

FINANCIAL STATEMENTS

FUND ACCOUNT**For the year ended 31 March 2009**

	Note	2009 £000	2008 £000
Contributions and Benefits			
Contributions receivable	3	245,976	216,773
Transfers in		18,436	21,168
		<u>264,412</u>	<u>237,941</u>
Benefits payable	4	212,476	195,130
Leavers	5	15,121	13,764
Administration Expenses		3,860	3,348
		<u>231,457</u>	<u>212,242</u>
Net additions from dealings with members		<u>32,955</u>	<u>25,699</u>
Return on Investments			
Investment income	6	71,212	71,505
Change in market value of investments	7	-833,021	-137,888
Exchange		0	0
Investment Management Expenses	8	-4,982	-4,961
Net return on Investments		<u>-766,791</u>	<u>-71,344</u>
Net increase (- decrease) in the Fund during the year		-733,836	-45,645
Net Assets of the Fund at start of year		4,255,332	4,300,977
Net Assets of the Fund at end of year		<u>3,521,496</u>	<u>4,255,332</u>

NET ASSETS STATEMENT AS AT 31 MARCH 2009

	Note	2009 £000	2008 £000
Investments			
Fixed Interest Securities	7	0	0
Index-linked Securities		0	0
Other Investments		264,580	216,073
Equities		1,253,028	1,124,734
Managed or Unitised Funds		1,668,255	2,434,630
Derivative Contracts		130	0
Properties		199,535	295,350
Short Term Deposits		74,089	100,778
Other Investment balances		41,453	64,452
		<u>3,501,070</u>	<u>4,236,017</u>
Current Assets	9	30,412	27,463
Current Liabilities	9	9,986	8,148
Net Assets of the Fund as at 31 March 2009		<u>3,521,496</u>	<u>4,255,332</u>

NOTES TO THE ACCOUNTS

1

GENERAL

Although the Scheme is exempt from the requirements of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, the financial statements have been prepared in accordance with these regulations and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (the SORP) May 2007

The financial statements record the transactions of the Scheme during the year and summarise the net assets at the disposal of the Managers at the end of the financial year. They do not take account of obligations to pay pensions and benefits which fall due after the end of Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the Actuary on pages 00 to 00 and these financial statements should be read in conjunction with it.

2

ACCOUNTING POLICIES

*** Basis of Preparation**

The financial statements are prepared in accordance with applicable UK accounting standards and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

*** Valuation of Investments**

Investments are stated at market value. For this purpose unlisted investments are included at manager's valuation and properties at professional valuation. For listed securities the stock exchange values are used. The values as at March 2009 are shown at bid price, i.e. the price which the Fund would have obtained should the securities have been sold at 31 March 2009. The equivalent values as at 31 March 2008 are still as stated in the 2007-2008 accounts, at mid price. No retrospective reduction has been made as the estimated average adjustment of 0.25% is not deemed material. Properties have been valued independently by Colliers Erdman Lewis, Chartered Surveyors as at 31 March 2009.

*** 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.

*** Investment income**

Interest on fixed interest stocks and on short term deposits has been accounted for on an accruals basis. Income from equities is accounted for when the related investment is quoted "ex-dividend".

*** 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.

*** 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.

*** Transfers to 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.

*** Investment Management Expenses**

In accordance with the SORP, costs in respect of the internal investment team are classified as investment management expenses rather than as administrative expenses.

*** Prior Period Adjustments**

As these are the first accounts produced under the 2007 Pensions SORP, the opportunity has been taken to revise the accounting treatment of certain transactions. Such changes are indicated in the appropriate note to the accounts.

		<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
3	CONTRIBUTIONS RECEIVABLE		
	Employers		
	Normal	158,778	152,576
	Augmentation	11,993	11,931
	Deficit Funding	15,568	532
	Employees		
	Normal	59,637	51,734
		<u>245,976</u>	<u>216,773</u>
	relating to:		
	Administering Authority	36,524	32,018
	Statutory Bodies	167,958	158,507
	Admission Bodies	41,494	26,248
		<u>245,976</u>	<u>216,773</u>

There are two elements to deficit funding. A one-off payment of £8m was received upon the admission of a transferee employer. Early retirement costs (pensions strain) are recovered from employers over periods of up to 5 years. Income in respect of Augmentation includes the re-imburement by employers on a monthly basis in respect of the enhanced elements of the monthly pensioners' payroll. A prior period adjustment has been made in respect of this new category.

