



NRA

SUPERANNUATION

Report and accounts

31 MARCH 1990



ENVIRONMENT AGENCY

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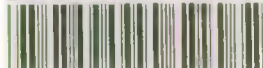
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Bristol BS32 4UD

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

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

ENVIRONMENT AGENCY



099505

**NATIONAL RIVERS AUTHORITY
SUPERANNUATION FUND**

**NATIONAL RIVERS AUTHORITY
NEW MAIN FUND AND NEW SECOND FUND**

administering authority

NATIONAL RIVERS AUTHORITY

**REPORT AND ACCOUNTS
for the period ended
31 March 1990**

Pensions Administration
Hartshead Pensions Management Limited
St Peter's House
Hartshead
SHEFFIELD
S1 1EU

Investment Management
Queen Anne's Gate
Asset Management Limited
1 Queen Anne's Gate
LONDON
SW1H 9BT

FOREWORD

It is a pleasure for me to present the first Report and Accounts of the National Rivers Authority Superannuation Funds. They are, in effect, an interim set of Accounts as the New Main and New Second Funds will not be finally apportioned until later in 1990.

The apportionment has been a very complex operation with assets being distributed to fourteen Trust based receiving schemes and to the NRASF. Considerable credit is due to all those involved for the efficiency and speed with which this is being carried out.

We have been at pains to ensure continuity throughout the change over from the Water Authorities' Administration to that of the NRA. Pensions administration and investment management are being carried out by the same people as hitherto and I have every confidence that they will continue to work effectively and to everyone's satisfaction.

P.A. BRANDT
Chairman,
Pensions and Investment Committee

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The Pensions and Investment Committee

Chairman

Mr P A Brandt

Board Member, National Rivers Authority

Members

Mr P J Humphreys

Personnel Director, National Rivers Authority

Mr P D Partridge

Finance Director, National Rivers Authority

Mr R J F Taylor

Board Member, National Rivers Authority

Mr R A E Herbert

Chairman, Leopold Joseph & Sons Ltd

Sir Francis Pemberton CBE

Senior Consultant, Bidwells

Sir Richard Baker Wilbraham, Bt

Advisor, Schroder Investment Management Ltd

Mr J C Richards MBE

Secretary to the Committees

The Pensions Advisory Committee

Chairman

Mr P A Brandt

PIC Members

Mr P J Humphreys

Mr P D Partridge

Mr R J F Taylor

Mr R A E Herbert

Sir Francis Pemberton CBE

Sir Richard Baker Wilbraham, Bt

Mr J C Richards MBE

Regional General Managers

Mr G H Bielby

Dr G Mance

Mr K W Newham

Mr D N Rainbow

Dr J H Stoner

Member Representatives

Mr M Duery

Mr A J Golding

Mr R M Watson

Mr D White

Mr M E Wragg

Auditors

Bankers

Consulting actuaries

Investment managers

Pension scheme administrator

Property lawyers

Property managers

Property valuers

Solicitors

Price Waterhouse

National Westminster Bank plc
Bank of Scotland

Wm M. Mercer Fraser Limited
(for the apportionment)

Queen Anne's Gate Asset
Management Limited

Hartshead Pensions Management Limited

Speechly Bircham

Jones Lang Wootton

Weatherall Green and Smith

MacFarlanes

Introduction

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

The National Rivers Authority (NRA) is the statutory administering authority of a Superannuation Fund established by the Local Government Superannuation (Water) Regulations 1989 from 7 July 1989 for new employees, and transferees from the former water authorities on 1 September 1989. 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 (NRASF) is "exempt approved" for purposes of Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. Consequently, income from investments is relieved of UK tax and employees enjoy tax relief on contributions paid to the Fund.

Past service liabilities for transferred water authority employees are funded by means of a statutory apportionment of assets from the former Water Authorities Superannuation Fund (WASF); the statutory responsibility for WASF's administration passed to the NRA from 1 September 1989.

NEW MAIN AND NEW SECOND FUNDS

The water authorities became Government wholly owned plc's on 1 September 1989 (the transfer date or "vesting"); from that date employees were no longer eligible to contribute to the statutory Water Authorities Superannuation Fund (WASF). However, WASF's Main and Second Funds are being maintained as "closed funds" for current and deferred pensioners at 31 August 1989. Severn-Trent Water Authority's responsibilities as statutory administering authority for the Funds were transferred to the NRA from 1 September 1989.

The NRA New Main Fund (the former WASF Main Fund) continues to provide benefits for current and deferred pensioners of the ten former statutory water authorities in England and Wales, and the NRA New Second Fund (the former WASF Second Fund) for pensioners of the Foundation for Water Research and Water Research Centre (1989) plc, Water Authorities Association (now the Water Services Association of England and Wales), Water Training and the former British Water International.

Like the NRASF, the New Funds are statutory public service pension schemes under the Regulations and are "exempt approved" for purposes of Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988. Income from the investments of each Fund is therefore relieved from UK tax. All the Funds provide the minimum contracted-out pensions required by the State Earnings Related Pension Scheme (SERPS).

Water industry employees in WASF at 31 August 1989, who had not chosen other pension arrangements offered by their employers or an outside provider, were transferred to non-statutory Water Mirror Image Pension Schemes on 1 September 1989. They were given until 31 December 1989 to elect to transfer their accrued WASF pension rights to the Mirror Image Schemes on year for year terms. This liability has been fully financed by a bulk transfer of assets from the New Main Fund; a similar transfer has also been made for WASF pension rights transferred on or before 1 September 1989 to alternative Water Pension Schemes. Those employees who have not transferred their pension rights to a Mirror Image Scheme or a Water Pension Scheme have been awarded preserved benefits in the New Main or New Second Fund.

Management

GENERAL

As the designated administering authority of the NRASF and the New Main and New Second Funds, the NRA has two specific areas of responsibility:

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

The NRA's Pensions and Investment Committee (PIC) with a membership of nominated NRA Board members, senior officers and external advisors, has the overall task of ensuring that these functions are properly carried out. The Committee reports to the NRA Board and provides information to the NRA Pensions Advisory Committee (PAC) which comprises the PIC membership and two representatives from each of the NRA's regions - the manager and an employee appointment. With this local representation, the PAC is also charged with the responsibility for overseeing the essential communications link with employees in the regions.

