

# Report & Accounts

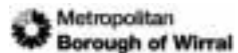
2003/2004



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# Chair's Introduction



Sue Brown  
Chair of Pensions Committee

As the Chair of the Pensions Committee, it is my pleasure to introduce the Merseyside Pension Fund Annual Report for the year ended 31 March 2004.

The aim of the report is to highlight the important issues affecting the Fund over the last twelve months as well as providing more general information regarding the Pension Scheme.

“The ten year return of the Fund at 7.2% remains well ahead of both average earnings and inflation.”

## The Overall Aim of the Fund

The principal aim of the Fund remains 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 with the help of its various professional advisers, reviews the Fund's investments, at regular intervals, to ensure that they remain appropriate.

## Investment Performance of the Fund

Following three successive years of negative returns, the year under review has produced a positive overall investment return of 19.1%. Over the year, the Fund has increased in value from under £2.5b to almost £3.0b. Although for the year, the Fund underperformed its benchmark by 2.1%, it remains in the top quartile of Local Authority Funds over 3, 5 and 10 years respectively. The underperformance for the year was significantly attributable to asset allocation and the impact of moving out of transitional management.

As evidence of global recovery emerged during the year, equity markets rose sharply, benefiting the Fund's performance in the UK (+31.8%), North America (+12.0%) and Japan (+59.5%). Property again performed well returning an impressive 17.9% and positive returns were obtained on the Bond portfolios. In a disappointing period for private equity, there was evidence of increased exit activity towards the end of the year. The management of the Fund, distribution of assets and performance are dealt with in more detail later in this report.

The ten year return of the Fund at 7.2% remains well ahead of both average earnings and inflation.

## Actuarial Valuation

At the last triennial actuarial valuation at 31 March 2001, the overall funding level at 94% was unchanged from the previous full valuation. The improvement in mortality statistics and consequent increased life expectancy of members of the Fund was one of the reasons for the lack of improvement in the overall funding position.

The interim review as at 31 March 2002, confirmed that as a result of falls in investment returns and the value of equities, the funding level of the Fund (assets in relation to liabilities), had fallen from 94% to below 90%.

A further annual interim review undertaken as at 31 March 2003 indicated that the overall funding level had further fallen to 70%. This reduction in funding level reflected the fall in the value of world stockmarkets to that date.

The Actuary is currently undertaking the full actuarial valuation as at 31 March 2004, to determine employer contribution rates for the three year period from 1 April 2005 to 31 March 2008. Since the date of the last interim review, against a background of improving economic prospects, investment returns and equity valuations have reflected a partial recovery from the low point at 31 March 2003. The preliminary valuation results indicate that at 31 March 2004, overall the net assets of the Fund represented around 80% of projected actuarial liabilities. The Fund is presently consulting with Scheme Employers and other interested parties on producing a Funding Strategy Statement which sets out how the Fund is to be managed over the long-term to meet future pension liabilities.

## Communication with Fund Employers and Members

The current active membership of the Fund stands at approximately 48,000 with some 36,600 in receipt of pensions and a further 18,000 members with deferred benefits.

Effective communication remains an important issue for the Fund which has continued to offer a variety of presentations and courses during the year. Members are also kept informed from the Fund newsletter and information published on the web-site.

The annual employers' conference held at the Maritime Museum was again well attended in November 2003 and featured speakers from the Office of the Deputy Prime Minister, the Fund's Actuary Mercer Human Resource Consultants and officers from the Fund. Topics covered included information on the latest actuarial position and updates on the Stocktake Exercise of the Scheme.

Seminars have also been arranged during the year for employers to consider: Implications of Proposed Inland Revenue Reforms of the Tax Treatment of Pensions. Introduction of new Internal Dispute Resolution Procedures and Production of a Funding Strategy Statement.