4	BENEFITS PAYABLE		
	Pensions	173,545	164,286
	Lump sum retiring allowances	35,387	28,885
	Lump sum death benefits	3,544	1,959
		<u>212,476</u>	<u>195,130</u>
	relating to:		
	Administering Authority	29,784	28,008
	Statutory Bodies	156,773	145,569
	Admission Bodies	25,919	21,553
		<u>212,476</u>	<u>195,130</u>

5	PAYMENTS TO AND ON ACCOUNT OF LEAVERS		
	Refunds to members leaving service	21	39
	Payment for members joining state scheme	25	35
	Income for members from state scheme	-29	-44
	Individual transfers to other schemes	15,104	13,734
		<u>15,121</u>	<u>13,764</u>

6	INVESTMENT INCOME		
	Fixed interest securities	0	515
	Index-linked securities	0	0
	Dividends from equities, managed and unitised funds	50,297	44,789
	Net rents from properties	16,419	18,337
	Interest on deposits	3,927	7,432
	Other	569	432
		<u>71,212</u>	<u>71,505</u>

As at 31 March 2009, £61.6m of stock was on loan to market makers, which was covered by non-cash collateral totalling £65m, giving a margin of 5.5%. Income from stock lending is included within "Other" Investment Income.

The figure of "Dividends from Equities, managed and unitised funds" includes recoverable taxation of £0.65m, (2007/08 £0.74m) plus income from profits from associate and joint ventures of £7.41m (2007/08 £7.90m). Irrecoverable taxation amounted to £2.65m (2007/08 £16.5m). 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 providing for receipt of any such income within these accounts.

7 **INVESTMENTS**

	Market Value @ 31.3.08	Purchases at cost and Derivative Payments	Sale Proceeds and Derivative Receipts	Change in Market* Value	Market Value @ 31.3.09
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	0	0	0	0	0
Index-Linked Securities	0	0	0	0	0
Equities	1,124,734	925,904	470,417	-327,193	1,253,028
Managed & Unitised Funds	2,434,630	329,767	730,340	-365,802	1,668,255
Other	216,073	155,833	65,821	-41,505	264,580
Derivative Contracts	0	0	0	130	130
Properties	295,350	0	0	-95,815	199,535
	4,070,787	1,411,504	1,266,578	-830,185	3,385,528
Short term deposits	100,778			-772	74,089
Other investment balances	64,452			-2,064	41,453
	4,236,017			-833,021	3,501,070

**Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation. The high volume of sales and purchases reflects changes of external managers during the year. The figure in respect of "Other investment balances" was previously shown as "Exchange" on the Fund Account.*

	2009 £'000	2008 £'000
Fixed Interest Securities (segregated holdings)*		
UK Fixed Interest	0	0
UK Corporate Bonds	0	0
Overseas Fixed Interest	0	0
	<u>0</u>	<u>0</u>
Index-Linked Securities (segregated holdings)	<u>0</u>	<u>0</u>
Equities (segregated holdings)		
UK Quoted	550,034	424,028
Overseas Quoted	702,994	700,706
	<u>1,253,028</u>	<u>1,124,734</u>
Managed* and Unitised Funds		
UK Fixed Interest	172,351	276,419
UK Corporate Bonds	156,438	244,601
Overseas Fixed Interest	0	0
Index-Linked Securities	442,823	522,052
UK Equities	417,468	755,235
Overseas Equities	274,907	449,261
Unlisted Securities (Private Equity)	145,314	121,844
Property Unit trusts	58,954	65,218
	<u>1,668,255</u>	<u>2,434,630</u>

* All fixed interest / bond holdings are in managed and unitised funds
 * Other than Corporate Bonds, all are public sector securities.

Derivative Contracts		<u>130</u>	<u>0</u>
Type of Derivative	Expiration	Economic Exposure	Market Value
Futures			
DJ Euro STOXX 50 Index Futures	Jun-09	<u>997</u>	<u>130</u>

A Futures Contract is the obligation under a legal agreement to make or take delivery of a specified instrument (for example, a bond or a financial index) 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 have. Variation margin is exchanged daily and exists to reduce counterparty credit exposure. Collateral is held in Euro currency and the sterling equivalent amount is £130,607.