NRA has appointed Hartshead Pensions Management Limited, which took over the pensions administration functions of the former WASF Sheffield office from 1 September 1989, to undertake the day to day scheme administration. To manage the Funds' investments, NRA has appointed Queen Anne's Gate Asset Management Limited which, since 1 September 1989, has continued the functions of the former WASF Investment Unit in London. Both companies are subsidiaries of WPF Holdings Limited.

REMUNERATION BASIS FOR THE PERIOD 1 SEPTEMBER 1989 TO 31 MARCH 1990

Pension Scheme Administration

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

National Rivers Authority Superannuation Fund	- £65,450
National Rivers Authority New Main and Second Funds	- £361,900

Investment Management Services

The NRA New Main and Second Funds have incurred a total fee of £1,018,229.

This amount was calculated by means of an agreed scale of charges which was applied to the market value of quoted securities using an independent end-month valuation and to the historic book cost of unquoted investments. For the direct property portfolio the fee is based on the time and materials involved.

Membership

NRA SUPERANNUATION FUND

CONTRIBUTORS AT 31 MARCH 1990			
AGE BRACKET			
Under 50			
	Male	3,602	
	Female	889	
			4,491
50 - 59			
	Male	1,000	
	Female	92	
			1,092
60 and over			
	Male	245	
	Female	10	
			255
Total number			5,838

Although the NRASF was established on 7 July 1989, until 31 August 1989 there were only a handful of contributing members. The bulk (some 93%) of its membership at 31 March 1990 are employees transferred on 1 September 1989 from the former

statutory water authorities who contributed to the Water Authorities Superannuation Fund or to a Water Pension Scheme prior to that date.

Before 1 April 1990, when the Regulations are to provide that whole-time employees appointed from that date become members automatically with the right to opt out, all new employees were required to make written application to contribute to the Fund. Consequently, there are a number of new NRA employees who are not members.

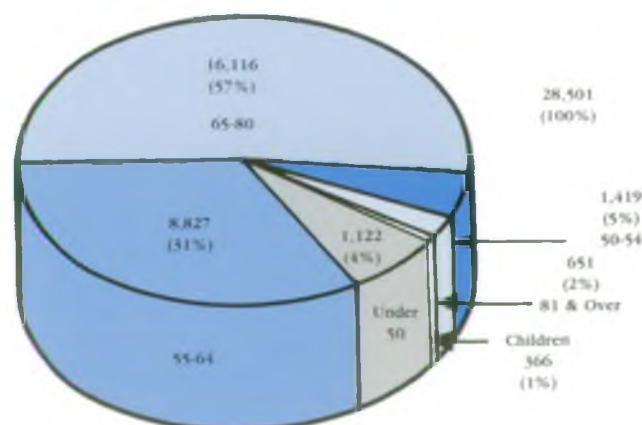
In the short time the Fund has existed, 48 members have retired on pension, and 6 have died leading to the payment of 7 pensions to spouses and children.

NEW MAIN AND NEW SECOND FUNDS

The Funds do not have any contributing members. They are required to pay pensioners as at 31 August 1989 and their dependants, and in due course, deferred pensioners.

At 1 September 1989 there were 28,976 pensions in payment and 8,740 deferred pensioners. Whilst the number of current pensioners at 31 March 1990 (28,501 excluding 418 supplementary unfunded pensions) has not changed significantly, deferred pensioners have risen to 10,542, mainly as a result of transferees to the water plc pension schemes not electing to transfer their WASF pension rights. As deferred pensioners, they can pursue a transfer to virtually any other pension arrangement any time before their preserved benefits become payable.

AGE PROFILE OF CURRENT PENSIONERS



Actuarial Valuation

The Local Government Superannuation Regulations 1986 (as amended) require actuarial valuations of Local Government Superannuation Funds every three years with effect from 31 March 1989. Normally, the Consulting Actuary would use the result of a valuation to determine the level of employers' contributions required to ensure the future solvency of the Fund.

Whilst the NRASF will ultimately fall into the triennial valuation cycle, the Local Government Superannuation (Water) Regulations 1989 require a Consulting Actuary to review and certify the continuing level of employer's contributions every 31 March from 1990 until 1993. The NRA has taken the WASF Actuary's advice to maintain the existing employer's contribution rate at 31 August 1989 of 137.5% of employees' contributions for the period up to 31 March 1990. Having regard to the introduction from 1 April 1990 of advance funding of existing and future pensions increase liabilities, and the 75% solvency requirement, and as an interim measure pending a detailed assessment of the Fund's assets and liabilities, the employer's contribution rate was increased to 200% from that date. The Actuary has provided a statement to this effect reproduced on page 11. NRASF will conform in all respects to the normal actuarial processes provided for in the Regulations with the employer meeting the balance of cost as certified by the Actuary.

A valuation of the Water Authorities Superannuation Fund should have been made at 31 March 1989 but to secure a framework for determining the allocation of the Fund's assets in respect of the transferred pension rights of those members in the water industry's alternative pension schemes and the NRASF, the valuation date was brought forward to 31 March 1988. The first valuation of the New Main and New Second Funds is required at 31 March 1992 (reverting to the normal triennial cycle) when the Actuary must certify the amount by which, in his opinion, the assets of each Fund exceed or fall short of the amount required to meet their existing and prospective liabilities. These Funds are exempt from the new 75% funding requirement and responsibility for ensuring that the Funds can always meet their future liabilities rests with the Secretary of State for the Environment; it has yet to be announced how any deficiency would be met. Payments to pensioners and other outgoings are likely to exceed income from investments and pending a decision on deficit financing a policy of progressive realisation of assets may be necessary.

Investment

ECONOMIC BACKGROUND

The period under review was a difficult time for most major stockmarkets. In the UK investors continued to be cautious as political and economic uncertainty dominated the headlines.

The annual budget statement by the Chancellor gave little comfort to investors hoping for a change in direction of Government policy. With base rates at 15%, inflation nearing 10% and the possibility of a change in Government at the next election, the UK market fell 6% in the first quarter of 1990.

Overseas, the Tokyo market showed a dramatic correction, down 32% (currency adjusted) as economic growth slowed and the Yen came under intensive pressure. The smaller economies of South East Asia, however, continued to show excellent progress in both corporate earnings and economic expansion. In Europe most of the major markets corrected after excellent returns in 1989, the exception being Germany which continued the strong rise that had begun with the opening of the Berlin Wall.

INVESTMENT POLICY

The development of investment policies for the Funds has been overshadowed by the apportionment. The New Main and Second Funds will transfer more than half of their aggregate initial assets to receiving schemes and will be left with portfolios of unusual shape.

