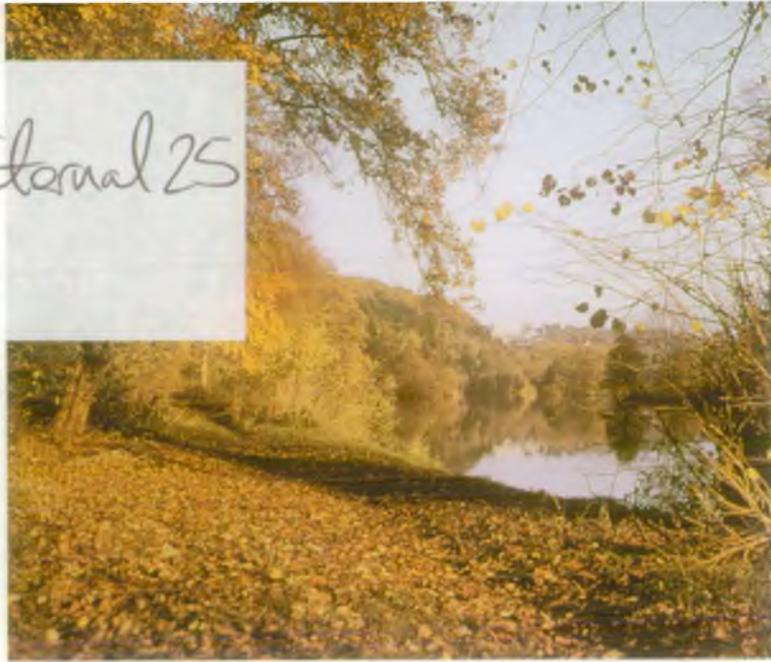


NRA Internal 25



*National Rivers Authority*  
*Pension Fund*

**Report and Accounts**  
**MARCH 1995**



**NRA**

*National Rivers Authority*

**Guardians of  
the Water Environment**

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

As a public service pension scheme, the NRA Pension Fund (the Active Members' Fund) is 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.



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## CHAIRMAN'S STATEMENT

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I am pleased to present the Report and Accounts for the National Rivers Authority Pension Fund.

The main aim of this Report is to account for the Fund's income, expenditure, assets and liabilities for the financial year ended 31 March 1995. The Report also provides information about the management structure of the Fund, its membership and a summary of the Fund's benefits.

During the year, the Fund's administration arrangements were reviewed and Hartshead Limited was re-appointed with effect from 1 April 1995 following a competitive tender.

The Fund returned a negative 1% on its investments for the year underperforming the CAPS median return by 1.6% and reflecting the weakness of almost all investment markets for the period.

However, more importance should be given to the longer term analysis of the Fund's investment performance which showed annualised returns of 9.6% and 13.7% over five years and three years to 31 March 1995 respectively. These results compared favourably with the annualised Retail Prices Index figures of 4% and 2.6% for the same periods.

I would like to express my thanks to all those who are involved with the investment, accounting and pension activities of the Fund. I hope you will find the Report interesting.

If you require further information, please contact Mrs Timbrell, Pension Fund Manager, at the address shown on page 28.

**LORD CRICKHOWELL**  
Chairman,  
NRA Pensions Committee

**6 July 1995**

# The Pensions Committee

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## Chairman

Lord Crickhowell  
*National Rivers Authority*

## Members

Mr G F Billington  
*Member Representative*

Mr N F Reader  
*Finance Director, National Rivers Authority*

Mr P A Brandt (to November 1994)  
*Board Member, National Rivers Authority*

Mrs E F Stormont (to February 1995)  
*Member Representative*

Mr E P Gallagher  
*Chief Executive, National Rivers Authority*

Mrs S J Timbrell  
*Pension Fund Manager, National Rivers Authority*

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

Mr D White  
*Member Representative*

Mrs K J Morgan  
*Board Member, National Rivers Authority*

Mr M E Wragg  
*Member Representative*

Mr K W Newham  
*Retired Member Representative*

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## Independent investment advisers

Mr R A E Herbert  
Mr J Tighe

## Auditors

Robson Rhodes

## Bankers

Gartmore Money Management Limited  
J. Henry Schroder Wagg & Co Limited  
National Westminster Bank plc

## Consulting actuaries

Bacon & Woodrow

## Investment managers

Gartmore Pension Fund Managers Limited  
Schroder Investment Management Limited

## Pension scheme administrator

Hartshead Solway Limited  
*(formerly Hartshead Limited)*

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## INTRODUCTION

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The National Rivers Authority (NRA) is the legal administering authority of a Pension Fund for the Authority's employees. It is a statutory public service pension scheme under the Local Government Pension Scheme Regulations 1995 (the Regulations) [the Local Government Superannuation Regulations 1986 (as amended) until 1 May 1995 (the 1986 Regulations)] and is contracted-out of the State Earnings Related Pension Scheme (SERPS).

The NRA Pension 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 and gains from investments are exempt from UK tax and the NRA and its employees enjoy tax relief on contributions paid to the Fund.

# MANAGEMENT

## GENERAL

The Regulations require the Pensions Committee to prepare financial statements for each financial year which give a true and fair view of the financial transactions of the Active Members' Fund and the disposition of the assets and liabilities of the Fund at the year end. In preparing the financial statements the Pensions Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- followed applicable accounting standards.

The Pensions Committee is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Fund to enable it to ensure that the financial statements comply with the Regulations. It is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

With a membership of nominated NRA Board members, senior officers, member representatives and a retired member representative, the Pensions Committee has delegated responsibility for Active Members' Fund matters and is a sub-committee of the NRA Board. It receives advice from its external independent advisers and is charged with appointing managers and agents required for the effective management of the duties outlined above.

The NRA has contractual arrangements with Hartshead Solway Limited to undertake the day to day administration of the Fund. Responsibility for managing the Fund's investments is shared equally between Gartmore Pension Fund Managers Limited and Schroder Investment Management Limited.