## Past Changes and the Future

The past year has again been a challenging one for the pension administration team. It has continued to deal with the admission of private contractors following the contracting out of services as a result of Best Value and other initiatives. It has also continued to provide information and support to members and to monitor developments at its Additional Voluntary Contribution providers; Equitable Life Assurance Society, Standard Life Assurance and Prudential Assurance.

The past year has been dominated by the Stocktake Exercise, which the Government has been undertaking into the operation of the Local Government Pension Scheme and involved a major consultation exercise with the various stakeholder groups. A number of discussion papers have been issued respectively dealing with – Simplification of the Regulations, Suitability of the Retirement Benefit Package, Costs and Sustainability – Funding Strategy Statement, Ensuring Efficient Administration and Standards of Service to members, and Representation and Communication. Further papers are awaited from the Office of the Deputy Prime Minister relating to how members of the Local Government Pension Scheme are likely to be affected by Inland Revenue changes to the taxation of pensions, and on options for an entirely new scheme to replace the present Scheme, possibly from April 2008.

As ever, the continued success of the Fund depends on the combined efforts of all concerned with the Fund. In conclusion, I should like to thank the Committee, the financial advisers, the external investment managers and all of Fund's Investment and Administration staff for their considerable work.



# Management Structure

At 31 March 2004

## 1 PENSION FUND MANAGEMENT COMMITTEE

### Voting Members

Chair:

Cllr S A Brown Wirral

Cllr I O Coates	Wirral	Cllr B O'Hare	Knowsley
Cllr G Davies	Wirral	Cllr C Curry	Liverpool
Cllr F M Doyle	Wirral	Cllr P Parry	Sefton
Cllr W A Duffey	Wirral	Cllr A Smith	St Helens
Cllr G J Ellis	Wirral	Mr T Jones (LJMU)	Non district employer representative
Cllr T Harney	Wirral		
Cllr L C Jones	Wirral		
Cllr H Smith	Wirral		
Cllr L F Spencer	Wirral		

### Employee Representatives

Mr D Jenkins	Unison
Mr A Cusack	TGWU

### Officers of the Fund

Ian Coleman	Director of Finance
David Smith	Deputy Director of Finance
John Parry	Assistant Director of Finance
Peter Mawdsley	Principal Pensions Officer
Johanna Miller	Borough Solicitor and Secretary
Colin Hughes	Assistant Borough Solicitor

## 2 ADVISERS TO INVESTMENT MONITORING WORKING PARTY

Director of Finance  
Assistant Director of Finance  
Mercer Investment Consulting  
Sarah Bates  
Noel Mills

## 3 OTHERS

Auditor	Audit Commission
Bankers	The Royal Bank of Scotland plc
Consulting Actuary	Mercer HR Consulting
Custodian of Assets	The Bank of New York
Ethical Advisers	Pensions and Investment Research Consultants Ltd
Property Advisers	Savills Fund Management
Performance Measurement	The WM Company
Solicitor	Wirral MBC
Additional Voluntary Contributions Providers	Equitable Life Assurance Society Standard Life Prudential

# Investment Report

Year ended 31 March 2004

## Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee, chaired by Councillor Sue Brown. In 2003/04 the Committee comprised of Councillors from the Wirral Labour group (4), Conservatives (4), Liberal Democrats (2), representatives of the four other District Authorities (Liverpool, St.Helens, Knowsley and Sefton), an independent representative from the other employers, employee representatives (2), the Director of Finance and other officers of the Fund. The Committee meets at least three times a year to review the administrative and investment issues affecting the Fund. The 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 1998. 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 more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by an Investment Monitoring Working Party. This Working Party meets quarterly to review investment strategy and to receive reports on investment activity undertaken in the previous period. One of its important tasks is to monitor the performance of the Fund's external managers in conjunction with professional advisers and the Fund's officers. The Working Party comprises representatives from the Pensions Committee, two independent advisers and members of the in-house investment team.

