



# Report & Accounts 2014/15



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# Management Structure

## 1. Pension Fund Management Committee

### Chair:

Cllr P Doughty

Wirral

### Vice Chair:

Cllr A McLachlan

Wirral

Cllr C Carubia

Wirral

Cllr G Davies

Wirral

Cllr K Hodson

Wirral

Cllr T Johnson

Wirral

Cllr A Jones

Wirral

Cllr C Povall

Wirral

Cllr H Smith

Wirral

Cllr GCJ Watt

Wirral

Cllr N F Keats

Knowsley

Cllr N Crofts

Liverpool

Cllr P Tweed

Sefton

Cllr J Fulham

St Helens

## Employee Representatives (Non-voting)

Mr P Goodwin

Unison

Mr P Wiggins

Unison

Mr D Walsh

Unite

## Officers of the Fund

Joe Blott **Strategic Director Transformation & Resources**

Peter Wallach **Head of Pension Fund**

Yvonne Caddock **Principal Pension Officer**

Surjit Tour **Head of Legal & Democratic Services**

Colin Hughes **Group Solicitor**

## 2. Advisors to Investment Monitoring Working Party

Strategic Director Transformation & Resources

Head of Pension Fund

Senior Investment Manager

Aon Hewitt

Noel Mills

Rohan Worrall

## 3. Advisors to Governance and Risk Working Party

Strategic Director Transformation & Resources

Head of Pension Fund

Principal Pension Officer

## 4. Others

### Auditor

Grant Thornton

### Bankers

Lloyds Banking Group

### Consultant Actuary

Mercer HR Consulting

### Strategic Investment Consultant

Aon Hewitt

### Custodian of Assets

Northern Trust

### Responsible Investment Advisers

Pensions and Investment Research Consultants Ltd

### Property Advisers

C B Richard Ellis

### Property Managers

C B Richard Ellis

### Property Valuers

Colliers

### Performance Measurement

The WM Company

### Solicitor

Wirral Council

### AVC Providers

Equitable Life Assurance Society

Standard Life

Prudential

# Chair's Introduction



As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2015. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months as well as providing general information regarding the pension Scheme.

A handwritten signature in blue ink, appearing to read 'Paul A. Doughty', written over a white background.

**P Doughty**

## The Overall Aim of the Fund

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

## Investment Performance

Central bank liquidity has remained the dominant feature in financial markets; fundamental market mechanisms have become secondary to analysis of the utterances emanating from the world's leading central banks.

Investors remained broadly bullish about the prospects for risk assets like equities and credit, both of which rallied over the year. In the final quarter of 2014, investors were unsettled by concerns over economic growth in Europe and Japan, together with a sharp decline in the price of crude oil.

Coming into 2015, however, European equities and bonds reacted very positively to the action by the European Central Bank to inject liquidity through a Eurozone quantitative easing programme. This fed through to a sharp appreciation in the US dollar and Swiss franc.

Although the outlook for economic growth has improved, price inflation has remained subdued which has meant that interest rates have remained at historically low levels in developed markets.

Against this backdrop and despite our expectations this time last year that returns would be lower, the Fund returned 12.6 percent compared to its bespoke benchmark return of 10.9 percent, increasing in value to over £6.9bn.



Volatility in financial markets is showing signs of picking up and we are positioning the Fund cautiously. Nonetheless, it is helpful to bear in mind that local authority pension funds invest over the long-term to pay benefits in forty to fifty years' time and it is imperative that we maintain this long-term perspective in our investment strategy.

Further information on the management of the Fund, distribution of assets and performance is provided later in this report.

### **Actuarial Valuation**

The next triennial valuation will be at 31 March next year. At the last triennial valuation, assets stood at £5.8bn with liabilities calculated to be nearly £7.7bn, giving a whole fund funding position of 76%. The interim position at March 2015 suggests little change to the funding position. Despite the increase in assets to nearly £7bn, quantitative easing by the government has been unhelpful to the valuation of liabilities and our funding level is still estimated to be around 77%.

### **Communication with Fund Employers and Members**

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the new Scheme. We were very pleased that the Fund collected a further award from aiCLO magazine; Best Public Pension Fund below £15bn.

With increasing numbers of members affected by early retirement and redundancy programmes by employers, we have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, pensioners and deferred members. The Fund's websites continue to be updated regularly and we are seeing increasing use of the Employers' website.

The Annual Employers' Conference held at Aintree Racecourse, in November 2014, was again well attended and featured speakers from the Fund's actuary and officers from the Fund.

### **Past Changes and the Future**

The Public Service Pensions Act has brought further governance changes for the Scheme. The most apparent of which has been the establishment of a Pension Board which is intended to assist the Administering Authority in its role as a Scheme manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme and requirements imposed by the Pension Regulator in relation to the Scheme, and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund;
- provide the Scheme Manager with such information as it requires, ensuring that any member of the Pension Board or person to be appointed to the Board does not have a conflict of interest.

Implementing the new career average Scheme continues to be a significant project. It has required significant changes to systems, policies and procedures and we continue to look for efficiencies in the way in which we work.

The Fund remains an active participant in all aspects of the various ongoing consultations.

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

### **Preparation of Report**

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

# Management Report

## Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Paul Doughty

In 2014/15, the Committee comprised of Councillors from the Wirral Labour group (6), Conservatives (3), Liberal Democrats (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton), an independent representative from the other employers and employee representatives (3). The Strategic Director Transformation and Resources and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

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

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

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

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

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

## Risk Management

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

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

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

- Governance Policy
- Communications Policy
- Funding Strategy Statement
- Statement of Investment Principles
- Investment Monitoring Policy
- Health & Safety Policy

Copies of these documents are available from the Fund and are published on the Fund website at:

**<http://mpfund.uk/riskdocs>**

In addition, the Fund maintains a risk register and a compliance manual for its employees.

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

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

## Knowledge and Skills

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

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

The Pensions Committee has designated the Strategic Director Transformation & Resources to be responsible for ensuring that policies and strategies are implemented.

## Activity in Year

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

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

This year, the potential for hedging the Fund's risk and liabilities was identified as an area of development. Members received a presentation from one of the Fund's independent advisors focused on inflation hedging which stimulated discussion of the risks and opportunities involved.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed below.

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee is a member of the executive board, attending regular meetings dealing with all aspects of responsible investment.

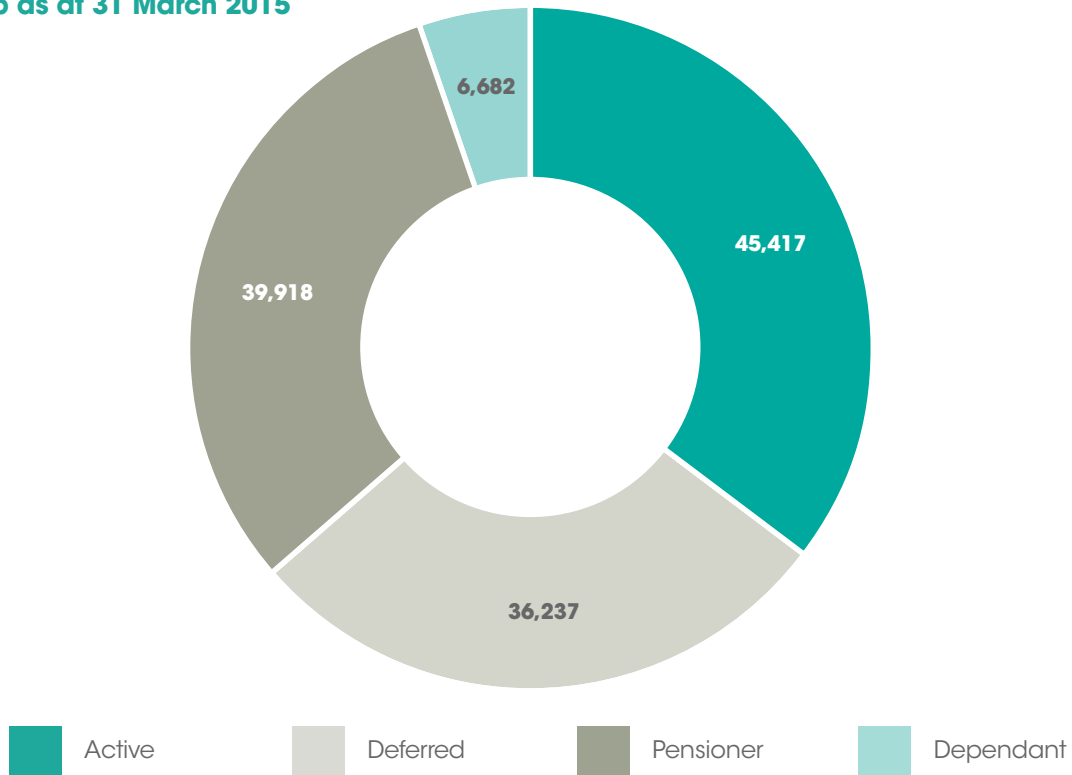
The following training opportunities have been provided during the year.

Month	Event
April	IMWP
May	NAPF LA Conference
June	IMWP
June	LGPS Trustees Conference
July	Pensions Committee
July	GRWP
September	IMWP
September	Pensions Committee
September	LGC Investment Summit
October	IMWP
October	LGE Fundamentals
October	Elected Member Educational Event
October	NAPF Annual Conference
November	IMWP
November	Pensions Committee
November	LGE Fundamentals
November	MPF Annual Employers Conference
November	Annual LAPFF
December	UK Infrastructure Conference
December	LGE Fundamentals
January	Pensions Committee
January	GRWP
January	Blackrock Seminar
February	LGC Investment Conference
February	Elected Member Educational Event
March	IMWP
March	Pensions Committee

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

# Membership Statistics

## Membership as at 31 March 2015



## Number of Members by Age Band

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active				257	1,683	2,867	3,735	4,120	5,832	7,762	8,784
Deferred				7	447	2,203	3,291	3,399	4,865	6,881	7,995
Pensioner						2	2	9	90	331	796
Dependant	1	24	57	148	61	10	12	17	33	100	210

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	6,531	3,086	619	141							<b>45,417</b>
Deferred	6,161	905	67	13	3						<b>36,237</b>
Pensioner	3,039	8,601	10,069	6,689	4,920	3,117	1,582	560	93	18	<b>39,918</b>
Dependant	284	448	747	870	1,035	1,172	891	432	112	18	<b>6,682</b>
<b>Total</b>											<b>128,254</b>

## Key Membership Statistics 2011 - 2015

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2015	45,417	36,237	39,918	6,682	<b>128,254</b>
31 March 2014	45,583	35,786	39,094	6,725	<b>127,188</b>
31 March 2013	44,707	34,481	37,992	6,761	<b>123,941</b>
31 March 2012	45,521	32,912	37,314	6,804	<b>122,551</b>
31 March 2011	48,323	30,946	35,594	6,860	<b>121,723</b>



# Scheme Administration Report

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

The employer base has fragmented over recent years, especially with the creation of academy schools. Furthermore the increase in the number of third party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer to the process and provision of data.

