REPORT & ACCOUNTS
2011/12

Merseyside
PENSION FUND

Contents

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Management Structure

As at 31 March 2012

1. Pension Fund Management Committee

Chair:

Cllr G C J Watt	**Wirral**

Vice Chair:

Cllr C Povall	**Wirral**

Cllr G Davies	**Wirral**
Cllr P Doughty	**Wirral**
Cllr T Harney	**Wirral**
Cllr M Hornby	**Wirral**
Cllr P Johnson	**Wirral**
Cllr A Jones	**Wirral**
Cllr A McLachlan	**Wirral**
Cllr H Smith	**Wirral**
Cllr N F Keats	**Knowsley**
Cllr J Hanson	**Liverpool**
Cllr D McIvor	**Sefton**
Cllr L McGuire	**St Helens**
Mr P McCarthy	**Non-district Employer Representative**

Employee Representatives:

Mr P Goodwin	**Unison**
Mr P Wiggins	**Unison**
Mr D Walsh	**Unite**

Officers of the Fund

Ian Coleman	**Director of Finance**
David Taylor-Smith	**Deputy Director of Finance**
Peter Wallach	**Head of Pension Fund**
Yvonne Caddock	**Principal Pension Officer**
Bill Norman	**Director of Law, Hr Asset Management**
Colin Hughes	**Group Solicitor**

2. Advisers to Investment Monitoring Working Party

Director of Finance
Head of Pension Fund
Senior Investment Manager
Aon Hewitt
Noel Mills

3. Advisers to Governance and Risk Working Party

Director of Finance
Head of Pension Fund
Principal Pension Officer

4. Others

Auditor
Audit Commission

Bankers
The Royal Bank of Scotland plc

Consultant Actuary
Mercer HR Consulting

Custodian of Assets
State Street

Ethical Advisers
Pensions and Investment Research Consultants Ltd

Property Advisers
C B Richard Ellis

Property Managers
C B Richard Ellis

Performance Measurement
The WM Company

Solicitor
Wirral Council

AVC Providers
Equitable Life Assurance Society
Standard Life
Prudential

Chair's Introduction

Councillor Geoffrey Watt,
Chair of Pensions Committee

As Chair of the Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2012. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months as well as providing more general information regarding the pension scheme.

G.C.J. Watt

GCJ Watt

The Overall Aim of the Fund

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liability profile. The Pensions Committee reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisers, to ensure that they remain appropriate.

Investment Performance of the Fund

Looking back over the 12 months, equity markets started quietly but over the summer reacted badly to a rapid deterioration in the financial stability of the eurozone, particularly in relation to Greek sovereign debt, and signs of a renewed global economic downturn. The MSCI world index troughed in early October, having fallen some 15%, then staged a recovery, punctuated by further weakness in November, ultimately ending the financial year little changed. This masked a significant divergence in the performance of developed markets with the US appreciating by nearly 7% whilst European markets were, on average, down by more than 11%. UK equities returned 1.4%.

Financial markets were characterised by the so called "risk on, risk off" reflecting the sharp mood swings of investors between confidence and fear. Investors sought perceived lower risk assets such as gold, US dollars, yen, sterling, Swiss francs and 'safe haven' bonds issued by countries such as the US, Switzerland, Germany, the Nordics and the UK. This was reflected in the performance of the Fund's fixed interest holdings with index-linked gilts returning 18.1% for the twelve-month period.

The Fund appreciated by more than £100m to over £5.1bn in value, returning 2.9% compared to its bespoke benchmark return of 3.6%. The average local authority fund returned 2.6%. Financial markets continue to be volatile and it is important to remember that local authority pension funds invest over the long-term to pay benefits in forty to fifty years time and it is imperative to maintain this long-term perspective. Further information on the management of the Fund, distribution of assets and performance is provided later in this report.

Actuarial Valuation

The triennial actuarial valuation at 31 March 2010 was concluded last year and, despite the turbulence in financial markets in the preceding three years, showed only a small deterioration in the funding level from 80% to 78%. However, despite the assets of the Fund continuing to appreciate in value since then, the decline in government bond yields has had a significantly detrimental effect on the present value of liabilities. Interim valuations indicate that the funding position has deteriorated to around 65% by the date of this report. With quantitative easing by the government targetted at maintaining low bond yields, the situation is unlikely to improve in the immediate future.

The average employer contribution rate to meet the funding objective has increased to 18% from its current level of 17.8% of which 11.6% relates to future service accrual and the balance of 6.4% to recovering the deficit over a 25 year period. Contributions for each separate employer will be levied as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. Where known, the financial implications of the changes to the Local Government Pension Scheme (LGPS) were taken into account by the actuary.

Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and proposals for the reform of the LGPS. With increasing numbers of members affected by early retirement and redundancy programmes, it has offered a variety of courses to members and employers during the year in addition to the regular newsletters for employers, employees, pensioners and deferred members. The Fund website continues to be updated regularly and we are seeing increasing use of the Employers' website.

The Annual Employers' Conference held at Aintree Racecourse, in November 2011, was again well attended and featured speakers from the Fund's actuary, The Pensions Regulator, DCLG and officers from the Fund.

Past Changes and the Future

Reform of the LGPS resulting from the Hutton review continues to be a significant focus. The Fund is an active participant in all aspects of consultation including the proposed changes to the Scheme, legislation, taxation and benefit changes. The Fund has been delighted with the interest from Scheme members and employers to surveys it has undertaken and their contributions have helped to inform the Fund's responses.

Implementation of the requirements of auto-enrolment will start next year for the largest employers and the Fund is raising awareness of issues and providing support where possible. We continue to look for efficiencies and improvements in the way in which we operate, exemplified by the successful joint procurement of actuarial services undertaken in conjuction with two other local authority funds.

As ever, the continued success of the Fund depends on the combined efforts of all those concerned with its operation. In conclusion, I should like to thank the Committee, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

Preparation of report

This Annual Report has been produced in accordance with Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.

Management Report

Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Geoffrey Watt.

In 2011/12, the Committee comprised of Councillors from the Wirral Labour group (5), Conservatives (4), Liberal Democrats (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton), an independent representative from the other employers and employee representatives (3). The Director of Finance and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures that the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Department of Communities and Local Government (DCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP) provide further information on the Fund's investment philosophy and investment framework.

The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by an Investment Monitoring Working Party. The Working Party meets six times a year to review investment strategy and to receive reports on investment activity undertaken in the prior period. The Working Party comprises representatives from the Pensions Committee, an independent adviser, Mercer Investment Consulting and members of the in-house investment team.

Another of its important tasks is to monitor the performance of the Fund's external and internal managers, which is undertaken in conjunction with professional advisers and the Fund's officers. External and internal fund managers have been given specific benchmarks against which performance is measured and monitored quarterly. In addition, internal fund managers report to the Director of Finance through regular Fund Operating Group meetings and follow laid down internal compliance procedures.

With regard to its investment management activities, the Fund uses a combination of internal and external management, and active and passive strategies across the various asset classes in which it invests. More comprehensive details of the Fund's managers, mandates and advisers are set out in its SIP.

Governance, pensions administration and policies, risk management and related matters are scrutinised by a Governance and Risk Working Party which meets twice yearly.

Risk Management

The Fund's governance arrangements, set out in the preceding section, ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels.

The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisers and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal documents relating to risk management and control are the Fund's:

- Governance Policy
- Communications Policy
- Funding Strategy Statement
- Statement of Investment Principles
- Investment Monitoring Policy

Copies of these documents are available from the Fund and are published on the Fund website at: **www.merseysidepensionfund.org.uk/riskdocs**. In addition, the Fund maintains a risk register and a compliance manual for its employees.

These documents are all subject to regular scrutiny by elected members and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually by the Fund's external and internal auditors.

Additionally, and where applicable, the Fund adheres to the administering authority's constitution in managing its operations. Legal opinion and advice is provided by Wirral's legal team and from external sources where appropriate.

Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allotted to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide/arrange training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Our training plan sets out how we intend the necessary pension finance knowledge and skills are to be acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Pensions Committee has designated the Director of Finance to be responsible for ensuring that policies and strategies are implemented.

Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to and approved by Pensions Committee. The Fund develops its Pensions Committee members and officers through training and education using a variety of means. These include regular meetings, ad hoc seminars and conferences, bespoke training and a comprehensive website.

Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by the regular working parties. The investment monitoring working parties include a minimum of two presentations and cover all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The governance and risk working parties enable matters relating to other risks, governance and pensions administration to be covered in greater depth, as necessary.

The internal training days covered a range of topical issues. The first training day focussed on responsible investment with a variety of speakers dealing with various aspects of this area. The second was a refresher on the methodology of actuarial valuation, asset liability modelling and investment strategy followed by an overview of best practice governance arrangements.

Bespoke training includes the LGE Trustee Fundamentals training which was attended by a number of committee members and several other conferences and seminars as detailed below.

The Fund is a member of the Local Authority Pension Fund Forum and the chair of committee is a member of the executive board, attending regular meetings dealing with all areas of responsible investment.

The following training opportunities have been provided during the year.

Month	Event
April	Investment Monitoring Working Party
May	NAPF Local Authority Conference
June	Internal Training Day
June	Investment Monitoring Working Party
June	Pensions Committee
June	CIPFA Conference
June	LGA LGPS Trustees Conference
July	Governance & Risk Working Party
September	Investment Monitoring Working Party
September	Pensions Committee
September	LGC Investment Summit
October	Internal Training Day
October	Investment Monitoring Working Party
October	Pensions Committee
November	MPF Annual Employers Conference
November	Investment Monitoring Working Party
December	LAPFF Annual Conference
January	Economics Seminar
January	Pensions Committee
January	Governance & Risk Working Party
February	Investment Monitoring Working Party
March	Pensions Committee
March	LGC Investment Seminar

As the officer nominated by the Pensions Committee responsible for ensuring that the Fund's training policies and strategies are implemented, the Director of Finance, can confirm that the officers and members charged with the financial management of and decision making for the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Investment Report

Year ended 31 March 2012

Review of Investment Performance

Overall, investment returns were mildly positive for the financial year to the end of March 2012 despite economic and geopolitical headwinds.

