months to March 1992.

Continental Europe was moving into recession at the beginning of the year, one stage behind the UK in the economic cycle. The slowdown argued in favour of a cut in interest rates but the dominance of Germany within the ERM, the one major European country to continue to show strong growth on the back of re-unification, prohibited a general loosening of monetary policy. German rates were increased in August and again in December in response to feared inflationary pressures and the spring wage negotiations in Germany have kept rates high. Latterly the German economy has contracted and, in anticipation of rates falling, European markets performed well in the three months to end March 1992 bringing the twelve month return to 9.1% in sterling. Longer term, the failure of the Soviet coup in August 1991 should prove particularly beneficial to Continental Europe given the removal of a military threat.

An atmosphere of crisis developed around the Japanese financial markets in the face of continuing political and stockmarket scandals and a marked turnaround from economic growth to recession. The Bank of Japan finally moved to cut interest rates in the summer of 1991 and initiated further cuts later as industrial production and capital investment, the traditional motor of the economy, declined. Land prices fell and bankruptcies escalated. Action by the authorities was deemed too little too late threatening the stability of the financial system. The market returned a negative 21.6% in sterling terms with financial shares and banks' shares under particular pressure.

International funds were diverted from Japan to other markets and the Pacific Rim in particular. The region proved a natural home with investors attracted by high rates of growth and some apparent resolution of Hong Kong's relationship with China as evidenced by the agreement to proceed with the new Hong Kong airport. The stockmarket in Hong Kong was one of the best performers in the region returning 40% over the twelve months.

## NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

### Distribution of Investments at 31 March 1992

	HPM £M	Gartmore £M	QAG £M	Total £M	% of Total Fund
UK equities	-	89.5	88.9	178.4	60.0
Fixed interest	-	11.2	4.8	16.0	5.4
Overseas					
N America	-	10.0	13.3	23.3	7.8
Europe	-	18.7	12.7	31.4	10.5
Pacific Basin	-	14.6	17.7	32.3	10.9
Short term loans and deposits	0.6	-	7.0	7.6	2.5
Property unit trust	-	-	4.1	4.1	1.4
Net assets	1.3	1.9	1.2	4.4	1.5
<b>TOTAL FUND</b>	<b>1.9</b>	<b>145.9</b>	<b>149.7</b>	<b>297.5</b>	<b>100.0</b>

### Largest UK Equity Holdings

	Market Value			UK Equity Portfolio %
	Gartmore £M	QAG £M	Total £M	
Argyll Group	2.8	3.6	6.4	3.6
Glaxo	1.9	3.9	5.8	3.3
Shell Transport & Trading	2.4	3.1	5.5	3.1
British Telecom	1.3	3.2	4.5	2.5
BP	1.3	2.7	4.0	2.2

### Geographical Distribution of Overseas Investments

	Gartmore £M	QAG £M	Total £M	Overseas Value %
North America	10.0	13.3	23.3	26.7
Europe	18.7	12.7	31.4	36.0
Japan	5.3	7.6	12.9	14.8
Other Far East	9.3	10.1	19.4	22.5
<b>TOTAL</b>	<b>43.3</b>	<b>43.7</b>	<b>87.0</b>	<b>100.0</b>



## NEW MAIN AND NEW SECOND FUNDS

### Distribution of Investments at 31 March 1992

#### Main Fund

	M & G £M	PDFM £M	QAG £M	HPM £M	Total £M	% of Total Fund
UK equities	101.2	123.5	69.9	-	294.6	44.1
Overseas investments	13.8	54.8	14.6	-	83.2	12.5
Fixed interest	71.8	48.4	-	-	120.2	18.0
Property	-	-	84.2	-	84.2	12.6
Unquoted investments	1.2	-	27.0	-	28.2	4.2
Short term loans and deposits	14.9	15.5	10.6	4.2	45.2	6.8
Net assets	3.3	4.6	6.0	(2.1)	11.8	1.8
<b>TOTAL FUND</b>	<b>206.2</b>	<b>246.8</b>	<b>212.3</b>	<b>2.1</b>	<b>667.4</b>	<b>100.0</b>

#### Second Fund

	M & G £M	HPM £M	Total £M	% of Total Fund
Fixed interest	16.3	-	16.3	36.7
UK equities	25.0	-	25.0	56.3
Short term loans and deposits	4.9	0.2	5.1	11.5
Net assets	0.8	(2.8)	(2.0)	(4.5)
<b>TOTAL FUND</b>	<b>47.0</b>	<b>(2.6)</b>	<b>44.4</b>	<b>100.0</b>

### Analysis of Main Fund Investments by Market Value at 31 March 1992

#### UK Equities Sector

	Market Value £M	UK Equity %
Property	46.1	15.7
Oil and Gas	31.5	10.7
Water	28.9	9.8
Brewers & Distillers	15.8	5.4
Banks	14.6	4.9
Food Manufacturing	13.0	4.4
Insurance	11.5	3.9
Hotel and Leisure	11.0	3.7
Health and Household	10.9	3.7
Transport	9.1	3.1
Other	102.2	34.7
<b>TOTAL</b>	<b>294.6</b>	<b>100.0</b>

# Accounts for the year ended 31 March 1992

1991				1992			
Main Fund	Second Fund			Main Fund	Second Fund		
£000	£000		Notes	£000	£000	£000	£000
<b>INCOME AND EXPENDITURE</b>							
<b>Contribution and other receipts</b>							
Normal (adjustments)							
4	-	Pensionable employees	1	10	-		
2	-	Employers		2	-		
6	-			12	-		
-	-	Additional Pensionable employees		2	-		
6	-				14		
32	-	Transfer values received		32	-		
38	-			46	-		
<b>Less:</b>							
<b>Benefits and other payments</b>							
Retirement and							
(82,964)	(669)	dependants' pensions	8	(89,764)	(719)		
(973)	(7)	Lump sum retiring allowances		(952)	(4)		
(112)	-	Death grants		(77)	(1)		
(84,049)	(676)			(90,793)	(724)		
(7,486)	(158)	Transfer values paid		(7,194)	(141)		
(63)	3	Refunds of contributions	9	(9)	-		
(7,197)	-	Pre-1 April 1974 Local authority pensions increase recharges	10	(7,517)	-		
(98,795)	(831)			(105,513)	(865)		
(98,757)	(831)	<b>Excess of benefits over contributions</b>		(105,467)	(865)		
<b>Investment income</b>							
6,872	959	Fixed interest securities		9,101	2,210		
37,263	653	Dividends from equities		26,233	1,004		
16,142	2,487	Interest on cash deposits		13,404	1,138		
7,251	-	Rents	7	8,193	-		
67,528	4,099			56,931	4,352		
(2,781)	(63)	Less investment and administration expenses		(1,977)	(112)		
64,747	4,036			54,954	4,240		
(34,010)	3,205	<b>Amounts available for investment</b>		(50,513)	3,375		

## **Auditors' Report**

We have audited the financial statements on pages 28 to 35 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the disposition of the Funds at 31 March 1992 and of the financial transactions of the Funds for the year then ended.