During the financial year ended 31 March 2004, assets comprising equities and bonds which had been placed with transitional managers (Legal & General Investment Management Ltd.) on a care and maintenance basis were transferred to new managers. Thus post-transition, separate UK and Pan-European active portfolios continue to be managed internally with parallel portfolios being managed by Barclays Global Investors and Wellington International Management respectively. Nomura has assumed responsibility for Emerging Markets, Japan and Far East with RCM Dresdner managing the North America portfolio. Active Bonds are managed by Schroders and Legal & General Investment Management. Legal & General also manage the passive investments in a pooled fund. Internal fund managers report to the Director of Finance through regular Fund Operating Group meetings and follow laid down compliance procedures. External and internal fund managers have been given specific benchmarks against which performance is measured and monitored quarterly at meetings of the Investment Monitoring Working Party.

The Fund's property portfolio is managed by Savills Fund Management who report to the Assistant Director of Finance, Pension Fund. The day-to-day management of the properties is handled by CB Richard Ellis, with an independent annual valuation of the portfolio being carried out by Colliers Erdman Lewis.



John Parry,  
Assistant Director of Finance,  
Pension Fund.

# Investment Report

Year ended 31 March 2004



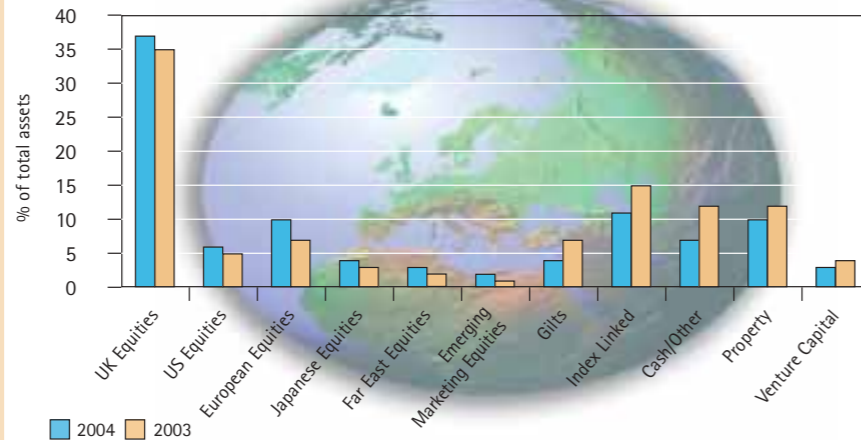
Leyland Otter  
Senior Investments Manager

## Investment Strategy

The Fund is managed within the rules and guidelines set out in the 1998 Regulations (which consolidated and simplified previous regulations). These regulations set parameters for the types and limits that the Fund can invest in certain asset classes.

The investment strategy of the Fund, developed by the Investment Monitoring Working Party, has been to maximise returns over the medium to long term whilst having regard to its liability commitments. Since 1999, there has been a movement away from the typical local authority asset structure previously adopted, to a more bespoke structure better suited to matching the Fund's maturity and liability profile. The requirement to maintain a balanced portfolio of assets across a diversified portfolio invested in a range of stocks and sectors, remains of paramount importance. The asset / liability relationship was reviewed by Mercer HR Consulting in 2002 and the recommendations were duly implemented.

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



## Corporate Governance

Merseyside Pension Fund supports the principles of corporate governance outlined in the 'combined code' established by the Cadbury, Greenbury and Hampel Committees. In order to promote best practice, the Fund votes at all AGMs and EGMs of U.K. companies in which it has holdings. The Fund receives detailed advice and recommendations from Pensions and Investment Research Consultants Ltd. to support managers in making voting decisions and is an active member of the Local Authority Pension Fund Forum. This policy meets the principle outlined in the Myner's report on institutional investment on shareholder activism and is subject to periodic review to ensure that the Fund responds to developments in best practice.