These uncertainties have prompted a cautious stance, maintaining where possible the investment objectives of the former WASF, but with no further exposure to property or unquoted securities. Relatively high liquidity will be maintained with increased investment in higher yielding securities and convertibles.

NRA SUPERANNUATION FUND

Distribution of Investments at 31 March 1990

	£M	%
UK equities	1.484	24.5
Overseas		
N America	0.911	15.1
Europe	0.006	0.1
Pacific Basin	0.761	12.6
Short term loans and deposits	1.563	25.9
Net assets	1.319	21.8
	<u>6.044</u>	<u>100.0</u>

The assets currently under management represent only the surplus of current contributions since the transfer of assets from the New Main Fund is still awaited.

NEW MAIN AND NEW SECOND FUNDS

Distribution of Investments at 31 March 1990

Main Fund	£M	%
UK equities	853.3	55.1
Overseas investments	140.9	9.1
Fixed interest	247.0	15.9
Property	112.0	7.2
Unquoted investments	70.7	4.6
Short term loans and deposits	104.9	6.8
Net assets	19.8	1.3
	<u>1,548.6</u>	<u>100.0</u>

Second Fund	£M	%
UK equities	14.3	39.0
Short term loans and deposits	22.4	61.0
	<u>36.7</u>	<u>100.0</u>

The assets shown above include substantial sums due to be transferred to other receiving schemes (see Note 4 to the Accounts on page 22).

Distribution of Main Fund Quoted Securities Portfolio by Market Value at 31 March 1990

(a) UK Equities Sector

	Market Value £M	
Property	123.4	14.5
Oil and Gas	113.8	13.3
Health and Household	47.8	5.6
Investment Trusts	43.6	5.1
Banks	31.1	3.6
Brewers and Distillers	29.7	3.5
Conglomerates	29.5	3.5
Transport	27.9	3.3
Stores	27.9	3.3
Telephone Networks	27.5	3.2
Other	351.1	41.1
	<u>853.3</u>	<u>100.0</u>

(b) Largest UK Equity Holdings

	Market Value £M		UK Equity portfolio %
Great Portland Estates	95.4	11.2	
British Petroleum	24.1	2.8	
Glaxo	21.5	2.5	
F & C Pacific Investment Trust	21.3	2.5	
BAT	20.6	2.4	
Shell	19.6	2.3	

(c) Geographical Distribution of Overseas Investments

	Market Value £M		%
North America	46.8	33.2	
Overseas Funds	19.6	13.9	
Europe	29.8	21.2	
Japan	12.5	8.9	
Other Far East	32.2	22.8	
	<u>140.9</u>	<u>100.0</u>	

Property and Unquoted Investments

After two excellent years property markets have been much weaker with a much reduced level of activity. Although continuing the policy of seeking to dispose of fully valued properties where no future rental income or reversionary expectations exist, no sales were achieved in the period and no purchases were made.

The Secretary of State for the Environment has advised that the property and unquoted investments of the former WASF should not be included in the apportionment of assets to the water industry pension schemes or the NRASF. Consequently, they will continue to be managed as a single entity in the New Main Fund which will be left with an unbalanced portfolio, taking some time to re-structure, and likely to affect overall performance in the meantime.

Market Value of Sectors of the Property Portfolio at 31 March 1990

	£M	%
High Tech	56.5	50.4
Retail Shops	20.5	18.3
Supermarkets	17.2	15.4
Industrial	10.5	9.4
Offices	5.6	5.0
Retail Warehouses	1.4	1.2
Developments	0.3	0.3
	<u>112.0</u>	<u>100.0</u>

PERFORMANCE MEASUREMENT

The Pensions and Investment Committee has decided to appoint the WM Company as independent measurers of the performance of NRASF from 1 January 1990. So far as the New Main and Second Funds are concerned it has agreed to defer performance measurement of these Funds until the apportionment is completed and a final allocation of assets made to NRASF.

Finance

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

The accounts have been prepared on a market value basis, where the market valuation is taken as the lower of cost or estimated market value. The net assets of the Fund at 31 March 1990 amount to over £6 million. They will rise very substantially when WASF's Actuary has settled the value of assets to be transferred from the New Main Fund in respect of employees' transferred past service rights.

Although the accounts cover the initial period from 7 July 1989 to 31 March 1990, the income and expenditure relates predominantly to the seven month period from 1 September 1989 to 31 March 1990.

NEW MAIN FUND AND NEW SECOND FUND

As in previous accounting periods for WASF, the accounts for both Funds have been prepared on a market value basis. However, on unquoted investments the market valuation is taken as the lower of cost or estimated market value. After making further interim apportionment transfers to water pension schemes of £633.2 million (and after allowing for realised gains and adverse changes in portfolio valuations), the value of the New Main Fund fell to £1,549 million and the New Second Fund to £36.7 million.

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

Administration

PRIVATISATION

The National Rivers Authority was formed on 7 July 1989 when the Water Act 1989 received Royal Assent. Under the Water Authorities (Transfer of Functions) (Appointed Day) Order 1989, the ten statutory water authorities became wholly Government owned plc's on 1 September 1989 (the transfer date or "vesting" as it is commonly known).

The changes to the water authorities' statutory pension arrangements brought about through the privatisation of the water industry were made by the Local Government Superannuation (Water) Regulations 1989. These amended the Regulations to:

- Transfer the administering authority responsibility for the WASF Main and Second Funds with their assets and liabilities to the NRA;
- Place with the NRA the functions of former employing authority for pensioners and deferred pensioners in the New Main and New Second Funds;
- Establish the NRASF from 7 July 1989 for the Authority's own employees.

A Government undertaking has been given that transferees from a Water Pension Scheme (WPS) to the NRASF on 1 September 1989 who were previously WASF members will be able to count service as though they had never left WASF provided they continued to pay the same contributions. Those who have paid a lower rate during their WPS membership will be allowed to make up the difference, or alternatively have a reduction in their service for that period. The Regulations have still to be amended to recognise this commitment.

CHANGES TO THE LOCAL GOVERNMENT SUPERANNUATION SCHEME

Aside from the special regulations made to accommodate the changes arising from water privatisation, in the period covered by this Report there has been only one set of amendments to the Regulations which will impact directly on the NRA - the Local Government Superannuation (Funds etc) Regulations 1990, effective from 1 April 1990. However, some important proposals have been announced by DoE.

