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Pensions Committee

Date:	**Tuesday, 18 September 2012**
Time:	**6.30 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

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AGENDA

5. ACCOUNTS 2011/12 (Pages 1 - 26)

14A. Investment Monitoring Working Party (IMWP) Minutes - 04 September 2012

14B. Property Insurance

14C. Appointment of Provider of Passive Investment Management Services

14D. Altair Implementation Update

16. EXEMPT APPENDIX - MINUTES INVESTMENT MONITORING WORKING PARTY - 4 SEPTEMBER 2012 (Pages 43 - 52)

Appendix 1 to agenda item 14a , exempt by virtue of paragraph 3

17. EXEMPT APPENDIX - PROPERTY INSURANCE (Pages 53 - 56)

Appendix 1 to agenda item 14b , exempt by virtue of paragraph 3

20. EXEMPT APPENDIX - APPOINTMENT OF PROVIDER OF PASSIVE INVESTMENT MANAGEMENT SERVICES (Pages 57 - 60)

Appendix 1 to agenda item 14c , exempt by virtue of paragraph 3

21. EXEMPT APPENDIX - ALTAIR IMPLEMENTATION UPDATE (Pages 61 - 62)

Appendix 1 to agenda item 14d , exempt by virtue of paragraph 3

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

AUDIT & RISK MANAGEMENT COMMITTEE

19 SEPTEMBER 2012

SUBJECT	**STATEMENT OF ACCOUNTS 2011/12 - MERSEYSIDE PENSION FUND**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR PATRICIA GLASMAN**
KEY DECISION	**YES**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to present Members with the audited statement of accounts of Merseyside Pension Fund for 2011/12 (subject to outstanding matters) and to respond to the Annual Governance Report (AGR) from Audit Commission.

2.0 BACKGROUND AND KEY ISSUES

2.1 The purpose of the Statement of Accounts is to present the overall financial position of the Pension Fund as at 31 March 2012; in accordance with prescribed guidance.

2.2 The un-audited Statement of Accounts was discussed at a meeting of the Merseyside Pension Fund Governance and Risk Working Party in July. They were also presented as part of a briefing session on the Wirral Council Statement of Accounts 2011/12 to Wirral Council Members on 4 September 2012.

2.3 The Audit Commission is close to completion of its audit of the accounts and the Annual Governance Report is on this agenda. The District Auditor may provide a verbal update at the meeting on the AGR.

2.4 A response to the AGR is contained in the appendices to this report Officers have agreed to all of the suggested adjustments to the accounts and to the recommendations.

2.5 I have prepared a Letter of Representation on behalf of the Committee which gives assurances to the District Auditor on various aspects relating to the Pension Fund.

2.6 The Audit Opinion will be issued following final completion of the audit, consideration of the Annual Governance Report and approval of the amended Statement of Accounts at both the Pensions Committee and the Audit & Risk Management Committee.

2.7 The District Auditor has indicated that he will again issue an unqualified opinion, and state, that the accounts present fairly the financial position of Merseyside Pension Fund as at 31 March 2012. Subject to this, the accounts as now shown will form the basis of the Annual Report for the year ended 31 March 2012.

3.0 RELEVANT RISKS

3.1 There are not directly relevant to this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 The Statement of Accounts has to be produced in accordance with statutory guidance and the Accounts are subject to review by the appointed Auditor.

5.0 CONSULTATION

5.1 There has been no specific consultation in respect of this report

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The financial implications are set out in Annual Governance Report.

7.2 There are no IT, staffing or asset implications arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There is a legal requirement to publish the Statement of Accounts.

9.0 EQUALITIES IMPLICATIONS

9.1 There are no equality implications arising directly from the Accounts so an Equality Impact Assessment (EIA) is not required.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no implications arising from this report.

12.0 RECOMMENDATIONS

12.1 That the Pensions Committee considers the amendments to the draft accounts, the Annual Governance Report and the Letter of Representation and approves the audited Statement of Accounts for 2011/12.

12.2 That the Action Plan within the Annual Governance Report is agreed, and that the Pensions Committee is informed of progress with its implementation.

12.3 That the Pensions Committee refers the recommendations to the Audit & Risk Management Committee.

13.0 REASONS FOR RECOMMENDATIONS

13.1 Under the Audit Commission Act 1998 and the Audit Commission Code of Audit Practice for Local Government, the District Auditor reports on Pension Fund Financial Statement, as part of those of the Council.