## FUND MANAGEMENT EXPENSES

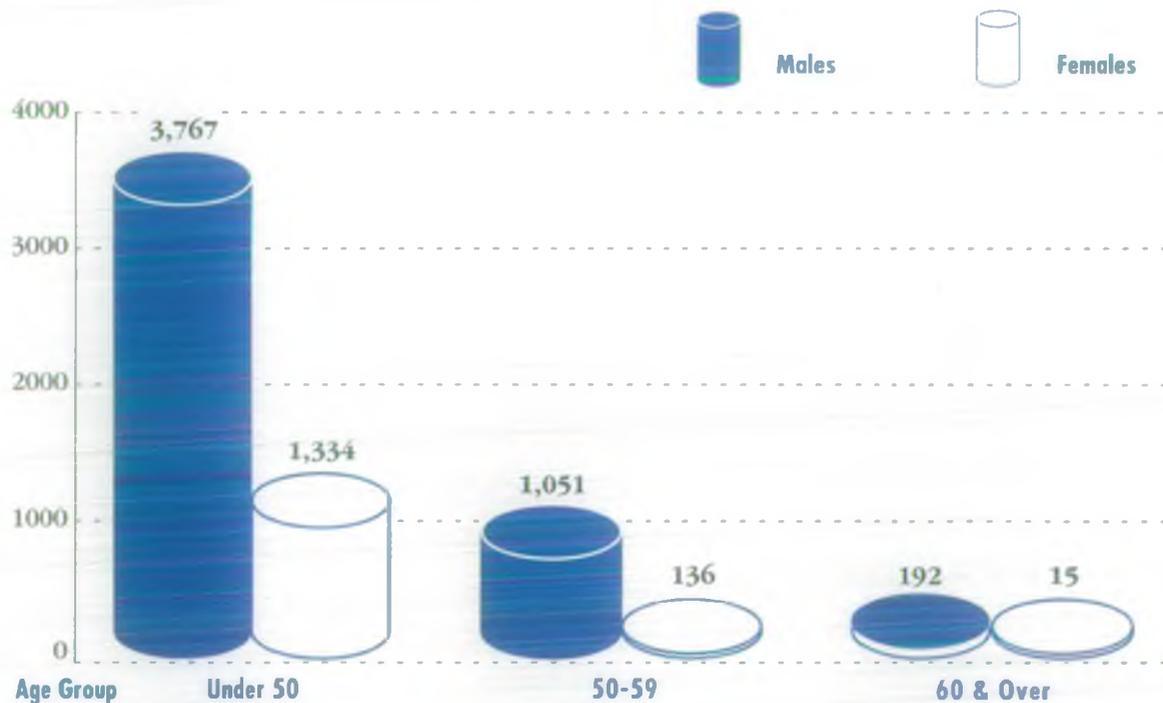
	1995 £000	1994 £000
• <b>Pension scheme administration</b> Management and activity fees based on agreed scales of charges.	193	187
• <b>Investment management services</b> Agreed scales of charges linked to the market value of quoted securities using month-end valuations.	1,032	918
• <b>Other administration costs</b> Bank charges, NRA administration, audit, actuarial and publication expenditure.	56	121
<b>Total Expenses</b>	<b>1,281</b>	<b>1,226</b>

# MEMBERSHIP

Unless they have previously elected not to be members, since 2 May 1995 all whole-time and all part-time employees, whether permanent or temporary, become members of the Scheme with the right to opt out. As a result, there are some NRA employees who were not members at 31 March 1995 or who have opted-out.

<b>Scheme Membership at 1 April 1994</b>		<b>6,743</b>
<b>Add:</b>		
Entrants	- new starters	393
		<hr/>
		<b>7,136</b>
<b>Less:</b>		
Exits	- options pending	76
	- new retirement pensions	301
	- deaths in service	8
	- preserved benefits	243
	- refunds of contributions/transfers	13
		<hr/>
		<b>641</b>
<b>Scheme Membership at 31 March 1995</b>		<b>6,495</b>
		<hr/>

## AGE PROFILE OF MEMBERS



In addition, the Scheme has 1,063 current pensioners (including 64 spouses' and children's pensions) and 588 deferred pensioners.

## ACTUARIAL VALUATION

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The 1986 Regulations required actuarial valuations of all Local Government Pension Funds every three years with effect from 31 March 1989. The purpose of a valuation is to review the funding position and determine an appropriate level of employer's contributions.

Whilst the Active Members' Fund falls into the statutory triennial valuation cycle, it was not in existence at the 31 March 1989 valuation date. However, the Local Government Superannuation (Water) Regulations 1989 provided for a Consulting Actuary to review and certify the continuing level of employer's contributions for the period up to 31 March 1993.

The valuation as at 31 March 1992 allowed for a 100% target funding level from 1 April 1993, replacing the statutory 75% funding level required between 1 April 1990 and 31 March 1993. With the valuation showing the Fund to be in a strong financial position, the Actuary certified that the National Rivers Authority contribution could be reduced from 150% to 100% of the members' contributions from 1 April 1993 to 31 March 1996. A statement to this effect is reproduced on page 19.

In accordance with the Regulations, the valuation of the Fund as at 31 March 1995 is currently in progress.

# INVESTMENT

## INVESTMENT BACKGROUND

For most of the year almost all investment markets were weak. Bond and equity prices fell back from their high levels achieved in early 1994 and only started to recover towards the end of the period. The only major equity market to show sustained strength was the USA. The Japanese market was weak as the hoped-for economic recovery failed to take place. The smaller emerging markets which had performed very well in 1993 were particularly weak, illustrated by the collapse in Mexican financial confidence.

Currency markets were more volatile than the previous year. The main area of tension was between the weak US Dollar and the strong Yen and Deutschmark. Sterling was caught somewhat in the middle of the fluctuations, appreciating by nearly 11% against the Dollar, but falling by 7% and 10% respectively against the Yen and Deutschmark.