The Local Government Superannuation (Funds etc) Regulations 1990

From 1 April 1990 Local Government Superannuation Funds are to advance fund current and future pensions increase liabilities; in addition, only 75% of existing and prospective total pension liabilities are to be funded. These amendments do not apply to the New Main and Second Funds. Pensions increase costs have been met from these since 1 September 1989.

The regulations also introduce changes to the recharging arrangements in respect of pre-1 April 1974 local government retirees formerly employed on functions transferred to water authorities from 1 April 1974. As from 1 April 1990, water plc's cease to be responsible for meeting the pensions increase element of such recharges; instead they will be met from the New Main Fund.

Membership arrangements

DoE are to amend the Regulations to introduce the following retrospective changes (and have advised that they can be anticipated in advance of the amendments being made):

With effect from 1 October 1989 -

- Removal of the 12 months waiting period for manual employees before membership of the Local Government Superannuation Scheme (LGSS) is allowed;
- Minimum age of entry reduced to 16 from 18.

With effect from 1 April 1990 -

- Automatic entry to LGSS for new whole-time employees, with the right to elect to opt out.

Widowers' pensions

The Regulations are to be amended retrospectively to provide for the payment of widowers' pensions. Service from 6 April 1988 will reckon automatically towards a half-rate widower's pension, but it is proposed that a charge should be made if service prior to that date is to be included. However, this may change following the European Court's recent decision in the Barber v Guardian Royal Exchange Insurance Group case.

Transfer of pension rights

The Regulations are to be amended to recognise the revised transfer arrangements prescribed by the Social Security Act 1985 and its accompanying regulations. NRA (like most administering authorities) has been anticipating the proposed amendments as far as is possible to prevent any backlog of cases for leavers from NRASF and for deferred pensioners wishing to transfer their pension rights from the New Main and New Second Funds.

Pensions increase awards

Pensions payable from NRASF and the New Main and New Second Funds are subject to annual review under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order for 1990 requires an increase of 7.6% (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 9 April 1990.

Communications

Fundfare 89, which summarised WASF's formal Report and Accounts at 31 March 1989 and provided an update of the pensions scene following water privatisation, has been issued to members, pensioners and deferred pensioners. A similar newsletter is to be distributed later this year covering the NRA Funds' Report and Accounts to 31 March 1990 and other pensions related matters.

In addition, various "comfort letters" have been sent to employees about their accrued pension rights and to pensioners advising of the changes from 1 September 1989 to reassure them that their pension entitlement will not be affected.

Auditors' Report

We have audited the financial statements on pages 12 to 16 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 1990 and of the transactions for the period then ended.

Without qualifying our opinion above, we draw attention to Note 4 to the accounts on page 16 which states that the transfer of 5,605 members to the National Rivers Authority Superannuation Fund has not yet been reflected in a matching distribution of assets to the Fund. We also draw attention in this connection to the statement by the Actuary set out on this page.

PRICE WATERHOUSE

Chartered Accountants

Birmingham

12 July 1990

Statement by the Consulting Actuary

The National Rivers Authority Superannuation Fund was established on 7 July 1989 and during the year ending 31 March 1991, will receive transfer payments as a result of the apportionment of the NRA New Main Fund. Until this apportionment has been completed, it is not possible to certify formally the rate of employer's contribution payable by the National Rivers Authority.

Acting on my advice, the National Rivers Authority is paying contributions on an interim basis. These have been at the rate of 137½ % of employees' contributions to 31 March 1990, increased to 200% for the year ending 31 March 1991. I consider that this is a prudent basis, having regard to the new statutory requirements effective from 1 April 1990 to fund in advance for pensions increases and to maintain a 75 % funding target.

M. B. REID

Fellow of the Institute of Actuaries

2 July 1990

Accounts for the period 7 July 1989 to 31 March 1990

	Notes	£000	£000
INCOME AND EXPENDITURE			
Contribution and other receipts			
Normal			
Pensionable employees	1	2,490	
National Rivers Authority		3,423	
		<u>5,913</u>	
Additional			
Pensionable employees		54	
		<u>5,967</u>	
Transfer values received			1,010
			<u>6,977</u>
Less:			
Benefits and other payments			
Retirement and dependants' pensions	6	(50)	
Lump sum retiring allowances		(399)	
Death grants		(56)	
		<u>(505)</u>	
Transfer values paid		(116)	
Refunds of contributions	7	(4)	
		<u>(625)</u>	
			<u>6,352</u>
Contributions less benefits			
Investment income			
Interest on cash deposits		195	
Less investment and administration expenses		(68)	
		<u>127</u>	
Amounts available for investment			<u>6,479</u>

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND

**Accounts for the period 7 July 1989
to 31 March 1990**

	Notes	£000
NET ASSET MOVEMENTS	3	
Opening Funds at 7 July 1989		-
Apportionment of funds	4	-
Amounts available for investment		6,479
Changes in investment market values		(435)
Closing Funds at 31 March 1990		<u>6,044</u>

NET ASSETS

		£000
Investments at Market Value	2	
Fixed and variable interest stocks		3,162
Short-term deposits		1,563
		<u>4,725</u>
Net current assets	5	1,319
Net Assets at 31 March 1990		<u>6,044</u>

P.A. BRANDT
Chairman, Pensions and Investment Committee

J.C. BOWMAN
Chief Executive, National Rivers Authority

12 July 1990

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 period 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 close of business on 30 March 1990.

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 maintain the Fund in a state of solvency, having regard to existing and prospective liabilities.

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 period end.

Investment income

Investment income is accounted for on the following bases:

- (i) The effective date used to bring interest into the accounts is the due date of payment for securities, excluding Government securities and short-term loans. For Government securities, the ex-dividend date is the effective date used.
- (ii) Short-term loan income is brought into the accounts on the accrual basis.

Administration expenses

Net administration expenses, including investment administration, are charged to the Fund.

Taxation

(i) UK income tax

The Fund is fully approved by the Inland Revenue under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988 and therefore is not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

(ii) Value added tax

By virtue of NRA being the administering authority, it is expected that VAT input tax will be recoverable on all Fund activities including expenditure on investment and property expenses. An application for registration has been made.

(iii) US withholding tax

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

Notes to the Accounts

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

The employer's contribution rate to 31 March 1990 is 137.5% of employees' contributions. Otherwise, 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 11 preceding these accounts.