Other Investments	<u>264,580</u>	<u>216,073</u>
UK properties		
Freehold	182,038	247,472
Leasehold	17,497	47,878
	<u>199,535</u>	<u>295,350</u>
Short term Deposits	<u>74,089</u>	<u>100,778</u>

Short term deposits only covers cash balances held by the Fund. Cash held by investment managers awaiting investment is now shown under "Other Investment Balances".

	<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
Other investment balances		
Amounts due from brokers	858	0
Amounts due to Stockbrokers	-22,413	-461,736
Amounts due from Stockbrokers	19,171	494,166
Outstanding dividend entitlements and recoverable withholding tax	6,110	6,814
Cash deposits	37,727	25,208
	<u>41,453</u>	<u>64,452</u>

"Other investment balances" now includes amounts due to and from stockbrokers, and also cash with managers awaiting investment. These were previously shown under current assets and liabilities, and a prior period adjustment has been made.

Disclosure note re Transactions Costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. They have been added to purchases, and netted against sales proceeds as appropriate. Transaction costs during the year amounted to £1,213,660. 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.

Disclosure Note Icelandic Deposits

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Fund had £7.5m deposited across two of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested (£000)	Interest Rate	Carrying Amount (£000)	Impairment (£000)
Glitnir	17/10/07	15/10/08	5,000	6.30%	5,523	0
Heritable	23/07/08	10/12/08	2,500	5.94%	1,830	772

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the Fund will be determined by the administrators/receivers.

Glitnir Bank

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates full recovery of the principal and interest is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee
- Settlement of the terms of a 'bond' which will allow creditors of Old Glitnir to enjoy rights in New Glitnir

Act No 44/2009 has now come into force in Iceland. Under this act, the Fund can claim interest up to 22 April 2009. The Fund's maturity date is before 22 April 2009 and therefore interest between the maturity date and 22 April 2009 will be credited at a penalty rate. The Fund has applied the Iceland's penalty rate at 22%. The Fund has therefore decided not to recognise an impairment based on it recovering the full amount of principal and interest up to 22 April 2009 in the future. The October maturity date and the 22% penalty rate is sufficient to offset the loss of interest to the Fund until the monies are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, the Fund has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the Fund's claim in the administration, which, it is expected, may validly include interest accrued up to 22 April 2009.

Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 13 August 2009 outlined that the return to creditors was projected to be 80p in the £ by the end 2012 with the first dividend payment of 16.13p in the £ paid in July 2009. The Fund has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these payments and a final sale of assets will take place after the books have been run down to the end of 2012. Therefore calculating the impairment the Fund has been made the following assumptions re timing and recoveries:

July 2009	– 16.13%
December 2009	– 10%
July 2010	– 20.22%
July 2011	– 19.22%
July 2012	– 7.22%
July 2013	– 7.21%

Recoveries are expressed as a percentage of the Fund's claim in the administration, which includes interest accrued up to 6 October 2008

Overall Impact

The impairment loss recognised in the Fund Account in 2008/09, £772,129, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposit in order to recognise the anticipated loss of interest to the Fund until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

8 INVESTMENT MANAGEMENT EXPENSES

Fees paid to the 11 major investment managers amount to £3.980m, and constitute the bulk of the figure of £4.982m investment management expenses. Charges vary between fund managers, and between markets and types of security. Charges are calculated as a percentage of the value of the investments. Internal investment management expenses are also included here.

9 CURRENT ASSETS AND LIABILITIES

	<u>2009</u> <u>£'000</u>	<u>2008</u> <u>£'000</u>
Assets		
Contributions due	20,885	16,341
Accrued and outstanding investment income	847	2,353
Due from stockbrokers	0	0
Transfer values receivable	2,357	2,357
Cash at Bank	725	416
Sundries	6,071	6,106
Provision for bad debts	-473	-110
	<u>30,412</u>	<u>27,463</u>
Liabilities		
Due to stockbrokers	0	0
Transfer values payable	0	0
Provisions	541	507
Miscellaneous	9,445	7,641
	<u>9,986</u>	<u>8,148</u>
Total Other Assets and Liabilities	<u>20,426</u>	<u>19,315</u>

Amounts due to and from stockbrokers in respect of trades not settled at close of business on 31 March 2009 are now included within "Other Investment Balances" and shown within Note 7.