A list of the participating employers is shown at **Appendix A.**

The Scheme is a public service pension scheme regulated by statute through the Department for Communities and Local Government (DCLG). It is a contributory defined benefit scheme, which is contracted-out of the Second State Pension (S2P) and is an approved tax exempt scheme.

## Development of the Scheme

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

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

## Scheme Reform - Transition to LGPS 2014

Since 2001 there has been national concerns surrounding the rising costs of public service pension provision and the sustainability of these schemes.

This has been largely due to a combination of people living longer and drawing pensions for much longer than originally anticipated, compounded by the volatility in financial markets.

Consequently, the government embarked upon a stock-take of the LGPS that focused on the cost of the Scheme, employment trends and the changing pension

needs of low paid part-time employees. This review resulted in a number of Scheme revisions to address the value of benefits and re-balance the pension cost between employers and members.

A new accrual rate was introduced which resulted in existing members having mixed benefit structures based on an annual pension of 1/80th of final salary and automatic lump sum prior to April 2008 and thereafter an annual pension of 1/60th of final salary with a lump sum by commutation only.

However, continued improvements in life expectancy and escalating costs of public sector pension provision led to Lord Hutton's "grass roots review" with a view to how future pension provision could be made affordable in the long term and fair to all stakeholders.

Lord Hutton's report was published on 10 March 2011 and identified the need to deliver both significant short and long-term saving across all public service schemes.

Due to the unique funded nature of the LGPS when compared to the other public service schemes, it was agreed nationally amongst stakeholders that a major overhaul to the design of the Scheme would be implemented from April 2014. The implementation of a reformed LGPS, twelve months in advance of the other public sector schemes, would alleviate the necessity to impose substantial increases on member contribution rates, required elsewhere in the public sector to meet required short-term savings.

## LGPS 2014

The national agreement to introduce a new LGPS by 1 April 2014, presented a challenging time-frame for the Fund's administration section to implement the new Scheme provisions.

It has been a significant, resource intensive task, delivering the reform of the benefit design from final salary to career average, establishing new governance arrangements and putting in place systems to deal with the administration of the new and transitional arrangements, whilst maintaining and integrating legacy systems.

Due to the new benefit design, there have been changes in controls and processes to ensure that member data is accurate and provides the correct basis for ensuring contributions and pension payments are stated correctly. It is important that the Fund receives accurate pay figures for members, as the annual submission of data now has a direct impact on pension benefits. Whereas with final salary benefits it is only the final pay supplied at leaving that is crucial in determining a member's pension benefits.

# Scheme Administration Report

The Pension Regulator (TPR) will have oversight of the LGPS from April 2015 with the role of monitoring standards, data quality and promoting best practice in relation to disclosure of information to members. The Fund is conscious of the statutory requirement to demonstrate greater transparency and retain accurate data and has been busy laying the foundations to strengthen data quality and progression of the programme to bulk upload data from its largest employers.

An important consideration when delivering the reforms was the communication campaign to keep members fully informed that although the Scheme had changed, the LGPS remains a first class, secure, and tax efficient pension arrangement.

The Fund has used a range of communication methods to help members understand the implications for their individual pensions. These methods have included videos, guidance and examples on websites, employee and employer forums and direct correspondence to home address.

Implementation of the changes has been difficult, especially given the late finalisation of the regulations and statutory guidance. Gaps within the IT software resulted in manual calculations for a significant number of benefit and transfer calculations. This necessitated a new system of controls to check benefits and cash flows.

## Legislative Change

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in

- requires members to have at least 2 years' membership to qualify for pension benefits.

Additionally, protection is given to members who were contributing prior to 1 April 2014, including the following key provisions:

- preserve member benefits accrued under the former LGPS regulations
- retain the final salary benefits and Normal Pension Age of 65 in respect of pre-2014 membership
- provide an 'underpin' for people born before 1 April 1957 to ensure that they do not suffer any detrimental loss from the introduction of the new Scheme
- carry forward the member protections under the '85 Year Rule' for voluntary retirement from age 60
- ability for employers to switch on the '85 Year Rule' for members who voluntarily retire between age 55-60.

## Governance Changes

The Public Service Pensions Act 2013 and the new LGPS Governance Regulations laid before Parliament on 28 January 2015, introduced further changes for the LGPS, which take effect from April 2015. These introduce:

- local pension boards to assist each Administering Authority with ensuring compliance and the effective governance and administration of the Fund
- the establishment of a national Scheme Advisory Board to advise the Secretary of State, Administering Authorities and local pension boards
- the extension of the work of TPR to the LGPS
- an employer cost capping regime

These changes required a major investment of time, in the initial stages, to set up the necessary structures and arrangements. The regulations recognise differing local arrangements for the management of LGPS funds and are not overly prescriptive and leave a lot of flexibility around implementing the Pension Board.

The Pension Board does not have quasi-trustee status and is not a decision making body, but it will assist the Administering Authority to help ensure compliance with its statutory responsibilities.

Given the existence of the Pensions Committee it is important that there is clarity of roles and responsibilities between the two functions and it is crucial that the

Pension Board delivers visible improvements in Fund governance.

The regulations for both the pre-April 2014 Scheme and the current Scheme can be accessed from the following links.

#### Pre April 2014

[www.lgpsregs.org/timelinereg/Default.html](http://www.lgpsregs.org/timelinereg/Default.html)

#### Post April 2014

[www.lgpsregs.org/index.php/regs-legislation/lgpsregs2013-resources](http://www.lgpsregs.org/index.php/regs-legislation/lgpsregs2013-resources)

### Cost of New Scheme to Employers and Employees

The new Scheme is based on a cost ceiling of 19.5% with a notional employer future service contribution rate of 13% of pay and an average employee contribution of 6.5%.

The cost of the revised CARE benefit design and increased accrual rate is equivalent to the **final salary scheme design**. Although the revised definition of pensionable pay includes non-contractual overtime, there is potential for additional costs if employers pay a substantial level of non-contractual overtime to employees.

Control of future costs will emerge through the linking of a member's Normal Pension Age to State Pension Age.

It is possible that the alignment of Normal Pension Age and State Retirement Age may be insufficient to control the future costs of the Scheme with the requirement to introduce a 'two pronged' cost management process, governed by the Scheme Advisory Board and HM Treasury.

Past service deficits are outside of the cost management process, but the Shadow Scheme Advisory Board has set up a Deficit Working Group to consider an innovative approach to deficit management at both Fund and employer level in the LGPS.

### Earning Bands for Employee Contributions

The following pay ranges and employee contribution rates will apply from April 2015 as follows:

Pay Bands	Contribution Rates (per employment)
Up to £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%
Over £151,800	12.5%

Unless the process for allocating the appropriate contribution rate from the above bands has been automated on the payroll system, employers must determine the appropriate employee contribution rate from each employee from 1 April 2015 and notify this to payroll.

### Consultation Responses

During the year, the Fund has actively participated in all consultations in regard Scheme reform, seeking clarity with regard to ambiguous technical provisions and those areas that appear inequitable to the Fund's diverse membership base.

In acknowledgement of the increasing complexity resulting from the statutory protection of accrued pension rights, the underlying theme taken by the Fund is that simplification should be sought wherever possible.

### Key Events on the Horizon

#### Pension Act 2014

The above Act received Royal Assent in May 2014 and legislates for the provision of a single-tier state pension of £155 per week from April 2016. However, an individual will need to have built up 35 qualifying years of full-rate National Insurance Contributions to be entitled to receive that amount.

The change to a single-tier state pension will systematically result in the abolition of contracting out for the LGPS and both active members and employers will experience an increase of 1.4% and 3.4% respectively to their National Insurance Contributions.

# Scheme Administration Report

The government has committed to enter into dialogue as to the merits of 'recycling the monies lost by LGPS employers' and how this could be practically achieved. The LGA will enter discussions with the government on the extent and method that any recycling of monies lost could take place.

## Pension Act 2015

The Pension Act 2015 implemented changes announced at the 2014 'Budget'. These changes allow individuals over age 55 to access their defined contribution benefits in more flexible ways from April 2015. These provisions are referred to within the industry as 'Freedom & Choice'.

Whilst these changes do not directly apply to the LGPS, the increased flexibility may potentially flow through at a future date as a mechanism to manage future pension liabilities. A consultation on the extension of the flexibilities within the LGPS is expected later this year.

## Administration Arrangements

### The Administration Team

The administration team is accountable to the Pensions Committee, participating employers and Scheme members. The team is fully committed to providing a quality service to meet the needs of the Fund's various stakeholders and to deliver excellent customer care.

The team administer the Merseyside Pension Fund in accordance with legislative requirements with the key aims to:

- set the strategic direction for all aspects of the service
- support the Trustees of the Pension Fund in their decision making
- ensure the proficient administration of pension records, including the preparation and distribution of Annual Benefit Statements to active and deferred members
- undertake the calculation and payment of retirement benefits and transfer values
- provide direction and guidance to Scheme members and Employers.

The team structure is currently being reviewed by officers in regards its appropriateness for the efficient administration of the new Scheme. This review is being informed by

impending national policy developments and significantly, the impact of new scheme provisions on the volume and type of casework

### Pensions Administration Strategy

The Fund's formal Pension Administration Strategy sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the role of an employer.

The primary objective of the strategy seeks to ensure that the Fund can continue to deliver a high quality cost effective pension service at a time when the operating environment is becoming more complex.

The focus of the administration section is to promote more effective working arrangements between the Fund and employers in order to meet future challenges, and deliver a high quality level of service to members.

Key elements are the improvements of communications between employers and the Fund, training of both Fund and employer staff, and the utilisation of technology as effectively as possible to capture and process data. One of the administration objectives is for all data to be reviewed and sent electronically between the Fund and employers.

The strategy incorporates performance targets for both the Fund and employers and performance is monitored monthly by the Fund's Operating Group.

### Collaborative Working

The Fund keeps abreast of best practice by participating in collaborative groups such as the Local Government Association's Communication Group and the Shrewsbury Pensions Officer Group meeting. These offer the opportunity to discuss topical pension issues and to share best practice and innovations.

### Service Planning

The Fund's management team maintain an annual 'Business Plan' which is shared with and monitored by the Governance and Risk Working Party, a sub-group of Pensions Committee. This working party meets twice a year to review officer progress against documented objectives and commitments.

The contents of the 'Business Plan' are shared with all of the officers and there is a direct link with the performance appraisal process of staff.