The US Federal Reserve Board increased interest rates six times in an attempt to slow the pace of economic growth and stem inflationary pressures in the economy. The Bank of England followed suit, raising base rates in September, December and February from 5.25% to 6.75%.

The annual rate of inflation in the UK, as measured by the Retail Prices Index, was 3.5% at the year end.

## Distribution of Investments at 31 March 1995

	Gartmore £M	Schroder £M	Hartshead £M	Total £M	% of Total Fund
UK equities and convertibles	126.6	132.5	-	259.1	55.9
Fixed interest	52.7	31.8	-	84.5	18.2
Overseas equities and convertibles					
N America	7.0	8.2	-	15.2	3.3
Europe	15.8	18.5	-	34.3	7.4
Pacific Basin	20.5	24.3	-	44.8	9.7
Emerging markets	2.4	3.7	-	6.1	1.3
Short term loans and deposits	-	7.3	1.3	8.6	1.8
Property unit trust	-	5.2	-	5.2	1.1
Net assets	3.8	2.1	0.2	6.1	1.3
<b>TOTAL FUND</b>	<b>228.8</b>	<b>233.6</b>	<b>1.5</b>	<b>463.9</b>	<b>100.0</b>

## Analysis of Investments by Market Value at 31 March 1995

### UK Equities Sector

	Market Value £M	UK Equity %
Investment and Unit Trusts	23.0	8.9
Banks	18.6	7.2
Oil, Integrated	17.4	6.7
Telecommunications	15.9	6.1
Insurance	14.2	5.5
Retailers, General	11.9	4.6
Pharmaceuticals	11.5	4.4
Diversified Industrials	10.0	3.9
Media	8.8	3.4
Others (the aggregate of holdings under 3.4%)	127.8	49.3
<b>TOTAL</b>	<b>259.1</b>	<b>100.0</b>

## Largest UK Equity Holdings

	Market Value			UK
	Gartmore	Schroder	Total	Equity
	£M	£M	£M	Portfolio
				%
Shell Transport & Trading	3.9	5.7	9.6	3.7
British Telecom	4.5	4.7	9.2	3.6
British Petroleum	4.3	3.5	7.8	3.0
BAT Industries	3.1	3.2	6.3	2.4
BTR	3.9	1.7	5.6	2.2
National Westminster	1.8	3.3	5.1	2.0
Glaxo	0.9	4.0	4.9	1.9
British Gas	2.0	2.6	4.6	1.8
Kingfisher	2.9	0.9	3.8	1.5
United Newspapers	2.7	1.0	3.7	1.4

## INVESTMENT STRATEGY

Regulations L5 and L6 [formerly regulation P3 of the 1986 Regulations] require the National Rivers Authority to invest any Fund monies not needed for the time being. They also prescribe the limits on the type and extent of investment which the Authority may pursue:

- No more than 10% of the total value of the Fund's assets can be invested in securities which are not included in a listing of a stock exchange in the United Kingdom, or an overseas stock exchange of "international repute".
- With limited exceptions, an investment cannot exceed 10% in any single holding. Up to 25% of the Fund's value can be invested in various unit trusts managed by a single manager. The 10% single holding limit does not apply to unit trusts where the investment management arrangements have been delegated to authorised fund managers.
- Investments with any one bank (other than the National Savings Bank) are not to exceed 10%.
- Up to 25% of the Fund's value can be invested as a single contract in a managed fund with an insurance company or other similar body.
- 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.
- Up to 25% of the value of all investments of Fund monies may be entered into a stock lending arrangement.
- Since 17 August 1994, up to 5% of the Fund's value can be used to allow the NRA to become a limited partner in partnerships. However, not more than 2% can be used in a single partnership. A partnership is defined as an arrangement whose purpose is to invest in venture capital, or other unlisted securities, and a limited partner is not liable for the debts or obligations of the partnership beyond the amount invested at the time of entry.

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

The medium risk investment strategy developed by the Committee aims to maximise the return of the Fund by diversifying its 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 +1 1/2% per annum.

## INVESTMENT MANAGEMENT

The Committee's strategy has been achieved by the appointment of two investment managers, Schroder and Gartmore. They managed the Fund, valued at almost £464 million at 31 March 1995, on a balanced management basis.

The investment 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.

## **INVESTMENT ADMINISTRATION**

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

## **INVESTMENT PERFORMANCE**

The best performing market sector in which the Fund was invested in 1994/95 was US equities, where the FT Actuaries' US index showed a return of 5.2% to a sterling based investor. The return on the sterling cash balance, using London Inter-Bank 7 day notice deposit as the measure, showed the second best return at 5.1%. The Fund's exposure to these two asset classes at the year end amounted to 6.2% of its total.

UK equities, where the Fund holds 57% of its investments, showed a return of 2.8%, as measured by the FTSE Actuaries' All Share Index. This compares to an actual return for the Fund of 0.1%.

Overseas equities, other than the USA, as measured by appropriate market indices, in aggregate produced a smaller negative return. On a similar basis, UK and overseas bonds produced small positive returns.

Overall the Fund recorded a negative return in the year of 1.0% as compared with a CAPS median return of a positive 0.6%. The investment managers' objective is to exceed the CAPS median return by 1.5% per annum over a three year rolling period.

More importance should be attached to the longer term analysis of the Fund's investment performance which showed annualised returns of 9.6% and 13.7% over five years and three years to 31 March 1995 respectively. These results compared favourably with the annualised RPI figures of 4% and 2.6% but compared less favourably with the CAPS median figures of 11.1% and 14.3% for the same periods.

## **GARTMORE**

Gartmore's return on its portfolio was a negative 2.7% which underperformed its investment objective in the year by 4.8%. However, the underperformance needs to be viewed in the light of Gartmore's overall return of 14.1% achieved during the past three years of its management of the portfolio, compared to a CAPS median of 14.4%.

