If you have any queries on the content of this report or wish to discuss any aspects of the scheme please contact,

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HALCROW

Pension Scheme

Annual Trustees' Report to Members

6 April 1995-5 April 1996

Introduction From The Chairman

As the new Chairman of the Trustees of the Halcrow Pension Scheme, I am very pleased to be introducing this, our latest Report to members.

I wish to extend my thanks to Tony Cadwallader for his many years' service as Chairman of the Trustees. His commitment to this post has been an invaluable factor in the successful operation of the Scheme. In addition, I would also like to welcome David Lloyd as a new Trustee.

My term of office as Chairman will be very busy over the next two years. All the Trustees will be working together to ensure that the Scheme meets the requirements of the Pensions Act 1995. We are confident that as the Scheme is in a healthy position, this will not present any particular problems. Also, now that most of the regulations in connection with the Act have been published, we hope to produce a new Explanatory Booklet to all members as soon as possible.

The Trustees and myself would like to welcome all the new members into the Scheme, especially those who joined Halcrow Water Services from Mid Kent Holdings and those previously with Hereford and Worcester County Council.

I would like to mention that one of our pensioners reached age 90 during the year and that another will soon have been in receipt of pension for more than 25 years. I know that several pensioners have already been receiving a pension for more than 20 years. These individuals highlight the importance of a pension scheme that provides good benefits in retirement.

This Report gives you brief details of what has been happening to the Scheme in the last year, its finances, its investments and the benefits it provides. The Formal Trustee Report and Accounts, on which it is based, is available on request from the Pensions Manager, Alan Gill, who is happy to discuss any pension matters with members.

CHAIRMAN OF THE TRUSTEES

Events During The Year

Changes to the Scheme

(i) Following the change to State Pension Age for women introduced by the Pensions Act 1995, the Trustees agreed with the Employer that temporary pensions should be provided to active female members whose State Pension Age was increased beyond 60 as a result of the change. Those females born after 6 April 1955 will have a State Pension Age of 65. Those females born between 6 April 1950 and 5 April 1955 will have a State Pension Age between age 60 and 65. A temporary pension will be paid from age 60 to their new State Pension Age.

(ii) Following a review of the position of part-time staff, a small number of current members were permitted to backdate pension service to the start of their part-time service. Three members from a total of four took up the option.

(iii) The Trustees agreed with the Employer that the policy in respect of linking service upon rejoining the Scheme should be modified. This change was made after consultation with Staff Council and affects all rejoiners from the start of the new Scheme Year. In future, linking service will be progressive (after two years) rather than en-bloc after two years.

(iv) The Trustees agreed that Halcrow Water Services (jointly owned by Sir William Halcrow & Partners Ltd and Mid-Kent Holdings) could be admitted as an Associated Company - to enable their staff to join the Scheme.

(v) A number of female members who joined the Scheme prior to February 1987 have had benefits improved as a result of the Barber Judgment, which required post May 1990 service to be equalised.

On a more general note, the Pensions Act 1995 was passed by Parliament and this will impact on every pension scheme in the country as well as affect State benefits. The Halcrow Pension Scheme has to make relatively few changes to comply with the Act and members will be informed of these changes as they take place.

Pension Increases

One of the most important benefits provided by the Scheme is the annual increase of each pension in payment. Without these increases, spending power during retirement could be eroded very quickly by the effects of inflation.

Part of the pension attracts annual increases provided by the State. The balance and, in most cases, the majority of the pension attracts guaranteed increases of 5% on 1 February each year from the Scheme - Inland Revenue limits permitting.

Increases provided over the last 10 years compared with inflation have been:-

DATE	*INFLATION*	*INFLATION SINCE PREVIOUS INCREASE*
February 1996	5%	2.72%
February 1995	5%	3.28%
February 1994	5%	2.47%
February 1995	5%	1.83%
February 1992	5%	4.13%
February 1991	5%	3.23%
July 1990	9%	9.79%
July 1989	7%	8.25%
July 1988	5%	4.61%
July 1987	5%	4.19%

Over the 10 year period, compounded inflation has been 54.14 %. Over the same period compounded pension increases have been 72.32%, thereby ensuring that pensions for those who have retired have been more than protected against the effects of inflation.

Who Looks After The Scheme?