Up until the end of June, global equity markets had withstood a number of challenges: the sovereign debt crisis in Europe, the procrastination over budget deficit reduction in the US, political upheaval in North Africa and the Middle East, higher global oil prices and rising commodity driven price inflation, the threat of a hard landing in China and, more generally, the rapid deceleration of economic activity apparent across all the world's major economies whether mature or emerging.

Residual positive sentiment towards equities began to wane in July before evaporating completely in August with markets falling sharply as economic indicators weakened and there was a failure to address credibly the eurozone debt crisis. This gave rise to fears of renewed systemic banking failures and, in the process, amplified broader concerns of double-dip recession not just in Europe but around the globe. All markets were affected though, unsurprisingly, the biggest falls were in continental Europe.

Although cash-rich, the corporate sector remained unwilling to invest and hire against such an uncertain economic backdrop. Meantime, with inflation their primary concern, those cash-rich economies of Asia were similarly reluctant to ramp up their fiscal spending programmes in support of global growth. Policy was tightened across the developing world resulting in slower economic growth.

While equities tumbled, bonds have gone from strength to strength as investors bailed out of risky assets into so-called 'safe-haven' government debt. This has included markets such as the US, Switzerland, the UK and 'core' Europe. However, peripheral Europe has, in general, suffered, seeing yields rise and prices fall.

For the Fund, UK government bond markets gave double digit returns with index-linked gilts benefitting from heightened inflation expectations returning 18%. Property continued its revival with a return of around 6%. Full details are shown in the accompanying charts.

Equity markets saw considerable variability in returns. The US was the strongest, gaining nearly 7% whilst European markets were the weakest, falling in aggregate by around 11%.

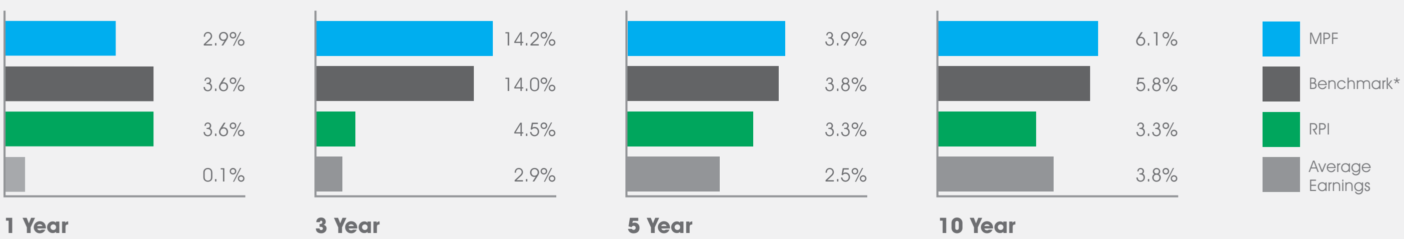
Over the financial year to the end of March 2012, Merseyside Pension Fund returned 2.9% compared to its bespoke benchmark return of 3.6%, an under-performance of 0.7%. The average UK Local Authority fund returned 2.6% over the comparable period.

The performance of the Fund against its benchmark and against price and earnings indices over 1, 3, 5, and 10 year periods is tabulated below. The longer term investment performance numbers continued to hold up well and, over the medium term, the Fund has performed in line with its benchmark.

Longer term, over 10 years, the Fund has achieved an absolute annualised return of 6.1%, which is comfortably ahead of the Retail Price Index at 3.3% over the comparable period.

Over five, ten and twenty years, Merseyside Pension Fund ranks around the top quartile of all Local Authority funds.

Comparative Returns for the Fund



During the year, no investment manager contracts were re-tendered although our custodian contract is currently under review.

Responsible Investment

Over the period, the Fund continued to work with LAPFF and other institutional investors to promote and implement responsible investment. Executive remuneration was particularly topical this year and the Fund was active in engaging with companies over this issue. Further information and our voting record is available on our website.

Figure 1.
Portfolio Distribution (Market Value at 31 March 2012)

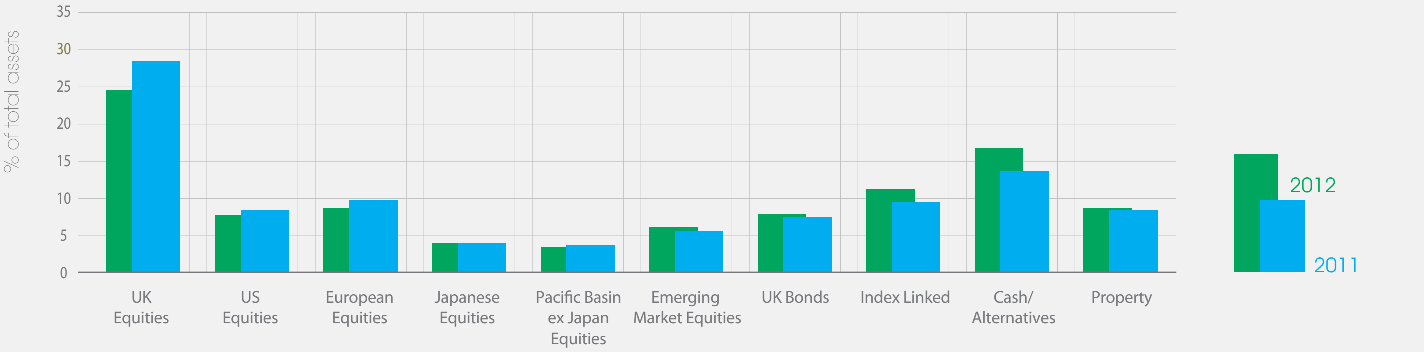
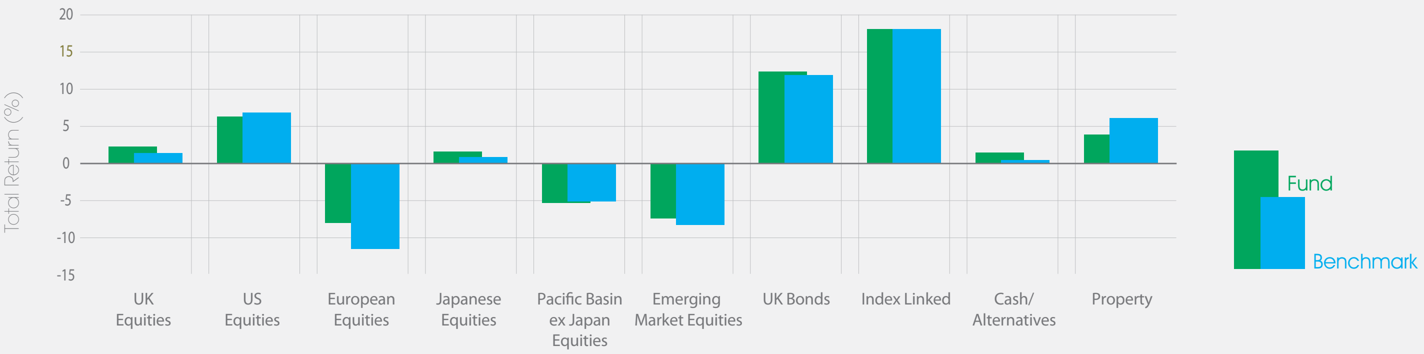


Figure 2.
Total Return by Asset Class in year ended 31 March 2012



Investment Report

Year ended 31 March 2012

Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
UK Equities	25	
Overseas Equities	30	
US		8
European (Ex UK)		8
Japan		4
Asia Pacific		4
Emerging Markets		6
Fixed Interest	20	
UK Gilts		4
Overseas Bonds		0
UK Index Linked		12
Corporate Bonds		4
Property	10	
Venture Capital / Other Investments	14	
Cash	1	
Total	100	

The following holdings each represent more than 5% of the value of the whole fund as at 31 March 2012

	2012		2011	
	£'000	%	£'000	%
Legal & General Pooled UK Index Linked Gilts	575,949	11.22	487,795	9.7
Legal & General Pooled UK Equities	410,017	7.99	371,470	7.4
UBS USA Equity Tracker	401,273	7.82	417,291	8.3

Largest UK Equity Holdings as at 31 March 2012

Company	Market Value £ '000	Equity %
BG Group Plc	37,689	3.01
British American Tobacco PLC	33,969	2.67
BP PLC	30,802	2.42
Vodafone Group Plc	23,811	1.87
BHP Billiton Plc	21,839	1.71
Rio Tinto Plc	21,821	1.71
GlaxoSmithKline Plc	21,642	1.69
HSBC Holdings Plc	20,688	1.62
Standard Chartered Plc	20,410	1.60
Royal Dutch Shell Plc (B)	18,211	1.43
	£268,482	19.73%

Largest UK Property Holdings as at 31 March 2012

Property	Market Value £'000
Supermarket, Heswall	28,000
Tunsgate Square Shopping Centre, Guildford	21,700
Farnham Retail Park, Farnham	18,250
37/38 Curzon Street, London	17,650
Middlemarch Business Park, Coventry	15,350
Willowbrook Retail Park, Loughborough	14,300
Horns Road, Ilford	14,000
Quandrant Windsor	12,575

