

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

		2012 £'000	2011 £'000
Investment assets			
Equities	13	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 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 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 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 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 £'000	2011 £'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 £'000	2011 £'000
Group transfers	169	4,609
Individual transfers	10,855	14,664
	11,024	19,273

8. Benefits payable	2012	2011
	£'000	£'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	2011
	£'000	£'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	2011
	£'000	£'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	2011
	£'000	£'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 £'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

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

	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

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					<u>-3</u>
Prior year comparative					
Open forward currency contracts at 31 March 2011					18
Net forward currency contracts at 31 March 2011					<u>18</u>

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
Etiihad 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	
	£'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 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 asset statement heading.

	31 March 2012			31 March 2011		
	Loans and receivables	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
	£000	£000	£000	Restated £000	Restated £000	Restated £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 liability	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 on 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.

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 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	Value on	Value on
	£'m	Variance	increase	decrease
		%	£'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	2011
	£'000	£'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-imbusement.

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 covenants 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 Adminstrating 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 with IAS24) 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