13.2 As the Pension Fund receives a separate AGR, this report will first be considered by the Pensions Committee, and then by the Audit and Risk Management Committee.

FNCE/166/12

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APPENDICES

A summary of the response to the AGR and action plan.
Statement of Accounts 2011/12.

REFERENCE MATERIAL

The Statement of Accounts plus relevant working papers and the AGR from Audit Commission were used in the production of this report.

SUBJECT HISTORY

Council Meeting	Date
Pensions Committee	19 September 2011
Audit & Risk Management Committee	28 September 2011
Pensions Committee	27 September 2010
Audit & Risk Management Committee	28 September 2010

APPENDIX 1

Response to Annual Governance Report : Audit 2011/12

1. Executive Summary

1.1 The key points are that subject to outstanding work there will be an unqualified opinion and that there are no material errors. All of the non material errors non trivial errors and disclosure errors have been amended. All of the recommendations have been agreed. The Audit Commission deliver a positive verdict on the conduct of the audit.

2. Explanation of Most Significant Corrected Errors (Non material)

2.1 Error

Overstatement of Pooled Investment Vehicles of £3.279 m due to incorrect currency rates being used.

Response

This was an error not picked up in management checks on accounts and subsequently amended.

2.2 Error

Mis-classification of investment management fee credit as investment income - amendment of £3.687m.

Response

This has no effect on the net assets statement of the fund and arguably is open to interpretation but officers are happy to accept Audit Commission's interpretation and to amend this.

2.3 Error

Re-classification of UK quoted equities to overseas quoted equities - amendment of £12.183 m.

Response

This is due to external UK Equities managers holding overseas equities within portfolios (This is permitted in the mandates as part of their unconstrained nature). For management accounting and performance measurement purposes these are treated as UK equities. The Fund is moving custodians and enhanced reporting from them will prevent a repetition of this error.

3. Recommendations relating to Internal Control

3.1 Finding

Out of date list of authorised employees within the Pension Fund to receive correspondence from external bodies, for example Fund Managers.

Recommendation R1
Ensure that the Pension Fund's authorised contacts list is updated.

Response
This exercise has been planned for some time and been delayed due to staffing issues and forthcoming banking changes. It will be implemented as part of communication exercise taking part within the implementation of new banking arrangements

4. Recommendations relating to other matters

4.1 Finding
Breach of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 in regards to investment limits.

Recommendation R2
Implement robust controls for monitoring and reporting against the investment limits set in the Statement of Investment Principles to ensure that future breaches of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 do not occur.

Response
The Fund has increased allocations to recent years in asset classes such as infrastructure which are invested through limited partnerships. The Fund has breached the limit of 5% to be invested in limited partnerships. Under the LGPS Regulations Pensions Committee through the Statement of Investment Principles is able to raise this limit to 15%. As reported to IMWP on 4th September officers will recommend to Pensions Committee in November to amend the SIP to increase this limit to 15%. Officers will also amend procedure for approval of new investments to include a check on these limits.

4.2 Finding
Compliance with requirements for Financial instruments disclosures

Recommendation R3
Review the current reporting arrangements for credit and liquidity risk, to enable fully compliant reporting in line with the Code of Practice on Local Authority Accounting in the United Kingdom.

Response
This is the first year of the requirement of these disclosures. Officers consider that they have met the requirements of the Code. There is a difference in the quantitative risks exposure of the Fund, as perceived by management of the Fund to that within the Code, the interpretation of auditors and advice issued by CIPFA. More work will be done on this, including dialogue with auditors and accountancy bodies which may result in amendments to the Statement of Investment Principles and future quarterly reporting practices to ensure that disclosures are fully compliant with the Code in future financial statements.

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Fund Account - for year ended 31 March 2012

	Note	2012 £'000	2011 £'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 £'000	2011 £'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
		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 administrated 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 00 to 00.

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 accrued 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 thei 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 fun do 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.

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 in place procedures 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 includes 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	2011
	£'000	£'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".

12. Investment management expenses

	2012	2011
	£'000	£'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

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

Pooled investment vehicles	**2012 £'000**	2011 £'000
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

UK properties	2012 £'000	2011 £'000
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.

Short term cash deposits	2012 £'000	2011 £'000
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".