Financial Statement

Fund Account - for year ended 31 March 2012

	Note	2012	2011
		£'000	£'000
Contributions and Benefits			
Contributions receivable	6	243,213	266,747
Transfers in	7	11,024	19,273
Administration income		199	326
		254,436	**286,346**
Benefits payable	8	267,053	259,911
Payments to and on account of leavers	9	13,119	18,589
Administration expenses	10	4,107	4,778
		284,279	**283,278**
Net (withdrawals)/additions from dealings with members		(29,843)	3,068
Return on Investments			
Investment income	11	91,070	88,540
Profit and losses on disposal of investments and changes in value of investments	13	35,962	330,903
Taxes on income	11	(1,453)	(1,988)
Investment management expenses	12	(11,225)	(10,300)
Net return on Investments		**114,354**	**407,155**
Net increase (-decrease) in the Fund during the year		84,511	410,223
Net assets of the Fund at the start of the year		5,115,872	4,705,649
Net assets of the Fund at the end of year		**5,200,383**	**5,115,872**

Net Assets Statement as at 31 March 2012

	Note	2012	2011
		£'000	£'000
Investment Assets	13		
Equities		1,514,762	1,725,620
Pooled Investment Vehicles		3,216,404	2,960,106
Derivative Contracts		6,669	756
Direct Property		290,965	251,935
Short Term Cash Deposits		56,271	59,570
Other Investment Balances		75,895	89,555
		5,160,966	**5,087,542**
Investment Liabilities	16	(15,338)	(37,114)
Net assets of the Fund at the end of year		**5,145,628**	**5,050,428**
Long Term Assets	17	30,864	30,844
Current Assets	18	36,330	50,586
Current Liabilities	18	(12,439)	(15,986)
Net assets of the Fund as at 31 March 2012		**5,200,383**	**5,115,872**

Notes to the Accounts

1. General

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Wirral Council. Wirral Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside local authorities and a range of other scheduled and admitted bodies. Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. In May 2012 the Local Government Association announced the 2012 new LGPS proposals to take effect from 1 April 2014 subject to consultation. The new proposed Scheme is a career average revalued scheme.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the retail price index to the consumer price index. This change took effect from 1 April 2011.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its position at year end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are shown within the statement by the actuary on pages 36 to 37.

3. Accounting Policies

The financial statements have been prepared on an accruals basis, unless otherwise stated.

Contributions and Benefits
Contributions are accounted for on an accruals basis. Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump-sum benefits outstanding as at the year end. Augmentation and pension strain payments due from employers in future years are accounted for.

Transfers to and from other Schemes
Transfer payments relate to those early leavers whose transfers have been paid during the year, plus an accrual for future payments in respect of members moving their service to other schemes under bulk transfer arrangements.

Taxation
The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Administration Expenses
All administration expenses are accounted for on an accruals basis. All staff costs of the pensions team are charged direct to the Fund. Management and other overheads are apportioned to the Fund in accordance with council policy.

Investment Management Expenses
All investment management expenses are accounted for on an accrual basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management and therefore increase or reduce as the value of these investments change.

For certain unquoted investments including private equity, hedge funds, opportunities and infrastructure the Fund does not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment or from investment income paid to the Fund.

The cost of obtaining investment advice from external consultants is included in investment management expenses.

Costs in respect of the internal investment team are classified as investment management expenses.

Property Expenses
Property expenditure is accounted for in the calendar year.

Investment Income
Income from equities is accounted for when the related investment is quoted ex dividend. Income from pooled investment vehicles and interest on short term deposits has been accounted for on an accruals basis. Distributions from associates and joint ventures are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Rental Income
Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown net of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Valuation of Investments
Financial assets are included in the net asset statement on a fair value basis as at the reporting date. The values of investments, as shown in the net asset statement, are determined as follows:

Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained should the securities have been sold at that date.

For unlisted investments, wherever possible, valuations are obtained via the independent administrator. Valuations that are obtained direct from the manager are verified against the latest available audited accounts, adjusted for any cash flows up to the reporting date. Hedge funds and infrastructure are recorded at fair value based on net asset values provided by Fund administrators or using latest financial statements published by respective fund managers adjusted for any cash flows.

Private equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.

Indirect property is valued at net asset value or capital fair value basis, provided by the fund manager and of listed funds net asset value per unit is obtained through data vendors.

Direct property is valued at fair value as defined by the IASB and market rent as set out in VS 3.3 of the Professional Standards, as at the reporting date. Direct properties have been valued independently by Colliers International in accordance with Royal Institute of Chartered Surveyors Valuation Professional Standards as at 31 March 2012.

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested by the manager of the vehicle in the underlying investment, net of applicable withholding tax.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

Derivatives
The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Notes to the Accounts

Financial liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

Basis of Estimates
Estimates for post year end outstanding items have been used for the following activities: payments of retirement grants, death grants and investment managers' fees

- retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken where the knowledge of the individual member's choice is still outstanding
- death grants due for payment, but not paid by 31 March: for example awaiting Probate
- investment managers' fees outstanding: estimated using the Fund's valuations as at 31 March 2012.

Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the hedge fund directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

4. Critical Judgments in Applying Accounting Policies

Unquoted investments
The Fund has significant unquoted investments within private equity, infrastructure, property and other alternative investments. These are valued within the financial statements using valuations from the managers of the respective assets. There are clear accounting standards for these valuations and the Fund has procedures in place for ensuring that valuations applied by managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2012 was £1,021m (£874m at 31 March 2011)

5. Events after the Balance Sheet Date

There have been no events since 31 March 2012, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

6. Contributions Receivable

		2012	2011
		£'000	**£'000**
Employers			
Normal		100,690	165,836
Augmentation		145	45
Pension Strain		19,501	28,471
Deficit Funding		67,673	11,874
Employees			
Normal		55,204	60,521
		243,213	**266,747**
relating to:	Administering Authority	37,271	41,317
	Statutory Bodies	171,379	187,628
	Admission Bodies	34,563	37,802
		243,213	**266,747**

Employers normal contributions for 2012 no longer include an element of past service deficit, as this is now shown under deficit funding. However, the 2011 employers normal contributions does include an element of past service deficit. The 2007 actuarial valuation calculated the average employer contribution rate of 17.8%, 12.1% was determined the average employer rate in respect of future service only and 5.7% for past service deficit.

"Augmentation" represents payments by employers to the Fund for the costs of additional membership benefits awarded under LGPS regulations. An accrual has been made for agreed future payments to the Fund.

"Pension Strain" represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

"Deficit Funding" for 2012 includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. However, the 2011 deficit funding represents additional payments by employers only as the past service deficit element was included in employers normal contributions. Also included is £1.4m relating to Magistrates Courts (2010/11 £7.2m) which was previously an active member of the Fund.

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers.
In 2011/12 no such charges were levied.

7. Transfers In

	2012 £'000	2011 £'000
Group Transfers	169	4,609
Individual Transfers	10,855	14,664
	11,024	**19,273**

8. Benefits Payable

		2012 £'000	2011 £'000
Pensions		199,812	182,237
Lump Sum Retiring Allowances		62,277	72,053
Lump Sum Death Benefits		4,964	5,621
		267,053	**259,911**
relating to:	Administering Authority	40,995	40,647
	Statutory Bodies	188,629	186,790
	Admission Bodies	37,429	32,474
		267,053	**259,911**

9. Payments to and on Account of Leavers

	2012 £'000	2011 £'000
Refunds to Members Leaving Service	7	15
Payment for Members Joining State Scheme	3	1
Income for Members from State Scheme	(5)	(18)
Group Transfers to other Schemes	0	0
Individual Transfers to other Schemes	13,114	18,591
	13,119	**18,589**

10. Administration Expenses

	2012 £'000	2011 £'000
Administration and Processing	3,717	4,396
Actuarial Fees	283	312
External Audit Fees*	81	37
Internal Audit Fees	26	33
	4,107	**4,778**

*External audit fees for 2012 includes fees for 2011

11. Investment Income

	2012 £'000	2011 £'000
Dividends from equities	55,447	58,027
Income from Pooled Investment Vehicles	15,448	9,005
Net Rents from Properties	15,960	17,242
Interest on Short Term Cash Deposits	369	705
Income from Associate and Joint Ventures	2,682	2,405
Income from Derivatives	349	257
Other	815	899
	91,070	**88,540**
Irrecoverable Withholding Tax	(1,453)	(1,988)
	89,617	**86,552**
Rents from Properties		
Rental Income	21,773	22,001
Direct Operating Expenses	(5,813)	(4,759)
Net Rent from Properties	**15,960**	**17,242**

Within investment income for 2011 £450,000 of dividends from equities has been reattributed to income from pooled investment vehicles.

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £1.8m (2010/11 £1.6m).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, but is not accruing for future receipt of such income within these accounts. Repayments received in 2011/12 £68,344 (2010/11 nil).

As at 31 March 2012, £177.0m of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £185.7m, giving a margin of 4.9%. Collateral is marked to market, and adjusted daily. Income from stock lending amounted to £739,965 and is included within "Other" Investment Income. As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation. As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation.

The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

The risks associated with stocklending are set out in the Fund's "Statement of Investment Principles".