Without qualifying our opinion above, we draw attention to the Accounting Policies Note on page 30 and Note 4 to the Accounts on page 33 which state:

- The Secretary of State for the Environment has a duty under S.173(3) of the Water Act 1989 to ensure that the Funds can always meet their liabilities including future indexation awards. However, the method by which this will be achieved has still to be announced.

We also draw attention in this connection to the statement by the Actuary set out on this page.

**PRICE WATERHOUSE**  
Chartered Accountants  
and Registered Auditor  
Birmingham

10 September 1992

## **Statement by the Consulting Actuary**

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The New Main Fund and the New Second Fund are maintained primarily for paying benefits to pensioners and deferred pensioners of the former Water Authorities Superannuation Fund (WASF) who retired or left service before 1 September 1989 and to active members of WASF who did not elect to transfer their rights accrued up to that date to the new water industry schemes or to the NRA Superannuation Fund. The assets of the New Funds are those of WASF remaining after the apportionments to these schemes (the apportionments were completed in the year ended 31 March 1991).

The New Main Fund is also liable for pension increase payments in respect of certain water pensioners who retired before 1 April 1974 and whose basic pensions are paid from local authority superannuation funds.

The National Rivers Authority is responsible for administering the New Funds but is not responsible for their solvency. Under the Water Act 1989 this is the duty of the Secretary of State.

We have made an interim review of the New Funds as at 31 March 1991 which has indicated that additional funding will be required. However, at this stage no contributions are being paid to the Funds.

The first statutory actuarial valuation of the New Funds is to be made as at 31 March 1992.

for Bacon & Woodrow

9 July 1992

E.S. Thomas  
Fellow of the Institute of Actuaries

S.A. Fox  
Fellow of the Institute of Actuaries

## Notes to the Accounts – continued

### 5. Net current assets

31 March 1991		31 March 1992	
£000		£000	£000
	<b>Current assets</b>		
	Debtors		
	Amounts due from		
1,188	National Rivers Authority	1,435	
	Due from brokers	301	
141	Income Tax recoverable	91	
30	Accrued investment income and		
1,478	other debtors	49	
	Cash	3,523	
2,837			5,399
	<b>Current liabilities</b>		
	Creditors		
(540)	Due to other funds	(142)	
(215)	Due to brokers	(678)	
(190)	Other	(124)	
(945)			(944)
1,892	<b>Net current assets</b>		<b>4,455</b>

At 31 March 1992 potential future liabilities amounted to: Calls and underwriting £1,261,645 (1991: £1,876,664).

### 6. Benefits paid

Benefits paid exclude the following amounts, being discretionary increases and allowances, which were paid initially by the Fund and subsequently recharged to the National Rivers Authority.

1991		1992
£000		£000
	Retirement and	
19	dependants' pensions	35
56	Lump sum retiring allowances	31
-	Death grants	-
75		66

### 7. Refunds of contributions

1991		1992
£000		£000
11	Net refunds to employees	18
3	Tax paid	4
	Contributions equivalent premiums	
5	Employees' share	7
15	Employer's share	22
34		51

## Notes to the Accounts – continued

### 3. Details of net asset movements

1991 £000		1992 £000
<b>Balances at 1 April</b>		
6,462	At cost	244,783
(418)	Unrealised (depreciation) appreciation	20,912
<hr/> 6,044		<hr/> 265,695
<b>Movements in the year</b>		
220,709	Apportionment of funds	-
18,522	Amounts available for investment	28,445
(910)	Realised (losses) gains	16,754
21,330	Changes in valuations	(13,362)
<hr/> 259,651		<hr/> 31,837
<b>Balances at 31 March</b>		
244,783	At cost	289,982
20,912	Unrealised appreciation	7,550
<hr/> 265,695		<hr/> 297,532

Investment transactions in the year to 31 March 1992 amounted to:

1991 Total £M		Gartmore £M	QAG £M	1992 Total £M
262.3	Purchases	121.2	123.5	244.7
(30.6)	Sales	(42.1)	(147.0)	(189.1)
<hr/> 231.7		<hr/> 79.1	<hr/> (23.5)	<hr/> 55.6

### 4. Apportionment of funds

The year ended 31 March 1991 included a matching distribution of assets from the National Rivers Authority New Main Fund to reflect the value of pension rights transferred by members of the former Water Authorities Superannuation Fund to the National Rivers Authority Superannuation Fund.



## Notes to the Accounts

1. The National Rivers Authority Superannuation Fund (the Active Members' Fund) relates to employees and pensioners of the National Rivers Authority only.

From 1 April 1990 current and future pensions increase costs other than those arising on discretionary awards, were met from the Fund and were not recovered directly from the National Rivers Authority. As a consequence, and in recognition of the new 75% funding requirement, the employer's provisional contribution rate was increased from 137.5% to 200% of employees' contributions. A reappraisal of the employer's contribution rate, based upon an interim valuation of the Fund, has resulted in this being reduced to 150% of employees' contributions from 1 April 1992.

The actuarial position is dealt with in the certificate by the Actuary on page 20 preceding these accounts.

### 2. Analysis of investments

Market Value 31 March 1991		Market Value 31 March 1992	
£000		£000	£000
	<b>Fixed interest</b>		
46,351	United Kingdom Government		16,047
	<b>Equities and convertibles</b>		
155,479	United Kingdom - listed	178,368	
54,100	Overseas - listed	87,056	
209,579			265,424
	<b>Short-term loans and deposits</b>		
7,873	United Kingdom		7,557
	<b>Property unit trust</b>		4,049
263,803			293,077
1,892	<b>Net current assets</b>		4,455
265,695			297,532

# Accounting Policies

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## Statement of Recommended Practice (SORP)

These accounts have been prepared in accordance with the recommendations of SORP No.1 - Pension scheme accounts - in respect of all material items.

## Investments

The accounts for the year have been prepared on the basis of stating investments at their market values, which in the case of listed securities are determined by reference to the middle market price at the year end.

## Contributions

Contributions represent the total amounts receivable from the National Rivers Authority in respect of their own contributions and those of their pensionable employees. The employer's contributions are made at a rate determined by the Fund's Actuary necessary to ensure that the Fund is able to meet 75% of its existing and prospective liabilities including indexation.

## Benefits, refunds of contributions and transfer values

Benefits, refunds of contributions and transfer values paid and received are brought into the accounts on a cash basis.

## Exchange rates

Current assets and liabilities arising from investments in overseas securities purchased in foreign currency have been translated at the mid-market closing rates of exchange ruling at the year end.

## Investment income

The investment income is accounted for on the accruals basis. The effective date used to bring interest into the accounts is the due date of payment for securities, excluding government securities and short-term loans. For government securities, the ex-dividend date is the effective date used.

## Administration expenses

Net administration expenses, including investment management, are charged on the accruals basis to the Fund.

## Taxation

### (i) UK income tax

The Fund is fully approved by the Inland Revenue under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and therefore is not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

### (ii) Value added tax

By virtue of NRA being the administering authority, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses.

### (iii) US withholding tax

The income earned from investments in stocks and securities in the United States is exempt from US tax pursuant to Section 892 of the Income Tax Code and is not subject to withholding of any tax under Section 1441. This exemption has continued to be applied thus far under the US Tax Reform Act of 1986.