The Fund is substantially compliant with the Myner's principles on institutional investment. Where not fully compliant procedures are under review. Further information is contained in the Statement of Investment Principles which is reviewed by the Pensions Committee in September each year. The current statement is available from the Fund office at PO Box 120, Castle Chambers, 43 Castle Street, Liverpool L69 2NW and covers:

- Effective Decision Making • Explicit Mandates • Performance Measurement
- Clear Objectives • Activism • Transparency • Focus on Asset Allocation
- Appropriate Benchmarks • Regular Reporting • Expert Advice

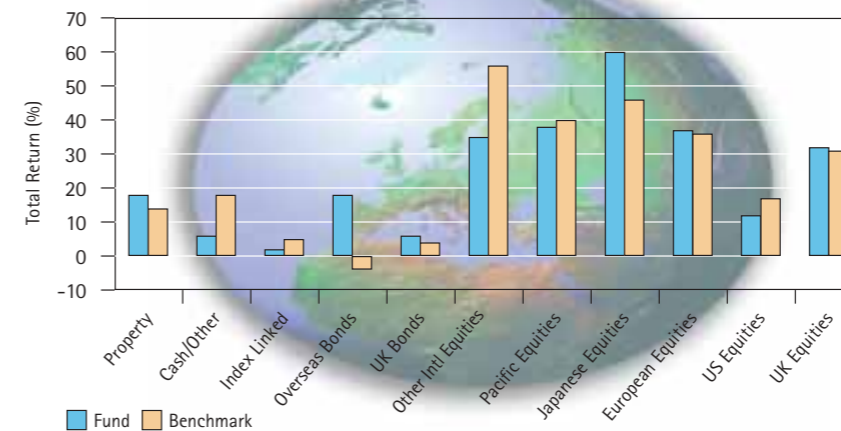
The policy is reviewed each year to ensure that the Fund remains in line with best practice.

The Fund's composition is largely dictated by its bespoke strategic benchmark, which is determined by the Fund's actuary. This strategic benchmark is the main gauge against which investment performance is measured and is reviewed periodically to ensure it continues to meet the liability profile of the Fund.

The Fund's actual composition at the beginning and end of the reporting period is depicted in figure 1.

Strategic Asset Structure		
Asset Class	Strategic Benchmark %	Detail %
UK Equities	36	
Overseas Equities	22	
US		7
European		9
Japan		3
Pacific		2
Emerging Markets		1
Fixed Interest	26	
UK Gilts		5
Overseas Bonds		2
UK Index Linked		14
Corporate Bonds		5
Property	8	
Venture Capital / Other Investments	5	
Cash	3	
<b>TOTAL</b>	<b>100</b>	

Figure 2. Total Return by Asset Class in year ended 31 March 2004



## Largest UK Equity Holdings as at 31 March 2004

Company	Market Value £'000	Equity %
BP	83,304	7.8
HSBC	73,267	6.8
Vodafone	72,239	6.7
GlaxoSmithKline	52,615	4.9
R. B. of Scotland	40,308	3.8
Astra Zeneca	35,123	3.3
Shell Transport	28,600	2.7
Barclays	25,986	2.4
HBOS	23,394	2.1
Lloyds TSB	19,013	1.8
<b>Total</b>	<b>453,849</b>	<b>42.3</b>

The top ten holdings represent 42.3 % of the total Equity Portfolio

## Largest Property Holdings as at 31 March 2004

Property	Market Value £'000
Tungate Square, Guildford	24,300
Cunard Building, Liverpool	23,000
Middlemarch, Coventry	16,350
Farnham Retail Park	15,250
Horns Road, Ilford	14,150



# Investment Report

Year ended 31 March 2004

## Review of Investment Performance

Following three consecutive years of negative returns, global stock markets staged a strong recovery over the financial year to 31 March 2004 underpinned by improvements in world growth prospects and corporate finances, and an increased appetite for risk.

The United Kingdom stock market returned over 31% and overseas markets in total returned 33%. However, in the United States, returns were reduced in sterling terms by the sustained weakness of the US currency. Thus, although the US market returned 35% in dollar terms, UK investors only received around one half of this return. Japanese and Far Eastern markets featured in the global stock market rally as Japan's economy continued to recover and the wider region benefited from the rapid economic development in China.