From 1 April 1990 current and future pensions increase costs other than those arising on discretionary awards will be met from the Fund and not be recovered directly from the National Rivers Authority. As a consequence and in recognition of the new 75% funding requirement, the employer's provisional contribution rate will increase to 200% of employees' contributions.

2. Analysis of investments

	Market Value 31.3.1990	
	£000	£000
Equities and convertibles		
United Kingdom – listed	1,484	
Overseas – listed	1,678	
		3,162
Short-term loans and deposits		
United Kingdom		1,563
		4,725
Net current assets		1,319
		6,044

3. Details of net asset movements

	£000
Opening Balance at 7 July 1989	–
Apportionment of funds	–
Amounts available for investment	6,479
Realised losses	(17)
Change in valuations	(418)
	6,044
Balances at 31 March 1990	
At cost	6,462
Unrealised depreciation	(418)
	6,044

Total purchases of investments in the period to 31 March 1990 amounted to £3.6 million and there were no sales. Realised losses related to foreign exchange rate movements.

Notes to the Accounts – continued

4. Apportionment of funds

The transfer of 5,605 members from the Water Authorities Superannuation Fund to the National Rivers Authority Superannuation Fund has not yet been reflected in a matching distribution of assets. The Local Government Superannuation Regulations have been amended to permit such an apportionment to be made but the contingent sum for assets to be transferred has still to be determined. An interim allocation of assets totalling £80 million was received on 1 July 1990 on account of this apportionment.

5. Net current assets

	£000	£000
Current assets		
Debtors		
Amounts due from National Rivers Authority	10	
Due from NRA New Main Fund	187	
Accrued investment income and other debtors	31	
Cash	1,105	
		1,333
Current liabilities		
Creditors		
Due to brokers	(11)	
Other	(3)	
		(14)
Net current assets		1,319

At 31 March 1990 future liabilities amounted to: Calls and underwriting £260.

6. Benefits paid

Benefits paid exclude the following amounts, being increases under the Pensions (Increase) Act 1971 and discretionary increases and allowances, which were paid initially by the Fund and subsequently recharged to the National Rivers Authority.

	Pensions increase £000	Discretionary £000	Total £000
Retirement and dependants' pensions	-	1	1
Lump sum retiring allowances	2	-	2
Death grants	-	-	-
	2	1	3

7. Refunds of contributions

	To 31 March 1990 £000
Net refunds to employees	1
Tax paid	1
Contributions equivalent premiums	
Employees' share	1
Employer's share	1
	4

Auditors' Report

We have audited the financial statements on pages 18 to 24 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the disposition of the Funds at 31 March 1990 and of the transactions for the period then ended.

Without qualifying our opinion above, we draw attention to the Accounting Policies Note on Page 20 and Note 4 to the Accounts on page 22 which state:

- The Secretary of State for the Environment has a duty under S.173(3) of the Water Act 1989 to ensure the Funds can always meet their liabilities including future indexation awards. However, the method by which this will be achieved has still to be decided.
- The transfer of 22,059 members of the former Water Authorities Superannuation Fund to pension arrangements sponsored by water employers has not yet been fully reflected in these accounts in a matching distribution of assets to the new schemes.

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

PRICE WATERHOUSE
Chartered Accountants
Birmingham
12 July 1990

Statement by the Consulting Actuary

The New Main and New Second Funds are administered by the National Rivers Authority and are maintained for the primary purpose of paying benefits to current pensioners, widows, widowers, dependants and deferred pensioners. Pensionable employees of the former WASF ceased to contribute no later than 31 August 1989, with many of these employees choosing to transfer their accrued benefits to alternative pension schemes.

Bulk transfer payments are due to be made in respect of the transfer of pension liabilities and the first stage of the apportionment exercise to water industry schemes has now been largely completed. It is anticipated that the second stage, involving the bulk transfer payment to the National Rivers Authority Superannuation Fund, will be completed in the year ending 31 March 1991.

Until the apportionment process has been completed, I am unable to comment on the relationship between the Funds' assets and liabilities. However, I understand that the future solvency of the Funds with regard to their liabilities has been guaranteed by the Government.

M.B. REID
Fellow of the Institute of Actuaries
2 July 1990

Accounts for the seven months to 31 March 1990

	Notes	Main Fund		Second Fund	
		£000	£000	£000	£000
INCOME AND EXPENDITURE					
Contribution and other receipts					
Normal (adjustments)					
Pensionable employees	1	(9)		-	
Employing authorities		(12)		-	
		(21)		-	
Additional					
Pensionable employees		42		-	
			21		-
Transfer values received			171		-
			192		-
Less:					
Benefits and other payments					
Retirement and dependants' pensions	8	(45,901)		(367)	
Lump sum retiring allowances		(1,127)		(27)	
Death grants		(238)		-	
		(47,266)		(394)	
Transfer values paid		(5,380)		(220)	
Refunds of contributions	9	(71)		(2)	
			(52,717)		(616)
Excess of benefits over contributions					
			(52,525)		(616)
Investment income					
Fixed interest securities		14,785		-	
Dividends from equities		28,973		361	
Interest on cash deposits		15,303		1,884	
Rents	7	4,848		-	
		63,909		2,245	
Less investment and administration expenses		(1,527)		(40)	
			62,382		2,205
Amounts available for investment					
			9,857		1,589

NATIONAL RIVERS AUTHORITY NEW MAIN AND NEW SECOND FUNDS

Accounts for the seven months to 31 March 1990

NET ASSET MOVEMENTS

Opening Funds at 1 September 1989

Apportionment of funds (net)
Amounts available for investment
Changes in investment market values

Closing Funds at 31 March 1990

Notes

Main
Fund
£000

Second
Fund
£000

3

2,304,798

38,077

4

(631,199)

9,857

(134,844)

1,589

(2,932)

1,548,612

36,734

NET ASSETS

Investments at Market Value

Fixed and variable interest stocks
Equities and convertibles

Freehold and leasehold properties
Short-term deposits

Other assets
Other net current assets (liabilities)

Net Assets at 31 March 1990

2

£000

£000

247,044

1,064,853

14,279

1,311,897

111,963

104,915

14,279

23,309

1,528,775

74

19,763

37,588

(854)

1,548,612

36,734

P.A. BRANDT

Chairman, Pensions and Investment Committee

J.C. BOWMAN

Chief Executive, National Rivers Authority

12 July 1990

Accounting Policies

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

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

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 period have been prepared on the basis of stating investments at their market values which are determined as follows:

- (i) In the case of listed securities and securities on the unlisted securities market, by reference to the middle market price at the close of business on 30 March 1990.
- (ii) In the case of other unquoted investments, the valuation at 31 March 1990 is taken as the lower of cost or estimated market value.
- (iii) In the case of the UK urban properties portfolio, the open market valuation as at 31 March 1990 by independent valuers, Weatherall Green and Smith, Chartered Surveyors, of such properties with vacant possession of the accommodation in hand but subject to all existing leases and tenancies.