Other investment balances	2012 £'000	2011 £000
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

13b. Impairment on Icelandic deposits

At the time Iceland 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 £'000	Market value 31 March 2012 £'000	Economic exposure £'000	Market value 31 March 2011 £'000
Assets					
EURO STOXX 50 Index	Jun-12	3,474	347	2,694	269
Swiss Market Index Futu	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 mark-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 '000	Currency sold '000	Asset £'000	Liability £'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 funds 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 funds only call exposure is a residual holding from a manager transition.

13d. Summary of managers portfolio values as at 31 March 2012

	2012		2011	
Externally managed	**£'m**	%	**£'m**	%
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 e	**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	
	£'000	%	£'000	%
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 asse statement heading.

	31 March 2012			31 March 2011		
	Loans and receivable s	**Financial liabilities at amortised cost**	**Designated as fair value through profit and loss**	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss
				Restated	Restated	Restated
	£000	**£000**	**£000**	£000	£000	£000
Financial assets						
Equities			1,514,762			1,725,620
Pooled investment vehicles			3,216,404			2,960,106
Derivatives			6,669			756
Cash deposits	56,271			59,570		
Other investment balances			75,895			89,555
Debtors	67,194			81,430		
Total financial assets	123,465	0	4,813,730	141,000	0	4,776,037
Financial liabilities						
Derivatives						
Other investment balances			15,338			37,114
Creditors		12,439			15,986	
Total financial liabilitie	0	12,439	15,338	0	15,986	37,114
Net	123,465	-12,439	4,798,392	141,000	-15,986	4,738,923

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

	2012		2011	
	Carrying value £'000	Fair value £000	Carrying value £'000	Fair value £000
Financial assets				
Fair value through profit and loss	3,961,786	4,813,730	3,831,197	4,776,037
Loans and receivables	123,465	123,465	141,000	141,000
Total financial assets	4,085,251	4,937,195	3,972,197	4,917,037
Financial liabilities				
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	27,777	53,100	53,100

The above table summarises 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 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 c 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 Valuatior Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the enc 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.

Values at 31 March 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets				
Financial assets at fair value through profit and loss	1,938,397	2,066,665	808,668	4,813,730
Loans and receivables	123,465			123,465
Total financial assets	2,061,862	2,066,665	808,668	4,937,195
Financial liabilities				
Financial liabilities at fair value through profit and loss	15,338			15,338
Financial liabilities at amortised cost	12,439			12,439
Total financial liabilities	27,777	0	0	27,777
Net financial assets	**2,034,085**	**2,066,665**	**808,668**	**4,909,418**

Values at 31 March 2011	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	2,194,139	1,896,995	684,903	4,776,037
Loans and receivables	141,000			141,000
Total financial assets	2,335,139	1,896,995	684,903	4,917,037
Financial liabilities				
Financial liabilities at fair value through profit and loss	37,114			37,114
Financial liabilities at amortised cost	15,986			15,986
Total financial liabilities	53,100	0	0	53,100
Net financial assets	2,282,039	1,896,995	684,903	4,863,937

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 rewarde 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**

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 months 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 £95m.

16. Investment liabilities

	2012 £'000	2011 £000
Derivative contracts	**5,644**	0
Amounts due to stockbrokers	**9,694**	37,114
	15,338	37,114

17. Long term assets

		2012 £'000	2011 £'000
Assets due in more than one year		**30,864**	30,844
		30,864	30,844
			Restated
relating to:	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 £'000	2011 £'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
			Restated
relating to:	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**

Liabilities		2012 £'000	2011 £'000
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 favor of Wirral Borough Council, as the Administrating Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

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).

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 withIAS24) are set out below:

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

*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

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MERCER

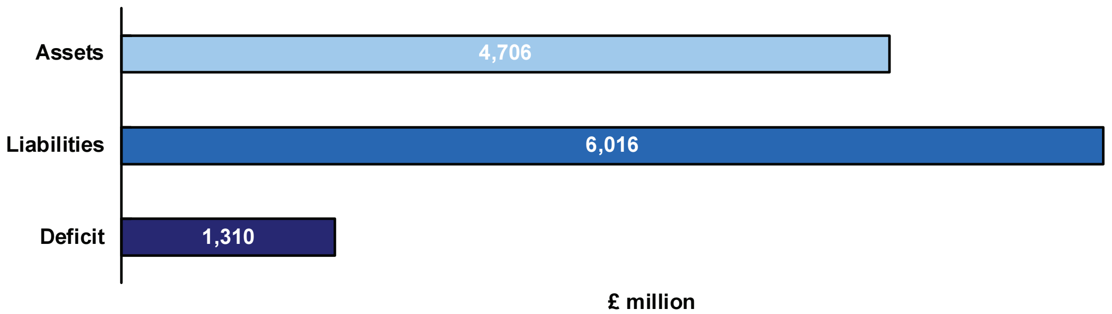
MERSEYSIDE PENSION FUND

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

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)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

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	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

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.