## Operational Costs

The Fund's operational cost is reviewed by the Pensions Committee, who approve the annual operational budget. Actual spend is monitored throughout the year by the Fund management team and overall spend is reported in the Annual Accounts.

The Department for Communities and Local Government (DCLG) annually surveys funds to collect administration and fund management costs of the LGPS. Submitted under Section 168 of the Local Government Act 1972, the data provides government with a benchmark of Scheme costs and is also used in compiling the National Accounts, showing the role of pension funds in the economy. The administration cost per member for the year 2013-14 was £26.86.

In 2014, the Chartered Institute of Public Finance & Accountancy (CIPFA) issued guidance for "accounting for local government pension scheme management costs" and this guidance was used for categorising scheme costs in the production of Fund accounts. These changes were not reflected in the DCLG survey, so a comparable administration cost per member for 2014-15 is unavailable.

## Equality & Diversity

The Fund aims to deliver accessible, high-quality and value for money services to all our customers, without discrimination to any actual or perceived social grouping; for example sex, race, disability, sexual orientation, religion, belief or age.

Any necessary and reasonable adjustments are made to ensure that members with additional needs can access our communications.

## Communications Policy

Excellent communication is fundamental to ensuring both employers and members are kept fully informed of the benefit package and changes to the Scheme.

In all our communications we aim to:

- provide clear, relevant, accurate, accessible and timely information
- carefully listen, consider and respond to communications we receive
- use plain English where possible and avoid unnecessary jargon
- use the communication method that best suits the audience.

The Fund has a published Communications Policy which can be found on our website at <http://mpfund.uk/commopol>

## Member Communications

The Fund continued its role in administering the national website for Scheme reform as part of its collaborative arrangement with the Local Government Association. <http://lgps2014.org>

During the year, all active members received a Beeline newsletter at their home address, introducing the new Scheme, providing explanations and also directions to how they could find out more information. Employers also continued to provide local facilities for the Fund to deliver presentations on the new Scheme to their employees.

The members' website <http://mpfmembers.org.uk> was redesigned and the content comprehensively updated to reflect the new Scheme.

The cost of production and postal delivery of paper documents to members constitutes a significant part of the Fund's operational cost. The Fund's main communication costs arise from the production of newsletters and Annual Benefit Statements.

Greater use of technology can reduce these costs significantly, and as the Occupational Pension Scheme (Disclosure of Information) Regulations 2013 allow member information to be distributed electronically, a project is being delivered during 2015-16 to promote the Fund's 'My Pension' online service as the Fund's preferred choice for distributing Annual Benefit Statements.

Efforts to increase Scheme participation continues to be a challenge to the Fund, made all the more challenging as employers face difficult decisions in regards the size of their workforce.

## Employer Communications

In April 2014, the Fund delivered a number of seminars to employers at the Cunard Building and these were extremely well attended. The seminars covered the key changes to the administration of the Scheme, referencing information within the Fund's HR and Payroll Guides and a step-by-step walk through of the new versions of key LGPS forms. During the year, officers delivered a number of Practitioner Courses that again were well attended by employers.

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund specific documents provide detailed information on administrative and operational practice.



# Scheme Administration Report

The website <http://mpfemployers.org.uk> has continued to be the means by which the Fund has updated employers on guide updates, administration forms and any significant information following the introduction of the new Scheme.

## Data Security

In administering the Scheme, the Fund collects, records and maintains personal data on members, former members and pensioners.

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection & Information Security, and are required to undertake Information Governance training
- New staff, as part of their induction, have the responsibilities and policies explained and their understanding verified by the successful undertaking of an online test
- All administration data is stored electronically and any paper records are securely destroyed
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication)
- Where person identifiable data has to be transferred off-site, the Fund uses secure means; using either the 'Government Connect' network or via secure email/websites.

## Data Quality & Employer Performance

The Fund actively engages with employers in regards the quality, accuracy and timeliness of the data provided for Scheme administration. The programme of employer engagement is continuing in line with the requirements detailed in the Pensions Administration Strategy (PAS).

The PAS does provide the Fund with the means to recover any additional costs arising from the continued poor performance of an employing authority. During 2014-15, there were no cost recoveries initiated by the Fund.

## Use of Information Technology

The Fund has continued to strive for improved efficiency through the appropriate use of Information Technology. The primary focus during the year was to actively engage with the key supplier, Aquila/Heywoods, in ensuring that the Pensions Administration & Pensioner Payroll system received the required software and benefit calculation updates to deliver the new Scheme from 1 April 2014.

In the main, the legislative changes were delivered by the supplier in March 2014. Unfortunately, due the late finalisation of the regulations and statutory guidance, these legislative changes a number of significant provisions could not be completely implemented. Consequently, for a period of time post 1 April 2014, the Fund required staff to manually produce some retirement calculations for members covered by the transitional provisions. An update to the IT system was provided by the supplier at the earliest opportunity.

During 2014, the Fund worked with a number of volunteer employers to develop a revised year-end specification for the submission of employee contributions and additional data required to administer the new Scheme. Whilst the Fund's Payroll Guide had always stated the additional data requirements for the new Scheme, the specification and supporting guidance for the revised year-end return was circulated to all employers in November 2014.

The Fund has provided staff at its largest employers with online secure access to the Pensions Administration system. This provides a means for employer staff to review the data held on their employees who are active members. Prior to 1 April 2014, the means for these employers to provide their own retirement estimates was revoked whilst the supplier updated the IT system and this was reinstated at the earliest opportunity.

## Performance Standards

Results of performance against target are shown below:

Performance Targets	Target	Within Target (%)
1. Payment of Retirement Benefits	7 days	92
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	99
4. Provision of Inward Transfer Quotes	10 days	99
5. Notification of Deferred Benefits	22 days	90
6. Provide Valuation in Divorce Cases	10 days	100
7. Respond to Members Enquiries	10 days	84

*(Details given in respect of 12 month period to 31 March 2015)*

## Internal Dispute Resolution Cases

Under the terms of the Local Government Pension Scheme, appeals from members are dealt with under the Internal Dispute Resolution Procedure (IDRP) which applies to members of the LGPS whose position may be affected by decisions taken by their employer, former employer or the Administering Authority.

The IDRP is a formal procedure for individuals to appeal about their treatment under the LGPS regulations. The arrangements in place allow for a two stage appeal process. Responsibility for determinations under the first stage of the procedure can rest with the employing authority or Administering Authority depending on the reason for appeal.

Responsibility for determinations under the second stage of the procedure rests solely with the Administering Authority and the nominated officers to undertake the appeal are approved by the Pension Committee.

During the year there were three new Stage 1 cases dealt with by the panel of Appointed Persons responsible for complaints against decisions made by the Fund. The cases were all upheld. In two cases, the benefits in payment were correct despite being misquoted on non-guaranteed estimated pension statements. In the third case, the appellant questioned the methodology used to calculate pensionable pay and subsequent deferred benefits. The Fund's practice complied with regulations and was supported by LGA guidance.

A total of seven new cases were dealt with by the panel of Appointed Persons responsible for considering Stage 2 appeals against employer decisions.

As in previous years, the majority of cases have concerned the refusal to bring preserved benefits into payment early on ill health grounds. Of these appeals against employer decisions, three of the cases upheld the employer decision, with four granted.

## Breakdown of IDRP Cases 2014-2015

### Total IDRP Cases (Against Fund and Employer Decisions)

Refused Deferred Benefit on Ill Health Grounds	6
Refused Deferred Benefit on Compassionate Grounds	1
Misquoted Estimates and Impact on Entitlement	2
Determination of Pensionable Pay	1
<b>Total Appeals</b>	<b>10</b>

### Appeals Against Employer Decisions

Employer	Number	Employer Decision
Liverpool	3	1 Upheld / 2 Granted
Sefton	1	1 Upheld
Wirral	3	1 Upheld / 2 Granted
<b>Total Employer Appeals</b>	<b>7</b>	

### Appeals Against Fund Decisions

Reason for Appeal	Number	Fund Decision
Misquoted Estimates and Impact on Entitlement	2	Upheld
Determination of Pensionable Pay	1	Upheld
<b>Total Fund Appeals</b>	<b>3</b>	

### Ombudsman Decision

Reason for Appeal	Number	Fund Decision
Award of IH Retirement	1	Upheld

## Pension Ombudsman

The decision upheld by the Ombudsmen related to the award of ill health retirement and the Fund's decision that there was insufficient medical evidence to justify the award in compliance with the LGPS regulations.

# Investment Report

Year ended 31 March 2015

Over the financial year to the end of March 2015, global asset markets remained exposed to uncertainties about the world economic outlook, and expectations regarding the future path of global interest rates which continued to remain at unprecedented historically low levels.

Further divergence was seen in the economic growth paths of developed economies with the US Federal Reserve ending its QE asset purchase programme, while the Bank of Japan and the European Central Bank provided a further monetary stimulus to their respective faltering economies.

However, despite market uncertainties and increased geopolitical tensions, global equity markets remained buoyant, with ample monetary stimulus continuing to fuel investors' risk appetite and boosting the search for higher yielding assets.

Stock markets rallied, particularly in advanced economies with the US S&P Index increasing over 25%, and Japan's Nikkei 225 Index rising over 27% year on year. European markets were more subdued with the UK's FTSE Index gaining just under 7% and European stocks gaining just over 7% over the comparable period.

The low interest rate environment also benefited Emerging Markets which rose just under 20% over the period.

The property market sector also exhibited strong returns rising over 18% with capital value growth contributing the most to overall returns. Rental values also increased following a number of years of stagnation, as the UK's economic recovery continued to gain traction.

Actual and anticipated further Central Bank monetary easing engendered unprecedented bond market conditions, with a significant and growing share of sovereign debt trading at negative yields. Yields on such "safe haven" assets as short-maturity German bunds featured in this fall into negative territory, while even the yields on a few highly rated corporate debt issues dropped below zero over the period.

The performance of the Fund against its benchmark and against CPI and UK average weekly earnings indices for 1, 3, and 5 year periods, is tabulated below.

	1 Year	3 Year	5 Year
MPF	12.6	10.6	8.6
Benchmark	10.9	8.8	7.5
Relative Return	1.5	1.6	1.1
CPI	-0.08	1.4	2.4
Average Earnings	3.3	1.7	1.6

Source: WM Quarterly Review Periods to End March 2015

Merseyside Pension Fund returned 12.6% in the financial year to the end of March 2015 compared to its bespoke benchmark return of 10.9%, an outperformance of 1.5% and was comfortably ahead of the Consumer Price and Average Earnings indices.

The Fund's investment performance against its benchmarks across all asset classes is illustrated in Figure 1.

Figure 2 illustrates the asset allocation of the Fund at 31 March 2015 against the Fund's asset allocation as at 31 March 2014.