Notes to the Accounts

12. Investment Management Expenses

	2012 £'000	2011 £'000
External Management Fees	10,277	9,197
External Services	638	707
Internal Management Costs	310	396
	11,225	**10,300**

13. Investments

	Market Value @ 31.3.11 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value @ 31.3.12 £'000
Equities	1,725,620	716,073	(849,852)	(77,079)	**1,514,762**
Pooled Investment Vehicles	2,960,106	487,686	(349,177)	117,789	**3,216,404**
Derivative Contracts	756	109,632	(99,993)	(3,726)	**6,669**
Direct Property	251,935	41,447	0	(2,417)	**290,965**
	4,938,417	**1,354,838**	**(1,299,022)**	**34,567**	**5,028,800**
Short Term Cash Deposits	59,570			67	**56,271**
Other Investment Balances	89,555			1,328	**75,895**
	5,087,542			**35,962**	**5,160,966**

*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation. For 2010/11 purchases of £2.4bn and sales of £2.4bn.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, transfer taxes and duties. They have been added to purchases and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1.7m (2010/11 £2.1m). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

13a. Analysis of Investments

	2012 £'000	2011 £'000
Equities (segregated holdings)		
UK Quoted	678,776	855,304
Overseas Quoted	835,986	870,316
	1,514,762	**1,725,620**

	2012 £'000	2011 £'000
Pooled Investment Vehicles		
UK Managed Funds:		
Property	24,208	26,000
Equities	193,450	224,555
Private Equity	161,631	143,309
Hedge Funds	56,939	48,818
Corporate Bonds	186,523	188,279
Infrastructure	47,966	26,992
Opportunities	129,629	96,680
Overseas Managed Funds:		
Equities	267,703	292,919
Private Equity	104,008	97,198
Hedge Funds	173,771	176,358
Infrastructure	18,316	11,321
Opportunities	57,750	18,370
UK Unit Trusts:		
Property	84,444	80,337
Overseas Unit Trusts:		
Property	51,315	57,863
Unitised Insurance Policies	1,658,751	1,471,107
	3,216,404	**2,960,106**

	2012 £'000	2011 £'000
UK Properties		
Freehold	249,387	211,761
Leasehold	41,578	40,174
	290,965	**251,935**
Balance at the Start of the Year	251,935	210,225
Additions	41,447	42,722
Disposals	0	(10,317)
Net Gain/Loss on Fair Value	0	(653)
Transfers In/Out	0	0
Other Changes in Fair Value	(2,417)	9,958
Balance at the End of the Year	**290,965**	**251,935**

As at 31 March 2012 there were no amounts of restrictions on the realisability of investment property or of income and proceeds of disposal.

Contractual obligations for development, repairs and maintenance amounted to £2.5m. There were no obligations to purchase new properties.

	2012 £'000	2011 £'000
Short Term Cash Deposits		
Sterling	55,316	59,570
Foreign Currency	955	0
	56,271	**59,570**

Short-term deposits only cover cash balances held by the Fund. Cash held by investment managers awaiting investment is shown under "other investment balances".

	2012 £'000	2011 £'000
Other Investment Balances		
Amounts Due from Brokers	349	257
Outstanding Trades	7,018	35,523
Outstanding Dividend Entitlements and Recoverable Withholding Tax	17,081	16,034
Cash Deposits	51,447	37,741
	75,895	**89,555**

Notes to the Accounts

13b. Impairment on Icelandic Deposits

At the time Icelandic banks collapsed in October 2008, the Fund had two investments £2.5m with Heritable Bank and £5m with Glitnir Bank.

The administrators for Heritable Bank estimated that the total amount to be received was to be between 86% and 90% of the claim. The Fund has therefore decided to recognise an impairment based on it recovering the mid point 88%. As at 31 March 2012 the Fund had received dividend payments totalling £1.7m.

In December 2011, the courts determined that local authority deposits with Glitnir Bank qualified for priority status. In March 2012, 81 pence in the £ was recovered and the remaining 19% remains held in Icelandic Krona in an escrow account. An impairment charge of £338,477 against accrued interest has been recognised in the Fund Account in 2011/12.

The total amount of accrued interest is £183,933 (2010/11 £385,653).

13c. Analysis of Derivatives

Futures

Type	Expires	Economic Exposure	Market Value 31/03/2012	Economic Exposure	Market Value 31/03/2011
		£'000	**£'000**	**£'000**	**£'000**
Assets					
EURO STOXX 50 Index Futures	Jun-12	3474	347	2,694	269
Swiss Market Index Futures	Jun-12	933	93	0	0
Total Assets			**440**		**269**
Liabilities			**0**		**0**
Total Liabilities			**0**		**0**
Net Futures			**440**		**269**

A futures contract is the obligation under a legal agreement to make or take delivery of a specified instrument at a fixed future date, at a price determined at the time of dealing. Merseyside Pension Fund's index futures contracts are externally managed and their objective is to hedge overseas investment positions against adverse index movements. Futures dealing requires the posting of margin. Initial margin which must be posted before you can trade and variation margin, the market-to-market value of the futures contracts you hold. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in EUR, CHF and GBP currency and the Sterling equivalent is £104,088. DJ Euro STOXX 50 and Swiss Index Futures have a contract multiplier of x10 therefore the notional value underlying the futures contracts is £4.4m.

Forward Currency Contracts

	Settlement Date	Currency Bought	Currency Sold	Asset	Liability
		'000	**'000**	**£'000**	**£'000**
Forward Currency Contracts	Up to One Month	AUD 17,531	GBP 11,424	72	
Forward Currency Contracts	Up to One Month	GBP 8,275	AUD 12,713		(71)
Forward Currency Contracts	Up to One Month	EUR 62,092	GBP 53,473	4,368	
Forward Currency Contracts	Up to One Month	GBP 50,426	EUR 58,660		(4,370)
Forward Currency Contracts	Up to One Month	HKD 14,816	GBP 1,197		
Forward Currency Contracts	Up to One Month	GBP 1,271	MYR 6,235		
Forward Currency Contracts	Up to One Month	SGD 6,224	GBP 3,139		
Forward Currency Contracts	Up to One Month	GBP 3,502	SGD 7,025		
Forward Currency Contracts	Up to One Month	GBP 745	SEK 7,700		
Forward Currency Contracts	Up to One Month	CHF 21,149	GBP 14,753	1,200	
Forward Currency Contracts	Up to One Month	GBP 16,172	CHF 23,280		(1,202)
Forward Currency Contracts	Up to One Month	GBP 194	THB 9,626		
Forward Currency Contracts	Up to One Month	USD 9,178	GBP 5,613		
Forward Currency Contracts	Up to One Month	GBP 5,424	USD 8,745		
				5640	**(5643)**
Net Forward Currency Contracts at 31 March 2012					(3)
Prior Year Comparative					
Open Forward Currency Contracts at 31 March 2011				18	0
Net Forward Currency Contracts at 31 March 2011					**18**

The Fund's forward currency contracts are exchange traded and are used by a number of our external investment managers to hedge exposures to foreign currency back into sterling.

Options

Investment Underlying Option Contract	**Expires**	**Put/Call**	**Notional Holding £,000**	**Market Value 31 March 2012 £'000**	**Notional Holding £,000**	**Market Value 31 March 2011 £'000**
Etihad Etisalat Co SAR 10.00	October 2012	Call	**598**	**589**	**469**	**469**

A call option is an agreement that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period. The Fund's only call exposure is a residual holding from a manager transition.

Notes to the Accounts

13d. Summary of Managers Portfolio Values as at 31 March 2012

	2012		2011	
	£'m	%	£'m	%
Externally Managed				
JP Morgan (European Equities)	175	3.4	192	3.8
UBS (US Equities)	401	7.8	417	8.2
Nomura (Japan)	204	3.9	201	4.0
Schroders (Fixed Income)	187	3.6	189	3.7
Legal & General (pooled assets - UK and Emerging Markets equities & index linked)	1,035	20.1	859	16.9
Legal & General (Fixed Income)	223	4.3	195	3.8
Unigestion (European Equities)	141	2.7	147	2.9
M&G (UK Equities)	171	3.3	167	3.3
M&G (Global Emerging Markets)	127	2.5	134	2.6
TT International (UK Equities)	156	3.0	148	2.9
Blackrock (UK Equities)	168	3.2	165	3.2
Blackrock (Pacific Rim)	104	2.0	110	2.2
Newton (UK Equities)	138	2.7	135	2.7
Amundi (global Emerging Markets)	124	2.4	139	2.7
Maple-Brown Abbot (Pacific Rim Equities)	101	2.0	104	2.0
	3,455	**66.9**	**3,302**	**64.9**

	2012		2011	
	£'m	%	£'m	%
Internally Managed				
Uk Equities	270	5.2	481	9.4
European Equities	127	2.5	144	2.8
Property (Direct)	291	5.6	252	5.0
Property (Indirect)	166	3.2	172	3.4
Private Equity	266	5.2	241	4.7
Hedge Funds	237	4.6	225	4.4
Infrastructure	66	1.3	38	0.8
Opportunities	196	3.8	115	2.3
Short Term Deposits & Other Investments	87	1.7	117	2.3
	1,706	**33.1**	**1,785**	**35.1**
	5,161	**100.0**	**5,087**	**100.0**

The following holdings each represent more than 5% of the net assets of the Fund:

	2012		2011	
	£'m	%	£'m	%
Legal & General Pooled UK Index Linked Gilts	575,949	11.2	487,795	9.7
UBS USA Equity Tracker	401,274	7.8	417,291	8.3
Legal & General Pooled UK Equities	410,018	8.0	371,470	7.4

14. Financial Instruments

14a. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net asset statement heading.