Gartmore's investment strategy for the Fund is to have a strategically higher equity allocation than the pension fund industry in general, as history has shown that equities are better than any other asset category in meeting the long-term liabilities of a pension fund. Although this is the long-term strategy, decisions are taken to move away from equities on a tactical basis such as reported below.

Within the portfolio, Gartmore maintained the heavily overweight position in overseas bonds which had been adopted in the latter part of 1993. The defensive asset allocation stance was strengthened by the introduction of a position in UK gilts. The move marked the first time in some years that Gartmore has invested in conventional gilts, reflecting its opinion that gilts will be major beneficiaries of a sustained low inflation environment. The switch was made at the expense of UK, European and US equities. Company profit forecasts for 1995 had started to look over-optimistic, which helped push equity valuations to relatively expensive levels versus gilts. Gartmore believes the Yen's strength against the US dollar is unsustainable and that the fragile Japanese economic recovery could be delayed by the Kobe earthquake and tight monetary policy. Therefore, a move was made to a low weighting in Japanese equities.

## **SCHRODER**

Schroder's return on its portfolio was 0.7% which underperformed its investment objective in the year by 1.4%.

Since its appointment to manage the portfolio in July 1993, Schroder's performance has been an annualised 7.9% which compares closely with the CAPS median of 8.1% for the same period.

Over the year, Schroder's reduced the Fund's exposure to equities in favour of bonds. Holdings in UK government securities in particular were increased during 1994, and over the year the Fund's weighting in UK gilts rose from 2.1% to 6.8%. US equities were also reduced modestly in favour of US bonds. Although equities might be expected to outperform bonds during an economic upturn, Schroder's view is that the medium term outlook for inflation and interest rates remains more favourable than the consensus.

Overseas equity exposure was also reduced during the year, primarily through reductions in US and European equities. The main factor in the sales of European equities was long term concerns over the health of a number of European countries' government finances.

# ADMINISTRATION

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## **CHANGES TO THE NATIONAL RIVERS AUTHORITY PENSION SCHEME**

The following new regulations and amendments to the 1986 Regulations of relevance to the National Rivers Authority and the Active Members' Fund have been made since the last Annual Report was produced.

### **The Local Government Superannuation (Investments) Regulations 1994**

Effective from 17 August 1994, these regulations allow the NRA and other administering authorities to become limited partners in partnerships which invest in joint venture capital and unlisted securities. Authorities entering into such arrangements can invest up to 5% of their pension fund monies in these types of investments. They are not, however, permitted to invest more than 2% in a single holding.

### **The Local Government Superannuation (Amendment) Regulations 1994**

These regulations follow on from the provisions of the Local Government Superannuation (Membership) Regulations 1993, outlined in the Annual Report for the year ended 31 March 1994.

They provide for a transfer of a local government pension fund's assets, as determined by that fund's actuary which takes into consideration future salary increases, to be made to a non-local government pension scheme whenever one or more employees become members of that scheme as the result of a transfer of function or activity.

### **The Local Government Superannuation (Limitation of Earnings and Remuneration) Regulations 1995**

These regulations give effect to changes to the maximum benefits permitted by the Inland Revenue introduced in March 1987 and June 1989. Although they have been over-riding for all tax approved pension schemes, including the National Rivers Authority Pension Scheme, since being introduced by the Inland Revenue they formally incorporate them into the 1986 Regulations.

By far the most important provisions are the restrictions which apply to members who join the Scheme on or after 1 June 1989 as follows:

- irrespective of their age at retirement, maximum pensionable service is limited to 40 years; and
- the "earnings cap" (£78,600 from 6 April 1995) must be applied.

### **The Local Government Superannuation (Equality and Maternity Absence) Regulations 1995**

With backdated effect from 17 May 1990, these regulations remove discriminatory arrangements relating to the award of benefits to male and female members retiring at or after age 60 with less than 25 years' service.

### **The Local Government Superannuation (Miscellaneous Provisions) Regulations 1995**

Although these regulations came into force on 27 April 1995, a number of the provisions introduced are back-dated.

Pensions which have become payable since 1 September 1989, but payment has been delayed for whatever reason for 12 months or more, will have interest (base rate plus one per cent) added to the arrears paid. Interest on delayed lump sum benefits has been allowed for some years.

The period during which the bulk transfer exercise, in respect of local government pension scheme (LGPS) members who joined a non-LGPS as a result of the transfer of a function before the relevant regulations came into effect on 28 December 1994, must be completed, is extended from three months to six months after that date. This extension applies to all such transfers made since 1 April 1986.

Finally, the regulations allow employees, paying additional voluntary contributions (AVCs) who cease LGPS membership, various options with regard to the disposal of the accumulated value of the AVCs paid.

### **The Local Government Pension Scheme Regulations 1995**

One of the recommendations to come out of the Efficiency Scrutiny of the Local Government Superannuation Scheme referred to in the 1993/94 Annual Report was the need for new regulations to consolidate the 1986 Regulations and the numerous amendments made to them.

Effective from 2 May 1995 and written in a more understandable format, the new regulations do not introduce changes in principle other than:

- increasing the lump sum payable on the death of a member to two years' pensionable pay;
- providing for automatic entry to membership of all permanent and temporary whole-time and part-time employees, irrespective of the number of hours and weeks being worked, and the opportunity for casual employees to apply to join;
- removing an employer's right to withhold membership of the Scheme on medical grounds;
- allowing for commutation of the retirement pension to a single lump sum at the rate of £5 for every £1 per annum of pension for a retiree in exceptionally serious ill-health with a life expectancy of less than a year; and
- replacing the word "superannuation" with the word "pension", the Scheme being renamed the "Local Government Pension Scheme".