The recovery in the world's major stock markets impacted positively on the Fund which achieved an aggregate investment return of 19.1% relative to a targeted benchmark return of 21.7%. A significant factor in this relative underperformance was asset allocation, which was distorted by the impact of moving out of transition. Although the one year performance is disappointing, the Fund continues to rank in the top 25% of Local Authority Funds over 3, 5 and 10 years respectively.

Comparative Returns for the Fund				
	1 Year %	3 Years %	5 Years %	10 Years %
Merseyside Pension Fund	19.1	0.3	2.9	7.2
Benchmark*	21.7	-0.3	0.8	6.2
RPI	2.6	2.3	2.4	2.6
Average Earnings	4.2	3.9	4.1	4.3

\*The 1 Year and 3 Year benchmarks = Merseyside Pension Fund bespoke

All other periods = UK Local Authority Peer Group

In the UK, the Fund returned 31.8% against a target benchmark of 31.0%. European equities (excluding UK) returned 37.2% which was close to benchmark.

In North America, the Fund returned 12% on its US equity portfolio against its benchmark target of 16.8%. The underperformance of the US portfolio was largely attributable to stock selection factors.

The Fund achieved a return of 59.5% on its Japanese equity portfolio – well ahead of its benchmark target of 46.5%, while stocks in the Pacific Basin (excluding Japan) returned 39.1% against a benchmark return of 40.6%.

In fixed income investments (bonds), the Fund achieved a positive return, exceeding its benchmark of 2.6%. Overseas Bonds performed particularly strongly.

A 17.9% return on property comfortably exceeded the benchmark return of 12.9%.

The Fund continues to invest in a wide range of globally diversified asset classes and going forward aims to utilise the specialist investment expertise that is now in place.

# Financial Statements

## FUND ACCOUNT

For the year ended 31 March 2004

	Note	2004 £'000	2003 £'000
<b>Contributions and Benefits</b>			
Contributions receivable	3	157,482	142,241
Transfers in		19,716	18,998
		<u>177,198</u>	<u>161,239</u>
Benefits payable	4	153,873	150,313
Leavers	5	17,394	17,848
Administration expenses		3,529	3,409
		<u>174,796</u>	<u>171,570</u>
<b>Net additions (withdrawals) from dealings with members</b>		<u>2,402</u>	<u>-10,331</u>
<b>Return on Investments</b>			
Investment income	6	71,678	61,914
Change in market value of investments	7	423,960	-542,534
Exchange		-29	39
Investment management expenses	8	-2,762	-566
<b>Net return on Investments</b>		<u>492,847</u>	<u>-481,147</u>
<b>Net increase (decrease) in the Fund during the year</b>		<u>495,249</u>	<u>-491,478</u>
<b>Net Assets of Fund at start of year</b>		<u>2,474,206</u>	<u>2,965,684</u>
<b>Net Assets of Fund at end of year</b>		<u>2,969,455</u>	<u>2,474,206</u>

## NET ASSETS STATEMENT AS AT 31 MARCH 2004

	Note	2004 £'000	2003 £'000
<b>Investments</b>			
Fixed Interest Securities	7	222,077	203,588
Index-linked Securities		126,823	360,768
Other Investments		91,569	56,363
Equities		887,085	718,950
Managed or Unitised Funds		1,233,828	669,190
Properties		264,750	261,475
Short Term Deposits		108,375	151,250
AVCs		9,997	8,088
		<u>2,944,504</u>	<u>2,429,672</u>
<b>Other Assets and Liabilities</b>	9	<u>24,951</u>	<u>44,534</u>
<b>Net Assets of the Fund as at 31 March 2004</b>		<u>2,969,455</u>	<u>2,474,206</u>

# Financial Statements



Gerard Moore  
Financial Controller

## NOTES TO THE ACCOUNTS

### 1 GENERAL

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

The financial statements record the transactions of the Fund during the year and summarise the net assets at the disposal of the managers at the end of the financial year. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the statement by the Actuary on page 19 and these financial statements should be read in conjunction with it.

