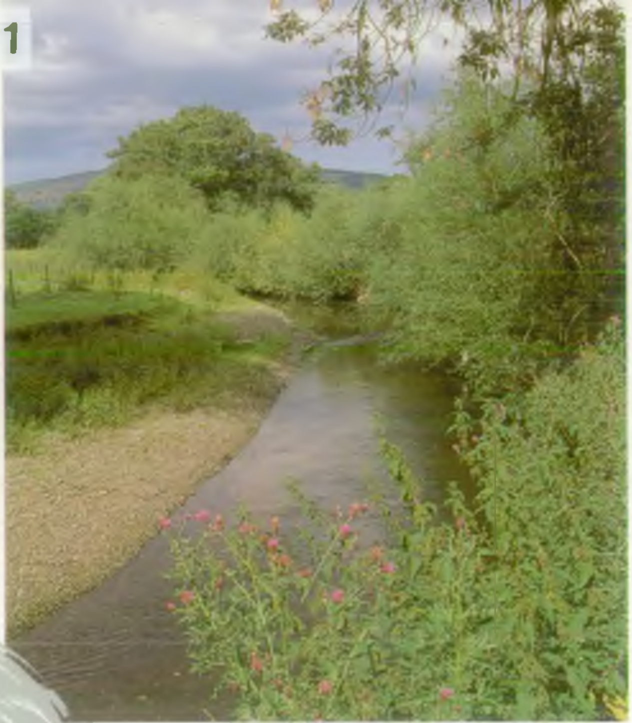

Guardians of the Water Environment

NRA

National Rivers Authority
Superannuation Fund

Report and Accounts
MARCH 1993

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

As a public service pension scheme, the NRA Superannuation 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.

NRA - GUA
HO

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CHAIRMAN'S STATEMENT

I am pleased to present the Report and Accounts for the National Rivers Authority Superannuation 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 1993. The Report also provides information about the management structure of the Fund, its membership and a summary of the Fund's benefits.

The Fund returned a satisfactory 26.5% on its investments for the year which exceeded the median return of 25.8% and compared favourably to retail price inflation of a mere 1.9%.

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 refer to the contact point shown on page 25.

LORD CRICKHOWELL **8 July 1993**
Chairman,
NRA Pensions Committee

The Pensions Committee

Chairman

Lord Crickhowell (from 10 February 1993)
National Rivers Authority

Members

Mr P A Brandt (Chairman to 10 February 1993)
Board Member, National Rivers Authority

Mr E Gallagher
Chief Executive, National Rivers Authority

Mr P J Humphreys
Personnel Director, National Rivers Authority

Mr N Reader
Finance Director, National Rivers Authority

Mr R J F Taylor
Board Member, National Rivers Authority

Mrs S J Timbrell
Pension Fund Manager, National Rivers Authority

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

Mr J Tigue
Foreign and Colonial Investment Management Ltd

The Pensions Advisory Committee

Chairman

Lord Crickhowell (from 10 February 1993)

PC Members

Mr P A Brandt (Chairman to 10 February 1993)

Mr E Gallagher

Mr P J Humphreys

Mr N Reader

Mr R J F Taylor

Mrs S J Timbrell

Regional General Managers

Mr K W Newham (retired)

Dr J H Stoner

Member Representatives

Mr G Billington

Mr M Duery

Mr A J Golding

Mr R M Watson

Mr D White

Mr M E Wragg

Auditors	Price Waterhouse
Bankers	Bank of Scotland National Westminster Bank plc
Consulting actuaries	Bacon & Woodrow
Investment managers	Gartmore Pension Fund Managers Limited Queen Anne's Gate Asset Management Limited
Pension scheme administrator	Hartshead Limited

INTRODUCTION

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 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

As the designated administering authority of the Active Members' Fund, 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 the Fund.

With a membership of nominated NRA Board members, senior officers and external advisers, the Pensions Committee (PC) has delegated responsibility for Active Members' Fund matters and is a sub-committee of the NRA Board. As such it is charged with appointing managers and agents required for the effective management of the 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 communications with employees in the regions.

NRA has contractual arrangements with Hartshead Limited to undertake the day to day administration of the Fund. Responsibility for managing the Fund's investments has been shared equally between Gartmore Pension Fund Managers Limited and Queen Anne's Gate Asset Management Limited.

REMUNERATION BASIS FOR FUND MANAGEMENT EXPENSES FOR THE YEAR TO 31 MARCH 1993

Pension Scheme Administration - £173,769 (1992: £152,503)

The above amount includes a management fee and activity fees based on an agreed scale of charges and has been met from the Fund.