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

# Accounts for the year ended 31 March 1992

1991 £000		Notes	£000
	<b>NET ASSET MOVEMENTS</b>	3	
6,044	<b>Opening Funds</b>		<b>265,695</b>
220,709	Apportionment of funds	4	-
18,522	Amounts available for investment		28,445
20,420	Changes in investment market values		3,392
<u>265,695</u>	<b>Closing Funds at 31 March</b>		<u><b>297,532</b></u>
	<b>NET ASSETS</b>		
£000			£000
	<b>Investments at Market Value</b>	2	
255,930	Fixed and variable interest stocks		285,520
7,873	Short-term deposits		7,557
<u>263,803</u>			<u>293,077</u>
1,892	Net current assets	5	4,455
<u>265,695</u>	<b>Net Assets at 31 March</b>		<u><b>297,532</b></u>

**P.A. BRANDT**  
Chairman, NRA Pensions Committee

**E. GALLAGHER**  
Chief Executive, National Rivers Authority

10 September 1992

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

# Accounts for the year ended 31 March 1992

1991 £000		Notes	1992 £000	1992 £000
<b>INCOME AND EXPENDITURE</b>				
<b>Contribution and other receipts</b>				
Normal				
4,954	Pensionable employees	1	5,752	
9,867	National Rivers Authority		11,508	
14,821			17,260	
Additional				
100	Pensionable employees		133	
14,921				17,393
2,242	Transfer values received			2,364
17,163				19,757
<b>Less:</b>				
<b>Benefits and other payments</b>				
(379)	Retirement and dependants' pensions	6	(889)	
(1,062)	Lump sum retiring allowances		(1,459)	
(125)	Death grants		(127)	
(1,566)			(2,475)	
(657)	Transfer values paid		(561)	
(34)	Refunds of contributions	7	(51)	
(2,257)				(3,087)
14,906	<b>Contributions less benefits</b>			16,670
<b>Investment income</b>				
1,624	Fixed interest securities		636	
1,447	Dividends from equities		8,729	
1,094	Interest on cash deposits		3,116	
4,165			12,481	
<b>Less investment and administration expenses</b>				
(549)			(706)	
3,616				11,775
18,522	<b>Amounts available for investment</b>			28,445

## Auditors' Report

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We have audited the financial statements on pages 21 to 26 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the disposition of the Fund at 31 March 1992 and of the financial transactions of the Fund for the year then ended.

In our opinion, the contributions payable to the Fund during the year ended 31 March 1992 have been paid in accordance with the Local Government Superannuation Regulations 1986 (as amended) and the advice of the Consulting Actuary.

PRICE WATERHOUSE  
Chartered Accountants  
and Registered Auditor  
Birmingham

10 September 1992

## Certificate by the Consulting Actuary

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The National Rivers Authority Superannuation Fund was established on 7 July 1989 to provide pension benefits for the employees of the National Rivers Authority. In the year ended 31 March 1991 it received transfer payments resulting from the apportionment of the former Water Authorities Superannuation Fund (WASF).

The Fund is subject to the funding requirements that apply to the Local Government Superannuation Scheme. In particular, the Authority is currently required to contribute on a basis which ensures that 75% of the existing and prospective liabilities of the Fund will be met.

No valuation was carried out on the establishment of the Fund, but contributions were paid by the Authority on an interim basis on the advice of the actuary to the former WASF. For the year to 31 March 1991 these were at a rate of 200% of members' contributions; the Authority has continued to contribute at this rate for the year to 31 March 1992.

We have made an interim actuarial review of the Fund as at 31 March 1991 which has shown it to be in a strong financial position with assets well in excess of accrued liabilities. On the basis of this review, we hereby certify that the Authority's rate of contribution should be reduced to 150% of members' contributions with effect from 1 April 1992.

The first statutory actuarial valuation of the Fund is to be made as at 31 March 1992 with any change in the Authority's rate of contribution taking effect from 1 April 1993.

for Bacon & Woodrow

9 July 1992

E.S. Thomas  
Fellow of the Institute of Actuaries

S.A. Fox  
Fellow of the Institute of Actuaries



# FOREWORD TO THE ACCOUNTS

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## NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

The accounts have been prepared on a market value basis. A 9% increase in Fund membership together with inflation has resulted in a 16% increase in contribution income. There were higher pension and lump sum payments in the year giving a 12% increase in net contributions (after payment of benefits).

Investment income reflected the effects of the 1990/91 apportionment with considerable increases in dividend and investment earnings. Administration expenses increased due mainly to larger investment funds under management. The net assets of the Fund at 31 March 1992 amount to over £297 million.

## NEW MAIN FUND AND NEW SECOND FUND

As in the previous accounting period, the accounts for both Funds have been prepared on a market value basis. However, on unquoted investments the market valuation is taken as the lower of cost or estimated market value. After allowing for realised gains and adverse changes in portfolio valuations, but more, in particular, in outgoings in benefits paid with no corresponding income, the value of the New Main Fund fell to £667 million. However, as a consequence of investment income still exceeding benefits payable the value of the New Second Fund has risen to over £44 million.

Since 1 April 1990, the New Main Fund has been liable for the pensions increase costs arising in respect of local authority pensioners formerly employed on water or sewerage functions and previously recovered from water plc's and the predecessor water authorities. The total liability for 1991/92 is estimated to be in excess of £7.5 million.

With the exception of late payments in respect of the period to 31 August 1989, contribution income ceased upon the transfer of members into the new water plc pension schemes. Responsibility for ensuring that the Funds can meet all future liabilities rests with the Secretary of State for the Environment.

## OTHER ISSUES

- **Communications and the Maxwell Saga**

Members, pensioners and deferred pensioners of the Active Members' Fund were sent Fundfare 91 which summarised the Funds' Report and Accounts as at 31 March 1991 and provided information on other pensions related matters. A newsletter, also entitled Fundfare 91, which concentrated instead on the Closed Funds' Report and Accounts was issued to the deferred and current pensioners of those Funds. Similar newsletters will be produced for the year ended 31 March 1992 which will also explain the safeguards members and pensioners enjoy against the alleged malpractices of the late Robert Maxwell.

Meanwhile, to allay fears following the continuing developments in the Maxwell/Mirror Group Newspapers Pension Fund's scandal, letters were sent to pensioners in the Closed and Active Members' Funds with their April 1992 pension pay advice slips. These confirmed the investment position of the Funds and the statutory protection benefits enjoy.

The financial controls over the pension scheme were reviewed during the year. They confirm that the responsibility for the transfer of cash and assets is not vested in one person.

- **Pensions increase**

Pensions payable from the Active Members' and Closed Funds are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order for 1992 required an increase of 4.1% (reduced proportionally for pensions in payment for less than 12 months) to be awarded from 6 April 1992.

- **Sex equality**

In May 1990, the European Court of Justice (ECJ) decided in the case of Barber v Guardian Royal Exchange Insurance Group that employers' pension scheme benefits are "pay" and must be provided on equal terms. Acknowledging the importance of this ruling the Court advised that it need not be applied retrospectively - currently interpreted as meaning the equal benefits have only to be provided for service from May 1990 onwards. Because of doubts raised about the true intention of the ECJ's ruling on "no retrospection", a protocol specifically excluding service before 17 May 1990 from the Barber decision was agreed by European Community representatives in December 1991 as part of the Maastricht Agreement. However, before it is effective the Agreement requires unanimous ratification of all EC Member States - not now forthcoming with Denmark's rejection in June 1992. In the meantime, the UK Government has agreed to pay the legal costs of a test case involving the Coloroll Group Pension Schemes, expected to be considered by the ECJ possibly in July 1992.