31 March 2012			
	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated as Fair Value Through Profit and Loss
	£000	£000	£000
Financial Assets			
Equities			1,514,762
Pooled Investment Vehicles			3,216,404
Derivatives			6,669
Cash Deposits	56,271		
Other Investment Balances			75,895
Debtors	67,194		
Total Financial Assets	**123,465**	**0**	**4,813,730**
Financial Liabilities			
Derivatives			
Other Investment Balances			15,338
Creditors		12,439	
Total Financial Liabilities	**0**	**12,439**	**15,338**
Net	**123,465**	**(12,439)**	**4,798,392**

31 March 2011			
	Loans and Receivables	Financial Liabilities at Amortised Cost	Designated as Fair Value Through Profit and Loss
	Restated	Restated	Restated
	£000	£000	£000
Financial Assets			
Equities			1,725,620
Pooled Investment Vehicles			2,960,106
Derivatives			756
Cash Deposits	59,570		
Other Investment Balances			89,555
Debtors	81,430		
Total Financial Assets	**141,000**	**0**	**4,776,037**
Financial Liabilities			
Derivatives			
Other Investment Balances			37,114
Creditors		15,986	
Total Financial Liabilities	**0**	**15.986**	**37,114**
Net	**141,000**	**(15,986)**	**4,738,923**

Notes to the Accounts

14b. Net Gains and Losses on Financial Instruments

	2012 £'000	2011 £'000
Financial Assets		
Fair Value Through Profit and Loss	38,312	321,598
Loans and Receivables	67	0
Financial Liabilities		
Fair Value Through Profit and Loss		
Financial Liabilities at Amortised Cost		
Total	**38,379**	**321,598**

14c. Fair Value of Financial Instruments and Liabilities

31 March 2012		
	Carrying Value £'000	Fair Value £'000
Financial Assets		
Fair Value Through Profit and Loss	3,961,786	4,813,370
Loans and Receivables	123,465	123,465
Total Financial Assets	**4,085,251**	**4,937,195**
Financial Liabilities		
Fair Value Through Profit and Loss	15,338	15,338
Financial Liabilities at Amortised Cost	12,439	12,439
Total Financial Liabilities	**27,777**	**27,777**

31 March 2011		
	Carrying Value £'000	Fair Value £'000
Financial Assets		
Fair Value Through Profit and Loss	3,831,197	4,776,037
Loans and Receivables	141,000	141,000
Total Financial Assets	**3,972,197**	**4,917,037**
Financial Liabilities		
Fair Value Through Profit and Loss	37,114	37,114
Financial Liabilities at Amortised Cost	15,986	15,986
Total Financial Liabilities	**53,100**	**53,100**

The above tables summarise the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The carrying value is the book cost and the fair value is the market value.

14d. Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classed into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	31 March 2012				31 March 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£,000	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Financial Assets								
Financial Liabilities at Fair Value Through Profit and Loss	1,938,397	2,066,665	808,668	4,813,730	2,194,139	1,896,995	684,903	4,776,037
Loans and Receivables	123,465			123,465	141,000			141,000
Total Assets	**2,061,862**	**2,066,665**	**808,668**	**4,937,195**	**2,335,139**	**1,896,995**	**684,903**	**4,917,037**
Financial Liabilities								
Financial Liabilities at Fair Value Through Profit and Loss	15,338			15,338	37,114			37,114
Financial Liabilities at Amortised Cost	12,439			12,439	15,986			15,986
Total Financial Liabilities	**27,777**	**0**	**0**	**27,777**	**53,100**	**0**	**0**	**53,100**
Net Financial Assets	**2,034,085**	**2,066,665**	**808,668**	**4,909,418**	**2,282,039**	**1,896,995**	**684,903**	**4,863,937**

Notes to the Accounts

15. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved will at least match the assumptions underlying the actuarial valuation and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation but will be reviewed as required particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk and the risk/return characteristics of each asset and their relative correlations are reflected in the make up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long term investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner. The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and investment managers
- Explicit mandates governing the activity of investment managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation
- The appointment of independent investment advisors to the Investment Monitoring Working Party
- Comprehensive monitoring procedures for investment managers including internal officers and scrutiny by elected Members.

15a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The tables below show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward looking assumption of future volatility based on analysis of previous performance and probability. The first table below shows the values of different financial instruments for the current and previous year with no material difference in values.

	2012	2011
	£m	£m
Uk Equities (All Equities Including Pooled Vehicles)	1,283	1,452
Us Equities	404	417
European Equities	443	477
Japan Equities	204	201
Emerging Markets Equities Inc Pac Rim	454	485
Uk Fixed Income Pooled Vehicles	458	383
Uk Index Linked Pooled Vehicles	576	488
Pooled Property	161	164
Private Equity	264	241
Hedge Funds	231	225
Infrastructure	66	38
Other Alternative Assets	187	115
Short Term Deposits & Other Investment Balances	178	178
Total	**4,909**	**4,864**

	Value March 2012	Potential Variance	Value on increase	Value on decrease
	£'m	%	£'m	£'m
Uk Equities (All Equities Including Pooled Vehicles)	1,283	22.5%	1,572	994
Us Equities	404	21.0%	489	319
European Equities	443	22.5%	543	343
Japan Equities	204	22.5%	250	158
Emerging Markets Equities Inc Pac Rim	454	31.5%	597	311
Uk Fixed Income Pooled Vehicles	458	10.0%	504	412
Uk Index Linked Pooled Vehicles	576	9.0%	628	524
Pooled Property	161	16.0%	187	135
Private Equity	264	29.0%	341	187
Hedge Funds	231	8.0%	249	213
Infrastructure	66	16.0%	77	55
Other Alternative Assets	187	22.5%	229	145
Short Term Deposits & Other Investment Balances	178	0.0%	178	178
Total	**4,909**		**5,843**	**3,975**

Notes to the Accounts

15b Credit Risk

The Fund does not hold any fixed interest securities directly and the managers of the pooled fixed income vehicles are responsible for managing credit risk, section a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

15c. Liquidity Risk

The Fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

To ensure liquidity for payment of pensions the Fund has an allocation of 1% to cash; £56 million is the actual figure at balance sheet date which equates to over 2 months of pensions payments. The Fund also has £3,846m in assets which could be realised in under a month's notice.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund has a net withdrawal for 2011/12 in its dealing with Members of £29m, this is offset by investment income of £91m.

16. Investment Liabilities

	2012	2011
	£'000	**£'000**
Derivative Contracts	5,644	0
Amounts Due to Stockbrokers	9,694	37,114
	15,338	**37,114**

17. Long Term Assets

	2012	2011
	£'000	**£'000**
Assets Due in More than One Year	30,864	30,844
	30,864	**30,844**
relating to:		Restated
Central Government Bodies	5,535	5,969
Other Local Authorities	23,230	16,533
NHS	0	0
Public Corporations and Trading Funds	285	6,785
Bodies External to General Government	1,814	1,557
	30,864	**30,844**

A debtor has been identified as being classed as a central government body. The 2011 debtors have been restated to take account of this change.

Payments are being received in respect of pensioner and deferred members of the Magistrates Courts, which was previously an active employer in the Fund. Year 1 is shown as a current asset, but years 2 - 8 have been discounted at a rate of 4% and are included above. Also discounted are future payments of pension strain to be paid by employers in 2013/14 onwards.

18. Current Assets and Liabilities

	2012	2011
	£'000	£'000
Assets		
Contributions Due	24,824	24,280
Amounts Due from External Managers	0	10,831
Accrued and Outstanding Investment Income	3,006	1,582
Transfer Values Receivable	0	3,264
Retirement Grants Paid in Advance	0	36
Sundries	7,957	9,836
Provision for Bad Debts	(375)	(50)
Cash at Bank	918	807
	36,330	**50,586**
relating to:		Restated
Central Government Bodies	1,272	887
Other Local Authorities	19,994	19,946
NHS	2	0
Public Corporations and Trading Funds	525	2,559
Bodies External to General Government	14,537	27,194
	36,330	**50,586**

	2012	2011
	£'000	£'000
Liabilities		
Transfer Values Payable	0	0
Retirement Grants Due	1,775	4,408
Provisions	602	873
Miscellaneous	10,062	10,705
	12,439	**15,986**
relating to:		
Central Government Bodies	2,292	2,737
Other Local Authorities	1,380	3,564
NHS	0	0
Public Corporations and Trading Funds	16	855
Bodies External to General Government	8,751	8,830
	12,439	**15,986**
Total Current Assets and Liabilities	**23,891**	**34,600**

"Sundries" mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

"Provision for bad debt" relates to property rental income, and is based on an assessment of all individual property debts as at 31 March 2012.

The main components of "Miscellaneous Liabilities" are the outstanding charges for investment management fees, payable quarterly in arrears, custodian and actuarial fees, plus income tax due, pre-paid rent and administering authority re-imbursement.

A number of debtors have been identified as being classed as bodies external to general government. The 2011 debtors have been restated to take account of this change.

19. Contractual Commitments

Commitments for investments amounted to £285.7m as at 31st March 2012. (2010/11 £187.7m). These commitments relate to Private Equity £159.8m, Infrastructure £72.9m, Opportunities £9.1m, Indirect Property £43.9. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

20. Contingent Assets

When determining the appropriate Fund policy for employers the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer convenants by engaging "contingent assets" in the form of bonds/indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

Notes to the Accounts

21. Related Party Transactions

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Administration and investment management costs include charges by Wirral Council in providing services in its role as administering authority to the Fund, which amount to £3.8m. (2011 £4.9m). Such charges principally relate to staffing required to maintain the pension service. Central, finance and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £14.8m and creditor £276,680 balances as at 31 March 2012.

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme Regulations (LGPS). Contributions in respect of March 2012 payroll are included within the debtors figure in note 18.

A specific declaration has been received from Pension Committee Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular Scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council and St Helens Borough Council, all of whose Councillors may become Scheme members, Wirral Council, Liverpool John Moores University, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes. The value of the transactions with each of these related parties, namely the routine monthly payments to the fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Patrick Dowdall, Investment Manager - Alternatives, acts in an un-remunerated advisory capacity on 6 investment bodies in which the fund has an interest, Standard Life (£7.3m), F&C (£2.1m) and Palatine previously called Zeus (£3.7m), by whom travel expenses and accommodation were paid, plus Key Capital (£3.9m) Enterprise (£1.8m) and Capital Dynamics (£90.7m). New commitments to these funds during 2011/12 were as follows: Standard Life £10m, F&C £7.5m, Palatine £10m, Key Capital £2m and Capital Dynamics £38m approved at Pensions Committee 29 March 2011 and 20 March 2012.

Owen Thorne, Investment Officer acts in an un-remunerated board member capacity at Institutional Investors Group on Climate Change (IIGCC), to which the Fund pays an annual subscription.

Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

Key Management Personnel
The posts of Director of Finance, Deputy Director of Finance and Head of Pension Fund are deemed to be key management personnel with regards to the pension fund. The financial value of their relationship with the Fund (in accordance with IAS24) are set out below:

	2012	2011
	£'000	£'000
Short term benefits*	309	318
Long term/post retirement benefits**	1,686	1,559
	1,995	**1,877**

*This is the pensions element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

22. Additional Voluntary Contribution Investments

The Committee holds assets invested separately from the main fund. In accordance with regulation 5 (2) (c) of the Pensions Schemes (Management and Investment of Funds) Regulations 1998, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

	2012	2011
	£'000	£'000
The Aggregate Amount of AVC Investments is as Follows:		
Equitable Life	2,596	2,898
Standard Life	5,683	6,035
Prudential	4,477	4,079
	12,756	**13,012**
Changes During the Year were as Follows:		
Contributions	1,677	1,705
Repayments	2,278	3,544
Change in Market Values	345	517

Statement of Responsibilities

The Authority's Responsibilities

The Council as Administering Authority of Merseyside Pension Fund is required:

- To make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance.
- To manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2012.

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Code

The Director of Finance has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

The Director of Finance's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2012, and its income and expenditure for the year then ended.

Acting Director of Finance
18 September 2012

Audit Report

Independent Auditor's Report to the Members of Wirral Borough Council

Opinion on the pension fund accounting statements
I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. This report is made solely to the members of Wirral Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor
As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters
In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Michael Thomas District Auditor
Aspinall House
Aspinall Close
Horwich
Bolton
BL6 6QQ
September 2012

Scheme Administration Report

Merseyside Pension Fund operates the Local Government Pension Scheme, which provides for the occupational pensions of employees, other than teachers, police officers and fire fighters, of the local authorities within the Merseyside area. It also operates the Scheme for members of other organisations, which have made admission agreements with the Fund.

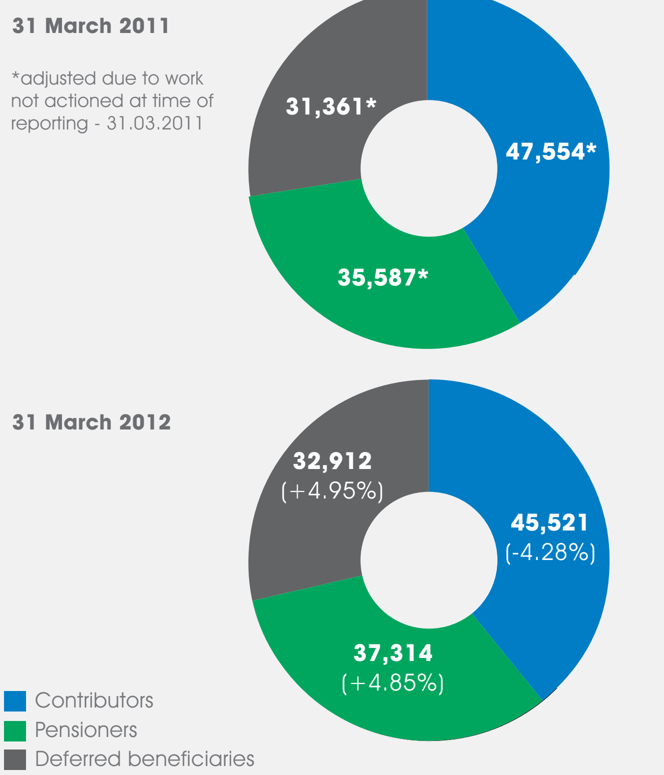
A list of the participating employers is shown at **Appendix A**. The Scheme is a public service pension scheme regulated by statute through the Department for Communities and Local Government (DCLG). It is a contributory final salary scheme, which is contracted-out of the Second State Pension (S2P) and is exempt approved for tax purposes.

Development of the Scheme

Since 1922 the Local Government Pension Scheme has developed from a scheme which just provided pensions for officers only, to today's Scheme which provides benefits for members, spouses, eligible children and civil and cohabiting partners as well as incorporating ill health, redundancy and death cover.

Quite clearly it is a comprehensive scheme and yet, through the co-operation of the government, employer and employee representatives, the Scheme is constantly changing and adapting to modern day needs and demands.

Figure 4.
Membership



Legislation

During the period covered by this Annual Report, there has been no legislative change to the principal regulations of the Local Government Pension Scheme.

In regards other related legislation, the Local Government (Discretionary Payments) (Injury Allowances) Regulations 2011 were laid before Parliament on 14 December 2011 and came into force with effect from 16 January 2012.

The main features of the 2011 Discretionary Payment Regulations are:

- the requirement for local government employers to publish a written policy statement (which must be kept under review) on whether they intend to adopt a discretionary injury benefit scheme;
- admission bodies have been removed from the definition of local government employers and so the injury benefit provisions will not directly apply to them;
- at the request of HMRC, a provision has been included to ensure National Insurance contributions are deducted from injury allowances paid on account of a reduction of remuneration as per other public service injury benefit schemes;
- the employer's independent registered medical practitioner will need to certify the employee's injury or disease before the employee can receive a permanent or temporary injury allowance;
- the provisions to award a gratuity have been revoked.

Auto – Enrolment
The Fund has raised awareness of the need for employers to address their statutory obligations under the government's workplace pension reform and has facilitated meetings with the Pensions Regulator to outline the necessary preparations to ensure compliance with the requirements.

Public Sector Pension Reform
The coalition government came to power with a clear agenda to change public sector pensions, including the LGPS. The government tasked Lord Hutton to chair a commission on the reform of public sector pension schemes. Following publication of the report, changes were proposed to all the main public sector pension schemes, including the LGPS.

Timeline of LGPS Scheme Reform

Ministerial Statement on Public Service Pensions
The Chief Secretary to the Treasury (Rt Hon Danny Alexander MP) made a statement to the House of Commons on 19 July 2011 in respect of public sector pensions. This statement reiterated the government's plans announced in the Spending Review to make £2.8bn savings per year in public sector pension schemes by April 2015. This would require each public sector scheme to find savings equivalent to a 3.2% increase in employee contributions - with no increase for those earning less than **£15,000 per year** and no more than a 1.5% increase for those earning up to **£21,000 per year**.

Mr Alexander also announced that scheme-by-scheme consultations to deliver these savings would be completed by the end of October 2011, with new employee contribution rates being implemented from April 2012.

However, at the same time, he announced that the government recognised that the LGPS's position as a **'funded scheme'**, backed up by assets and investments, placed it in a very different position to all other public sector schemes. Consequently, he announced that the government would discuss with trade unions, alternative ways of delivering the required savings in the LGPS by 2015. It was the intention to manage reform of the LGPS in two phases:

- Phase 1 – The short term requirement to save £900m per annum across all LGPS Funds by 2015

- Phase 2 – Long term reform to amend the fundamental benefit design to ensure ongoing sustainability of the future Scheme.

On 20 July 2011 the Secretary of State for the Department for Communities and Local Government (DCLG) invited the Local Government Group (LGG) and the local authority trade unions to propose their preferred approach to deliver the required cost savings by 2014-15. The LGG submitted a set of proposals to DCLG on September 2011 although these did not have the support of the trade unions.

On 7 October 2011, DCLG published a number of proposals for consultation to deliver the short term savings necessary to meet the current pressures resulting from the costs of longevity and the need for a fairer attribution of what tax payers and employees contribute towards pension provision.

The main parameter of the proposals was to increase employee contributions and reduce the annual accrual rate over a phased period to a greater or lesser degree. There was also an additional option to align normal retirement age to state pension age as a mechanism to manage the rising cost of longevity.

On 20 December 2011, the Secretary of State for Communities and Local Government (Rt Hon Eric Pickles MP) issued a written ministerial statement on the LGPS. The statement reported that the Local Government Association and the local government trade unions had jointly signed a Heads of Agreement on the principles which will govern Scheme design, ongoing cost management and governance of the new Scheme to be introduced by 2014.

The agreed features include:

- the introduction of the new Scheme in April 2014 (with regulations on the Statute Book by April 2013) with a single solution to both the short-term and long-term issues;

- the new Scheme will be a CARE scheme;

- the ability to have limited or no contribution rate increases for employees provided the Government's financial constraints are met as defined by the Treasury prescribed cost ceiling of 20.4% ;

- some elements of choice to encourage new members to join and existing members to remain in the Scheme;

- a member's Normal Pension Age will match the rise in the State Pension Age for post 2014 service.

The New LGPS 2014 Project
The Local Government Association and officials from the LGPS unions produced a 'Principles Document' which was accepted by the government to progress Scheme reform. A project framework was established to reach agreement on the delivery and management of the reform process. The project established two separate work streams to meet the defined objectives within the principles document with the focus for delivery under work stream one on benefit design. Work stream two was set to agree recommendations on best practice in governance and procurement and future cost management.

To date, proceedings are on target to meet the statutory formal process to consult on and issue the new regulations ahead of the 2013 triennial valuation.

Scheme Administration Report

Response to Government Consultations

Fair Deal
The government announced, at its October 2010 Spending Review, its intention to consult on the Fair Deal policy in response to a recommendation made in Hutton's interim report. His report found that it is, in principle, undesirable for future non-public service workers to have access to public service pension schemes.

The Fair Deal policy applies where a public service is outsourced to be delivered by an independent provider, including private sector businesses and non-profit making organisations' such as charitable bodies and social enterprises. It requires that the new employer provides a broadly comparable pension scheme for the transferred staff. The consultation opened on 3 March 2011 until 15 June 2011 and Merseyside Pension Fund responded on 20 May 2011 setting out its view that:

- The principles of Fair Deal should be retained but simplified for all parties concerned.
- It is imperative that LGPS Funds remain sustainable and viable through a broad active membership basis and the option for bodies to which staff are compulsorily transferred to enter into an admission agreement in the LGPS should be retained.