Investment Management Services - £560,362 (1992: £500,750)

The above amount has also been met from the Fund and is calculated by means of an agreed scale of charges linked to the market value of quoted securities using month-end valuations.

As part of its stewardship, the Pensions Committee has undertaken reviews of the various fund management expenses as well as monitoring and, on occasions, influencing financial transactions. This has resulted in significant savings, some of which occur in future years.

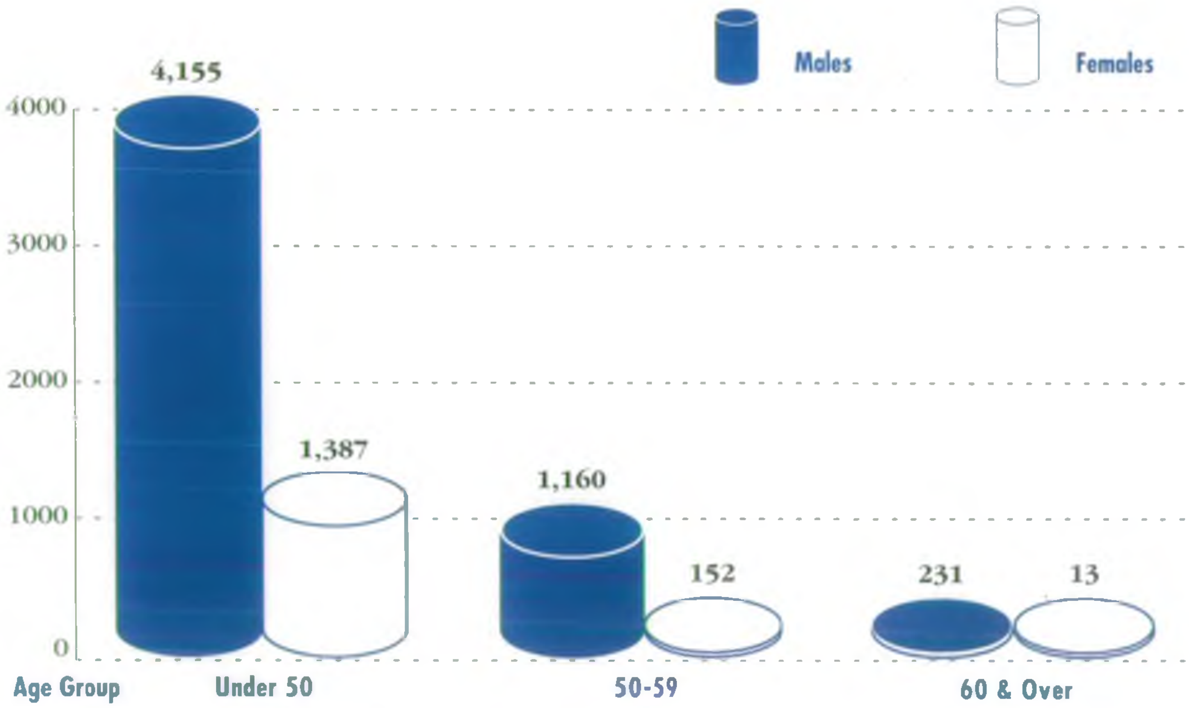
MEMBERSHIP

Membership of the 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 remains a high proportion of the total contributing membership of the Active Members' Fund.

Whole-time eligible employees become members automatically with the right to opt out. However, part-time eligible employees and whole-time employees appointed before 1 April 1990 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 continues to be made to encourage them to join.

Fund Membership at 1 April 1992				6,824
Add:				
Entrants	-	new starters		614
				7,438
Less:				
Exits	-	options pending	43	
	-	new retirement pensions	131	
	-	deaths in service	12	
	-	preserved benefits	100	
	-	refunds of contributions/transfers	54	
				340
Fund Membership at 31 March 1993				7,098

AGE PROFILE OF CURRENT PENSIONERS



In addition, the Fund has 431 current pensioners (including 47 spouses' and children's pensions) and 318 deferred pensioners.

ACTUARIAL VALUATION

The Regulations require actuarial valuations of Local Government Superannuation 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 employers' contribution.

Whilst the 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 provide for a Consulting Actuary to review and certify the continuing level of employer's contributions for the period up to 31 March 1993.