As with the other public service pension schemes, DoE are unlikely to take any action with LGSS until the retrospection issue has been finally resolved.

- **The Pensions Register**

Under the Social Security Act 1990, the Occupational Pensions Board as Pensions Registrar is required to maintain a Register of all pension schemes to be used, for example, to trace "lost" pension rights. The NRA had to provide appropriate details of its Active Members' and Closed Funds by 31 July 1991. Non-statutory pension schemes are also required to pay a levy dependent on their number of active members but for public service schemes like the NRA Pension Scheme this is met centrally from Government sources.

- **The Pensions Ombudsman**

Responsible, from 2 April 1991, for examining complaints of maladministration and disputes of fact or law against employer's pension schemes. Unless it is considered that there is a point of law at issue which should be referred to the High Court, the Ombudsman's decision is final.

For the NRA Pension Scheme with its statutory appeals<sup>a</sup> arrangement to the Secretary of State for the Environment, the Ombudsman's remit is limited to complaints of maladministration.

### **Revised membership arrangements**

The amendment regulations give legal effect to revised membership requirements which DoE have allowed the NRA and other employers to anticipate:

- With effect from 1 October 1989
  - Removal of the requirement for manual employees to work 12 months before being allowed Scheme membership.
  - Reduction of the minimum age of entry from 18 to 16.
- With effect from 1 April 1990
  - Automatic membership for whole-time employees appointed since 1 April 1990 with the right to opt-out back-dated to the start date if made within 3 months.

### **DRAFT REGULATIONS ISSUED FOR CONSULTATION**

#### **Local Government Superannuation (National Rivers Authority) Regulations**

These regulations will give effect to the undertaking made by Lord Caithness in 1988:

- Former LGSS [Water Authorities Superannuation Fund (WASF)] members who had opted to join a Water Pension Scheme (WPS) before being compulsorily transferred to the NRA Pension Scheme on 1 September 1989 will, to all intents and purposes, be treated as though they had never left LGSS if they paid the same contributions.
- Employees who paid less during their WPS membership will be able to make up the difference and count their service in full in the NRA Scheme.
- Those who choose not to pay the extra contributions will have their intervening WPS service reduced proportionately.
- Employees who paid higher contributions during their WPS membership than they would as WASF members will have the excess returned to them.

The draft regulations do not prescribe the financial adjustments to be made between the WPS and the Active Members' Fund. However, for the apportionment to that Fund WASF's Consulting Actuary regarded all transferees as continuing in membership of the Closed Fund (the former WASF) until 31 August 1989. The adjustments required therefore relate only to the employers' and employees' contributions paid during WPS membership which would have been paid to the former WASF if the employees concerned had not transferred to a WPS.

#### **Local Government Superannuation (Definition of Remuneration) Regulations**

Circulated towards the end of January 1992, these regulations are intended to remove the personal money value of employer provided/leased cars from the definition of pensionable pay in the Scheme Regulations as from the effective date of the amendment.

There has been general criticism of a proposal to refund members' contributions paid on the value of an employer provided car. It now seems likely that some form of "no detriment" preservation arrangement will be introduced instead.



# ADMINISTRATION

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## CHANGES TO THE NATIONAL RIVERS AUTHORITY PENSION SCHEME

The 12 months ended 31 March 1992 have seen three sets of amendments to the Local Government Superannuation Scheme (LGSS) Regulations:

### The Local Government Superannuation (Reserve Forces) Regulations 1991

Although fortunately few scheme members needed the protection afforded by these Regulations, their provisions ensured the continuing accrual of pensionable service for employees who were called up or volunteered as reserve members of Her Majesty's Forces for active service during the Gulf Crisis. The Regulations also provided for the payment of retirement or dependants' benefits in the event of the employees reaching retirement age or dying during their absence.

### The Local Government Superannuation (Interchange) Regulations 1991

These Regulations gave legal effect to revised transfer arrangements applicable to all occupational pension schemes which were introduced by the Social Security Act 1985, including transfers to and from personal pensions for leavers after 31 December 1985. They also recognise new rules prescribed by HM Treasury, to comply with the requirements of the Social Security Act, for LGSS (the NRA Pension Scheme) and other members of the "Public Sector Transfer Club". Although the calculation of transfer values is changed, the advantageous transfer terms available for moves between employers participating in the "Transfer Club" are not affected.

NRA (like other administering authorities) followed advice from DoE and has been anticipating as far as possible the changes made by the Interchange Regulations to prevent excessive delays and a backlog of cases for leavers and deferred pensioners transferring their pension rights from the Active Members' and Closed Funds.

Following a relaxation by the Inland Revenue the Regulations also permit the immediate payment of a return of contributions to an employee who opts out of the Pension Scheme with less than 2 years' service but remains in employment.

### The Local Government Superannuation (Amendment) Regulations 1992

Effective from 28 February 1992, but with many provisions back-dated, these amendment regulations introduce various miscellaneous changes, a number of which were mentioned in last year's Report.

#### Improved Death Benefits:

- Widower's pensions - service from 6 April 1988 onwards counts automatically towards a widower's pension. However, a female member must elect to include any earlier service by 28 February 1993 if she is already married, or within 12 months of becoming married.

Most members who choose to count pre-6 April 1988 service towards a widower's pension will have their retirement lump sum reduced. This can be avoided by paying extra contributions or a lump sum.

- Spouse's short-term pensions - for members who have retired (or died in service) since 6 April 1988, widow's and widower's short-term pensions are payable for six instead of three months when the spouse is caring for a child eligible to receive a children's pension.
- Children's pensions - provided automatically in respect of all female members who have retired or died in service since 6 April 1988.

Long-term children's pensions are awarded in respect of male and female members irrespective of whether or not 2 years' qualifying service has been completed. A minimum amount is payable calculated by applying the Scheme's normal fractions to a retirement pension based on at least 10 years' service (or, if less, total service to age 65).

- Judicial separation - a bar to the payment of spouse's pensions is removed in respect of members who die after 6 April 1988.

## **INVESTMENT ADMINISTRATION**

The administration of the Funds including dividend collection and tax reclamation is carried out by the investment managers. Appointed custodians and overseas agents are responsible for the safe keeping of the assets.

## **INVESTMENT PERFORMANCE**

1991 saw a return to positive returns in the major areas of investment following the negative returns of 1990 which had given Pension Funds their worst overall performance since 1974.

The best performing sector in 1991 was Pacific Basin (excluding Japan) equities, followed closely by US equities. The lowest returns came from Property and Index-linked gilts.

The Committee decided that from 1 January 1992, CAPS would measure the Funds' performance. During 1991 CAPS measured the performance of 1,615 UK Pension Funds representing 2,760 separate portfolios which had a total market value of £156 billion at 31 December 1991.

Given the appointment of three new investment managers last September and the consequent restructuring of the portfolios, formal performance measurement of the managers was introduced from 1 January 1992.