### **EFFICIENCY SCRUTINY OF THE LOCAL GOVERNMENT SUPERANNUATION SCHEME**

On 30 July 1993, the Department of the Environment (DoE) published its Report - "Efficiency Scrutiny of the Local Government Superannuation Scheme (LGSS)". The scrutineer's terms of reference were:

"To review the Secretary of State for the Environment's responsibilities under the Superannuation Act 1972 for the Local Government Superannuation Scheme in England and Wales and to consider:

- the rationale for, and the efficiency and effectiveness of the present arrangements in relation to Local Government (excluding teachers, police and fire service) employees,
  - whether there are better ways of achieving the objectives of the present arrangements,
- and to make recommendations."

The Report recognised the importance of LGSS with an estimated 2 million actual or future beneficiaries, pension and other benefits paid totalling some £2 billion in England and Wales in 1991/92, and an aggregate fund value of over £33 billion accounting for more than 10% of UK pension funds.

#### **The Main Recommendations**

If all were to be implemented, there would be significant change in the way LGSS pensions are provided in the future.

#### ***De-regulation***

Local authority employers, including the NRA, should become fully responsible for their own pension arrangements, on either an individual or collective basis, possibly adopting a Trust Deed and Rules approach.

#### ***Future Administration of LGSS***

The Report put forward two proposals on administration regardless of whether or not the de-regulation option is pursued. Both were designed to provide LGSS members, tax payers, etc. with a better understanding of Scheme costs and allow a wider debate on efficiency by requiring:

- pension authorities to produce clear breakdowns of costs to permit comparisons in spending and staff per member/pensioner between them and, in time, with the private sector; and
- the Audit Commission to give greater priority to local authority pension administration involving more than simply checking that money has been paid, but also overseeing structures and procedures, thereby ensuring best practice and identifying waste.

### ***DoE Administration***

Even if de-regulation is pursued, it will not be effective for some years and DoE will continue to be involved with LGSS in the meantime. The Report contained several recommendations which have already been adopted to enable the Department to improve its service to employers and employees including:

- the provision of additional legal support;
- the issue of simplified consolidated regulations; and
- encouraging employers to give more priority to pensions and the future of LGSS.

### **The Present Position**

Although full de-regulation has been rejected by the majority of local authorities, most backed the improvements recommended for the administration of LGSS in both local and central government. Strong support was expressed for greater flexibility to be introduced so that employers can, within prescribed limits, exercise more discretion and choice in benefit provision over and above the current levels seen as a core, statutory minimum.

Ministers have endorsed the overall theme of the Scrutiny. The thrust of their decisions will be to seek improvements in the operation of LGSS, to increase flexibility in its delivery of pension provision and to examine whether the present arrangements for its provision should be decentralised. Their final conclusions are expected to be announced shortly.

### ***Value for Money Study***

In response to the recommendation that savings could be achieved if local authorities (and the NRA) took full responsibility for pensions provision in place of DoE, Ministers agreed to a Value For Money (VFM) study being carried out.

Under the title "Options for Change Study", its aim was "to assess the most efficient and effective framework from within which to deliver the LGSS, or its possible successor."

The objectives of the study were:

- (i) to prepare a costed analysis of the current LGSS; and
- (ii) to examine, having regard to economy, efficiency and effectiveness, a range of practical options to provide pensions to future local government employees.

DoE's closing date for responses to the VFM study was 14 October 1994. The NRA's Pension Fund Manager, Mrs Timbrell, chaired a National Association of Pension Funds' Committee established to consider the possible options and a detailed submission was made.

### **OTHER ISSUES**

- **Communications**

Members, pensioners and deferred pensioners have been sent Fundfare 94 which summarised the Fund's Report and Accounts as at 31 March 1994 and provided information on other pensions related matters. It also reinforced, for the benefit of all recipients, the security of the Fund's assets.

- **Pensions increase**

Pensions in payment and deferred benefits are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order for 1995 required an increase of 2.2% (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 10 April 1995.

- **Continued entitlement to pension**

Hartshead was commissioned by the Pensions Committee to verify that pensioners of the Active Members' Fund are, as far as can be ascertained, properly entitled to continue to receive their pensions, and this exercise is on-going.

The following arrangements were adopted to achieve this:

- all pensioners whose pension is being paid as a result of permanent ill-health are being asked to complete annual certificates of continued entitlement to their pensions;
- with the exception of those aged 85 or over or living abroad who are already asked to complete annual certificates, the remaining pensioners whose pension is being paid to a joint named bank, building society, etc. account have been asked whether they wish to complete annual certificates, or alternatively have their pension paid to an account in their name only.

This is intended to ensure that in the event of a pensioner's death, the account will cease to be credited with pension instalments. When payment is being made to a joint named account, if Hartshead is not made aware of a pensioner's death, the pension could continue to be paid and the other joint holder receive it.

- **Sex equality**

Although most of the outstanding issues remaining to be resolved after the Barber decision in May 1990 had already been decided by the European Court of Justice (ECJ) in the other cases it had been asked to consider, the ECJ announced its conclusions on the Coloroll case on 28 September 1994.

In the Coloroll judgment, the Court ruled that:

- claims for equal treatment can be brought against scheme administrators as well as employers; and
- where a transfer payment has been accepted from a scheme which has not yet equalised benefits for service from 17 May 1990, the receiving scheme is responsible for ensuring that benefits awarded in respect of the transfer reflect equal treatment even though the costs may not be covered by the transfer payment. These will have to be met by the receiving scheme although there is nothing to prevent it seeking appropriate recompense from the previous scheme.

In addition to announcing its decisions in the Coloroll case, the ECJ gave judgments on five other outstanding cases on equality in pension arrangements.

The most significant was the decision announced in a Dutch case. Where part-time employees are predominantly of one sex, generally female, irrespective of the number of hours being worked they may have the right to join their employer's pension scheme. If they do so and pay arrears of contributions, the ECJ suggested that their membership could be backdated to cover service with their present employer from 1976. The Court considered this earlier date to be appropriate, instead of May 1990, as employers had ignored a ruling involving discrimination against part-timers given by the Court at that time. However, it went on to state that the extent of back-dating would depend upon a country's national laws on time limits.