The Trustees

The Scheme is managed by Trustees who are currently:-

Standing (l to r)
David Lloyd
Peter Pavry
Peter Claridge

Sitting
Sheila Munro
Peter Gammie - Chairman

David Lloyd was appointed on 29 April 1996 to replace Tony Cadwallader as a Trustee, who retired from the Company.

Peter Gammie was elected unanimously by his fellow Trustees as Chairman on 23 September 1996.

It is the Trustees' job to look after the Scheme's assets and ensure that members' benefits are paid correctly and on time. They are also responsible for ensuring that proper records are kept and that the Scheme's assets are prudently invested for the benefit of members.

The Trustees delegate the day-to-day running of the Scheme to the Pensions Manager, Alan Gill. Alan and his staff in the Pensions Department can be contacted at:-

Burderop Park
Swindon
Wiltshire
SN4 0QD
Telephone: 01793 812479

Advisers

The Trustees and the Pensions Manager receive professional help from the following:-

Actuary & Investment Consultants
Lane, Clark & Peacock

Consultants
Godwins Limited

Investment Managers
PDFM Limited

Auditors
Coopers & Lybrand

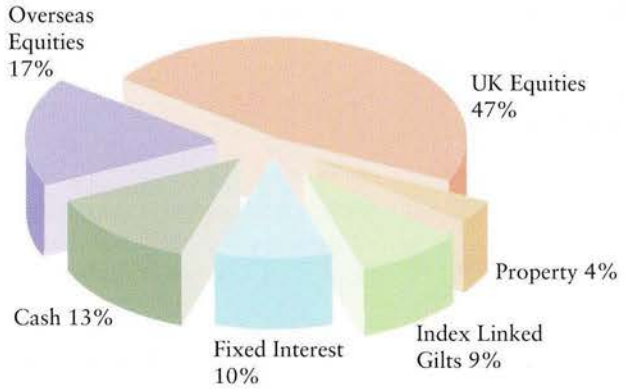
Bankers
Midland Bank plc

How Were The Scheme's Assets Invested?

The Scheme's assets are worth more than £120 million and it is important that they are invested appropriately in a range of stocks and shares so as to produce a real return over and above the rates of price and salary inflation.

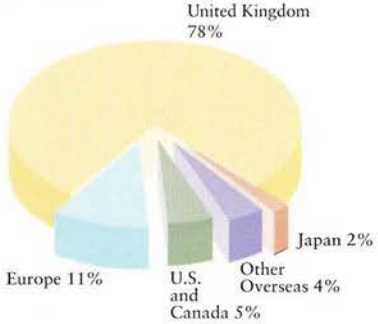
The Trustees are responsible for the Scheme's investment strategy which they review on a regular basis. However, rather than select individual investments themselves, they delegate responsibility for investment of the assets - within the agreed strategy - to PDFM Limited who are specialists in the investment of pension fund money.

As at 5 April 1996, the Scheme's assets were invested broadly as follows:-



50% of the investments in the UK and overseas equities are held in "*index tracking*" funds where PDFM have no discretion over the choice of individual stocks. The Scheme has no "*self investment*" in the Halcrow Group.

Investments are made on a world wide basis and the geographical spread was as follows:-



What Was The Investment Performance Of The Scheme's Assets During The Year?

To assess the Scheme's investment performance the Trustees participate in the survey run by Combined Actuarial Performance Services Ltd (CAPS). This independent service measures the return achieved by the Halcrow Pension Scheme against returns achieved by similar pension funds. Altogether, more than 1500 pension funds with assets approaching £250 billion participate in the CAPS survey.

During the year the Scheme achieved a return of 18.1% whilst the CAPS median return was 23.4%. This performance placed the Scheme in the lower quartile of funds in the CAPS survey.

The Trustees were disappointed with these figures although, over the long-term, the investment returns have compared favourably with other funds in the CAPS survey. PDFM performance is constantly monitored by the Trustees and a 3 year review of investment policy is due in 1997, which is also appropriate following the Pensions Act 1995 requirements.

What Are The Main Benefits?

A pension of up to two thirds of your salary at retirement, part of which can be exchanged for a tax free cash sum.

A life assurance benefit of four times your salary plus a refund of any contributions you have paid should you die in service, with an immediate pension to your spouse and dependent children.

An immediate pension to your spouse and dependent children should you die whilst in receipt of a pension.

Guaranteed increases each year to your pension and any spouse's or childrens' pensions.