Figure 1.  
Total Return by Asset Class in year ended 31 March 2015

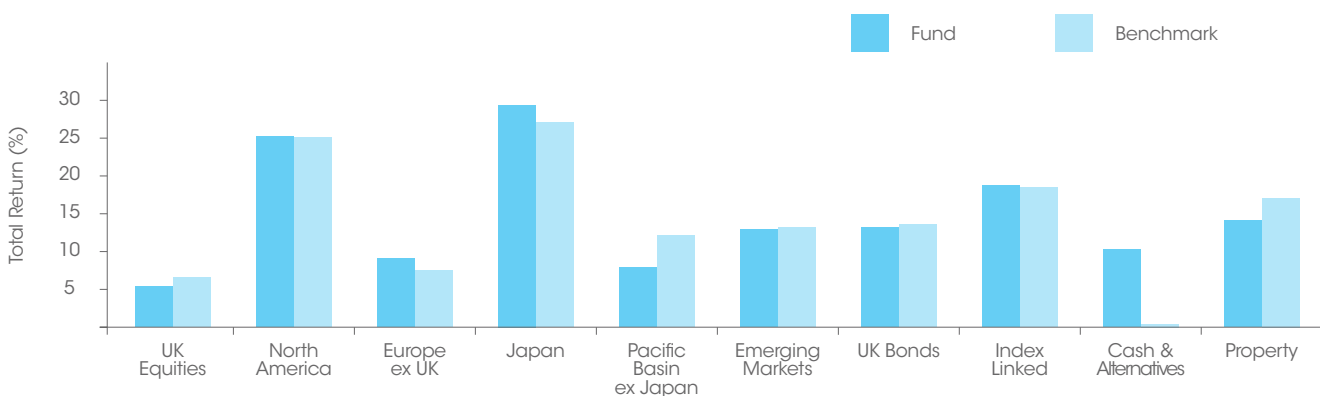
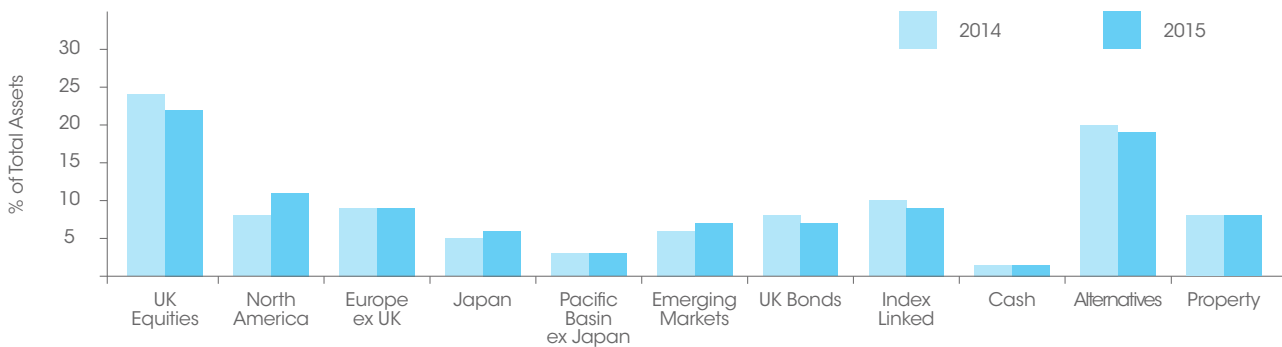


Figure 2.  
Asset Allocation



### Largest UK Property Holdings as at 31 March 2015

Property	Market Value £'000
Telegraph Road, Heswall	32,250
The Fort, Birmingham	29,750
37/38 Curzon Street, London	24,000
Tungate Square Shopping Centre, Guildford	21,500
Farnham Retail Park, Farnham	20,575
Premier Park, Winsford Road Industrial Estate, Winsford	19,400
Middlemarch Business Park, Coventry	18,750
Quadrant, Windsor	17,250

### Top 10 UK Equity Holdings as at 31 March 2015

UK Equity Holding	Market Value at 31 March 2015 £'m	% of Fund NAV
British American Tobacco	38	0.55
Reckitt Benck Group	30	0.44
Relx Plc	30	0.44
AstraZeneca	29	0.42
HSBC Holdings	25	0.37
Compass Group Plc	25	0.36
Royal Dutch Shell	23	0.34
GlaxoSmithKline	22	0.31
BP	21	0.31
Vodafone Group	20	0.29
<b>Total</b>	<b>263</b>	<b>3.84</b>

### Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
<b>UK Equities</b>	<b>23</b>	
<b>Overseas Equities</b>	<b>30</b>	
US		8
European (ex UK)		8
Japan		4
Asia Pacific		4
Emerging Markets		6
<b>Fixed Interest</b>	<b>19</b>	
UK Gilts		4
UK Index Linked Gilts		11
Corporate Bonds		4
<b>Property</b>	<b>8</b>	
<b>Alternatives</b>	<b>20</b>	
Private Equity	5	5
Hedge Funds	5	5
Opportunities	5	5
Infrastructure	5	5
Cash		
<b>Total</b>	<b>100</b>	

# Financial Performance

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2014) for the 12 months to 31 March 2015.

	2014/15 or at 31 March 2015	
	Predicted £'000	Actual £'000
<b>Fund Size 2014</b>	<b>6,124,294</b>	<b>6,124,294</b>
<b>Fund Size 2015</b>	<b>6,491,728</b>	<b>6,862,705</b>
Pensions Paid	(283,209)	(291,685)
Contributions Received	366,221	365,003
Net Transfers	(73,238)	(78,583)
<b>Net cash flow from members</b>	<b>9,774</b>	<b>(5,265)</b>
<b>Net management expenses</b>	<b>(17,697)</b>	<b>(17,241)</b>
Investment Income	115,336	120,939
Change in valuation of assets	260,021	639,978
<b>Return from Investments</b>	<b>+375,357</b>	<b>+760,917</b>
<b>Net change overall</b>	<b>+367,434</b>	<b>+738,411</b>

The key variance between the forecast and the actual performance was the return on investments.

The contributions received in 2014/15 are higher than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2014/15), 2015/16 and 2016/17 have been reduced accordingly below for these known changes.

During 2014/15 there were two known bulk transfers of assets and liabilities:

- On 1 April 2014 MPF became the appropriate LGPS Fund for all Scheme members who have accrued LGPS benefits as a result of employment with the Local Government Association for which a transfer of assets was received during 2014/15
- As part of the transforming rehabilitation programme, MPF transferred the Probation Trust liabilities on 1 June 2014 to Greater Manchester Pension Fund and transferred assets during 2014/15.

The Fund monitors its costs closely. The table below shows the out-turn against the budget approved at Pensions Committee for the year:

	12 months to 31 March 2015	
	Budget £'000	Actual £'000
Employees	3,104	2,559
Premises	215	215
Transport	30	25
Investment Fees	13,154	12,301
Other Supplies and Services	1,584	1,328
Third Party	469	432
Recharges	615	565
Income	(89)	(106)
<b>Total</b>	<b>19,082</b>	<b>17,319</b>

Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building.



Overall the actual out-turn for 2014/15 was £17.3 million, lower than the original budget of £19.1 million approved by Pensions Committee July 2014 and September 2014.

The Fund has a 3 year budget as approved by Pensions Committee, this is detailed in the table below.

	2015/16 £'000	2016/17 £'000	2017/18 £'000
Employees	3,140	3,172	3,203
Premises	252	255	258
Transport	41	42	42
Investment Fees	13,380	14,316	15,319
Other Supplies and Services	1,522	1,540	1,559
Third Party	619	626	634
Recharges	501	501	501
<b>Total</b>	<b>19,455</b>	<b>20,452</b>	<b>21,516</b>

The assumptions that underpin this budget are that, over the next 3 years, investment performance follows long-term trends and that the Fund follows the long-term trends in mortality and other factors assumed within the actuarial valuation. The budget also allows for some growth in staffing and IT costs for the changes in the Scheme administration.

The predictions for key financial variables over the next 3 years, using the same assumptions as for the budget, are detailed in the table below:

	2015/16 £'000	2016/17 £'000	2017/18 £'000
<b>Fund Size Start of Year</b>	<b>6,862,705</b>	<b>7,553,340</b>	<b>8,298,908</b>
<b>Fund Size End of Year</b>	<b>7,553,340</b>	<b>8,298,908</b>	<b>9,163,194</b>
Pensions Paid	(295,185)	(298,727)	(302,312)
Contributions Received	192,303	196,149	260,072
Net Transfers	-	-	-
<b>Net Inflow from Members</b>	<b>(102,882)</b>	<b>(102,578)</b>	<b>(42,240)</b>
<b>Net Management Expenses</b>	<b>(19,455)</b>	<b>(20,452)</b>	<b>(21,516)</b>
Investment Income	128,195	135,887	144,040
Change in Valuation of Assets	684,777	732,711	784,002
<b>Return from Investments</b>	<b>812,972</b>	<b>868,598</b>	<b>928,042</b>
<b>Net change overall</b>	<b>690,635</b>	<b>745,568</b>	<b>864,286</b>

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long-term average (7% per annum) then the out-turn will be significantly different. The other key variable is the pattern of membership of the Scheme.

If the employers make significant changes which affect the number of active members or deferred members and pensioners, then the cash-flows of the Scheme can change materially. Both of these factors are largely outside the influence of Merseyside Pension Fund.

# Financial Statements

## Fund Account - for year ended 31 March 2015

	Note	2013/14 £'000	2014/15 £'000
		Reanalysed	
<b>Contributions and Benefits</b>			
Contributions Receivable	7	246,221	365,003
Transfers In	8	10,929	45,937
		<b>257,150</b>	<b>410,940</b>
Benefits Payable	9	(275,764)	(291,685)
Payments to and on Account of Leavers	10	(15,742)	(124,520)
		<b>(291,506)</b>	<b>(416,205)</b>
<b>Additions/(Withdrawals) from Dealing with Members</b>		<b>(34,356)</b>	<b>(5,265)</b>
<b>Management Expenses*</b>	11		
Administration Expenses		(2,564)	(2,369)
Investment Expenses		(12,403)	(13,519)
Oversight and Governance Expenses		(1,984)	(1,620)
Other Income		255	267
<b>Net Management Expenses</b>		<b>(16,696)</b>	<b>(17,241)</b>
<b>Return on Investments:</b>			
Investment Income	12	110,048	121,408
Profit and Losses on Disposal of Investments and Change in Market Value of Investments	13	247,638	639,978
Taxes on Income	12	(1,241)	(469)
<b>Return on Investments</b>		<b>356,445</b>	<b>760,917</b>
Net Increase/(Decrease) in the Fund During the Year		305,393	738,411
Net Assets of the Fund at the Start of the Year		5,818,901	6,124,294
<b>Net Assets of the Fund at the End of the Year</b>		<b>6,124,294</b>	<b>6,862,705</b>

\*For 2013/14 Management Expenses has been reanalysed as explained in note 11.