Although the first formal valuation was not required until 31 March 1992 (with the resulting revised employer's contribution rate payable from 1 April 1993), the Consulting Actuary made an interim assessment as at 31 March 1991. This resulted in the employer's contribution rate being reduced from 200% (the rate recommended by the Actuary to the former Water Authorities Superannuation Fund) to 150% of the members' contributions from 1 April 1992.

The valuation as at 31 March 1992 has allowed for a 100% solvency target 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 has certified that the National Rivers Authority contribution can be further 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 16.

INVESTMENT

INVESTMENT ANALYSIS

The year to the end of March was marked by strong returns from most equity and bond markets with interest rates tending to hold the key to local currency performances and exchange rate moves significantly enhancing returns to the sterling investor.

Distribution of Investments at 31 March 1993

	Hartshead £M	Gartmore £M	QAG £M	Total £M	% of Total Fund
UK equities and convertibles	-	119.9	114.5	234.4	59.8
Fixed interest	-	19.3	4.5	23.8	6.1
Overseas equities and convertibles					
N America	-	14.7	17.0	31.7	8.1
S America	-	-	7.4	7.4	1.9
Europe	-	19.3	14.7	34.0	8.7
Pacific Basin	-	18.3	26.5	44.8	11.4
Emerging markets	-	1.9	-	1.9	0.5
Forward currency	-	-	0.1	0.1	-
Short term loans and deposits	0.4	-	4.5	4.9	1.3
Property unit trust	-	-	4.3	4.3	1.1
Net assets	1.2	1.6	1.6	4.4	1.1
TOTAL FUND	1.6	195.0	195.1	391.7	100.0

Analysis of Investments by Market Value at 31 March 1993

UK Equities Sector

	Market Value £M	UK Equity %
Health and Household	20.7	8.8
Telephone Networks	16.6	7.1
Oil and Gas	16.5	7.0
Banks	15.2	6.5
Miscellaneous	11.5	4.9
Electricity	11.1	4.8
Other Industrials	10.3	4.4
Food Retailing	9.7	4.1
Media	9.4	4.0
Others	113.4	48.4
TOTAL	234.4	100.0

Largest UK Equity Holdings

	Market Value			UK Equity
	Gartmore £M	QAG £M	Total £M	Portfolio %
British Telecom	4.0	19.6	23.6	10.1
Shell Transport & Trading	3.2	15.8	19.0	8.1
BAT Industries	3.5	14.1	17.6	7.5
BTR	2.6	13.9	16.5	7.0
Glaxo	2.3	14.1	16.4	7.0
General Electric	-	13.0	13.0	5.5

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% (10% from 22 March 1993) in any single holding. Up to 20% (25% from 22 March 1993) of a Fund's value can be invested in various unit trusts managed by a single manager. Also from 22 March 1993, the 10% single holding limit will 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%.
- From 22 March 1993, up to 25% of a 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.

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 Committee comprises two NRA Board members, the Chief Executive, the Directors of Finance and Personnel, the Pension Fund Manager and two independent advisers.

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 +1½% per annum.

INVESTMENT MANAGEMENT

The Committee's strategy has been achieved by the appointment of two investment managers, Queen Anne's Gate (to 30 June 1993) and Gartmore. They managed the Fund, valued at £392 million at 31 March 1993, on a balanced management basis.

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.

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 sector in 1992/93 was overseas bonds returning 30.9% to the sterling investor. Overseas equities came a close second returning 30.5% compared with a return of 26.0% from UK equities.

The strongest returns from overseas equities were achieved from Japan (38.0%), the US (32.0%) and the Pacific Basin (excluding Japan) (32.0%).

For the year to 31 March 1993, the combined assets of the Fund returned 26.5% against a CAPS median return of 25.8%. The Fund's outperformance is attributed to its returns from overseas bonds and overseas equities. The Fund's returns exceeded the indices from both sectors.

Gartmore exceeded their investment objective by returning 28.4% for the year outperforming the CAPS median by 2.6%. Queen Anne's Gate underperformed their objective by 2.7% returning 24.6%.

The Pensions Committee monitors the performance of the managers and it decided, after careful consideration and selection, that Schroder Investment Managers would replace Queen Anne's Gate with effect from 1 July 1993.

QUEEN ANNE'S GATE

The portfolio managed by Queen Anne's Gate maintained a sizeable exposure to the UK equity market throughout the year, but remained relatively light in Europe. They held an overweight position in the US (around 9%) relative to the average fund's exposure of 5%. The portfolio's Japanese investments were built up in anticipation of an economic and profits revival through 1993 and 1994. Their heavy Asian weighting was beneficial to the portfolio and, although periods of volatility can be expected, they consider that the Chinese economy continues to display good opportunities for profitable investment.