Contributions

Contributions represent an adjustment for the period to 31 August 1989 for amounts overpaid by an employer in respect of their own contributions and those of their pensionable employees.

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 period end.

Investment income

Investment income is accounted for on the following bases:

- (i) The effective date used to bring interest into the accounts is the due date of payment for securities, excluding Government securities and short-term loans. For Government securities, the ex-dividend date is the effective date used.
- (ii) Short-term loan income and investment income from rents on properties is brought into the accounts on the accrual basis.

Administration expenses

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

Taxation

- (i) UK income tax

The Funds are fully approved by the Inland Revenue under Chapter 1 of Part XIV of the Income and Corporation Taxes Act 1988 and therefore are not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- (ii) Value Added Tax

By virtue of NRA being the administering authority, it is expected that VAT input tax will be recoverable on all Fund activities including expenditure on investment and property expenses. An application for registration has been made.

- (iii) US withholding tax

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

Notes to the Accounts

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

These accounts do not reflect liabilities to pay pensions and other benefits in the future which are now the responsibility of the Secretary of State for the Environment. The actuarial position is dealt with in the statement by the Actuary on page 17 preceding these accounts and covers the liabilities of the Funds.

Due to the change of administering authority and changes in income and liabilities of the New Funds, comparative figures have been excluded from the Income and Expenditure Account and elsewhere where their inclusion would not have been helpful.

2. Analysis of investments

Market Value 1.9.1989			Market Value 31.3.1990 Main Fund			Market Value 31.3.1990 Second Fund	
Main Fund £000	Second Fund £000		£000	£000		£000	£000
		Fixed interest					
128,195		United Kingdom Government	73,831				
66,280		Overseas Government	138,226				
27,683		Other fixed interest – UK	14,174				
24,665		Other fixed interest – Overseas	–				
246,823	–			226,231			–
61,957	–	Index linked gilts		20,813			–
		Equities and convertibles					
1,249,613	15,248	United Kingdom – listed	848,900			13,793	
242,016	1,686	Overseas – listed	140,931			–	
11,018	829	United Kingdom – unlisted	4,361			486	
1,502,647	17,763			994,192			14,279
		Unquoted investments					
81,912	115	United Kingdom	45,908				
27,635	–	Overseas	24,753				–
109,547	115			70,661			
		Short-term loans and deposits					
274,550	19,554	United Kingdom		104,915			23,309
		Property – UK					
116,170		Freehold and long leasehold	108,365				
200		Property under development	200				
4,425		Property short leasehold	3,398				
120,795	–			111,963			–
2,316,319	37,432			1,528,775			37,588
69	–	Other assets		74			–
(11,590)	645	Net current assets		19,763			(854)
2,304,798	38,077			1,548,612			36,734

Notes to the Accounts – continued

3. Details of net asset movements

Balances at 1 September 1989

At cost

Unrealised appreciation

Movements in the period

Apportionment of funds (net payments)

Amounts available for investment

Realised appreciation

Changes in valuations

Balances at 31 March 1990

At cost

Unrealised appreciation

	Main Fund			Second Fund
	Securities etc. £000	Property £000	Total £000	
At cost	1,616,087	81,897	1,697,984	30,258
Unrealised appreciation	567,916	38,898	606,814	7,819
	<u>2,184,003</u>	<u>120,795</u>	<u>2,304,798</u>	<u>38,077</u>
Apportionment of funds (net payments)	(631,199)	-	(631,199)	-
Amounts available for investment	10,003	(146)	9,857	1,589
Realised appreciation	233,327	(153)	233,174	(1,170)
Changes in valuations	(359,485)	(8,533)	(368,018)	(1,762)
	<u>(747,354)</u>	<u>(8,832)</u>	<u>(756,186)</u>	<u>(1,343)</u>
At cost	1,228,218	81,598	1,309,816	30,677
Unrealised appreciation	208,431	30,365	238,796	6,057
	<u>1,436,649</u>	<u>111,963</u>	<u>1,548,612</u>	<u>36,734</u>

Total purchases of investments in the period to 31 March 1990 amounted to £953 million (5 months to 31 August 1989: £341 million) and sales were £1,231 million (5 months to 31 August 1989: £460 million).

4. Apportionment of funds

Period	Former GLC £000	Former WASF £000	Total £000
April 1988 to March 1989	3,530	(31,000)	(27,470)
April 1989 to August 1989	-	(90,200)	(90,200)
September 1989 to March 1990	1,977	(633,176)	(631,199)
	<u>5,507</u>	<u>(754,376)</u>	<u>(748,869)</u>
June 1990	42	(445,243)	(445,201)
July 1990	-	(80,000)	(80,000)
	<u>5,549</u>	<u>(1,279,619)</u>	<u>(1,274,070)</u>

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

The transfer of 22,059 members of WASF to non-statutory pension arrangements sponsored by water employers has been reflected in a matching distribution of assets to the new schemes. The Local Government Superannuation Regulations have been amended to permit such an apportionment to be made based on actuarial assumptions specified by the Secretary of State for the Environment. These actuarial assumptions have been laid down and the substantial contingent liability on the Funds for the transfer of such assets has been determined.

Further interim payments of £633.2 million have been made on account, bringing the total to 31 March 1990 to £754.4 million. A final transfer of assets totalling £445.2 million was made to the new schemes on 8 June 1990, thus concluding the first stage of the apportionment. An interim allocation of assets totalling £80 million was made on 1 July 1990 on account of the second stage apportionment to NRASF.

To simplify the process all apportionable assets have been released from the New Main Fund. If the two Funds remain separate after the second stage apportionment, assets of approximately £22 million will be transferable from the Second to the Main Fund.

Notes to the Accounts – continued

5. New Main Fund – Property

Commitments under contract for property investments amounted to £5,500 (at 1 September 1989: £752,583).

Sales negotiated were NIL (at 1 September 1989: NIL).