## Net Assets Statement - for the year ended 31 March 2015

	Note	2013/14 £'000	2014/15 £'000
<b>Investment Assets</b>	13		
Equities		1,838,855	2,053,353
Pooled Investment Vehicles		3,822,027	4,275,613
Derivative Contracts		4,131	2,233
Direct Property		310,650	382,210
Short Term Cash Deposits		31,780	47,098
Other Investment Balances		52,889	92,169
		<b>6,060,332</b>	<b>6,852,676</b>
<b>Investment Liabilities</b>	17	(8,666)	(24,868)
		<b>6,051,666</b>	<b>6,827,808</b>
Long Term Assets	18	12,638	11,655
Current Assets	19	72,405	39,635
Current Liabilities	19	(12,415)	(16,393)
<b>Net Assets of the Fund as at 31 March</b>		<b>6,124,294</b>	<b>6,862,705</b>

# Notes to the Accounts

## 1. Description of the Fund

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 overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2014/15 included 10 councillors from Wirral Council, the Administering Authority, plus one councillor from each of the 4 other Borough Councils, and one member representing the other employers in the Scheme. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisors and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### a. General

The Scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The LGPS 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.

### b. Membership

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.

There are 162 employer organisations within Merseyside Pension Fund, including Wirral Council itself, as detailed below:

	31/3/14	31/3/15
Number of Employers with Active Members	154	162
Number of Employees in Scheme	45,583	45,417
Number of Pensioners	39,094	39,918
Number of Dependants	6,725	6,682
Number of Deferred Pensioners	35,786	36,237
<b>Total</b>	<b>127,188</b>	<b>128,254</b>

### c. Funding

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.

# Notes to the Accounts

## d. Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below.

	Membership pre 1 April 2008	Membership post 31 March 2008
<b>Pension</b>	Each year of membership is worth 1/80 x final pensionable salary.	Each year of membership is worth 1/60 x final pensionable salary.
<b>Lump Sum</b>	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum accrual. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme. For more details please refer to the Fund's website.

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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, is shown within the statement by the actuary, which is published as an addendum to the accounts.

## 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. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

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. Benefits payable includes interest on late payment. Any amounts due, but unpaid, are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- 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.

### Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Scheme during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### **Management Expenses**

The Fund discloses its management expenses split between administration expenses, investment management expenses and oversight and governance costs.

#### Administration Expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated 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 accruals 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.

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

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.

#### Oversight and Governance Expenses

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

### **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 Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

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.

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.

### **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.

### **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. For listed Funds, the 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



# Notes to the Accounts

International, in accordance with Royal Institute of Chartered Surveyors Valuation Professional Standards as at 31 March 2015

- 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.

## Short Term Deposits

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

## 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.

## Additional Voluntary Contributions

The Committee holds assets invested separately from the main Fund. In accordance with regulation 4 (2) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2009, 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.

## 4. Critical Judgements in Applying Accounting Policies

The Fund has not applied any critical judgements.

## 5. Estimation

### 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 2015 was £1,540 million (£1,261 million at 31 March 2014).

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.

## 6. Events After the Balance Sheet Date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, which require any adjustments to these accounts.

## 7. Contributions Receivable

	2013/14 £'000	2014/15 £'000
<b>Employers</b>		
Normal	96,049	108,369
Augmentation	22	-
Pension Strain	15,772	15,334
Deficit Funding	82,232	187,858
<b>Employees</b>		
Normal	52,146	53,442
	<b>246,221</b>	<b>365,003</b>
Relating to: Administering Authority	35,925	38,375
Statutory Bodies	169,607	290,324
Admission Bodies	40,689	36,304
	<b>246,221</b>	<b>365,003</b>

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2015 contributions above were calculated at the valuation dated 31 March 2013. The 2013 actuarial valuation calculated the notional average employer contribution of 22.5% (2010 18%).

"Augmentation" represents payments by employers to the Fund for the costs of additional membership benefits awarded under LGPS regulations.

"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" includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2014/15 the Fund has received additional and upfront payments covering a three year period until the next actuarial valuation in 2016, totalling £97 million (2014 £10 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2014/15 no such charges were levied.

## 8. Transfers In

	2013/14 £'000	2014/15 £'000
Group Transfers	-	39,832
Individual Transfers	10,929	6,105
	<b>10,929</b>	<b>45,937</b>

On 1 April 2014 MPF became the appropriate LGPS Fund for all Scheme members who have accrued LGPS benefits as a result of employment with the Local Government Association, for which a transfer of assets was received during 2014/15 with a value of £39.8 million.

## 9. Benefits Payable

	2013/14 £'000	2014/15 £'000
Pensions	224,767	235,364
Lump Sum Retiring Allowances	45,745	50,118
Lump Sum Death Benefits	5,252	6,203
	<b>275,764</b>	<b>291,685</b>
Relating to: Administering Authority	41,291	40,478
Statutory Bodies	197,079	206,877
Admission Bodies	37,394	44,330
	<b>275,764</b>	<b>291,685</b>

## 10. Payments to and on Account of Leavers

	2013/14 £'000	2014/15 £'000
Refunds to Members Leaving Service	18	172
Payment for Members Joining State Scheme	4	84
Income for Members from State Scheme	(7)	(1)
Group Transfers to Other Schemes	-	116,523
Individual Transfers to Other Schemes	15,727	7,742
	<b>15,742</b>	<b>124,520</b>

As part of the transforming rehabilitation programme, MPF transferred the Probation Trust liabilities on 1 June 2014 to Greater Manchester Pension Fund and transferred assets with a value of £116.5 million during 2014/15.

# Notes to the Accounts

## 11. Management Expenses

	2013/14 £'000	2014/15 £'000
	Reanalysed	
Administration Expenses	2,564	2,369
Investment Expenses	12,403	13,519
Oversight and Governance Expenses	1,984	1,620
Other Income	(255)	(267)
	<b>16,696</b>	<b>17,241</b>

\*Management expenses have been reanalysed into three categories, in accordance with CIPFA "Accounting for local government management costs".

### 11a. Administration Expenses

	2013/14 £'000	2014/15 £'000
Employee Costs	1,546	1,576
IT Costs	481	457
General Costs	300	261
Other Costs	237	75
	<b>2,564</b>	<b>2,369</b>

### 11b. Investment Expenses

	2013/14 £'000	2014/15 £'000
External Investment Management Fees	11,302	12,301
External Services	564	718
Internal Investment Management Fees	537	500
	<b>12,403</b>	<b>13,519</b>

### 11c. Oversight and Government Expenses

	2013/14 £'000	2014/15 £'000
Employee Costs	387	418
External Services	731	495
Internal Audit	32	28
External Audit	31	39
Other Costs	803	640
	<b>1,984</b>	<b>1,620</b>

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2014/15 is £146,172 relating to recharged actuarial fees (2013/14 £163,061).

External Audit fees also include £2,180 relating to additional services in respect of IAS19 assurances for admitted body auditors, which are recharged to those admitted bodies.

## 12. Investment Income

	2013/14 £'000	2014/15 £'000
Dividends From Equities	57,219	55,896
Income from Pooled Investment Vehicles	26,254	36,316
Net Rents from Properties	21,646	17,346
Interest on Short Term Cash Deposits	927	837
Income from Private Equity	2,824	9,840
Income from Derivatives	67	35
Other	1,111	1,138
	<b>110,048</b>	<b>121,408</b>
Irrecoverable Withholding Tax	(1,241)	(469)
	<b>108,807</b>	<b>120,939</b>

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £2.7 million (2013/14 £2.5 million).

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 2014/15 £0.233 million (2013/14 £0.343 million).

### 12a. Property Income

	2013/14 £'000	2014/15 £'000
Rental Income	26,865	22,180
Direct Operating Expenses	(5,219)	(4,834)
<b>Net Rent from Properties</b>	<b>21,646</b>	<b>17,346</b>

Rental income for 2013/14 includes £3.2 million relating to 2012/13.

No contingent rents have been recognised as income during the period.

### 12b Property Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the asset's overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2013/14 £'000	2014/15 £'000
<b>Age profile of lease income</b>		
No later than one year	519	2,510
Between one and five years	1,705	4,821
Later than five years	15,935	13,313
<b>Total</b>	<b>18,159</b>	<b>20,644</b>

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

### 13. Investments

	Market Value 31/3/14 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value 31/3/15 £'000
<b>2014/15</b>					
Equities	1,838,855	936,125	(872,689)	151,062	2,053,353
Pooled Investment Vehicles	3,822,027	318,536	(295,485)	430,535	4,275,613
Derivative Contracts	4,131	2,893,922	(2,916,839)	21,019	2,233
Direct Property	310,650	57,326	(23,240)	37,474	382,210
	<b>5,975,663</b>	<b>4,205,909</b>	<b>(4,108,253)</b>	<b>640,090</b>	<b>6,713,409</b>
Short Term Cash Deposits	31,780			380	47,098
Other Investment Balances	52,889			(492)	92,169
	<b>6,060,332</b>			<b>639,978</b>	<b>6,852,676</b>

	Market Value 31/3/13 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value* £'000	Market Value 31/3/14 £'000
<b>2013/14</b>					
Equities	1,759,476	758,691	(774,123)	94,811	1,838,855
Pooled Investment Vehicles	3,614,051	414,008	(314,912)	108,880	3,822,027
Derivative Contracts	1,823	902,610	(918,034)	17,732	4,131
Direct Property	283,615	25,109	(26,276)	28,202	310,650
	<b>5,658,965</b>	<b>2,100,418</b>	<b>(2,033,345)</b>	<b>249,625</b>	<b>5,975,663</b>
Short Term Cash Deposits	62,329			5	31,780
Other Investment Balances	50,734			(1,992)	52,889
	<b>5,772,028</b>			<b>247,638</b>	<b>6,060,332</b>

\*Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

# Notes to the Accounts

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 £3.7 million (2013/14 £3.1 million). 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

	2013/14 £'000	2014/15 £'000
<b>Equities (segregated holdings)</b>		
UK Quoted	823,202	863,066
Overseas Quoted	1,015,653	1,190,287
	<b>1,838,855</b>	<b>2,053,353</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds:</b>		
Property	3,000	3,000
Equities	267,606	260,501
Private Equity	189,094	218,173
Hedge Funds	60,085	52,724
Corporate Bonds	208,191	236,946
Infrastructure	51,735	78,304
Opportunities	199,613	237,918
<b>Overseas Managed Funds:</b>		
Equities	328,730	365,471
Private Equity	138,381	175,779
Hedge Funds	210,046	214,935
Infrastructure	74,750	108,225
Opportunities	76,538	105,452
<b>UK Unit Trusts:</b>		
Property	83,032	82,913
<b>Overseas Unit Trusts:</b>		
Property	71,271	82,954
<b>Other Unithised Funds</b>	1,859,955	2,052,318
	<b>3,822,027</b>	<b>4,275,613</b>
<b>UK Properties</b>		
Freehold	276,150	344,560
Leasehold	34,500	37,650
	<b>310,650</b>	<b>382,210</b>
Balance at 1 April	283,615	310,650
Additions	25,109	57,326
Disposals	(26,276)	(23,240)
Net gain/(loss) of fair value	(12,850)	459
Transfers in/(out)	-	-
Other changes in fair value	41,052	37,015
<b>Balance at 31 March</b>	<b>310,650</b>	<b>382,210</b>

As at 31 March 2015 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 £28,648 (2013/14 £201,888). There were no obligations to purchase new properties.