GARTMORE

Gartmore's investment strategy is to have a 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 if the short-term outlook for equities deteriorates. For example, in periods of high inflation, the portfolio would be protected with significant exposure to index-linked gilts.

The most significant change to the asset mix during the year was the reduction in the European weighting from an overweight position. Gartmore grew increasingly cautious towards Continental equities as the economic slowdown, brought about by high German interest rates, continued to bite and expectations for corporate earnings appeared unrealistically high. However, the German Bundesbank displayed a willingness to ease rates as the year progressed and therefore rebuilt the weighting to a neutral position as falling interest rates can act as a powerful stimulus to share prices.

The other major move was an increase, during the period under review, in the fixed interest weighting via overseas bonds, although this increase was reversed by the end of the period. The purchases consisted largely of Dollar-denominated bonds, reflecting not only Gartmore's positive view of the US bond market, but also their opinion that the dollar was undervalued in relation to sterling. Following a sharp correction in the £/$ exchange rate, they reduced the overseas bond position in the final quarter to March 1993, and increased their sterling assets via a new investment in index-linked gilts. The prospect of declining real yields and a possible increase in UK inflationary pressures, following devaluation, suggest that index-linked gilts should prove an attractive diversification.

Throughout the period they continued to favour the Pacific Rim markets in preference to Japan. A small position in emerging markets was introduced towards the end of the period, which was funded by a corresponding reduction in the Pacific Rim weighting. It is primarily focused on the developing markets of Latin America and South East Asia which Gartmore believe present a unique opportunity for exceptional growth.

ADMINISTRATION

CHANGES TO THE NATIONAL RIVERS AUTHORITY PENSION SCHEME

The 12 months ended 31 March 1993 have seen three sets of amendments to the Local Government Superannuation Scheme (LGSS) Regulations.

The Local Government Superannuation (National Rivers Authority) Regulations 1992

These regulations gave effect to the undertaking made by Lord Caithness in 1988 on behalf of the Government, during the passage of the Water Act 1989 through Parliament:

- Former LGSS (Water Authorities Superannuation Fund) members who had opted to join a Water Pension Scheme (WPS) before being compulsorily transferred to the NRA Pension Scheme (NRAPS) on 1 September 1989 are, to all intents and purposes, treated as though they had remained LGSS members accruing pensionable service during the whole of their intervening WPS membership.
- Within timescales prescribed by the Regulations, employees who paid lower contributions as WPS members are able to make up the difference and count their service in full in NRAPS.
- Those who choose not to pay the extra contributions have their intervening WPS service reduced proportionately for the purposes of NRAPS.
- Employees who paid higher contributions during their WPS membership than they would as WASF members have had the excess returned to them, with interest.

The 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 former WASF until 31 August 1989. The payments required, with an appropriate addition for interest, therefore relate only to employers' and employees' contributions paid during WPS membership which would have been remitted to the former WASF if the employees concerned had not transferred to a WPS. As the Active Members' Fund received the full apportionment, these amounts have been claimed from the relevant WPS and credited to the NRA's New Main Fund as successor to WASF.

The Local Government Superannuation (Remuneration) Regulations 1992

Effective from 1 January 1993, these regulations have revised the definition of pensionable remuneration in the Local Government Superannuation Regulations to exclude the money value of the personal use of an employer provided/leased car. However, employees who, on 31 December 1992, were paying pension contributions on the value of a provided car continue to do so for as long as they remain with the same employer.

The regulations also required that any appeals by aggrieved LGSS members to the Secretary of State for the Environment against an employer's non-recognition of the private use value of a car, must have been lodged before 1 April 1993 if they were to be determined on the basis of the earlier definition of pensionable remuneration.

The Local Government Superannuation (Amendment) Regulations 1993

These regulations have removed the requirement imposed from 1 April 1990 that employers should contribute at a rate to ensure that a fund's assets cover only 75% of its current and future liabilities. With the amendment, an actuary carrying out the valuation as at 31 March 1992 is required to set an employer's contribution rate (commencing from 1 April 1993) to restore the fund to full solvency. This can be done on a year by year basis where gradual adjustment is considered to be appropriate.

With effect from 22 March 1993 the regulations allow up to 25% of a superannuation fund's value to be invested as a single contract in a managed fund with an insurance company or other similar body.

Furthermore, the value of a fund which can be invested in a single holding has been raised from 5% to 10%, and up to 25% instead of 20% can be invested in unit trusts managed by a single body. Where the investment management arrangements have been delegated to authorised fund managers, the 10% single holding limit does not apply to unit trusts.