The figure of debtors does not include future payments from employers who are making special additional payments in respect of early retirement costs over an agreed number of years.

"Provision for Bad Debts" is now separately reported, and relates to property rental income.

Included in "Miscellaneous Liabilities" is £4.080m of unpaid benefits

10 COMMITMENTS

Commitments for investments amounted to £ 217.914m as at 31 March 2009.

11 RELATED PARTY TRANSACTIONS

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 £3.511m (2008 £3.275m). Such charges principally relate to staffing required to maintain the pension service. A specific declaration has been obtained from principal officers and Pension Committee members regarding membership of and transactions with such persons or their related parties. No declarable related party transactions have been reported.

12 SUMMARY OF MANAGERS' PORTFOLIO VALUES AS AT 31 MARCH 2009

	£m	%
Externally Managed		
J P Morgan	119	3.4
UBS	264	7.5
Nomura	421	12.0
Schroders	157	4.5
Legal & General (Pooled Assets)	745	21.3
Legal & General (Bonds)	172	4.9
Unigestion	100	2.9
M & G	93	2.7
T T International	93	2.7
Blackrock	94	2.7
Newton	89	2.5
	2,347	67.0
Internally Managed	<u>1,154</u>	<u>33.0</u>
	3,501	100.0

These values now include cash with managers awaiting investment, sums due to and from stockbrokers, and accrued investment income.

13 ADDITIONAL VOLUNTARY CONTRIBUTIONS 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. As requested by the Local Authority Statement of Recommended Practice (2007-08) an aggregate breakdown between contributions, repayments and change in market value is now available for the balances as at 31 March 2009.

The aggregate amount of AVC investments is as follows:	2009 £000	2008 £000
Equitable Life	3,076	3,464
Standard Life	5,833	7,593
Prudential	<u>3,864</u>	<u>3,615</u>
	12,773	14,672

Changes during the year were as follows:

Contributions	1,502
Repayments	-2,023
Change in market values	<u>-1,378</u>
Change in value from 2007/08 published accounts	<u>-1,899</u>

Note 14: Financial performance

The Pension Fund is administered under a budget that is approved by Pensions Committee each January. That budget is reviewed, and if appropriate revised the following January, based on the known and anticipated pattern of expenditure and market movements. In January 2008, a budget of £10.95m was approved for the financial year 2008-2009, which was revised downwards in January 2009 to £9.1m, primarily because of temporary lower costs following the transition of a large UK equity portfolio.

This composite budget covers both administration and investment related expenditure.

The 2 main elements of the revised budget were salaries and related costs of £2.35m and investment management fees of £4.5m. The final accounts for the year ended 31 March 2009 indicate expenditure levels of £3.860m on administrative costs overall, and £4.982m on all investment management expenses. Investment management expenses include, as its main element, external managers' fees, but also cover custodian fees, advisors fees and performance measurement fees. In addition, in the final accounts, the salaries and related expenses of the internal investment team are, in accordance with the Pensions Statement of Recommended Practice (the SORP), shown within investment management expenses.

Applying the normal rules of budgetary control to investment management fees can be problematic. Basic fees and performance fees are negotiated individually with each fund manager, but the actual charge will vary according to the monthly value of the individual portfolio of each manager. In most cases, the effects of general moves in stock markets are more influential than the managers' performance. However, in certain cases, in addition, performance fees are payable when the fund manager exceeds the selected benchmark by an agreed percentage, which can include out-performance in falling markets. However, any increased cost of investment management fees beyond the budget is far outweighed by the positive impact on the Fund's assets. Other factors influencing the level of expenditure on investment management fees include the number of portfolios that are actively or passively (i.e. index trackers) managed, and segregated or pooled funds. Other budgets similarly affected include custodian fees, which vary, within an agreed framework, according to both the value of the investments and the number of transactions undertaken.

There is no budget as such for the Fund itself. The payment of pensions is in accordance with the Regulations. Receipts of employers' contributions are in accordance with the Triennial Valuation. Consequently, basic pensions transactions, e.g. income from employers and employees contributions, benefits payable, transfers in and out are only contained in the fund account, and do not form part of the budget. However, the scale and timing of such transactions are taken into account for cash flow management purposes.

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2008 2009 no such charges were levied.