6. Net current assets

1 September 1989

Main Fund
£000

Second Fund
£000

Current assets

Debtors

5,018	55	Amounts due from employers
14,741	158	Due from brokers
–	460	Due from other funds
750	7	Income tax recoverable
2,244	8	Accrued investment income and other debtors
3,270	–	Cash
<u>26,023</u>	<u>688</u>	

Current liabilities

Creditors

(14,828)	–	Due to other funds
(19,578)	–	Due to brokers
(602)	–	Rents
(2,605)	(6)	Other
–	(37)	Cash overdrawn
<u>(37,613)</u>	<u>(43)</u>	

(11,590) 645 **Net current assets**

31 March 1990

Main Fund

£000 £000

Second Fund

£000 £000

24	–
6,298	100
83	–
1,451	21
5,296	75
14,772	3
<u>27,924</u>	<u>199</u>
–	(1,050)
(5,414)	–
(2,228)	–
(519)	(3)
–	–
<u>(8,161)</u>	<u>(1,053)</u>
<u>19,763</u>	<u>(854)</u>

At 31 March 1990 future liabilities in respect of the Main Fund amounted to: Quoted Portfolio - calls and underwriting £7,000 (at 1 September 1989: £3,631,437), commitments on unquoted investments were £3,186,140 (at 1 September 1989: £3,144,593).

7. Rents

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

5 months
to 31 August
1989
Main
Fund
£000

5,159	Gross rents and insurance commissions receivable
(337)	Rents paid
(552)	Property expenses
<u>4,270</u>	Total - Rents

7 months
to 31 March
1990
Main
Fund
£000

5,576
(51)
(677)
<u>4,848</u>

Notes to the Accounts – continued

8. Benefits paid

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

5 months to 31 August 1989			7 months to 31 March 1990					
Main Fund £000	Second Fund £000		Main Fund			Second Fund		
			Pensions increase £000	Discre- tionary £000	Total £000	Pensions increase £000	Discre- tionary £000	Total £000
13,436	142	Retirement and dependants' pensions	1,032	4,233	5,265	30	83	113
678	26	Lump sum retiring allowances	46	173	219	–	–	–
4	–	Death grants	5	6	11	–	–	–
<u>14,118</u>	<u>168</u>		<u>1,083</u>	<u>4,412</u>	<u>5,495</u>	<u>30</u>	<u>83</u>	<u>113</u>

9. Refunds of contributions

5 months to 31 August 1989			7 months to 31 March 1990		
Main Fund £000	Second Fund £000		Main Fund £000	Second Fund £000	
19	1	Net refunds to employees	12	2	
8	3	Tax paid	6	–	
		Contributions equivalent premiums			
28	1	Employees' share	23	–	
36	4	Employers' share	30	–	
<u>91</u>	<u>9</u>		<u>71</u>	<u>2</u>	

Scheme Rules and Benefits

SCHEME MEMBERSHIP AND INCOME

- (a) NRA employees between the ages of 18 (16 from 1 October 1989) 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 NRASF. Up to 31 March 1990 employees had to elect to join but from 1 April 1990 new whole-time employees, ie. those working 30 or more hours per week for at least 45 weeks per year, will become members automatically with the right to opt out backdated to the start of membership if made within three months. For part-time employees entry to the Scheme will remain optional.

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 NRASF (and, where appropriate, by the New Main or New Second Fund for a deferred pensioner) to increase benefits which may eventually become payable.
- (c) The NRA must make the balancing contribution required to keep the NRASF solvent having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' normal contributions by a Consulting Actuary following each triennial valuation of the Fund. However, as an interim measure, the Consulting Actuary has to review as at 31 March and revise as necessary the NRA's contribution rate each year until 31 March 1993. Provisionally, a rate of 137.5% has been paid since 7 July 1989 increasing to 200% from 1 April 1990 with the introduction of pre-funding of pensions increase liabilities, and the need for the Fund to be able to meet only 75% of its existing and future total liabilities.
- There is no contribution income to the New Main and New Second Funds. The Secretary of State for the Environment has a duty to ensure that the Funds can always meet their liabilities but it is not yet known how this will be achieved.
- (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/children/some widowers) 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. Dependants' limited period pensions and a tax free lump sum on death in employment.
- D. Refund of contributions when no other benefit payable.

PENSIONS INCREASE AWARDS

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

TRANSFERS TO OTHER SCHEMES

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

Fund Membership at 31 March 1990

NATIONAL RIVERS AUTHORITY SUPERANNUATION FUND (NRASF)

Fund Membership at 7 July 1989

NIL

Add:

Entrants	- WASF transferees	5,605
	- new starters (including entrants before 1.9.89)	389

5,994

Less:

Exits	- new retirement pensions	48
	- deaths in service	6
	- preserved benefits	83
	- refunds of contributions	18
	- ill-health grants	1

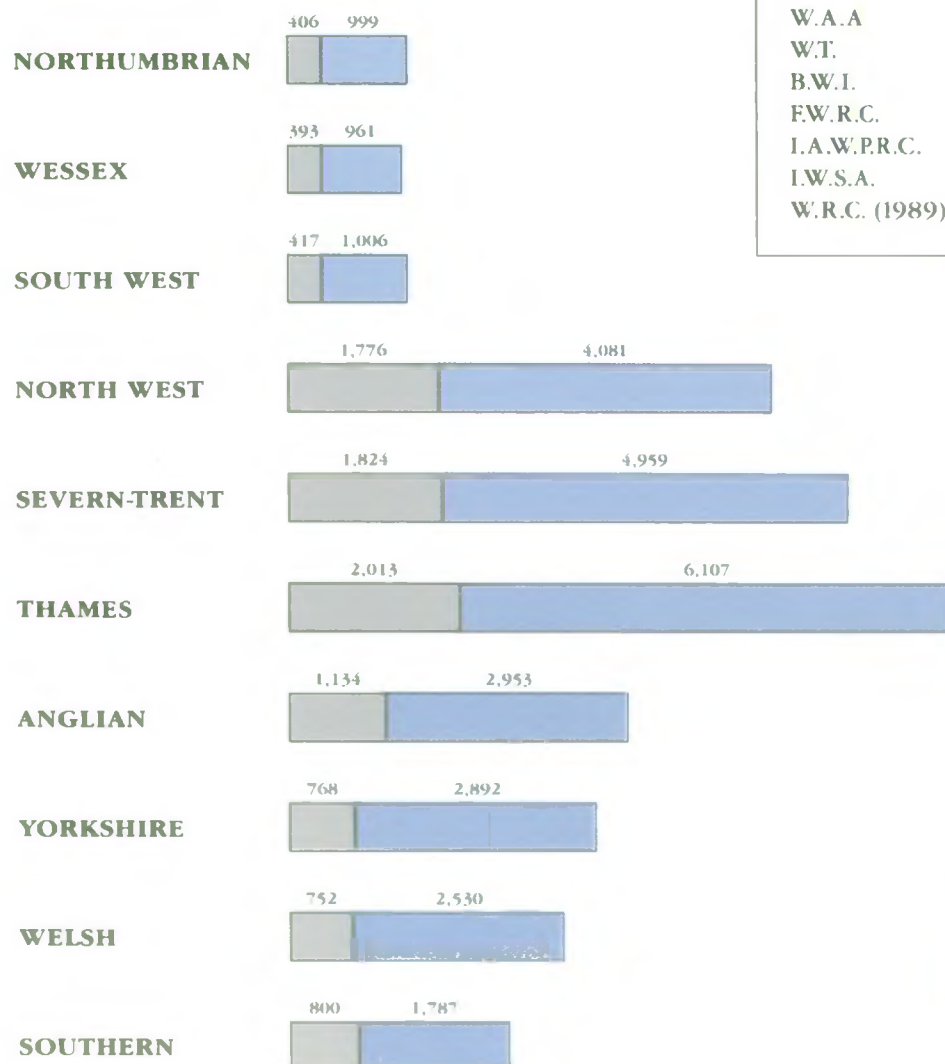
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Fund Membership at 31 March 1990