With the dissolution of the Committee of London and Scottish Brokers, which in the past set the syndicated "bank base rate", the regulations also prescribe that HM Treasury will determine the "base rate" and the "standard rate" (base rate +1%) for purposes of the Regulations. This is, for example, applied to delayed lump sum retirement and death benefits.

DRAFT REGULATIONS ISSUED FOR CONSULTATION

The Local Government Superannuation (Membership) Regulations

These regulations (the second consultation draft to be issued) will give effect to Ministerial intentions outlined in a statement issued by the Department of the Environment in July 1991. This advised that Ministers were concerned about the number of non-local government employees enjoying membership of the Local Government Superannuation Scheme (LGSS) with its statutory benefits underwritten by the tax payer. They considered that the Scheme should be restricted to local government and other specified public service employees as soon as practicable. The first consultation draft regulations issued in October 1992 were to apply from 1 January 1993 but no date is given on the later version.

The draft regulations provide that, after they become effective, those employees of private companies with an existing agreement between the employer and the pension authority to admit them to LGSS membership will be able to remain in the Scheme. Also, LGSS membership will be open to employees of local authority (or NRA) controlled companies who were LGSS members immediately before the company was established. Employees of such companies appointed after the regulations are effective (or not covered by an admission agreement entered into before then) will not be allowed LGSS membership.

Irrespective of the arrangements by which they are LGSS members, if a company ceases to be under local authority (or NRA) control, existing employees will not be permitted to remain in LGSS after the change of ownership.

The Local Government Superannuation (Investment) Regulations 1993

To be effective from 1 January 1993, these will permit local authorities to invest up to a maximum of 25% of the value of their superannuation funds in stock lending arrangements provided they comply with relevant parts of the Financial Services (Regulated Schemes) Regulations 1991.

Aside from this principal amendment, the draft Regulations also ensure compliance with the European Community Second Banking Co-ordination Directive by specifically stating that funds may be deposited in any European Community bank on the same terms as British banks. Banks outside the EEC are excluded unless they have a UK registered office.

The Local Government Superannuation (Part time Employees) Regulations 1993

Issued in mid March, these draft regulations aim to remove the present minimum working requirement of 15 hours per week. As a result, all employees who are otherwise eligible will be allowed LGSS membership irrespective of the number of hours they are working. Provided they elect within six months of the operative date of the regulations, part time employees in post at that time will be able to back date their scheme entry to 1 January 1993 (or, if later, the date their relevant employment started).

OTHER ISSUES

- **Communications and the Maxwell Saga**

  Following the developments in the Mirror Group Newspapers' Pension Funds as a result of the Maxwell saga, letters were sent to pensioners with their April 1992 pay advice slips to assure them that the Fund had no connection with the late Robert Maxwell or the Mirror Group

  Members, pensioners and deferred pensioners have been sent Fundfare 92 which summarised the Fund's Report and Accounts as at 31 March 1992 and provided information on other pensions related matters. It also reinforced for the benefit of all recipients, the message contained in the April letter to pensioners regarding the late Robert Maxwell.

  The financial controls over the NRA Pension Scheme were reviewed during 1991/92. This confirmed that the responsibility for the transfer of cash and assets is not vested in one person.

- **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 1993 required an increase of 3.6% (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 12 April 1993.

- **Disclosure of Information**

  The "Disclosure of Information Regulations" were substantially amended in September 1992 to require occupational schemes:

  - to include further material in their annual reports and accounts and specific additional information (to also be given to existing members by 31 December 1992) in the Scheme guides,
  - to notify members of any change to a scheme's rules not later than one month after its implementation,
  - to respond to requests fo. estimates from members and to provide details of benefits awarded within prescribed timescales.

  Although as mentioned on the opening page, the content of this Annual Report and Accounts falls outside the Disclosure provisions, nevertheless the new requirements have been recognised where appropriate. The Fund is not however exempt from the remaining changes and Fundfare 92 was used to advise members and pensioners of the prescribed additional information to be disclosed by 31 December 1992, namely:

  - the Occupational Pensions Advisory Service is available to provide free help on any pensions problems,
  - as a last resort, the Pensions Ombudsman will adjudicate in cases of maladministration, and
  - the Fund is registered with the Registrar of Occupational and Personal Pensions.

  The Members' Guide has been revised to accommodate this information, and various changes such as the provision of widower's pensions described in last year's Annual Report, introduced since the previous guide was published.