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

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

SUBJECT:	**MINUTES OF THE INVESTMENT MONITORING WORKING**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF FINANCE**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to provide Members with the minutes of the Investment Monitoring Working Party (IMWP) held on 4 September 2012.

1.2 The appendices to the report, the minutes of the IMWP on 4 September 2012, contain exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 The IMWP meets six times a year to enable Members and their advisers to consider investment matters, relating to Merseyside Pension Fund, in greater detail.

3.0 RELEVANT RISKS

3.1 There are none arising from this report.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 There are no implications arising directly from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members approve the minutes of the IMWP which are attached as an appendix to this report.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The approval of IMWP minutes by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund. These arrangements were approved by Pensions Committee as part of the Fund's Governance Statement at its meeting on 27th June 2011.

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FNCE/170/12

APPENDICES

Exempt Appendix 1

REFERENCE MATERIAL

NONE

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Minutes of all IMWP's are brought to the subsequent Pensions Committee meeting.	

Minutes of Investment Monitoring Working Party, 4th September 2012

In attendance:

(Chair) Councillor Patricia Glasman (WBC)	Peter Timmins (Interim Director of Finance)
Councillor Geoffrey C.J. Watt (WBC)	Peter Wallach (Head of MPF)
Councillor Mike Hornby (WBC)	Paddy Dowdall (Investment Manager)
Councillor Harry Smith (WBC)	Susannah Friar (Property Manager)
Councillor Sylvia Hodrian (WBC)	Greg Campbell (Investment Manager)
Councillor Ann McLachlan (WBC)	Adam Williamson (Investment Assistant)
Phil Goodwin (Unison)	Noel Mills (Investment Advisor)
Paul Wiggins (Unison)	Emily McGuire (AON Hewitt)
	Emma Jones (PA to Head of MPF)

Apologies were received from:

Councillor Cherry Povall (WBC) Councillor Joe Hanson (Liverpool)	Councillor George Davies (WBC) Councillor Adrian Jones (WBC)

Declarations of interest

There were no declarations of interest

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18TH SEPTEMBER 2012

SUBJECT:	**PROPERTY INSURANCE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to update Members on progress with the procurement exercise for insurance for the Fund's property portfolio and to recommend that Allianz are appointed for this contract for a period of 3 and a half years from 25th December 2012.

1.2 The appendix to the report, (Assessment of tenders for provision of Insurance to MPF Property portfolio), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 At the last meeting of Pensions Committee on 25th June, Members approved the commencement of a procurement exercise for insurance for the Fund's property portfolio.

2.2 The insurance cover is recharged to the tenants through the service recharge.

2.3 The procurement exercise is complete and the details are contained within the exempt appendix. Allianz scored highest in the assessment and are therefore recommended for appointment.

3.0 RELEVANT RISKS

3.1 The purpose of the actions taken and covered in this report have mitigated the two key potential risks of :

- Not having insurance cover for the Fund's property portfolio.
- Not complying with contract procedural rules or European regulations.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The insurance cover is recharged to the tenants so there are limited financial implications. The Fund under previous market conditions was able to receive a commission (approx (£90,000 per annum) on the re-charged insurance, this is no longer possible and is not material in the context of the overall income from property of £18m per annum.

7.2 There are no staffing, assets or IT implications.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 Members approve the acceptance of the preferred tender, Allianz as outlined in the exempt appendix.