As at 31 March 2015 the Fund had committed to a redevelopment project of an existing retail centre at Guildford, approved expenditure for the redevelopment is £20 million.

	2013/14 £'000	2014/15 £'000
<b>Short Term Cash Deposits</b>		
Sterling	30,750	46,067
Foreign Currency	1,030	1,031
	<b>31,780</b>	<b>47,098</b>

The foreign currency deposit is an ISK deposit held in an escrow account following the distribution by the Glitnir Winding Up Board. Under the applicable currency controls operating in Iceland, the permission of the Central Bank of Iceland is required to release Icelandic Krona payments held within the Icelandic banking system. The deposit is earning market interest rates.

	2013/14 £'000	2014/15 £'000
<b>Other Investment Balances</b>		
Amounts Due from Brokers	83	35
Outstanding Trades	7,397	18,495
Outstanding Dividends Entitlements and Recoverable Withholding Tax	11,768	12,005
Cash Deposits	33,641	61,634
	<b>52,889</b>	<b>92,169</b>

## 13b. Analysis of Derivatives

### Futures

Type of Contract	Expires	Economic Exposure 31/3/14 £'000	Market Value 31/3/14 £'000	Economic Exposure 31/3/15 £'000	Market Value 31/3/15 £'000
Assets					
EURO STOXX 50 Index Futures	Jun-15	830	83	350	35
<b>Total Assets</b>			<b>83</b>		<b>35</b>
Liabilities			-		-
<b>Total Liabilities</b>			<b>-</b>		<b>-</b>
<b>Net Futures</b>			<b>83</b>		<b>35</b>

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 currency and the sterling equivalent is £337,972. DJ Euro STOXX 50 have a contract multiplier of x10 therefore the notional value underlying the futures contracts is £0.35 million.

### Forward Currency Contracts

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

Settlement Date	Currency Bought '000	Currency Sold '000	Asset £'000	Liability £'000
Up to 3 months	GBP 7,002	EUR 9,590	58	-
Up to 3 months	GBP 2,384	NOK 27,945	50	-
Up to 1 month	JPY 17,900,000	GBP 98,035	2,539	-
Up to 1 month	GBP 100,125	JPY 17,900,000	-	(449)
			<b>2,647</b>	(449)
<b>Net Forward Currency Contracts at 31 March 2015</b>				<b>2,198</b>
Prior Year Comparative				
Open Forward Currency Contracts at 31 March 2014			4,048	-
Net Forward Currency Contracts at 31 March 2014				<b>4,048</b>



# Notes to the Accounts

## 13c. Summary of Managers' Portfolio Values at 31 March 2015

	2013/14		2014/15	
	£'m	%	£'m	%
<b>Externally Managed</b>				
JP Morgan (European equities)	191	3.1	220	3.2
Nomura (Japan)	239	4.0	317	4.6
Schroders (fixed income)	208	3.4	237	3.5
Legal & General (fixed income)	239	3.9	270	3.9
Unigestion (European Equities and Pooled Emerging Markets)	233	3.8	262	3.8
M&G (UK Equities)	179	2.9	168	2.5
M&G (Global Emerging Markets)	130	2.1	138	2.0
TT International (UK Equities)	186	3.1	197	2.9
Blackrock (UK Equities)	190	3.1	212	3.1
Blackrock (Pacific Rim)	121	2.0	133	1.9
Blackrock (QIF)	60	1.0	66	1.0
Newton (UK Equities)	191	3.1	216	3.2
Amundi (Global Emerging Markets)	117	1.9	137	2.0
Maple-Brown Abbot (Pacific Rim Equities)	124	2.0	136	2.0
State Street Global Advisor (Passive Manager)	1,620	26.9	1,782	26.0
	<b>4,028</b>	<b>66.3</b>	<b>4,491</b>	<b>65.6</b>
<b>Internally Managed</b>				
UK Equities	318	5.3	328	4.8
European Equities	176	2.9	186	2.7
Property (Direct)	311	5.1	382	5.6
Property (Indirect)	161	2.7	176	2.6
Private Equity	327	5.5	394	5.7
Hedge Funds	270	4.5	268	3.9
Infrastructure	126	2.1	187	2.7
Opportunities	292	4.8	363	5.3
Short Term Deposits and Other Investments	51	0.8	78	1.1
	<b>2,032</b>	<b>33.7</b>	<b>2,362</b>	<b>34.4</b>
	<b>6,060</b>	<b>100.0</b>	<b>6,853</b>	<b>100.0</b>

## 13d. Stock Lending

As at 31 March 2015, £156.1 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £173.9 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £1.0 million 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 Stock Lending are set out in the Fund's "Statement of Investment Principles".

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

	2013/14		2014/15	
	£'000	%	£'000	%
SSGA Pooled UK Index Linked Gilts	581,169	9.7	637,350	9.3
SSGA USA Equity Tracker	527,598	8.8	543,527	7.9
SSGA Pooled UK Equities	511,270	8.4	445,381	6.5

## 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 by category and net asset statement heading. To allow reconciliation to the

Net Asset Statement and for ease to the reader, all long term and current assets and current liabilities have been included in the note below, although not all are classified as financial instruments. The amounts that are not financial instruments are considered immaterial.

	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>31 March 2015</b>			
<b>Financial Assets</b>			
Equities			2,053,353
Pooled Investment Vehicles			4,275,613
Derivatives			2,233
Cash Deposits	47,098		
Other Investment Balances	92,169		
Long Term and Current Assets	51,290		
<b>Total Financial Assets</b>	<b>190,557</b>	<b>-</b>	<b>6,331,199</b>
<b>Financial Liabilities</b>			
Other Investment Balances		(24,868)	
Current Liabilities		(16,393)	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(41,261)</b>	<b>-</b>
<b>Net</b>	<b>190,557</b>	<b>(41,261)</b>	<b>6,331,199</b>

	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>31 March 2014</b>			
<b>Financial Assets</b>			
Equities			1,838,855
Pooled Investment Vehicles			3,822,027
Derivatives			4,131
Cash Deposits	31,780		
Other Investment Balances	52,889		
Long Term and Current Assets	85,043		
<b>Total Financial Assets</b>	<b>169,712</b>	<b>-</b>	<b>5,665,013</b>
<b>Financial Liabilities</b>			
Other Investment Balances		(8,666)	
Current Liabilities		(12,415)	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(21,081)</b>	<b>-</b>
<b>Net</b>	<b>169,712</b>	<b>(21,081)</b>	<b>5,665,013</b>

# Notes to the Accounts

## 14b. Net Gains and Losses on Financial Instruments

	2013/14 £'000	2014/15 £'000
<b>Financial Assets</b>		
Fair Value Through Profit and Loss	221,423	602,616
Loans and Receivables	5	380
<b>Total Financial Assets</b>	<b>221,428</b>	<b>602,996</b>
<b>Financial Liabilities</b>		
Financial Liabilities at Amortised Cost	(1,992)	(492)
Loans and Receivables	-	-
<b>Total Financial Liabilities</b>	<b>(1,992)</b>	<b>(492)</b>
<b>Net</b>	<b>219,436</b>	<b>602,504</b>

## 14c. Fair Value of Financial Instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value and, for those which are not, their amortised cost is considered to be equivalent to an approximation of fair 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.

Values at 31 March 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value Through Profit and Loss	5,173,596	57,365	1,100,238	6,331,199
<b>Total Financial Assets</b>	<b>5,173,596</b>	<b>57,365</b>	<b>1,100,238</b>	<b>6,331,199</b>

Values at 31 March 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value Through Profit and Loss	4,714,290	47,900	902,823	5,665,013
<b>Total Financial Assets</b>	<b>4,714,290</b>	<b>47,900</b>	<b>902,823</b>	<b>5,665,013</b>

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

### Level 2

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

### Level 3

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

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment 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.

A reconciliation of fair value measurements in Level 3 is set out below:

	2013/14 £'000	2014/15 £'000
<b>Opening Balance</b>	792,026	902,823
Aquisitions	182,783	208,094
Disposal Proceeds	(102,043)	(84,591)
Total Gain/(Losses) Included in the Fund Account:		
On Assets Sold	(3,112)	1,890
On Assets Held at Year End	33,169	72,022
<b>Closing Balance</b>	<b>902,823</b>	<b>1,100,238</b>

## 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.

# Notes to the Accounts

	<b>Value March 2015 £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
UK Equities (all Equities include Pooled Vehicles)	1,569	19.0	1,867	1,271
US Equities	563	17.0	659	467
European Equities	613	19.0	729	496
Japan Equities	402	20.0	482	321
Emerging Markets Equities including Pac Rim	685	30.0	891	480
UK Fixed Income Pooled Vehicles	507	11.0	563	451
UK Index Linked Pooled Vehicles	637	9.0	695	580
Pooled Property	169	12.5	190	148
Private Equity	394	25.0	492	295
Hedge Funds	268	9.0	292	244
Infrastructure	187	18.5	221	152
Other Alternative Assets	336	14.5	384	287
Short Term Deposits and Other Investment Balances	151	0.0	151	151
<b>Total</b>	<b>6,481</b>			

	<b>Value March 2014 £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
UK Equities (all Equities include Pooled Vehicles)	1,603	20.0	1,924	1,282
US Equities	530	19.0	631	429
European Equities	552	20.0	662	442
Japan Equities	236	20.0	283	189
Emerging Markets Equities including Pac Rim	554	28.5	712	396
UK Fixed Income Pooled Vehicles	448	11.0	497	399
UK Index Linked Pooled Vehicles	581	9.0	633	529
Pooled Property	157	14.5	180	134
Private Equity	327	26.0	412	242
Hedge Funds	270	8.0	292	248
Infrastructure	126	20.0	151	101
Other Alternative Assets	276	20.0	331	221
Short Term Deposits and Other Investment Balances	153	0.0	153	153
<b>Total</b>	<b>5,813</b>			

## 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 15a 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.

The Fund's cash holding under its treasury management arrangements as at 31 March 2015 was £47.1 million (31 March 2014 £31.8 million). This was held in instant access accounts with the following institutions:

	Rating S&P	Balances as at 31 March 2014 £'000	Balances as at 31 March 2015 £'000
Royal Bank of Scotland	Long A- Short A-2	183	1
Lloyds Bank	Long A Short A-1	29,222	45,686
Northern Trust	Long AA- Short A-1+	1,345	-
Iceland Escrow Account		1,030	1,411
<b>Total</b>		<b>31,780</b>	<b>47,098</b>

## 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.

The Fund has a cash balance at 31 March of £47.1 million. The Fund also has £5,113 million in assets which could be realised in under 7 days notice, £674 million in assets which could be realised in under 90 days notice and £544 million in assets which could not be realised within a 90 day period.