For the six months to 31 March 1992 the Active Members' Fund returned 0.4% against a negative return achieved by the CAPS median fund of 2.8%. The Fund's outperformance is attributed to positive returns in excess of the indices on overseas equities, overseas bonds, UK fixed interest and cash.

The Closed Funds returned -0.9% against the CAPS median of -2.8%. It achieved positive returns and outperformed the indices primarily in overseas bonds, UK fixed interest and cash and overseas equities.



## UNQUOTED INVESTMENTS

Sales of unquoted stocks are continuing whenever possible. The opening market value of the unquoted investments was £39.8 million which declined to £28.2 million at the year end as the result of the writing down of three of its investments namely Charterhouse at £6.15 million, GR Vic at £5.3 million and Ramteck at £0.3 million. The NRA has appointed Cork Gully as administrative receivers of Charterhouse Estates Limited and the subsidiary company, CEL Liverpool Limited. The aim in appointing receivers is to maximise the realisation of the companies' assets for the benefit of the Pension Fund.

## INVESTMENT STRATEGY

Regulation P3 of the Local Government Superannuation Regulations 1986 (as amended) requires the National Rivers Authority to invest any Fund monies not needed for the time being. It also prescribes the limits on the type and extent of investment the Authority may pursue:

- No more than 10% of the total value of a Fund's assets can be invested in securities, which are not included in a listing of a stock exchange in the United Kingdom recognised as such by the Prevention of Fraud (Investments) Act 1958, or an overseas stock exchange of "international repute".
- With limited exceptions, an investment cannot exceed 5% in any single holding although with this restriction applying only to any single unit trust, up to 20% of a Fund's value can be invested in various unit trusts managed by a single manager.
- Investments with any one bank (other than the National Savings Bank) are not to exceed 10%.
- Lending to any person, other than Her Majesty's Government, is restricted to 10%. For this purpose, investments in registered or listed securities, or monies deposited with the Bank of England are excluded.

When the present statutory framework was introduced, DoE undertook to monitor the need for further relaxation of the unit trust provisions and also the possibility of extending the present definition of acceptable investments to Managed Fund Insurance Contracts. An announcement regarding any changes is expected shortly.

Although the powers for the management of the Funds' investments are vested in the National Rivers Authority, responsibility for investment policy is delegated to the Pensions Committee.

The Committee comprises two NRA Board members, the Chief Executive, the Directors of Finance and Personnel, the Secretary and two independent advisers.

The medium risk investment strategy developed by the Committee aims to maximise the return of the Funds by diversifying their investments throughout world markets.

The investment objective set for the managers of the Active Members' Fund, which is a young fund with a very high proportion of members in service, is to match the return of the Combined Actuarial Performance Services (CAPS) median +1½% per annum.

The investment objective set for the managers of the Closed Funds is to match the return on a notional portfolio +1½% per annum. The Closed Funds have very mature liabilities and the asset distribution of the notional portfolio reflects this fact having 65% in equities and 35% in bonds and cash.

## INVESTMENT MANAGEMENT

The Committee's strategy is achieved by the appointment of four investment managers who manage the Funds on a balanced management basis.

The Active Members' Fund is managed equally by Queen Anne's Gate and Gartmore and was valued at £297 million at 31 March 1992.

The assets of the Closed Funds managed equally by Phillips & Drew and M & G were valued at £500 million at the year end. Other assets remaining in the Funds at the time of privatisation together with the property portfolio were valued at £211.8 million at 31 March 1992.

The managers have been given full discretion regarding the management of their portfolios subject to the investment objectives and ranges of asset distribution defined by the Committee.

## Largest UK Equity Holdings

	PDFM £M	M & G £M	Total Market Value £M	UK Equity Portfolio %
BP	6.8	1.5	8.3	3.7
Bat Industries	5.7	2.6	8.3	3.7
Mersey Docks & Harbour	-	7.4	7.4	3.3
Shell Transport & Trading	4.4	1.8	6.2	2.7
British Gas	3.1	2.7	5.8	2.6
Scottish & Newcastle	2.1	3.5	5.6	2.5

## Geographical Distribution of Overseas Investments

	QAG £M	PDFM £M	M & G £M	Total Market Value £M	Overseas Value %
North America	14.6	6.8	3.1	24.5	29.4
Europe	-	27.8	6.1	33.9	40.8
Japan	-	9.9	1.8	11.7	14.1
Other Far East	-	10.3	2.8	13.1	15.7
<b>TOTAL</b>	<b>14.6</b>	<b>54.8</b>	<b>13.8</b>	<b>83.2</b>	<b>100.0</b>

## PROPERTY

In what was undoubtedly a very difficult year, the property portfolio displayed good defensive qualities compared to the sector as a whole. A valuation of the portfolio at 31 March 1992 revealed a reduction in capital values overall of 4.6%. Estimated rental values fell by 9.5%. Rental income over the year, however, increased modestly by nearly 3% to around £8 million at the year end with additional rental increments of £200,000 under negotiation at the time.

Timely settlement of rent reviews/lease renewals, aggressive marketing of vacant space and tight control of the tenants' rental payments have formed the backbone of an income driven policy. Our property managers have continued to seek to identify potential special purchasers, particularly for low yielding properties.

A brief summary of the portfolio which comprises 30 holdings is set out below:

	£M	%
High Tech	42.9	50.9
Offices	4.5	5.4
Retail shops	15.0	17.8
Industrial	8.3	9.9
Retail warehouses	1.3	1.5
Short leasehold	6.9	8.2
Developments	5.3	6.3
<b>TOTAL</b>	<b>84.2</b>	<b>100.0</b>

## Accounts for the year ended 31 March 1992

1991					
Main Fund £000	Second Fund £000		Notes	Main Fund £000	Second Fund £000
<b>NET ASSET MOVEMENTS</b>					
1,548,612	36,734	<b>Opening Funds at 1 April</b>	3	782,584	41,187
(670,872)	-	Apportionment of funds (net)	4	-	-
(34,010)	3,205	Amounts available for investment		(50,513)	3,375
(61,146)	1,248	Changes in investment market values	11	(64,670)	(144)
<b>782,584</b>	<b>41,187</b>	<b>Closing Funds at 31 March</b>		<b>667,401</b>	<b>44,418</b>
<b>NET ASSETS</b>					
£000	£000			£000	£000
<b>Investments at Market Value</b>					
81,826	16,257	Fixed and variable interest stocks	2	120,166	16,292
518,044	14,270	Equities and convertibles		405,994	25,045
599,870	30,527			526,160	41,337
85,920	-	Freehold and leasehold properties	5	84,185	-
92,896	12,097	Short-term deposits		45,167	5,145
778,686	42,624			655,512	46,482
82	-	Other assets		122	-
3,816	(1,437)	Other net current assets (liabilities)	6	11,767	(2,064)
<b>782,584</b>	<b>41,187</b>	<b>Net Assets at 31 March</b>		<b>667,401</b>	<b>44,418</b>

P.A. BRANDT  
Chairman, NRA Pensions Committee

E. GALLAGHER  
Chief Executive, National Rivers Authority

10 September 1992



## Accounting Policies

The New Main and New Second Funds are "closed"; there are no contributing members. Unlike other statutory Local Government Superannuation Funds, they are being maintained solely to pay current and deferred benefits (or transfer values to other pension schemes) awarded to or in respect of employees of former water authorities and associated bodies prior to 1 September 1989.