### 2 ACCOUNTING POLICIES

#### ● Basis of preparation

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

#### ● Valuation of investments

Investments are stated at market value. For this purpose unlisted investments are included at manager's valuation and properties at professional valuation. For listed securities the stock exchange values are used. Properties have been valued independently by Colliers Erdman Lewis, Chartered Surveyors as at 31 March 2004.

#### ● Translation of foreign currencies

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

#### ● Investment income

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

#### ● Rental income

Rental income from properties is taken into account by reference to the periods to which the rents relate and is shown net of related expenses.

#### ● Contributions and benefits

Contributions, excluding additional voluntary contributions, are accounted for on an accruals basis. Benefits payable represent the benefits paid during the financial year.

#### ● Transfers to other schemes

Transfer payments relate to those early leavers whose transfers have been paid during the year.

	2004 £'000	2003 £'000
<b>3 CONTRIBUTIONS RECEIVABLE</b>		
<b>Employers</b>		
Normal	104,684	92,167
Early retirement funding	9,815	8,960
<b>Employees</b>		
Normal	41,958	40,007
Additional voluntary contributions	1,025	1,107
	<u>157,482</u>	<u>142,241</u>
relating to:		
Administering Authority	24,667	23,344
Statutory Bodies	115,497	106,013
Admission Bodies	17,318	12,884
	<u>157,482</u>	<u>142,241</u>
<b>4 BENEFITS PAYABLE</b>		
Pensions	137,046	133,895
Lump sum retiring allowances	13,452	13,443
Lump sum death benefits	2,861	2,507
Relating to AVCs	514	468
	<u>153,873</u>	<u>150,313</u>
relating to:		
Administering Authority	22,769	20,686
Statutory Bodies	119,574	118,470
Admission Bodies	11,530	11,157
	<u>153,873</u>	<u>150,313</u>
<b>5 PAYMENTS TO AND ON ACCOUNT OF LEAVERS</b>		
Refunds to members leaving service	416	375
Payment for members joining state scheme	176	-99
Individual transfers to other schemes	15,870	16,953
Relating to AVCs	932	619
	<u>17,394</u>	<u>17,848</u>
<b>6 INVESTMENT INCOME</b>		
Fixed interest securities	8,176	8,827
Index-linked securities	8,539	7,696
Dividends from equities, managed and unitised funds	31,812	21,894
Net rents from properties	17,552	17,457
Interest on deposits	5,433	5,947
Other	166	93
	<u>71,678</u>	<u>61,914</u>

As at 31 March 2004, £140 million of stock was on loan to market makers, and this was covered by collateral (including an appropriate margin) comprising cash and non cash totalling £141 million.

# Financial Statements

## 7 INVESTMENTS

	Market Value 31.3.03 £'000	Purchases at cost £'000	Sale Proceeds £'000	Change in Market value £'000	Market Value 31.3.04 £'000
Fixed interest securities	203,588	775,102	746,659	-9,954	222,077
Index-linked securities	360,768	272,999	479,934	-27,010	126,823
Other	56,363	87,343	85,221	33,084	91,569
Equities	718,950	840,935	1,120,832	448,032	887,085
Managed & unitised funds	669,190	784,473	176,147	-43,688	1,233,828
Properties	261,475	709	19,490	22,056	264,750
Short term deposits	151,250	0	42,875	0	108,375
AVC investments	8,088	1,915	1,446	1,440	9,997
	<b>2,429,672</b>	<b>2,763,476</b>	<b>2,672,604</b>	<b>423,960</b>	<b>2,944,504</b>

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

	2004 £'000	2003 £'000
<b>Fixed Interest Securities*</b>		
UK Fixed Interest	79,682	133,524
UK Corporate Bonds	100,076	0
Overseas Fixed Interest	42,319	70,064
	<b>222,077</b>	<b>203,588</b>

\*Other than Corporate Bonds, all are public sector securities.