5,838

NEW MAIN FUND

Former Water Authority employer



NEW SECOND FUND

	Deferred Pensioners	Pensioners
W.A.A	18	6
W.T.	27	28
B.W.I.	3	-
FW.R.C.	177	186
I.A.W.P.R.C.	-	-
I.W.S.A.	-	-
W.R.C. (1989) plc	34	6

KEY

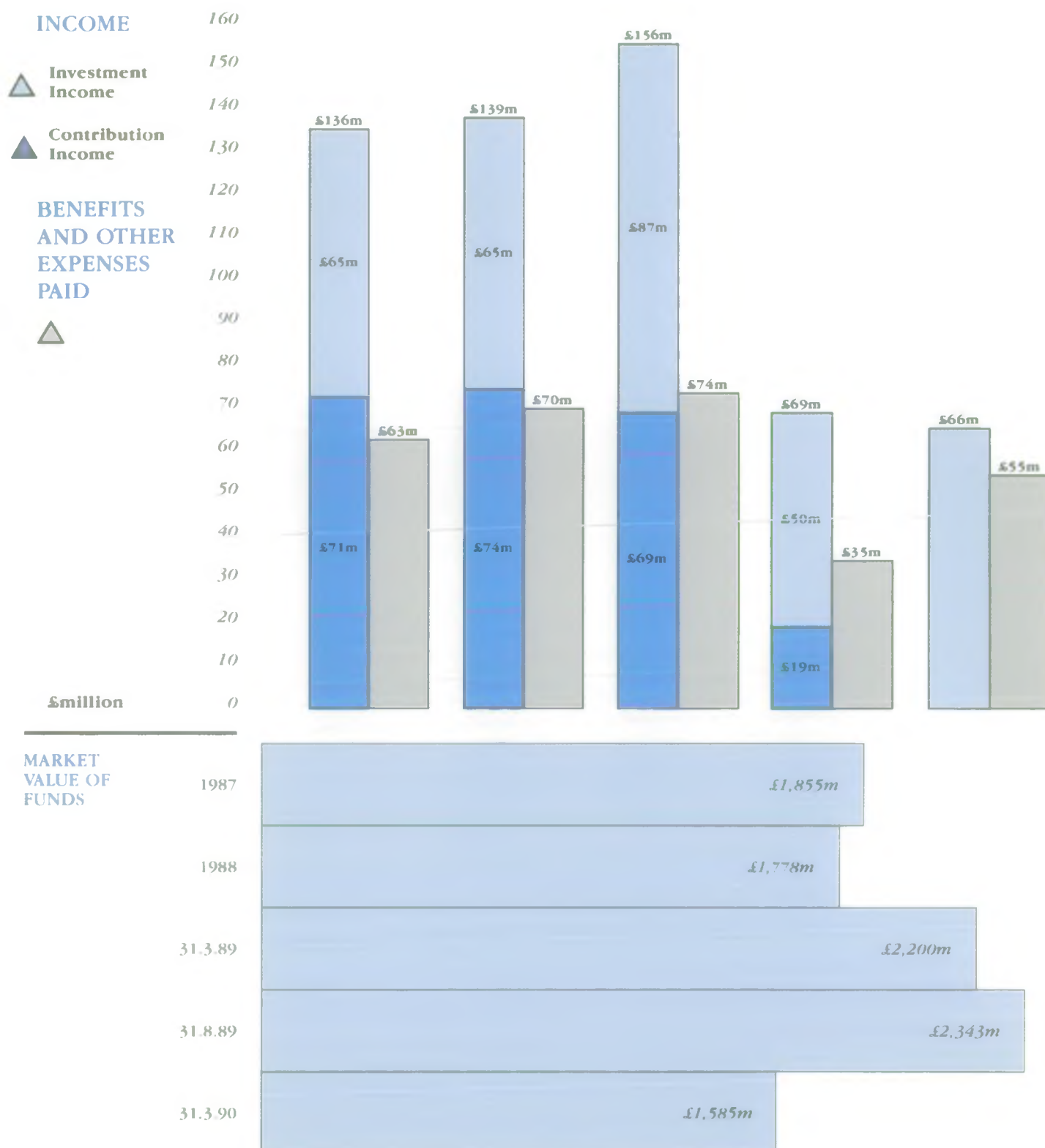
- Deferred Pensioners
- Pensioners (excluding supplementary unfunded pensioners)

Key Combined Statistics

NEW MAIN AND NEW SECOND FUNDS

MEMBERSHIP	1987	1988	31.3.89	31.8.89	31.3.90
Contributors	47,694	47,662	25,832	22,236	–
Pensioners	25,977	27,009	28,064	28,976	28,501*
Deferred Pensioners	6,314	7,064	8,531	8,740	10,542

*excluding 418 supplementary unfunded pensioners included in the figure at 31 August 1989.



Any enquiries regarding this Report should
be addressed to:

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