The Secretary of State for the Environment has a duty under section 173(3) of the Water Act 1989 to ensure that the Funds can always meet their liabilities including future indexation awards. However, the method by which this will be achieved has still to be announced.

### Statement of Recommended Practice (SORP)

These accounts have been prepared in accordance with the recommendations of SORP No.1 - Pension scheme accounts - in respect of all material items.

### Investments

The accounts for the year have been prepared on the basis of stating investments at their market values which are determined as follows:

- (i) In the case of listed securities and securities on the unlisted securities market, by reference to the middle market price at the year end.
- (ii) In the case of other unquoted investments, the valuation at 31 March 1992 is taken as the lower of cost or estimated market value.
- (iii) In the case of the UK urban properties portfolio, the open market valuation as at 31 March 1992 by independent valuers, Weatherall Green and Smith, Chartered Surveyors, of such properties with vacant possession of the accommodation in hand but subject to all existing leases and tenancies.

### Contributions

Contributions represent an adjustment for the period to 31 August 1989 for amounts underpaid by an employer in respect of employer and employee contributions.

### Benefits, refunds of contributions and transfer values

Benefits, refunds of contributions and transfer values paid and received are brought into the accounts on a cash basis.

### Exchange rates

Current assets and liabilities arising from investments in overseas securities purchased in foreign currency have been translated at the mid-market closing rates of exchange ruling at the year end.

### Investment income

The investment income is accounted for on the accruals basis. The effective date used to bring interest into the accounts is the due date of payment for securities, excluding government securities and short-term loans. For government securities, the ex-dividend date is the effective date used.

### Administration expenses

Net administration expenses, including investment administration, are charged on the accruals basis to the Funds.

### Taxation

- (i) UK income tax  
The Funds are fully approved by the Inland Revenue under Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 and therefore are not liable to UK income tax on interest, dividends and property income, or to capital gains tax.
- (ii) Value added tax  
By virtue of NRA being the administering authority, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses.
- (iii) US withholding tax  
The income earned by the New Main Fund from investments in stocks and securities in the United States is exempt from US tax pursuant to Section 892 of the Income Tax Code and is not subject to withholding of any tax under Section 1441. This exemption has continued to be applied thus far under the US Tax Reform Act of 1986.

## Notes to the Accounts

1. The National Rivers Authority New Main Fund relates to former employees and pensioners prior to 1 September 1989 of the ten former regional water authorities in England and Wales. The National Rivers Authority New Second Fund relates to former employees and pensioners, prior to 1 September 1989, of the Foundation for Water Research, WRc plc, Water Services Association of England and Wales, Water Training International, the International Association on Water Pollution, Research and Control, the International Water Supply Association and their predecessor bodies.

These accounts do not reflect liabilities to pay pensions and other benefits in the future which are now the responsibility of the Secretary of State for the Environment. The actuarial position is dealt with in the statement by the Actuary on page 27 preceding these accounts and covers such liabilities.

### 2. Analysis of investments

Market Value 31 March 1991			Market Value 31 March 1992 Main Fund		Market Value 31 March 1992 Second Fund	
Main Fund	Second Fund		£000	£000	£000	£000
		<b>Fixed interest</b>				
21,698	16,257	United Kingdom Government	-	-	-	-
39,014	-	Overseas Government	-	-	-	-
14,702	-	Other fixed interest - UK	79,231	16,292	-	-
		- Overseas	17,373	-	-	-
<u>75,414</u>	<u>16,257</u>			<u>96,604</u>		<u>16,292</u>
6,412	-	<b>Index linked gilts</b>		23,562	-	-
		<b>Equities and convertibles</b>				
437,955	14,082	United Kingdom - listed	294,578	20,764		
36,962	-	Overseas - listed	83,162	3,925		
3,336	188	United Kingdom - unlisted	-	356		
<u>478,253</u>	<u>14,270</u>			<u>377,740</u>		<u>25,045</u>
		<b>Unquoted investments</b>				
25,908	-	United Kingdom	23,932	-	-	-
13,883	-	Overseas	4,322	-	-	-
<u>39,791</u>				<u>28,254</u>		
		<b>Short-term loans and deposits</b>				
92,896	12,097	United Kingdom		45,167		5,145
		<b>Property - UK</b>				
75,045	-	Freehold and long leasehold	71,935			
3,000	-	Property under development	5,300			
7,875	-	Property short leasehold	6,950			
<u>85,920</u>				<u>84,185</u>		
778,686	42,624			655,512		46,482
82	-	Other assets		122		-
3,816	(1,437)	Net current assets		11,767		(2,064)
<u>782,584</u>	<u>41,187</u>			<u>667,401</u>		<u>44,418</u>



## Notes to the Accounts - continued

### 3. Details of net asset movements

	Main Fund			Second Fund
	Securities etc. £000	Property £000	Total £000	Total £000
<b>Balances at 1 April 1991</b>				
At cost	683,510	75,034	758,544	34,353
Unrealised appreciation	13,154	10,886	24,040	6,834
	<u>696,664</u>	<u>85,920</u>	<u>782,584</u>	<u>41,187</u>
<b>Movements in the year</b>				
Amounts available for investment	(52,307)	1,794	(50,513)	3,375
Realised gains (losses)	35,311	(181)	35,130	8,774
Changes in valuations	(96,452)	(3,348)	(99,800)	(8,918)
	<u>(113,448)</u>	<u>(1,735)</u>	<u>(115,183)</u>	<u>3,231</u>
<b>Balances at 31 March 1992</b>				
At cost	666,514	76,647	743,161	46,502
Unrealised appreciation (depreciation)	(83,298)	7,538	(75,760)	(2,084)
	<u>583,216</u>	<u>84,185</u>	<u>667,401</u>	<u>44,418</u>

Investment transactions in the year to 31 March 1992 amounted to:

#### Main Fund

1991 Total £M		PDFM £M	M & G £M	QAG £M	1992 Total £M
267.7	Purchases	214.5	59.6	143.8	417.9
(655.9)	Sales	(192.3)	(88.5)	(168.0)	(448.8)
<u>(388.2)</u>		<u>22.2</u>	<u>(28.9)</u>	<u>(24.2)</u>	<u>(30.9)</u>

#### Second Fund

1991 Total £M		M & G £M	QAG £M	1992 Total £M
38.5	Purchases	16.8	20.3	37.1
(23.8)	Sales	(6.5)	(23.0)	(29.5)
<u>14.7</u>		<u>10.3</u>	<u>(2.7)</u>	<u>7.6</u>

## Notes to the Accounts - continued

### 4. Apportionment of funds

Period	Former GLC £000	Former WASF £000	Total £000
April 1988 to March 1989	3,530	(31,000)	(27,470)
April 1989 to August 1989	-	(90,200)	(90,200)
September 1989 to March 1990	1,977	(633,176)	(631,199)
April 1990 to March 1991	42	(670,914)	(670,872)
	<u>5,549</u>	<u>(1,425,290)</u>	<u>(1,419,741)</u>

The London Residuary Body and its successor the London Pensions Fund Authority have made payments totalling £5,549,000 in respect of employees transferred to Thames Water following the abolition of the former Greater London Council.