This has been resolved for the UK by an amendment to the Occupational Pension Schemes (Equal Access to Membership) Regulations 1976. Effective from 31 May 1995, this amendment extends the provisions of the regulations to disallow exclusion from membership of an employer's pension scheme through discrimination. As a result, claims by part-timers wanting to benefit from the ECJ ruling have to be made not later than six months after leaving the part-time employment, and can only be back dated for two years.

Although there are a number of issues still to be clarified in respect of part-timers, the decision is not likely to have any major impact on the NRA Pension Scheme. From August 1993, the only restriction to membership has been the requirement to work at least 35 weeks per year. This restriction has been removed by the Regulations since 2 May 1995.

- **The Pensions Bill 1995**

Published on 16 December 1994, the Pensions Bill generally adopts the proposals in the Government's White Paper issued in June 1994 as a result of the recommendations made by the Pension Law Review Committee, chaired by Professor Roy Goode.

It is intended to be on the statute books by October 1995, although most of the Bill's provisions, for which some require the drafting of detailed regulations including the specific exclusion of public service pension schemes (such as the Local Government Scheme) from, for example, a minimum funding requirement and compensation arrangement, will not be effective until April 1997.

The main provisions of interest to the National Rivers Authority and other public service pension schemes include:

- an Occupational Pensions Regulatory Authority is to be established, with powers to appoint and to remove trustees, to set penalties, to wind up pension schemes and to order restitution;
- all schemes must have an equal treatment rule in respect of service from 17 May 1990. Despite the amendment to the "Equal Access" Regulations introducing time limits for part-timers to back-date membership, there is also an amendment to the Equal Pay Act 1970 to bring pensions within its scope;
- state pension age for men and women is to be equalised at 65 from 2020, starting progressively from April 2010. Consequently, men born before April 1945 and women before April 1950 will not be affected by this change;
- a new minimum pension test for final salary schemes, contracted-out of SERPS, is to replace the present guaranteed minimum pension;
- the Occupational Pensions Board is to be dissolved and its functions transferred to the DSS; and
- overriding requirements are to be introduced for pension provision to be made for divorced spouses.

## FOREWORD TO THE ACCOUNTS

The accounts have been prepared on a market value basis. Contribution income from NRA Pension Scheme members has declined slightly, mainly due to reduced numbers, partly offset by pay awards. This has been matched by contributions from the employer at a rate of 100% of employees' contributions. Income from transfer values has again declined giving a net reduction in income of nearly £650,000. Retirement benefits and other payments have risen over the year by nearly £3 million, also reflecting the number who have left the employment of the NRA since the introduction of the NRA Severance Scheme in June 1993, giving a 47% decrease in net contributions in 1994/95 (after payment of benefits). Net contributions are the result of contribution income from Scheme members, the National Rivers Authority and transfer values received; less benefits, such as retirement and dependants' pensions, lump sum retiring allowances and death grants, and other payments, such as refunds of contributions and transfer values paid.

Income from investments rose by almost £2 million. There was a reduction in investment market values during the year as a result of the weakness of almost all investment markets.

The net assets of the Fund at 31 March 1995 have reduced by over £2 million, to almost £464 million.



## **Auditors' Report to the Secretary of State for the Environment and the Board of the National Rivers Authority**

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We have audited the financial statements on pages 20 to 25 which have been prepared on the basis of the accounting policies set out on page 22.

### **Respective responsibilities of the Pensions Committee and auditors**

As described on page 6, the Pensions Committee is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

We are also required to state whether, in our opinion, contributions payable to the Fund during the year have been made in accordance with the Scheme rules and the recommendation of the Actuary.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Pensions Committee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the plan's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 1995 and of the disposition at that date of its assets and liabilities.

In our opinion, the contributions payable to the Fund during the year ended 31 March 1995 have been paid in accordance with the Local Government Superannuation Regulations 1986 (now the Local Government Pension Scheme Regulations 1995) and the recommendation of the Actuary.

ROBSON RHODES  
Chartered Accountants  
and Registered Auditors  
Leeds

6 July 1995

## Statement by the Consulting Actuary

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The first formal actuarial valuation of the Fund was made as at 31 March 1992 under the Local Government Superannuation Regulations 1986. Details of the valuation are set out in our report dated 30 March 1993. The valuation allowed for the substitution of the 75% funding requirement previously applicable to the Fund by a full-funding requirement, in accordance with amending regulations made in 1993.

The main financial assumptions used in the valuation were:

Rate of return on investments:	9½% per annum
Rate of pay increases:	7% per annum plus age related increases
Rate of increase to pensions in payment:	5½% per annum
Valuation of assets:	Discounted value of future income, assuming market value notionally reinvested in FT Actuaries All-Share Index and assuming 5% per annum dividend growth.

The valuation showed the Fund to be in a strong financial position. We certified that the Authority should contribute at the rate of 100% of members' contributions for the period 1 April 1993 to 31 March 1996. A further valuation of the Fund, as at 31 March 1995, is currently in progress. Under the Regulations, any revised contribution rate emerging from the 1995 valuation will take effect from 1 April 1996.