13.0 REASONS FOR RECOMMENDATION

13.1 Recommendation 12.1 is being made in accordance with the scheme of delegation to Pensions Committee as set out in Part 3 Schedule 2 Pensions Committee paragraphs 1, 5 and 8 and Contract Procedural Rules 14.1.7.3

FNCE/171/12

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APPENDICES

1. Assessment of tenders for provision of Insurance to MPF Property portfolio

REFERENCE MATERIAL

Tender Documentation

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Property Insurance Arrangements	**25th June 2012**
Appointment of Property Asset Manager	**11th January 2011**
Insurance of the Property Portfolio	**18th June 2009**

WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

SUBJECT:	**APPOINTMENT OF PROVIDER OF PASSIVE INVESTMENT MANAGEMENT SERVICES**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
KEY DECISION? *(Defined in paragraph 13.3 of Article 13 'Decision Making' in the Council's Constitution.)*	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the outcome of a procurement process to appoint a provider of passive investment management services to Merseyside Pension Fund and to recommend that Members approve the award of the contract to the organisation recommended. The detail of the recommendation is provided in the Exempt Appendix to this report.

1.2 Appendix 1 to the report contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 On 27 June 2011 Pensions Committee decided to defer an earlier procurement exercise to select passive investment managers due to an administrative error. On 20 March 2012 Pensions Committee agreed to resume the exercise and to appoint Mercer to assist with the search (in a call off from the Manager Search Framework List). The procurement exercise has now been completed and the full results are given in the Appendix.

2.2 The Fund's approach to risk management involves using a diversity of investment management styles. This is outlined in the Statement of Investment Principles. Passive investment management, whereby the manager is required to track the performance of specific benchmark indices, accounts for 28% of the Fund's strategic benchmark. The exact size of the mandate will be affected by market movements. However, as a guide, the total size of the passive mandate is expected to be approximately of £1,000m to £1,500m.

The index tracking mandate is expected to cover the following areas:

Asset Class	Benchmark
UK Equities	FTSE All Share Index
UK Index Linked Gilts	FTSE UK Gilts Index Linked All Stocks
North American Equities	FTSE AW North America

It should however be noted that whilst the mandate is initially on the basis of these areas, the Fund may wish to expand to further regions/asset classes at a later stage. The split of the mandate between the three areas is approximately 30% UK Equities, 40% UK Index Linked Gilts and 30% North American Equities.

2.3 Officers of the Fund worked with Mercer to develop a specification for the mandate, evaluation criteria and a detailed evaluation questionnaire. Areas for consideration were track record of returns across a range of global asset classes (consistent with benchmarks), client servicing standards, the ability to implement asset manager transition exercises, the ability to support the Fund's responsible investment policy and the scale and ongoing viability of the organisation.

2.4 The bids were evaluated on price (35%) and quality (65%) to ensure that the most economically advantageous tenders were accepted. Details of the assessment criteria and method of assessment are given in the Appendix.

2.5 The contract will run for five years, with an option to extend for a further five.

3.0 RELEVANT RISKS

3.1 The use of passive investment management is part of the Fund's risk management strategy. It ensures that for a proportion of the Fund's assets, the performance returns are not less than those achieved by the market (as represented by the relevant benchmark index). It has been observed that it is rare for investors to achieve returns in excess of the market in certain asset classes, particularly UK Index-Linked Gilts and North American Equities. Therefore, a passive approach to managing those asset classes is judged to be prudent.

3.2 The procurement exercise has been carried out with support from the Council's Corporate Procurement Unit, to ensure compliance with EU procurement regulation. This mitigates the risk of challenge.

3.3 Because the Fund is moving from two providers to one, it will be necessary to increase Schedule 1 limits under Reg 14.3 of the Investment Regulations, entailing a revision of its Statement of Investment Principles (SIP). This will be reflected in the revised SIP which is to be brought to November's Committee.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered as the Fund requires passive investment management services and it is necessary to tender at this time as reported previously to Pensions Committee.

5.0 CONSULTATION

5.1 There has been no consultation undertaken or proposed for this report. There are no significant implications for partner organisations arising out of this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The bids submitted represent an overall saving to the Fund, versus current budget provision. There are no further IT or staffing implications.

8.0 LEGAL IMPLICATIONS

8.1 There are none arising from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are none arising from this report.

12.0 RECOMMENDATION/S

12.1 That Members agree to appoint the organisation recommended in the appendix to provide passive investment management services to the Fund.

13.0 REASONS FOR RECOMMENDATION

13.1 MPF requires passive management services as a part of its investment strategy.

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APPENDICES

Appendix 1 Exempt, Selection of provider of passive investment management services to the Merseyside Pension Fund.