The Local Government Superannuation Regulations provided for an apportionment of the former WASF on actuarial assumptions specified by the Secretary of State for the Environment in respect of members who elected to transfer their past service pension rights to the non-statutory arrangements sponsored by the water employers. A matching transfer of assets totalling £1,425.3 million has been made since 1989 bringing the apportionment to a successful conclusion by 31 March 1991.

To simplify the process, all apportionable assets were released from the New Main Fund. In due course, assets of approximately £22 million, at August 1989 values, will be transferable from the Second to the Main Fund unless the two Funds are merged.

### 5. New Main Fund - Property

Commitments under contract for property investments amounted to £25,007 (1991: £3,253,593). Sales negotiated were £185,000 (1991: £18,500,000).

### 6. Net current assets

31 March 1991			31 March 1992		31 March 1992	
Main Fund	Second Fund		Main Fund		Second Fund	
£000	£000		£000	£000	£000	£000
<b>Equities and convertibles</b>						
<b>Debtors</b>						
5	-	Amounts due from employers	8	-	-	-
3,835	-	Due from brokers	3,721	-	-	-
1,100	-	Due from other funds	3,379	-	-	-
1,668	193	Income tax recoverable	2,885	-	148	-
3,329	2	Accrued investment income and other debtors	2,731	-	636	-
2,622	547	Cash	4,891	-	52	-
<u>12,559</u>	<u>742</u>			<u>17,615</u>		<u>836</u>
<b>Current liabilities</b>						
<b>Creditors</b>						
-	(2,179)	Due to other funds	-	-	(2,844)	-
(2,317)	-	Due to brokers	(91)	-	-	-
(2,142)	-	Rents	(1,908)	-	-	-
(4,284)	-	Other	(3,849)	-	(56)	-
<u>(8,743)</u>	<u>(2,179)</u>			<u>(5,848)</u>		<u>(2,900)</u>
<u>3,816</u>	<u>(1,437)</u>	<b>Net current assets (liabilities)</b>	<u>11,767</u>			<u>(2,064)</u>

At 31 March 1992 potential future liabilities in respect of the Main Fund amounted to: Quoted Portfolio - calls and underwriting £2,595,233 (1991: £9,180,000), commitments on unquoted investments were £NIL (1991: £834,634). Commitments on the Second Fund were £286,054 (1991: £68,800).

## Notes to the Accounts - continued

### 7. Rents

Net income representing rents receivable from property is made up as follows:

1991 Main Fund £000		1992 Main Fund £000
8,848	Gross rents and insurance commissions receivable	10,027
(567)	Rents paid	(560)
(1,030)	Property expenses	(1,274)
<u>7,251</u>	<b>Total - Rents</b>	<u>8,193</u>

### 8. Benefits paid

When the former Water Authorities Superannuation Fund was transferred to the National Rivers Authority as the New Main and New Second Funds, current and future pensions increase costs on Scheme benefits became a fund liability. The pensions increase amounts shown below therefore relate only to discretionary awards made by the former employer paid initially from the Funds and recharged to the NRA since 1 September 1989.

1991		Main Fund			1992		
Main Fund	Second Fund	Pensions increase	Discretionary	Total	Pensions increase	Discretionary	Total
£000	£000	£000	£000	£000	£000	£000	£000
9,704	206						
		Retirement and dependants' pensions					
		3,352	7,189	10,541	85	138	223
11	-	26	13	39	-	-	-
		Lump sum retiring allowances					
		Death grants					
<u>9,715</u>	<u>206</u>	<u>3,378</u>	<u>7,202</u>	<u>10,580</u>	<u>85</u>	<u>138</u>	<u>223</u>

### 9. Refunds of contributions

1991			1992	
Main Fund	Second Fund		Main Fund	Second Fund
£000	£000		£000	£000
20	1	Net refunds to employees	7	-
5	-	Tax paid	1	-
		Contributions equivalent premiums		
11	(4)	Employees' share	-	-
27	-	Employers' share	1	-
<u>63</u>	<u>(3)</u>		<u>9</u>	<u>-</u>

In 1991 the New Second Fund received payments from the Department of Social Security (DSS) in respect of adjustments made to contributions equivalent premiums paid to DSS previously.

## Notes to the Accounts - continued

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### **10. Pre-1 April 1974 Local authority pensions increase recharges**

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

Since 1 April 1990, the Local Government Superannuation (Funds etc.) Regulations 1990 have provided for such costs arising from Local Government Superannuation Scheme benefits to be charged to the appropriate superannuation fund. The regulations require the corresponding pensions increase liabilities previously recovered from the water authorities/water plc's to be met from the New Main Fund.

### **11. Changes in investment market values**

The reduction in values includes the effect of an £11.8 million write-down on unquoted investments.



# SCHEME RULES AND BENEFITS

## SCHEME MEMBERSHIP AND INCOME

- (a) NRA employees between the ages of 16 and 65 working 30 hours or more per week (or 15 hours or more for at least 35 weeks per year) are eligible for entry to the NRA Pension Scheme (NRAPS). Up to 31 March 1990 employees had to elect to join. Whole-time employees, ie. those working 30 or more hours per week, appointed since 1 April 1990 become members automatically with the right to opt out (backdated to the start of membership if made within three months). Part-time employees must still apply to join.

Contributions from pensionable earnings are:

- (i) Manuals - 5%
- (ii) Non-manuals - 6%

Subject to limits set by the Inland Revenue, members can pay Additional Voluntary Contributions (AVC's) to buy a larger retirement lump sum or to improve other specific benefits.

- (b) Transfer payments for pension rights in almost any other scheme can be accepted by the NRAPS (and, where appropriate, by the Closed Funds for a deferred pensioner) to increase benefits which may eventually become payable.
- (c) The NRA must make the balancing contribution required to keep the Active Members' Fund solvent having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' normal contributions by a Consulting Actuary following each triennial valuation of the Fund. However, as an interim measure, the Consulting Actuary has to review as at 31 March and revise as necessary the NRA's contribution rate each year until 31 March 1993. Provisionally, a rate of 137.5% was paid between 7 July 1989 and 31 March 1990. This increased to 200% from 1 April 1990 with the introduction of pre-funding of pensions increase liabilities, and the need for the Fund to be able to meet only 75% of its existing and future total liabilities; following his review at 31 March 1991, the Actuary has recommended that the employer's contribution is reduced to 150% from 1 April 1992.

There is no contribution income to the Closed Funds. The Secretary of State for the Environment has a duty to ensure that the Funds can always meet their liabilities.

- (d) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of the Local Government Superannuation Regulations.

## BENEFITS AVAILABLE

### Two or more years' service:

#### A. Retirement pension and lump sum awarded:

##### 1. Payable immediately on cessation of employment:

- (i) voluntarily from age 60 onwards,
- (ii) through permanent disability at any age, or
- (iii) as a result of redundancy after age 50.

##### 2. Preserved and payable from retirement age in any other circumstances.

#### B. Dependants' (widows/widowers/children) pensions and a tax free lump sum to the estate following death:

- (i) in employment,
- (ii) in receipt of retirement pension (a lump sum may not always be payable), or
- (iii) before preserved pension payable.