Employee Contribution Increases and Changes to Scheme Accrual Rates
The Fund responded to the DCLG consultation on proposed increases to employee contribution rates and changes to Scheme accrual rates on 6 January 2012. MPF strongly recommended that any increases in member contributions need to be kept to a minimum in order to minimise opt outs.

A short web-based survey of the membership indicated that the majority of respondents favoured benefit revision and extended retirement age as an alternative to increases in member contributions.

It also expressed an opinion that piecemeal change is likely to undermine confidence in the Scheme and supported the proposal to roll contribution increases and the broader long term Scheme design into a 'one event' change in 2014.

Draft LGPS (Miscellaneous) Regulations 2012
On 5 December, DCLG issued a letter which announced a formal consultation exercise in respect of the draft LGPS (Miscellaneous) Regulations 2012.

The draft regulations contain a series of amendments to:

- the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006;
- the LGPS (Benefits, Membership and Contributions) Regulations 2007;
- the LGPS (Transitional Provisions) Regulations 2008;
- the LGPS (Administration) Regulations 2008

MPF submitted its response pledging support to many of the proposed technical amendments which ensure equitable treatment of all membership categories. However, it opposed the suggested mandatory restrictive measures compelling new admitted bodies to provide bonds as it is necessary to retain the current flexibility to enter into alternative funding arrangements.

Judicial Review of Indexation by Reference to CPI

The change to the method of indexation of pension benefits from 1 April 2011 will reduce employer liabilities
On 6 May at the High Court, the trade unions jointly initiated proceedings for a judicial review of the government's decision to use CPI as the basis for the indexation of public sector pensions. The trade unions argued that a change to use the CPI index was legally wrong and represented a change in members' benefits which was implemented without following an appropriate consultation exercise.

The High Court ruled on 2 December 2011 that the government's decision to switch from RPI to CPI, when uprating pensions, was lawful. The unions subsequently took a challenge to the Court of Appeal. The High Court ruling was upheld on 20 March 2012 as the judgement found that the Secretary of State could choose any index provided that he acts rationally and takes all appropriate matters into account.

Earning Bands for employee contributions
The earning bands on which employee contributions are calculated were changed for the financial years 2012/2013.

The bands will go up in line with CPI inflation as at September 2011 which was 5.2%.

This is not a contribution increase, but reflects the usual annual indexation of the earnings bands. DCLG have confirmed that whilst the talks between the employers and the unions are progressing, no action will be taken on increases to the employee contribution rates.

The Fund has notified employers of the correct employee rates to apply from April 2012 as follows:

2012/13 Full time Equivalent Pay Rate	Contribution Rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
Over £85,300	7.5%

Key Improvement Areas

The key improvement areas identified for the pension administration unit are as follows: -

1. Improved efficiency through further development of information technology capability and application.
   Scheme members are able to gain online access to their own pension details and to perform benefit projections, to enable them to see the value of their benefits through the internet. It is also possible for members to complete online forms on the Fund's website in order to amend personal data.

   The electronic document management system in use within the Fund has been expanded to include non-member documentation; the population of this system with historic employer and legislative documentation continues, but has already demonstrated efficiency improvements in dealing with related enquiries.

2. Enhanced communications, consultation and marketing of the benefits of the Scheme to employers, employees and beneficiaries.
   The Fund's library of Scheme literature, which features a range of information packs for new members, dependants and those planning to retire, has been updated to reflect the changes in pension and tax legislation and is available on request and downloadable from the Fund's redesigned websites.

   The Fund has a website designed specifically for Scheme employers' use. It is password protected and provides assistance to practitioners in their daily pension administration duties. The site is the key communication tool with employers and has seen a significant increase in the number of users to support greater operational efficiencies.

   The members' website this year was enhanced with an interactive section to explain the legislation in relation to the "85' year rule'. Visitors to the website are asked a series of questions that will ultimately give them the answer to how they are (or are not) affected by this element of the legislation.

   To effectively communicate the proposals for a revised Local Government Pensions Scheme, the Fund has created a dedicated website http://lgps2014.org

   Over the course of the next three years, we will explain how membership already built up in the Scheme will be protected, together with the cost and value of the retirement benefits built up in a new LGPS. The website will be updated as the proposals develop into draft and then statutory legislation.

   The website has drawn interest from other LGPS funds and has gained national recognition from the Local Government Association and the professional press.

Scheme Administration Report

3. Development of training policies and procedures to ensure the quality of service provision to Scheme members.
   The Fund's 'Mid-life' and 'Pre-Retirement' planning courses continue to be popular with a number of larger Scheme employers, whether at their own premises or at Fund arranged location.

   In October 2011, the Fund delivered a seminar on the administration of Ill Health. Intended as a 'refresher' following revisions to regulations, the event was well attended and well received by Scheme employers and Occupational Health doctors.

   All procedural notifications and forms have been assessed and updated where necessary to ensure compliance with current regulatory requirements.

4. Efforts to increase take up of Scheme membership.
   The Fund has been proactive in responding to the government's proposals to reform the Scheme and increase member contributions. We have maintained a position of opposing any significant increases to member contributions in order to mitigate the risk of any significant reduction in active membership (optants out); which would accelerate the maturity of the Scheme and have a detrimental impact on the scope of investing in return seeking assets.

   The development and launch of the dedicated LGPS 2014 website is intended to update members on the fluid nature of Scheme reform. Example member profiles have been used to enable individuals to identify their own circumstances within the proposals as a means of reducing complexity and to promote the benefits of continuing Scheme participation.

5. Monitoring Performance and Quality of Service
   As part of the annual contribution posting exercise, large employers were provided, at a macro level, with statistics on achievements in data quality and timeliness. Further development of procedures to monitor and evaluate the performance of the Fund and Scheme employers in meeting the agreed service standards, set out in the Fund Pensions Administration Strategy, will be a priority over the forthcoming year.

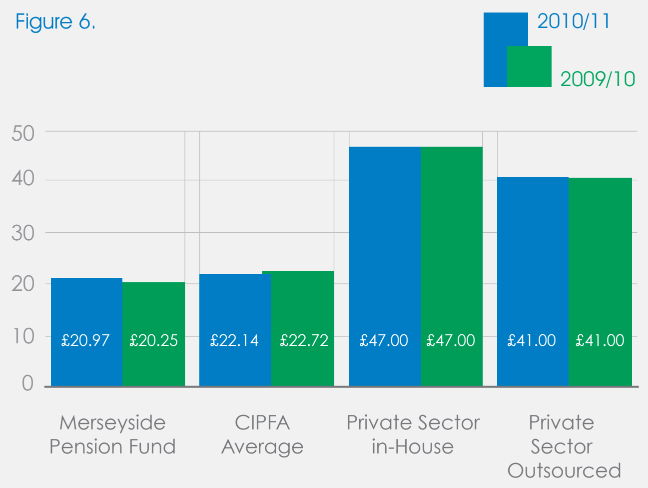
Figure 5.
Results of performance against target are shown below:-

(Details given in respect of 12 month period to 31 March 2012)

Comparisons/Benchmarking
The Fund continues to participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) annual benchmarking survey.

The results of unit cost comparison for the most recent report published (2009/2010) were as follows:

Figure 6.



The individual totals within the survey showed that the Fund had a lower cost pension payroll than the CIPFA average, but had a higher expenditure on Communications, which includes postage of relevant information to members' home addresses.

The Fund is also continuing to participate in a benchmarking forum consisting of representatives of five of the largest metropolitan administering authorities, in an effort to seek out best practice.

Internal Dispute Resolution Cases
Since 1 June 2004, individual employers are responsible for considering stage 1 appeals against decisions made by them, with the Fund responsible for considering stage 1 appeals against its own decisions and all stage 2 appeals.

During the year to 31 March 2012, there were 3 new cases dealt with by the panel of Appointed Persons responsible for complaints against decisions made by the Fund. In all of these cases the decision taken by the Fund was upheld.

A total of 14 new cases were dealt with by the panel of Appointed Persons responsible for considering Stage 2 appeals against employer decisions. In ten of these cases the employer's decision was upheld. The four cases in which the appeals were granted, related to the early payment of deferred benefits on ill health grounds.

Breakdown of IDRP Cases 2011-2012

Total IDRP Cases (Against Fund and Employer Decisions)	
Refused Ill Health Retirement	9
Refused Deferred Benefit on Ill Health Grounds	3
Refused Early Payment of Deferred Benefit	1
Payment of Death Grant	1
Appeals Against Fund Decisions	3
Total Appeals	**17**

Appeals Against Employer Decisions

Employer	Number	Employer Decision
Capita	1	Upheld
Knowsley	1	Upheld
Liverpool	2	Upheld
Sefton	4	3 upheld / 1 granted
Wirral	1	Upheld
Knowsley Housing Trust	3	2 Upheld / 1 granted
Sefton New Directions	1	Granted
Merseyside Magistrates	1	Upheld
Total Appeals	**14**	

Appeals Against Fund Decisions

Reason for Appeal	Number	Fund Decision
Combined Membership	2	Upheld
Death Grant Payment	1	Upheld
Total Fund Appeals	**3**	

Pensions Ombudsman

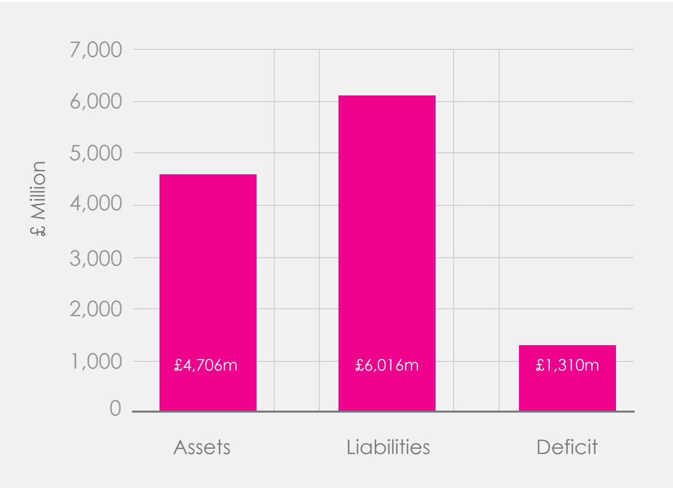
No cases concerning the Fund were considered by the Pensions Ombudsman during the period.