for Bacon & Woodrow

12 May 1995

E.S. Thomas, FIA  
Fellow of the Institute of Actuaries

S.A. Fox, FIA  
Fellow of the Institute of Actuaries

NATIONAL RIVERS AUTHORITY PENSION FUND

Accounts for the year ended 31 March 1995

1994 £000		Notes	1995 £000	£000
	<b>INCOME AND EXPENDITURE</b>			
	<b>Contributions and other receipts</b>			
	Normal	1		
6,645	Scheme members		6,554	
6,656	National Rivers Authority		6,556	
<u>13,301</u>			<u>13,110</u>	
	Additional			
231	Scheme members		268	
<u>13,532</u>				<u>13,378</u>
998	Transfer values received			507
<u>14,530</u>				<u>13,885</u>
	<b>Less:</b>			
	<b>Benefits and other payments</b>	5		
(2,277)	Retirement and dependants' pensions		(4,283)	
(4,188)	Lump sum retiring allowances		(4,934)	
(119)	Death grants		(204)	
<u>(6,584)</u>			<u>(9,421)</u>	
(531)	Transfer values paid		(535)	
(86)	Refunds of contributions		(50)	
<u>(7,201)</u>				<u>(10,006)</u>
<u>7,329</u>	<b>Contributions less benefits</b>			<u>3,879</u>
	<b>Investment income</b>			
2,252	Fixed interest securities		3,025	
11,094	Dividends from equities	6	11,010	
1,102	Interest on cash deposits		2,338	
<u>14,448</u>			<u>16,373</u>	
	<b>Less investment and administration expenses</b>	6		
(1,226)			(1,281)	
<u>13,222</u>				<u>15,092</u>
<u>20,551</u>	<b>Amounts available for investment</b>			<u>18,971</u>

NATIONAL RIVERS AUTHORITY PENSION FUND

## Accounts for the year ended 31 March 1995

1994 £000		Notes	£000
	<b>NET ASSET MOVEMENTS</b>		
391,691	<b>Opening Funds at 1 April</b>	3	<b>466,352</b>
20,551	Amounts available for investment		<b>18,971</b>
54,110	Changes in investment market values		<b>(21,419)</b>
<u>466,352</u>	<b>Closing Funds at 31 March</b>		<u><b>463,904</b></u>

£000			£000
	<b>NET ASSETS</b>		
	<b>Investments at Market Value</b>	2	
451,912	Fixed and variable interest stocks		<b>449,196</b>
14,580	Short-term deposits		<b>8,605</b>
466,492			<b>457,801</b>
(140)	Net current (liabilities)/assets	4	<b>6,103</b>
<u>466,352</u>	<b>Net Assets at 31 March</b>		<u><b>463,904</b></u>

**LORD CRICKHOWELL**  
Chairman, NRA Pensions Committee

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

6 July 1995

# 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 its own contributions and those of its Pension Scheme members. 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 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. For securities, the effective date used to bring income into the accounts is the due date of payment. However, for government securities, the ex-dividend date is the effective date used.

## Administration expenses

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

## Taxation

- (i) **UK income tax**  
The Fund is an exempt approved fund 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 and dividend 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 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.
- (iv) **Overseas tax deductions**  
Where possible, tax deducted at source is recovered by the investment managers.

## Notes to the Accounts

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

Following the actuarial valuation as at 31 March 1992, the employer's contribution rate was reduced to 100% of members' contributions from 1 April 1993.

These Accounts do not reflect liabilities to pay pensions and other benefits in the future.

The actuarial position is dealt with in the statement by the Actuary on page 19 preceding these accounts.

### 2. Analysis of investments

Market Value 31 March 1994		Market Value 31 March 1995	
£000		£000	£000
	<b>Fixed interest</b>		
4,481	United Kingdom Government	40,165	
36,936	Overseas Government	44,331	
<u>41,417</u>			84,496
	<b>Equities and convertibles</b>		
272,679	United Kingdom - listed	259,073	
132,424	Overseas - listed	100,463	
<u>405,103</u>			359,536
	<b>Short-term loans and deposits</b>		
14,580	United Kingdom		8,605
<u>5,392</u>	<b>Property unit trust</b>		5,164
466,492			<u>457,801</u>
(140)	<b>Net current (liabilities)/assets</b>		6,103
<u>466,352</u>			<u>463,904</u>

## Notes to the Accounts – continued

### 3. Details of net asset movements

1994 £000		1995 £000
<b>Balances at 1 April</b>		
321,141	At cost	388,347
70,550	Unrealised appreciation	78,005
<hr/> 391,691		<hr/> 466,352
<b>Movements in the year</b>		
20,551	Amounts available for investment	18,971
46,655	Realised gains	12,402
7,455	Changes in valuation	(33,821)
<hr/> 74,661		<hr/> (2,448)
<b>Balances at 31 March</b>		
388,347	At cost	419,720
78,005	Unrealised appreciation	44,184
<hr/> 466,352		<hr/> 463,904

Investment transactions in the year to 31 March 1995 amounted to:

1994 Total £M		Gartmore £M	Schroder £M	1995 Total £M
278.8	Purchases	120.5	45.7	166.2
(264.7)	Sales	(111.0)	(36.6)	(147.6)
<hr/> 14.1		<hr/> 9.5	<hr/> 9.1	<hr/> 18.6

## Notes to the Accounts – continued

### 4. Net current (liabilities)/assets

31 March 1994 £000		31 March 1995 £000	£000
	<b>Current assets</b>		
	Debtors		
	Amounts due from		
	National Rivers Authority	1,108	
1,234	Due from brokers	7,770	
7,571	Income tax recoverable	109	
125	Accrued investment income and other debtors	19	
253	Cash	1,042	
20			
<u>9,203</u>			10,048
	<b>Current liabilities</b>		
	Creditors		
	Due to brokers	(2,999)	
(8,228)	Other	(946)	
(1,115)			
<u>(9,343)</u>			<u>(3,945)</u>
<u>(140)</u>	<b>Net current (liabilities)/assets</b>		<u>6,103</u>

At 31 March 1995 potential future liabilities amounted to: Calls and underwriting £1,016,000 (1994: £226,000).

### 5. 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.

1994 £000		1995 £000
97	Retirement and dependants' pensions	535
112	Lump sum retiring allowances	89
-	Death grants	24
<u>209</u>		<u>648</u>

### 6. Unit trust expenses

Income and expenditure is shown gross of internal expenses - £452,000 (1994 : £414,000).