## **SCHEME RULES AND BENEFITS – continued**

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### **Under two years' service:**

- A. Pension and lump sum payable only on retirement from State pension age onwards.
- B. Lump sum payable on retirement through permanent disability.
- C. Spouse's limited period pensions and a tax free lump sum on death in employment.
- D. Children's continuing pensions.
- E. Refund of contributions when no other benefit payable.

### **PENSIONS INCREASE AWARDS**

Normally, retirement and dependants' pensions in payment and preserved are increased each year by the same Retail Prices Index-percentage rate as that applied to State pensions.

### **TRANSFERS TO OTHER SCHEMES**

When benefits are not payable immediately, a transfer can usually be made to another employer's pension scheme or, for leavers after 31 December 1985, to a Personal Pension Plan or to purchase an insurance Annuity Bond.

## FUND MEMBERSHIP AT 31 MARCH 1992

### NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND (THE ACTIVE MEMBERS' FUND)

Fund Membership at 1 April 1991 6,258

**Add:**

Entrants - new starters	849
	<u>7,107</u>

**Less:**

Exits	- new retirement pensions	119	
	- deaths in service	8	
	- preserved benefits	97	
	- refunds of contributions	59	
		<u>283</u>	

Fund Membership at 31 March 1992 6,824

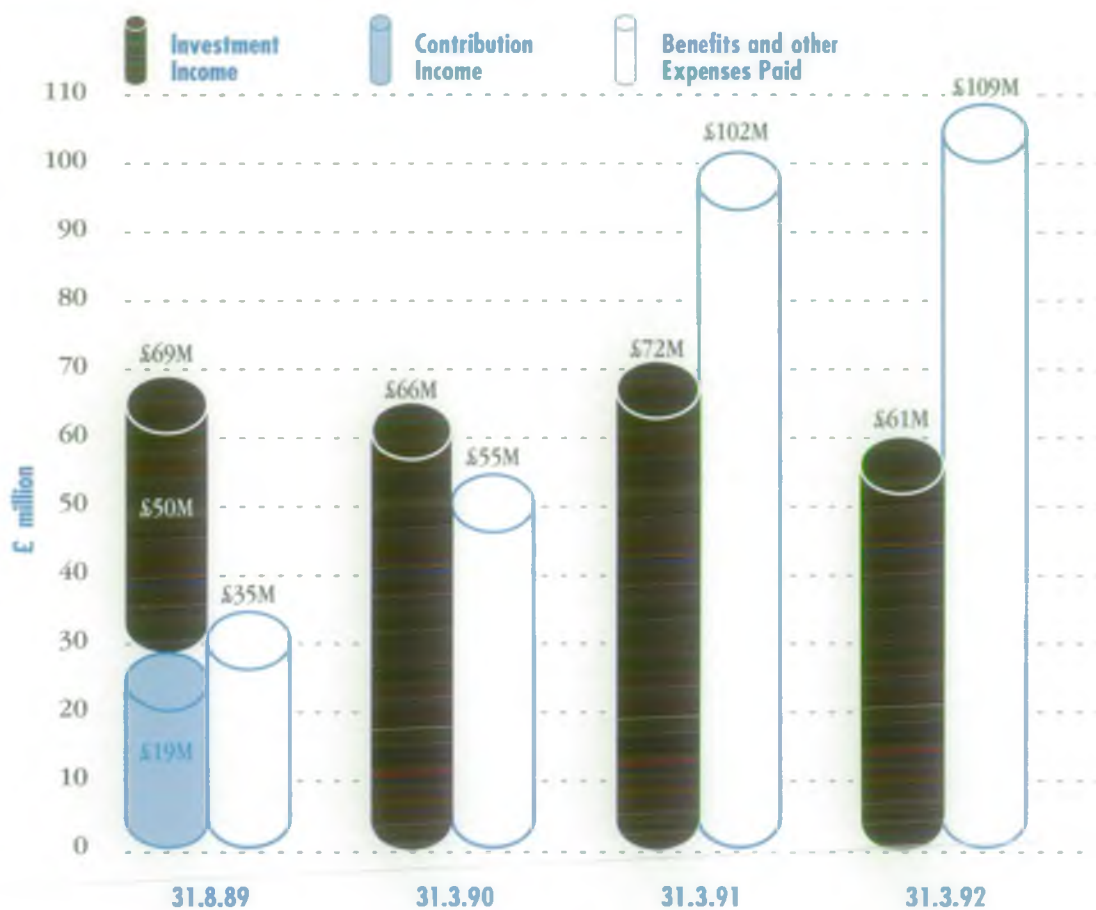
During the year 36 ex-members transferred their preserved rights to other pension schemes.

### NEW MAIN AND NEW SECOND FUNDS (THE CLOSED FUNDS)

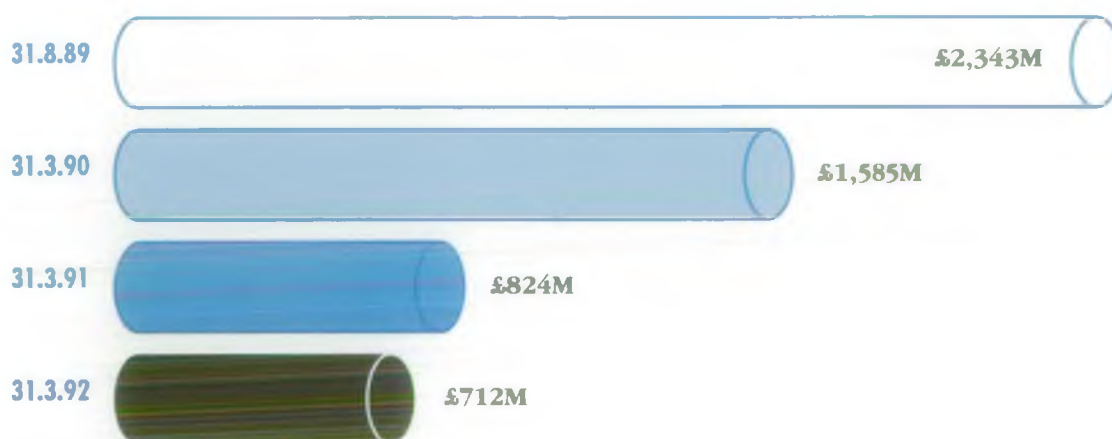
MEMBERSHIP	1.9.89	31.3.90	31.3.91	31.3.92
Contributors	22,236	-	-	-
Pensioners	28,558	28,501	28,053	27,650
Deferred Pensioners	8,740	10,542	9,792	9,143

## NEW MAIN AND NEW SECOND FUNDS (THE CLOSED FUNDS)

### FINANCIAL SUMMARY



### MARKET VALUE OF FUNDS



The above figures show a substantial reduction in the market value of the Funds since 31 August 1989. The main reason for the significant changes was the result of the apportionment of assets between 31 August 1989 and 31 March 1991 to the various water plc pension schemes and the Active Members' Fund. Benefits and other expenses paid exceed investment income and consequently the Funds will continue to reduce.

Any enquiries regarding this Report should  
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