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee, Passive Management	**20th March 2012**

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WIRRAL COUNCIL

PENSIONS COMMITTEE

18 SEPTEMBER 2012

SUBJECT:	**ALTAIR IMPLEMENTATION UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**INTERIM DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	**PATRICIA GLASMAN**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to update Members on progress with implementation of the Altair Pensions Administration system, to report a contract variance in accordance with Contract Procedural Rules and to recommend that the option to extend the contract for two years (from December 2014 to December 2016) is taken up.

1.2 The appendix to the report, (Update on Altair, Implementation and Costs), contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 BACKGROUND AND KEY ISSUES

2.1 Members will be aware that Pensions Committee approved the procurement of the Altair system from Heywood on 14 January 2009 to commence 1 January 2010 and received an update on 27 September 2010 also approving additional expenditure on hardware. Heywood were the existing software provider and the costs for the five year period included an increase in the annual licensing fee and migration costs for the transition to Altair from AXIS during 2011. There have been a number of changes to the costing and timing of the project, most significantly at the signing of the contract and a Project Initiation Document in September 2010. The impact on costs of these is detailed in the exempt appendix.

2.2 The project has been delayed and costs increased due to a number of external factors including

- Changes to LGPS Regulations
- The move of MPF to Oracle software for financial systems
- The need to move to Windows 2008

2.3 There have also been delays and increase to costs due to other issues including operational matters relating to delivery of hardware, problems with firewall security and additional training requirements.

2.4 The ongoing licensing costs have been as reported to Committee in January 2009. The changes in cost are limited to the migration costs. The additional costs have been made on a time and materials basis agreed within the original tender documents. These are detailed in the exempt appendix.

2.5 The system is due to go live on 12 September 2012.

2.6 It is recommended to take up the contract option extension of 2 years taking the use of software to 31 December 2016, for the following reasons.

- The system migration has been delayed, however MPF Operations team are satisfied that this it not due to faults by Heywood

- The system (AXIS) has worked well in the interim and not been detrimental to service delivery

- Taking up the extension option will enhance efficiency as there will not be any other implementation or procurement costs in the extra two year period. It will also give time for other competitors to emerge following the LGPS 2014 reforms which may improve the procurement outcome.

3.0 RELEVANT RISKS

3.1 The provision of an administration IT system is critical to the core operations of MPF. Without these systems the ability to maintain member records and pay pensions is fundamentally compromised.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The out-turn costs incurred during this contract compared to initial estimates are outlined in the appendix. Any additional costs incurred have been paid out of Pension Fund resources over current and previous financial year and where budgets have been exceeded these have been off set against under spends in other parts of the MPF budgets and overall administration spending has been within budgets over the past 3 years. For future budgets post March 2013 the ongoing licence fee is assumed within the medium term plans.

7.2 This project has utilised staffing resources within both MPF specifically and WITS but has not entailed any increase in resources, post implementation of the system the on-going maintenance will be met from existing resources. In September 2010 Committee agreed the purchase of hardware for implementation of the system. The implementation has also necessitated a purchase of a VPN server for £16,000 and licences for Oracle costing £6,598.

7.3 There are no staffing or assets resources arising from this report.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 Members note the progress report on the implementation of the Altair Pensions Administration system

12.2 Members note the contract variation contained within the exempt appendix.

12.3 Members agree to take up the option to extend the contract with Heywood for provision of a pensions administration IT system for two years (from December 2014 to December 2016).

13.0 REASONS FOR RECOMMENDATIONS

13.1 Recommendation 12.1 is being made in accordance with the scheme of delegation to Pensions Committee as set out in Part 3 Schedule 2 Pensions Committee paragraphs 1, 5 and 8.

13.2 Recommendation 12.2 is being made in accordance with Contract Procedural Rule 16.1.2. These costs have incurred due to technical reasons to ensure delivery of the contract and are there being reported at the first Pensions Committee after occurrence.

13.3 Recommendation 12.3 is being made, for the reasons set out in 13.1 and because Officers judge that this is the best option in terms of risk control and value for money.

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APPENDICES

1. Update on Altair, Implementation and Costs

REFERENCE MATERIAL

Contract Procedural Rules
Internal Working Papers relating to Contract and Project Development

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
PENSIONS COMMITTEE **PENSIONS IT ADMINISTRATION SYSTEM**	**14 JANUARY 2009**
PENSIONS COMMITTEE **ALTAIR IT HARDWARE**	**27 SEPTEMBER 2010**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 17

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Agenda Item 20

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Agenda Item 21

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