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 2014/15 in its dealing with members of £5 million and management expenses of £17 million, this is offset by investment income of £121 million.



# Notes to the Accounts

## 15d. Interest Rate Risk

Interest rates primarily affect the Fund's liabilities through the transmission mechanism from interest rates to government bond yields and ultimately the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the sensitivity of the Fund's liabilities to a change in discount rate is a 20% increase in liabilities for a 1% p.a. reduction in the discount rate. The Fund considers both the liabilities and assets together and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

## 16. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The most recent Triennial Valuation by the actuary was as at 31 March 2013, when the funding level was 76% of projected actuarial liabilities (2010 78%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The FSS specifies a maximum period for achieving full funding of 22 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are:

- to enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- to manage employers' liability effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due
- to maximise the returns from investments within reasonable risk parameters.

## Summary of key whole Fund assumptions used for calculating funding target

	31 March 2013 % p.a.
<b>Long Term Gilt Yields</b>	
Fixed Interest	3.2
Index-linked	(0.4)
<b>Funding Target Financial Assumptions</b>	
Investment Return	4.6
CPI Price Inflation	2.6
Salary Increases	4.1
Pension Increases	2.6
<b>Long Term Future Service Accrual Financial Assumptions</b>	
Investment Return	5.6
CPI Price Inflation	2.6
Salary Increases	4.1
Pension Increases	2.6

## 17. Investment Liabilities

	2013/14 £'000	2014/15 £'000
Amounts Due to Stockbrokers	8,666	24,868
	<b>8,666</b>	<b>24,868</b>

## 18. Long Term Assets

	2013/14 £'000	2014/15 £'000
Assets Due in More than One Year	12,638	11,655
	<b>12,638</b>	<b>11,655</b>
Relating to:		
Central Government Bodies	4,105	3,689
Other Local Authorities	6,949	6,733
Public Corporations and Trading Funds	493	548
Bodies External to General Government	1,091	685
	<b>12,638</b>	<b>11,655</b>

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 - 4 are included above. Also included are future payments of pension strain to be paid by employers from 2016/17 onwards.

## 19. Current Assets and Liabilities

	2013/14 £'000	2014/15 £'000
<b>Assets</b>		
Contributions Due	24,460	21,883
Amounts Due from External Managers	35,270	1,126
Accrued and Outstanding Investment Income	82	543
Sundries	12,646	13,352
Provision for Bad Debts	(1,022)	(32)
Cash at Bank	969	2,763
	<b>72,405</b>	<b>39,635</b>
Relating to:		
Central Government Bodies	1,990	1,893
Other Local Authorities	18,497	15,892
NHS	2	2
Public Corporations and Trading Funds	207	202
Bodies External to General Government	51,709	21,646
	<b>72,405</b>	<b>39,635</b>
<b>Liabilities</b>		
Retirement Grants Due	2,612	2,185
Provisions	385	369
Miscellaneous	9,418	13,839
	<b>12,415</b>	<b>16,393</b>
Relating to:		
Central Government Bodies	2,532	2,290
Other Local Authorities	2,015	4,129
Public Corporations and Trading Funds	26	23
Bodies External to General Government	7,842	9,951
	<b>12,415</b>	<b>16,393</b>
<b>Total Current Assets and Liabilities</b>	<b>59,990</b>	<b>23,242</b>

"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 2015.

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-imbursment.

## 20. Contractual Commitments

Commitments for investments amounted to £386.17 million as at 31 March 2015. (2013/14 £457.80 million). These commitments relate to Private Equity £187.97 million, Infrastructure £70.55 million, Opportunities £42.21 million and Indirect Property £85.44 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

## 21. 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 favour of Wirral Council, as the Administering Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

## 22. 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 £3.4 million (2014 £3.5 million). 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 £15.8 million (2014 £14.4 million) and creditor £2 million as at 31 March 2015 (2014 £118,149).

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 for the year are shown in note 7 and, in respect of March 2015 payroll, are included within the debtors figure in note 19.

# Notes to the Accounts

A specific declaration has been received from Pensions 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; St Helens Borough Council; Wirral Council; CDS Housing; Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). 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.

Peter Wallach, Head of Pension Fund, acts in an un-remunerated board advisory capacity on three investment bodies in which the Fund has an interest, Eclipse (£15.2 million), Standard Life (£11.5 million) and F&C (£21.6 million).

Susannah Friar, Property Manager, acts in an un-remunerated board advisory capacity on one investment body in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£5.9 million), by whom travel expenses and accommodation were paid.

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

## Key Management Personnel

The remuneration paid to the Fund's senior employees is as follows:

<b>Financial Year 2014/15</b>	<b>Employment Period</b>	<b>Salary £</b>	<b>Pension Contributions £</b>	<b>Total Including Pension Contributions £</b>
Head of Pension Fund	01/04/14 - 31/03/15	73,474	9,992	<b>83,466</b>
Senior Investment Manager	01/04/14 - 31/03/15	56,046	7,622	<b>63,668</b>

<b>Financial Year 2013/14</b>	<b>Employment Period</b>	<b>Salary £</b>	<b>Pension Contributions £</b>	<b>Total Including Pension Contributions £</b>
Head of Pension Fund	01/04/13 - 31/03/14	73,352	8,802	<b>82,154</b>
Senior Investment Manager	01/04/13 - 31/03/14	55,739	6,688	<b>62,427</b>

## 23. Additional Voluntary Contribution Investments

	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
<b>The Aggregate Amount of AVC Investments is as Follows:</b>		
Equitable Life	2,380	2,297
Standard Life	6,030	6,204
Prudential	5,231	5,417
	<b>13,641</b>	<b>13,918</b>
<b>Changes During the Year were as Follows:</b>		
Contributions	1,835	1,869
Repayments	2,574	2,493
Change in Market Values	644	901

# Statement of Responsibilities



## The Authority's Responsibilities

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

- To make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer.
- To manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

## Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2015.

In preparing this statement of accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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

## The Section 151 Officer's Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2015, and its income and expenditure for the year then ended.

**Tom Sault**  
**Section 151 Officer**  
**16 September 2015**

# Audit Report

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**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF WIRRAL COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT**

We have examined the pension fund financial statements of Wirral Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Wirral Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Section 151 Officer and the auditor**

As explained more fully in the Statement of the Section 151 Officer Responsibilities, the Section 151 Officer is responsible for the preparation of the Pension Fund Financial Statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Wirral Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Chair's Introduction, Management Report, Membership Statistics, Scheme Administration Report, Investment Report, Financial Performance and The Consulting Actuary's Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

**Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Wirral Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

**Grant Thornton UK LLP**  
Chartered Accountants  
4 Hardman Square  
Manchester  
M3 3EB

September 2015



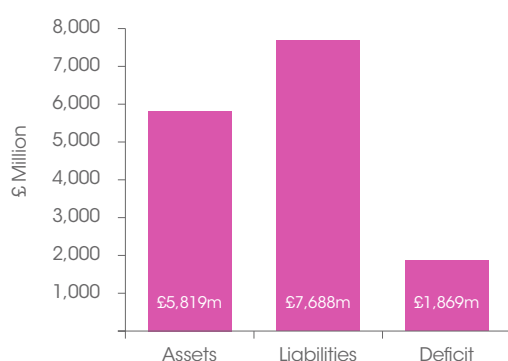
# Consulting Actuary's Statement

## Accounts for the Year Ended 31 March 2015 Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £5,819 million represented 76% of the Fund's past service liabilities of £7,688 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £1,869 million.



The valuation also showed that a common rate of contribution of 13.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities

arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 80% with a resulting deficit of £1,456 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £76m per annum increasing at 4.1% per annum (equivalent to approximately 9.1% of projected Pensionable Pay at the valuation date) for 22 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the 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). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past Service Liabilities (Funding Target) per annum	For Future Service Liabilities (Common Contribution Rate)
Rates of Return on Investments (Discount Rate)	4.6%	5.6%
Rate of Pay Increases*	4.1%	4.1%
Rate of Increases in Pensions in Payment (In Excess of Guaranteed Minimum Pension)	2.6%	2.6%

\*Allowance was also made for short term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

## 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 as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rates of Return on Investments (Discount Rate)	4.5%	3.3%
Rate of Pay Increases	3.9%*	3.5%*
Rate of Increases in Pensions in Payment (In Excess of Guaranteed Minimum Pension)	2.4%	2.0%

\*Includes a corresponding allowance to that made in the actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £7,992 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£1,279 million. Adding interest over the year increases the liabilities by c£356 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£150 million (including any increase in liabilities arising as a result of early retirements/augmentations and also allowing for the transfer of Probation Service staff to the Greater Manchester Pension Fund on 1 June 2014).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £9,477 million.