Consulting Actuary's Statement

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £4,706 million represented 78% of the Fund's past service liabilities of £6,016 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 11.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target, the deficit would be eliminated by an average additional contribution rate of 6.4% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.0% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 30 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past Service Liabilities (Funding Target) per annum	**For Future Service Liabilities (Common Contribution Rate) per annum**
Rate of Return on Investments (Discount Rate):		
- Pre Retirement	**6.5%**	6.75%
- Post Retirement	**5.5%**	6.75%
Rate of Pay Increases:	**4.5%**	4.5%
Rate of Increases in Pensions in Payment (in Excess of Guaranteed Minimum Pension):	**3.0%**	3.0%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011 per annum	31 March 2012 per annum
Rate of Return on Investments (Discount Rate)	5.5%	4.9%
Rate of Pay Increases	4.4%	4.0%
Rate of Increases in Pensions in Payment (in Excess of Guaranteed Minimum Pension):	2.9%	2.5%

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £6,720 million and £7,273 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £249 million.

P Middleman

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
August 2012

Appendix A

Scheme employers with active members as at 31 March 2012

Scheduled Bodies

Arena & Convention Centre Liverpool
Birkenhead Sixth Form College
Carmel College
Halewood Parish Council
Hugh Baird College
King George V College
Knowsley Community College
Knowsley M.B.C.
Knowsley Parish Council
Liverpool City Council
Liverpool Community College
Liverpool John Moores University
Merseyside Fire & Rescue Authority
Merseyside Integrated Transport Authority (MITA)
Merseyside Passenger Transport Executive (MPTE)
Merseyside Police Authority
Merseyside Probation Trust
Merseyside Valuation Tribunal
Merseyside Waste Disposal Authority
Prescot Town Council
Rainford Parish Council
Rainhill Parish Council
Sefton M.B.C.
Southport College
St. Helens College
St. Helens M.B.C.
Whiston Town Council
Wirral Council
Wirral Metropolitan College

Scheduled Bodies (Academies)

Academy of St Francis
Belvedere Academy
Birkdale High School
Blue Coat School
Chesterfield High School
De la Salle Academy
Deyes High School
Enterprise South Liverpool Academy
Formby High School
Greenbank High School
Hope Academy
Maghull High School
North Liverpool Academy Ltd
Oldershaw Academy
Prenton High School for Girls
Range High School
St. Anselms College
St. Edwards College
Sutton Academy
University Academy of Birkenhead
Upton Hall School
Weatherhead High School
West Kirby Grammar School
Wirral Grammar School for Boys
Wirral Grammar School for Girls

Admission Bodies (Community)

Age UK – Liverpool
Arriva North West
Association of Police Authorities
Beechwood and Ballantyne Housing Assoc.
Berrybridge Housing Ltd
Birkenhead School (2002)
Care Quality Commission
Catholic Children's Society
CDS Housing
Cobalt Housing Ltd
Comtechsa Limited
Glenvale Transport Ltd/Stagecoach.
Greater Hornby Homes
Greater Merseyside Connexions
Helena Partnerships Ltd.
Knowsley Housing Trust
LACORS
Lee Valley Housing Association Ltd
Liverpool Association for the Disabled
Liverpool Citizens Advice Bureau
Liverpool Hope University
Liverpool Housing Trust
Liverpool Mutual Homes Ltd.
Local Government Association
Merseyside Lieutenancy
Merseyside Society for Deaf People
Merseyside Welfare Rights
Merseyside Youth Association
North Huyton New Deal New Future
North Liverpool Citizens Advice Bureau
Novas Group
Nugent Care
One Vision Housing Ltd.
Partners Credit Union
Port Sunlight Village Trust
Sefton Education Business Partnership
South Liverpool Housing Ltd
Southern Neighbourhood Council
University of Liverpool
Vauxhall Neighbourhood Council
Village Housing Association Ltd
Wavertree Citizens Advice Bureau
Welsh Local Government Association
Wirral Autistic Society
Wirral Citizens Advice Bureau
Wirral Partnership Homes Ltd

Admission Bodies (Transferee)

Agilisys Limited
arvato Public Sector Services Limited
Balfour Beatty Workplace Ltd
Birkenhead Market Services Ltd
Capita Symonds (Sefton)
COLAS
Compass (Scolarest) Liverpool Schools
Compass (Scolarest) Wirral Schools
Computacenter (UK) Ltd
Crime Reduction Initiatives
Elite Cleaning & Environmental Services Ltd
Enterprise (Liverpool Highways) Ltd
Enterprise Liverpool Cleansing
Enterprise Liverpool Neighbourhood Grounds
Geraud Markets Liverpool Ltd
Glendale (Liverpool Parks Services) Ltd
Hochtief Liverpool Schools
Hochtief Wirral Schools
Kingswood Colomendy Ltd.
Liberata (UK) Ltd.
Liverpool Vision Limited
Mack Trading
Mouchel (2020 Knowsley Ltd)
Mouchel (2020 Liverpool/Parkman)
Northgate Managed Services
RM Education PLC
Sefton New Directions Ltd.
Southern Electric Co Ltd
Taylor Shaw - King David
Taylor Shaw (Meols Cop)
Veolia ES Merseyside & Halton

Appendix B
Pensions Committee Items

27 June 2011

Appointment of Vice Chair
LGC Conference Newport
Merseyside Pension Fund Audit Fees
Bank Signatories
Internal Dispute Resolution Procedure
Management of Private Equity
Banking Contract
Local Government Pension Scheme Reform
Representation on Outside Bodies
Treasury Management Annual Report
Investment Performance 2010-11
Carbon Reduction
Fair Deal Policy
Passive Management Contract
Private Equity Training
Governance Policy
Equitable Life
Public Accounts Committee
Castle Chambers
Investment Monitoring Working Party Minutes
Management of Private Equity
Southern Electric Contracting
Actuarial Tenders
Investment Advisor Tenders
Balfour Beatty Workplace
Bond Review
Peoples Centre

19 September 2011

Accounts 2010-11
Audit Commission Annual Governance Report
Members' Training Day
LAPFF Conference Bournemouth
LGPS Update
Annual Employers' Conference
Bank and other Authorised Signatories
Draft Annual Report
Professional Pensions Awards
Tunsgate Square Shopping Centre 'Green Apple' Award
Corporate Governance and Voting
Auto Enrolment
Academies
Admission Body Application - Mack Trading
Taylor Shaw
IMWP Minutes
Governance & Risk Working Party Minutes
Non Recovery of Overpayments

21 November 2011

Investment Monitoring Working Party Minutes 12 October 2011
LGPS Update
Securities Lending
Investment Monitoring Working Party Operation
Annual Governance Report
IMWP Minutes

17 January 2012

Pension Fund Budget
IMWP Minutes
Training Programme 2012
LGC Conference Chester
Treasury Management Strategy
LGPS Update
Communications Policy
Audit Commission - Audit Plan
Chobham House Woking
Cunard Building
Interserve Facilities Management Report
Property Arrears
IMWP Minutes
CBRE Report

20 March 2012

LGPS Update
IMWP Minutes
Minutes of Governance & Risk Working Party 24 January 2012
Private Equity Programme 2012
Appointment of a Manager Selection Framework
Compliance Manual
Pensions 5 - General Filing
NAPF Conference
CIPFA Annual Conference
LGPS Trustees Conference
Food Waste Processing Fund
Admission Body Application - Addaction
Academies Funding
Passive Management Contract
Investment Contract Monitoring
Bank and Other Authorised Signatories
Cunard Building Development
Global Custodian Contract
Private Equity Programme 2011-14
Selection of Investment Manager Selection Framework List
Food Waste Processing Fund
CBRE Report

Appendix C
Information Contacts

Position	Name	Telephone number
Head of Pension Fund	Peter Wallach	0151 242 1309
Principal Pension Officer	Yvonne Caddock	0151 242 1333

Area	Name	Telephone number
Accounts	Donna Smith	0151 242 1312
Investments	Paddy Dowdall	0151 242 1310
Members Services	Margaret Rourke/Sue Roberts	0151 242 1369
Benefits/Payroll	Barbara King/Keith Higgins	0151 242 1354
Operations (IT/Communications)	Guy Hayton	0151 242 1361

Resolution of Disputes		
Employer Decisions	Principal Pension Officer	0151 242 1333
Fund Decisions	Director of Finance	0151 666 3056

Scheme Employers Contacts		
Arriva North West	Anne Hughes	0151 522 2807
Knowsley MBC	Yvonne Ashton	0151 443 4177
Liverpool City Council	Vanessa Duncan	0151 225 4128
Liverpool John Moores University	Jayne Brown	0151 231 8756
Merseyside Fire & Rescue Service	Helen Jones	0151 296 4219
Merseytravel	Linda Gedman	0151 330 1191
Merseyside Police Authority	Joan Dullahan	0151 777 8189
Merseyside Waste Disposal Authority	Paula Pocock	0151 255 2539
National Probation Service (Merseyside)	Kevin Stamper	0151 920 9201
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Cathy O'Connor	0174 467 6627
Wirral Council	Helen Watkins	0151 666 3524

Merseyside
PENSION FUND

Report & Accounts 2011/12

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Administering Authority
WIRRAL