Further details about the benefits provided by the Scheme will be found in the Explanatory Booklet which is due to be issued to all members in 1997.

Can The Scheme Meet Its Commitments?

The Trustees have retained an independent Actuary whose job it is to monitor the Scheme's finances. In particular, the Actuary checks that there is enough money in the Fund and advises the Trustees how much the Employer ought to be contributing each year.

He does this by carrying out periodic investigations, called actuarial valuations, into the finances of the Scheme. These take into account the likely future inflation, salary changes, fluctuations in members and likely investment returns.

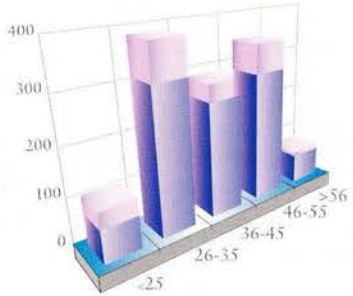
The most recent investigation as at 5 April 1995, showed that the assets were comfortably sufficient to cover the Scheme's liabilities allowing for future salary and pension increases. More recently, the Actuary has confirmed that he believes the scheme will satisfy the Minimum Funding Requirement introduced by the Pensions Act 1995 when he carries out the next valuation which is scheduled for 5 April 1998.

For the time being, the Employer and the Trustees have agreed that the Employer's contribution rate should be maintained at 8% of Pensionable Salaries.

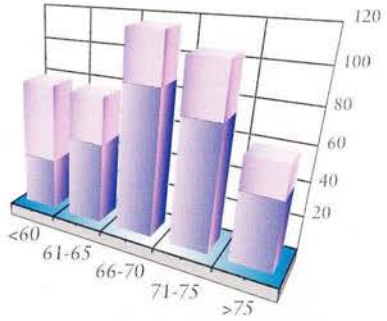
IRH (Bob) Scott
Scheme Actuary
Lane Clark & Peacock

What Is The Scheme's Membership?

Contributing members at 6 April 1995	**1146**
Scheme joiners during the year	166
Retirements during the year	13
Deaths during the year	0
Leavers during the year	102
Contributing members at 5 April 1996	**1197**



Active Members By Age



Pensioners By Age

Male
Female

At 5 April 1996 the Scheme had:	
Pensioner Members	437
Members with preserved benefits	632
Contributing members	1197
Life Assurance only members	73
TOTAL	2339

Income & Expenditure

At the beginning of the year the value of the scheme's assets was:

1995/1996	1994/1995
101,933,205	98,441,539

INCOME WAS AS FOLLOWS:

Contributions from the company	1,560,922	1,446,882
Contributions from the Members	963,773	897,431
Transfers from other Schemes & AVCs	2,241,645	100,932
Receipts in respect of Scheme A	6,347	7,967
Investment Income	4,622,766	4,075,491
Total Income	9,395,453	6,528,703

EXPENDITURE WAS AS FOLLOWS:

Pensions	2,909,825	2,685,754
Transfers to other Schemes	248,227	133,020
Lump sums paid on retirement	196,995	79,400
Death Benefits	8,837	147,196
State Scheme Premiums	15,222	38,806
Refunds of Contributions	9,309	5,652
Life Assurance Premiums	26,688	25,119

PLUS EXPENSES:

	1995/1996	1994/1995
Investment management charges	292,066	265,207
Other professional fees	164,728	120,703
Bank Charges	1,023	977
Total Expenditure	3,872,920	3,501,834
Balance of Income over Expenditure	5,522,533	3,026,869
Change in the Market Value of Investments	13,106,325	464,797
At the end of the year the value of the Scheme's assets was:	120,562,063	101,933,205

Additional Voluntary Contributions (AVCs)

Paying AVCs is an extremely tax efficient way of saving due to the tax relief available on contributions and the fact that benefits build up free of tax. AVCs are particularly useful if you are planning to retire early or have joined the Scheme late in life. The Trustees have set up three AVC contracts for members to choose from.

(i) a building society account with the Nationwide Building Society

(ii) a "with profits" insurance contract with the Norwich Union Life Insurance Society

(iii) unit-linked funds with the Norwich Union Life Insurance Society

At April 1996, 217 active members (18%) have AVC accounts whilst a small number have made their own provision via Free Standing Additional Voluntary Contributions (FSAVCs) with a provider of their own choice.