# SCHEME RULES AND BENEFITS

## SCHEME MEMBERSHIP AND INCOME

- (a) NRA employees between the ages of 16 and 65 are eligible for entry to the Scheme. Whole-time and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (backdated to the start of membership if made within three months). Casual employees must 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 (AVCs) 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 Fund to increase benefits which may eventually become payable.
- (c) The NRA must make the balancing contribution required to keep the 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.
- (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 Pension Scheme Regulations 1995.

## 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.

### Under two years' service:

- A. 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.

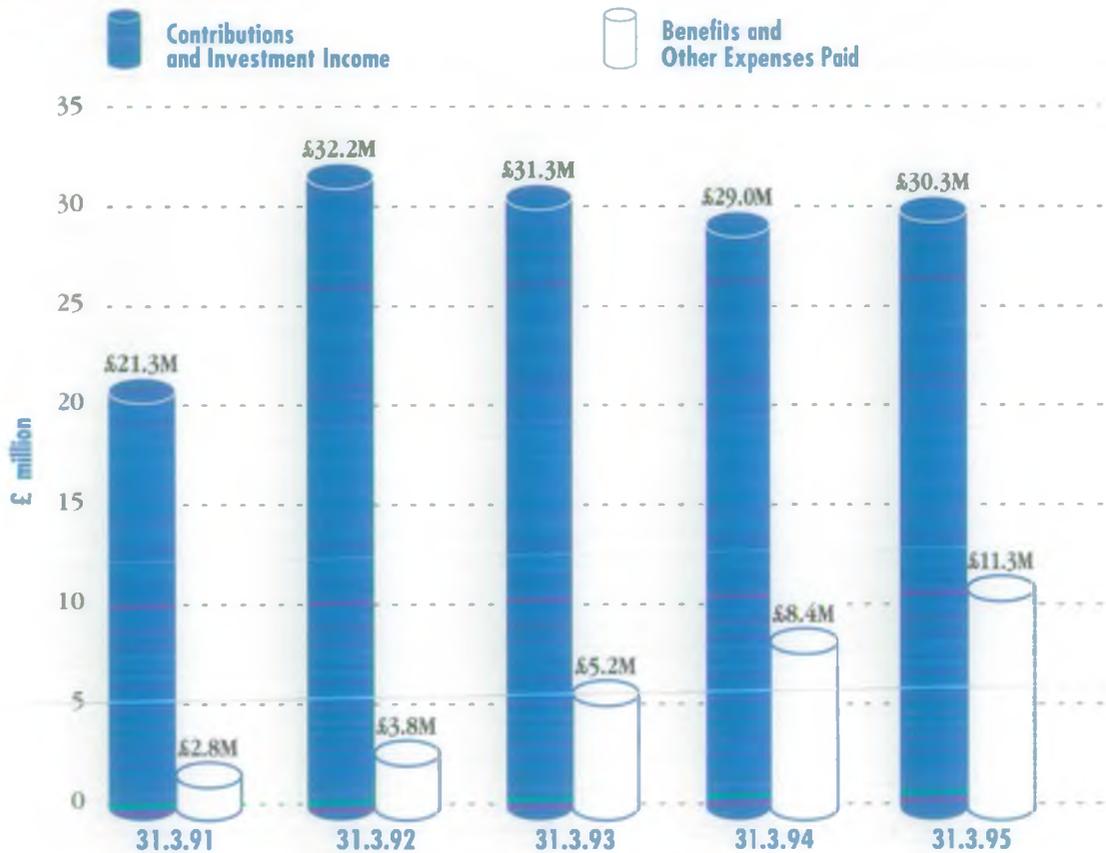
## TRANSFERS TO OTHER SCHEMES

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

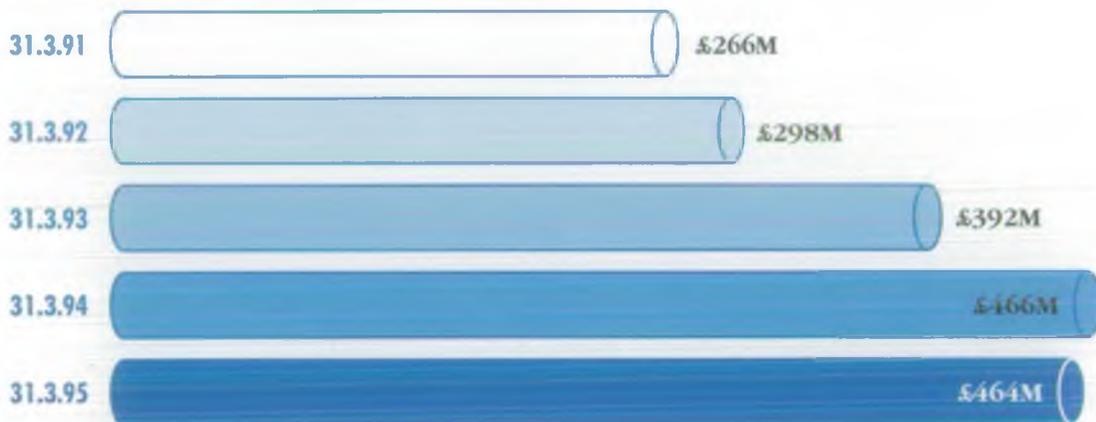
## FUND MEMBERSHIP

MEMBERSHIP	31.3.91	31.3.92	31.3.93	31.3.94	31.3.95
Members	6,258	6,824	7,098	6,743	6,495
Pensioners	159	286	431	761	1,063
Deferred Pensioners	192	245	318	399	588

## FINANCIAL SUMMARY



## MARKET VALUE OF THE FUND



The above figures show a substantial increase in the market value of the Fund since its establishment on 7 July 1989.

**Any enquiries regarding this Report should  
be addressed to:**

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