  As for the prescribed timescales for notifying benefits, etc., Hartshead's performance criteria ensures that unless delay is caused by circumstances outside its control, these are met.

- **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 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 included by European Community (EC) representatives in the Maastricht Treaty. Originally formulated in December 1991, this has since been revised on issues not associated with the protocol to remove concerns expressed by some Member States. However, before the Treaty (and the protocol) is effective the revised Agreement requires the unanimous ratification of all EC Member States.

  In the meantime, a test case involving the Coloroll Group Pension Schemes for which the UK Government has agreed to pay the legal costs, was considered by the ECJ on 26 January 1993 along with another UK case and cases from Denmark and Germany. The Advocate General (a lawyer employed by the ECJ) gave his opinion on 28 April 1993 that no retrospection meant that equal benefits did not have to be awarded for service before 17 May 1990. At the same time, he also stated that unisex actuarial factors (eg. for transfer values and early retirement reductions) had to be used in respect of benefits awarded from service after the Coloroll judgment. It is most likely that the ECJ will endorse the Advocate General's opinion when it makes its judgment, expected in July or October 1993.

  As for other public service pension schemes, DoE are not intending to take any action with LGSS until the retrospection issue has been finally resolved.

- **Security of Pension Funds**

Following on from the Maxwell affair, in July 1992 the Secretary of State for Social Security established the Pension Law Review Committee chaired by Professor Roy Goode with a remit: "To review the framework of law and regulation within which occupational pension schemes operate, taking into account the rights and interests of scheme members, pensioners and employers; to consider in particular the status and ownership of occupational pension funds and the accountability and roles of trustees, fund managers, auditors, and pension scheme advisers; and to make recommendations".

Asked to produce its report within 12 months the Committee issued a consultative document in September 1992 containing numerous questions on all aspects associated with the management, control and operation of occupational pension schemes. By the deadline of 15 December 1992, the Committee had received over 1,700 responses to its consultative document. Many of the areas of concern where change is likely to be proposed by the Committee relate to private sector Trustee administered rather than statutory public service schemes (such as the Fund), with their already strict regulatory controls.

Although they should again fall outside any such arrangement as the benefits provided are underpinned by statute, one of the most controversial issues to emerge from the Goode Committee's consultation process has been the establishment of a national compensation scheme. Well run, fully funded pension schemes do not consider that any arrangement established to compensate pensioners for loss of pension rights should extend beyond cases of fraud. Accepting that the Committee will have to make the final decision, the pensions industry is generally opposed to compensation facilities being available "across the board" whenever insufficient monies are available to meet pension liabilities as it believes this could lead to underfunding and other associated problems.

The ownership of a pension fund surplus and the responsibility for its disposal is another key matter which the Committee is considering. As might be expected differing views have been put forward but again the eventual outcome is unlikely to have any direct impact on the Fund with its regulatory prescribed benefits package.

- **Equal State retirement ages**

In December 1991, the Government issued a consultation document with a closing date for comment of December 1992, which put forward suggestions for meeting its commitment to equalise the State retirement age, currently 60 for a woman and 65 for a man. The document suggested either a fixed age of 60, 63 or 65 or a flexible approach such as a "decade of retirement" whereby males and females could draw their State pension anytime between 60 and 70, appropriately reduced or increased around a pivotal age of say 63 when the same standard rate would be paid to both.

The Secretary of State for Social Security had been expected to issue a White Paper proposing that a fixed equal State retirement age of 65 should commence to be introduced in ten years' time, and then by 12 monthly stages over the next five years. However, a final decision and announcement is still awaited.

FOREWORD TO THE ACCOUNTS

The accounts have been prepared on a market value basis. A 4% increase in Fund membership together with inflation has resulted in a 12% increase in contribution income from pensionable employees. This has been matched by contributions from the employer at a rate of 150% (200% for 1991/92) of employees' contributions. Income from transfer values has declined giving a net reduction in income of nearly £2 million. Benefits and other payments have risen over the year by more than £1 million, giving an 18% decrease in net contributions (after payment of benefits).

The net assets of the Fund at 31 March 1993 have risen by over £94 million, to almost £392 million.