**Paul Middleman**  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
June 2015

# Appendix A

Scheme employers with active members as at 31 March 2015

## Scheduled Bodies (31)

Arena and Convention Centre Liverpool  
Billinge Chapel End Parish Council  
Birkenhead Sixth Form College  
Carmel College  
Chief Constable  
Cronton Parish Council  
Halewood Town Council  
Hugh Baird College  
King George V College  
Knowsley Community College  
Knowsley M.B.C.  
Knowsley Town Council  
Liverpool City Council  
Liverpool Community College  
Liverpool John Moores University  
Merseyside Fire & Rescue Authority  
Merseytravel (MPTE)  
Merseyside Valuation Tribunal  
Merseyside Waste Disposal Authority  
Office of the Police and Crime  
Commissioner for Merseyside (OPCCM)  
Prescot Town Council  
Rainford Parish Council  
Rainhill Parish Council  
School Improvement Liverpool Ltd  
Sefton M.B.C.  
Southport College  
St. Helens College  
St. Helens M.B.C.  
Whiston Town Council  
Wirral Council  
Wirral Metropolitan College

## Scheduled Bodies (Academies) (51)

Academy of St. Francis  
Bellerive FCJ Catholic College  
Belvedere Academy  
Birkdale High School  
Birkenhead High School Academy  
Blue Coat School  
Calday Grange Grammar School  
Chesterfield High School  
Childwall Sports & Science Academy  
De la Salle Academy  
Deyes High School  
Enterprise South Liverpool Academy  
Everton Free School  
Finch Woods Academy  
Formby High School  
Greenbank High School  
Halewood Centre for Learning  
Harmonize Academy  
Hawthornes Free School  
Hilbre High School  
Hope Academy  
Kirkby High School  
Knowsley Lane Primary School (Academy)  
Liverpool College  
Liverpool Life Science UTC  
Lord Derby Academy  
Maghull High School  
North Liverpool Academy  
Oldershaw Academy  
Our Lady of Pity RC Primary School  
Prenton High School for Girls

Range High School  
St. Anselms College  
St. Edwards College  
St. Francis Xavier's College  
St. John Plessington Catholic College  
St. Margaret's Church of England  
Academy  
St. Michael's C of E High School  
(Academy)  
St. Silas C of E Primary School (Academy)  
Sutton Academy  
The Studio  
The Birkenhead Park School  
Townfield Primary School (Academy)  
University Academy (Liverpool)  
Upton Hall School  
Weatherhead High School  
West Derby School (Academy)  
West Kirby Grammar School  
Wirral Grammar School for Boys  
Wirral Grammar School for Girls  
Woodchurch High School (Academy)

## Admission Bodies (Community) (40)

Age UK - Liverpool  
Arriva North West  
Association of Police Authorities  
Beechwood and Ballantyne Housing Association  
Berrybridge Housing Ltd.  
Birkenhead School (2002)  
Care Quality Commission  
Catholic Children's Society  
CDS Housing  
Cobalt Housing Ltd.  
Comtechsa Limited  
Friends of Birkenhead Council Kennels  
Glenvale Transport Ltd/Stagecoach  
Greater Hornby Homes  
Greater Merseyside Connexions  
Helena Partnerships Ltd.  
Knowsley Housing Trust  
Lee Valley Housing Association Ltd.  
Liverpool Association for the Disabled  
Liverpool Hope University  
Liverpool Housing Trust  
Liverpool Mutual Homes Ltd.  
Local Government Association  
Merseyside Lieutenancy  
Merseyside Welfare Rights  
Merseyside Youth Association  
North Huyton Communities Future

North Liverpool Citizens Advice Bureau  
One Vision Housing Ltd.  
Partners Credit Union  
Port Sunlight Village Trust  
Sefton Education Business Partnership  
South Liverpool Housing Ltd.  
Southern Neighbourhood Council  
Vauxhall Neighbourhood Council  
Village Housing Association Ltd.  
Wavertree Citizens Advice Bureau  
Welsh Local Government Association  
Wirral Autistic Society  
Wirral Partnership Homes

## Admission Bodies (Transferee) (40)

Addaction Limited  
Agilisys Limited  
Amey Services Ltd. - Highways  
Amey Services Ltd. - Cleansing  
arvato Public Sector Services Limited  
BAM Nuttall  
Balfour Beatty Fire Project  
Balfour Beatty PFI SEN School  
Balfour Beatty Workplace  
Birkenhead Market Services Ltd.  
City Health Care Partners  
Compass (Scolarest) Liverpool Schools  
Compass (Scolarest) Wirral Schools  
Computacenter (UK) Ltd.

Elite Cleaning & Environmental Services Ltd.  
Enterprise Liverpool Neighbourhood Grounds  
Geraud Markets Liverpool Ltd.  
Glendale (Liverpool Parks Services) Ltd.  
Graysons Education Ltd  
Hall Cleaning Services  
Hochtief Liverpool Schools  
Hochtief Wirral Schools  
Interserve (Facilities Management) Ltd.  
Kingswood Colomendy Ltd.  
Knowsley Youth Mutual  
Liberata (UK) Ltd.  
Lifeline Project Ltd.  
Liverpool Vision Limited  
Mack Trading  
Mellors Catering - Birkdale  
Mellors - St Paul & St Timothy  
Mosscroft Childcare Ltd.  
Mouchel (2020 Knowsley Ltd)  
New Brighton Day Nursery Ltd.  
Northgate Managed Services  
Sefton New Directions Ltd.  
SSE Contracting Ltd.  
Taylor Shaw (Meols Cop)  
Taylor Shaw (the Grange)  
Veolia ES Merseyside & Halton

*\* Although not displayed, at 31 March 2015 there were 12 other Scheme employers with no active members but with some outstanding liabilities.*

# Appendix B

## Pensions Committee Items

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### 1 July 2014

LGPS Update  
LGPS Consultation - Opportunities for Collaboration, Cost Savings & Efficiencies  
Pension Fund Budget  
Annual Investment Performance  
Funding Strategy Statement/  
Final Valuation Results  
Actuarial Services  
Treasury Management Annual Report 2013/14  
LGC Investment Summit  
European Equity Mandates  
Bond Review  
City Health Care  
Catering Academy  
Lifeline Project  
Knowsley Youth Mutual  
IMWP Minutes 20/03/14 and 10/04/14

### 15 September 2014

Audit Findings Report  
Pension Fund Accounts 2013/14  
Draft Annual Report  
LGPS Update  
DCLG Consultation on Draft Scheme Governance Regulations  
Responsible Investment  
NAPF Annual Conference  
LAPFF Conference  
Annual Employers Conference  
Grant Thornton - LGPS Seminar  
Elected Member Educational Event  
LGPS Fundamentals Training  
Review of Fixed Income Mandates  
Review of Aon Contract  
Admission Body Application - Mellors Catering Services Ltd - Birkdale High School (Academy)  
GRWP Minutes 03/07/2014

### 17 November 2014

LGPS Update  
Creation of New Pension Board  
Authorised Signatories  
Monitoring - Training, Gifts and Hospitality Returns  
LGC Investment Conference  
Minutes of the Investment Monitoring Working Party

### 19 January 2015

LGPS Update - Pension Boards  
Merseyside Pension Fund Budget Financial Year 2015/16  
Member Development Programme 2015  
Treasury Management Strategy  
Change to Blackrock Mandate  
Elected Member Educational Event  
IMWP Minutes 25 November 2014  
Property Arrears

### 24 March 2015

Audit Plan 2014/15  
Stronger Futures: Development of the LGPS  
LGPS Update  
Pension Board Update  
NAPF Local Authority Conference  
LGPC Annual Trustees Conference  
Non Recovery of Pension Overpayments  
GRWP Minutes 2 February 2015  
IMWP Minutes 05 March 2015

## Attendance Record 2014 - 2015

	Pensions Committee					GRWP		IMWP					
	1 Jul	15 Sep	17 Nov	19 Jan	24 Mar	3 Jul	2 Feb	10 Apr	19 Jun	11 Sep	9 Oct	25 Nov	5 Mar
Cllr Eddie Boulton													
Cllr Chris Carubia	•	•	#	•	•		•						
Cllr Nick Crofts				•									
Cllr George Davies	•		•	•	•		•	•	•			•	
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•	•	•	•	•	•	•
Cllr John Fulham			•										
Cllr Pat Glasman (retired 22/5/14)													
Phil Goodwin			•										•
Cllr Kathy Hodson (joined 16/3/15)					•								
Cllr Mike Hornby (retired 16/3/15)	•	•	#	•		•					•		•
Cllr Treena Johnson	•	•	•	•	•								
Cllr Adrian Jones	•	•	•	•	•		•				•		
Cllr Norman Keats			•	•	•			•	•	•			
Patrick McCarthy (resigned 20/3/15)			•							•	•	•	
Cllr Ann McLachlan	•	•	•	•	•					•			
Cllr Cherry Povall	#	•	•	#	•		•			•			
Cllr Harry Smith		•	•	•	•			•	•			•	•
Cllr Paul Tweed													
Dave Walsh													
Cllr Geoffrey Watt	•	•	•	•	•	•	•	•	•	•	•	•	•
Paul Wiggins			•	•	•	•				•	•	•	

#Deputy Attended

	Conferences								
	NAPF Gloucester	LGC Newport	NAPF ANNUAL CONFERENCE Liverpool	EMEE HMS Belfast	ANNUAL EMPLOYERS CONFERENCE	ANNUAL LAPFF Bournemouth	BLACKROCK TRAINING DAY	330 CONSULTING EMEE London	LGC Carden Park
	19 - 21 May	9 - 10 Sep	15 - 17 Oct	1 Oct	Nov	3 - 5 Dec	27 Jan	18 Feb	26 - 27 Feb
Cllr Eddie Boulton									
Cllr Chris Carubia		•	•	•		•	•		
Cllr Nick Crofts							•		
Cllr George Davies								•	
Cllr Paul Doughty (Chair)		•	•	•	•	•	•	•	•
Cllr John Fulham									
Cllr Pat Glasman (retired 22/5/14)	•								
Phil Goodwin									
Cllr Kathy Hodson (joined 16/3/15)									
Cllr Mike Hornby (retired 16/3/15)		•			•		•		•
Cllr Treena Johnson			•					•	
Cllr Adrian Jones		•							
Cllr Norman Keats							•		
Patrick McCarthy (resigned 20/3/15)									
Cllr Ann McLachlan							•		
Cllr Cherry Povall		•	•						•
Cllr Harry Smith			•					•	
Cllr Paul Tweed									
Dave Walsh									
Cllr Geoffrey Watt		•	•	•	•	•	•	•	•
Paul Wiggins							•		



# Appendix C

## Information Contacts

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

Area	Name	Telephone number
Accounts	Donna Smith	0151 242 1312
Investments	Leyland Otter	0151 242 1316
Member Services	Margaret Rourke/Sue Roberts	0151 242 1369
Benefits/Payroll	Barbara King/Keith Higgins	0151 242 1354
Operations (IT/Communications)	Guy Hayton	0151 242 1361

Resolution of Disputes		
Employer Decisions	Principal Pension Officer	0151 242 1333
Fund Decisions	Head of Benefits, Revenue & Customer Service	0151 666 3056

Scheme Employers Contacts		
Arriva North West	Anne Hughes	0151 522 2807
Knowsley MBC	Angela Lacey	0151 443 4182
Liverpool City Council	Richard Arnold	0151 233 0375
Liverpool John Moores University	Jayne Brown	0151 231 8756
Merseyside Fire & Rescue Service	Helen Jones	0151 296 4219
Merseytravel (MPTE)	Beverley Holt	0151 330 1214
Merseyside Waste Disposal Authority	Paula Pocock	0151 255 2539
Office of the Police and Crime Commissioner for Merseyside (OPCCM)	Karen Blake	0151 777 8189
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Cathy O'Connor	0174 467 6627
Wirral Council	Jann Lindoe	0151 691 8529

# Notes

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# Notes

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## **Report & Accounts 2014/15**

### **Merseyside Pension Fund**

Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Tel: 0151 242 1390

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council