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

We have audited the financial statements on pages 17 to 22 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 1993 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 1993 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

8 July 1993

Statement by the Consulting Actuary

The first formal actuarial valuation of the Fund under Regulation P5 of the Local Government Superannuation Regulations was made as at 31 March 1992. 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 has shown the Fund to be in a strong financial position. We have certified that the Authority should contribute at the rate of 100% of members' contributions for the period 1 April 1993 to 31 March 1996. This represents a reduction from the rate of 150% of members' contributions which we certified on an interim basis for the year ended 31 March 1993.

for Bacon & Woodrow

28 April 1993

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

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

Accounts for the year ended 31 March 1993

1992 £000		Notes	1993 £000	1993 £000
	INCOME AND EXPENDITURE			
	Contribution and other receipts			
	Normal			
5,752	Pensionable employees	1	6,405	
11,508	National Rivers Authority		9,606	
17,260			16,011	
	Additional			
133	Pensionable employees		197	
17,393				16,208
2,364	Transfer values received			1,688
19,757				17,896
	Less:			
	Benefits and other payments	5		
(889)	Retirement and dependants' pensions		(1,460)	
(1,459)	Lump sum retiring allowances		(1,576)	
(127)	Death grants		(215)	
(2,475)			(3,251)	
(561)	Transfer values paid		(832)	
(51)	Refunds of contributions	6	(90)	
(3,087)				(4,173)
16,670	**Contributions less benefits**			13,723
	Investment income			
636	Fixed interest securities		1,354	
8,729	Dividends from equities		10,453	
2,622	Interest on cash deposits		874	
494	Other income		552	
12,481			13,233	
	Less investment and administration expenses			
(706)			(889)	
11,775				12,344
28,445	**Amounts available for investment**			26,067

Accounts for the year ended 31 March 1993

1992 £000		Notes	£000
	NET ASSET MOVEMENTS	3	
265,695	**Opening Funds at 1 April**		297,532
28,445	Amounts available for investment		26,067
3,392	Changes in investment market values		68,092
297,532	**Closing Funds at 31 March**		391,691

NET ASSETS

£000			£000
	Investments at Market Value	2	
285,520	Fixed and variable interest stocks		382,379
7,557	Short-term deposits		4,945
293,077			387,324
4,455	Net current assets	4	4,367
297,532	**Net Assets at 31 March**		391,691

LORD CRICKHOWELL
Chairman, NRA Pensions Committee

E. GALLAGHER
Chief Executive, National Rivers Authority

8 July 1993

Accounting Policies

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. 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

Net 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 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 75% funding requirement (restored to 100% from 1 April 1993), 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 at 31 March 1991, resulted in the rate being reduced to 150% of employees' contributions from 1 April 1992. Following the actuarial valuation as at 31 March 1992, this has been further reduced to 100% of members' contributions from 1 April 1993.

The actuarial position is dealt with in the statement by the Actuary on page 16 preceding these accounts.

2. Analysis of investments

Market Value 31 March 1992 £000		Market Value 31 March 1993 £000	Market Value 31 March 1993 £000
	Fixed interest		
4,836	United Kingdom Government	9,398	
11,211	Overseas Government	14,422	
16,047			23,820
	Equities and convertibles		
178,368	United Kingdom - listed	234,381	
87,056	Overseas - listed	119,745	
265,424			354,126
-	**Forward currency - unrealised profit**		112
	Short-term loans and deposits		
7,557	United Kingdom		4,945
4,049	**Property unit trust**		4,321
293,077			387,324
4,455	**Net current assets**		4,367
297,532			391,691

3. Details of net asset movements

1992 £000		1993 £000
	Balances at 1 April	
244,783	At cost	289,982
20,912	Unrealised appreciation	7,550
265,695		297,532
	Movements in the year	
28,445	Amounts available for investment	26,067
16,754	Realised gains	5,092
(13,362)	Changes in valuations	63,000
31,837		94,159
	Balances at 31 March	
289,982	At cost	321,141
7,550	Unrealised appreciation	70,550
297,532		391,691

Investment transactions in the year to 31 March 1993 amounted to:

1992 Total £M		Gartmore £M	QAG £M	1993 Total £M
244.7	Purchases	78.8	84.5	163.3
(189.1)	Sales	(68.7)	(66.9)	(135.6)
55.6		10.1	17.6	27.7

4. Net current assets

31 March 1992 £000		31 March 1993 £000	31 March 1993 £000
	Current assets		
	Debtors		
	Amounts due from		
1,435	National Rivers Authority	1,233	
301	Due from brokers	883	
91	Income Tax recoverable	203	
	Accrued investment income and		
49	other debtors	97	
3,523	Cash	3,854	
5,399			6,270
	Current liabilities		
	Creditors		
(142)	Due to other funds	(50)	
(678)	Due to brokers	(1,690)	
(124)	Other	(163)	
(944)			(1,903)
4,455	**Net current assets**		4,367

At 31 March 1993 potential future liabilities amounted to: Calls and underwriting £964,545 (1992: £1,261,645).

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.

1992 £000		1993 £000
	Retirement and	
35	dependants' pensions	40
31	Lump sum retiring allowances	-
-	Death grants	-
66		40

6. Refunds of contributions

1992 £000		1993 £000
18	Net refunds to employees	32
4	Tax paid	10
	Contributions equivalent premiums	
7	Employees' share	22
22	Employer's share	26
51		90

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 Fund. 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 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 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.

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.

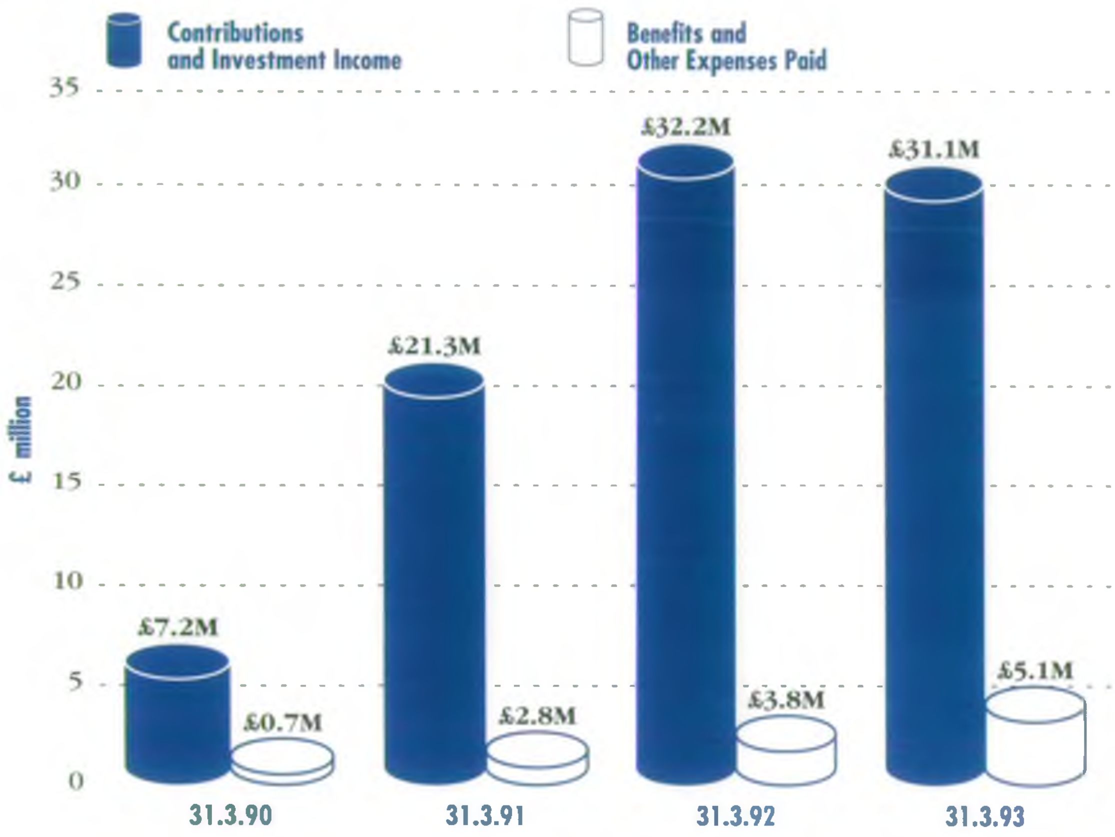
TRANSFERS TO OTHER SCHEMES

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

FUND MEMBERSHIP

MEMBERSHIP	31.3.90	31.3.91	31.3.92	31.3.93
Members	5,838	6,258	6,824	7,098
Pensioners	48	159	286	431
Deferred Pensioners	94	192	245	318

FINANCIAL SUMMARY



MARKET VALUE OF THE FUND

The above figures show a substantial increase in the market value of the Fund since establishment on 7 July 1989. The increase in 1990/91 was mainly due to the apportionment of assets from the National RIvers Authority New Main Fund.

Any enquiries regarding this Report should be addressed to:

Mrs S.J. Timbrell
Pension Fund Manager
National Rivers Authority
Rivers House
Waterside Drive,
Aztec West Business Park
Almondsbury
BRISTOL
BS12 4UD

Telephone: 0454 624400
Fax: 0454 624409

Designed and prepared by the National Rivers Authority and Hartshead Limited