	2004 £'000	2003 £'000
<b>Indexed-Linked Securities</b>	<b>126,823</b>	<b>360,768</b>
<b>Equities</b>		
UK Quoted	420,592	678,769
Overseas Quoted	466,493	40,181
	<b>887,085</b>	<b>718,950</b>
<b>Managed* and Unitised Funds</b>		
UK managed funds	979,849	301,030
Overseas managed funds	229,697	348,642
Property Unit trusts	24,282	19,518
	<b>1,233,828</b>	<b>669,190</b>

**Other Investments** 91,569 56,363

\*Unlisted Securities are included in Managed Funds at a market value of £86,898,459 (2003 - £84,246,000).

	2004 £'000	2003 £'000
<b>UK Properties</b>		
Freehold	257,450	223,405
Leasehold	7,300	38,070
	<b>264,750</b>	<b>261,475</b>
<b>Short Term Deposits</b>	<b>108,375</b>	<b>151,250</b>

### Additional Voluntary Contributions Investments

The Committee hold assets invested separately from the main fund. The Scheme providers as at 31 March 2004 are Equitable Life, Standard Life and Prudential. Members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year. The aggregate amount of AVC investments is as follows:

	2004 £'000	2003 £'000
Equitable Life	4,738	5,074
Standard Life	4,518	3,014
Prudential	741	0
	<b>9,997</b>	<b>8,088</b>

## 8 INVESTMENT MANAGEMENT EXPENSES

Fees paid to investment managers constitute the bulk of the figure of £2.762m investment management expenses. The fees for 2003/04 cover the final few months of transition, plus the remainder of the year under the new fund managers. Charges vary between fund manager, and between markets and types of security. Charges are calculated as a percentage of the value of the investments. The major fees were as follows:

	£'000
Legal & General	715
Wellington	427
Dresdner	273
BGI	587
Nomura	368
Schroder	234

## 9 CURRENT ASSETS AND LIABILITIES

	2004 £'000	2003 £'000
<b>Assets</b>		
Contributions due	14,196	13,019
Accrued and outstanding investment income	7,617	8,866
Due from stockbrokers	7,370	5,282
Cash at bank	6,531	17,099
Sundries	5,223	5,567
	<b>40,937</b>	<b>49,833</b>
<b>Liabilities</b>		
Due to stockbrokers	7,213	0
Transfer values payable	686	1,395
Provisions	507	559
Miscellaneous	7,580	3,345
	<b>15,986</b>	<b>5,299</b>
<b>Total Other Assets and Liabilities</b>	<b>24,951</b>	<b>44,534</b>

The figure of debtors does not include future payments from employers who are making special additional payments to the Fund in respect of early retirement costs over an agreed number of years. These total some £3.4 million over a period to 2008/09. They have not previously been shown as debtors but a change of accounting policy will be reviewed in the financial year 2004/05.

## 10 COMMITMENTS

Commitments for investments amounted to £60,397,000 at 31 March 2004.

## 11 RELATED PARTY TRANSACTIONS

Administration costs include charges by Wirral MBC in providing services in its role as administering authority to the Fund, which amount to £2,802,000 (2003 £2,751,000). Such charges principally relate to staffing required to maintain the pension service. A specific declaration has been obtained from principal officers and Pension Committee members regarding transactions with such persons or their related parties. No declarable related party transactions have been reported under this procedure.

## 12 SUMMARY OF MANAGERS' PORTFOLIO VALUES AS AT 31 MARCH 2004 (excluding AVC assets)

	£m	%
<b>Externally Managed</b>		
Barclays Global Investors	375	12.8
Dresdner	122	4.1
Wellington	153	5.2
Nomura	161	5.5
Schroders	175	6.0
Legal & General (Pooled Assets)	684	23.3
Legal & General (Bonds)	175	6.0
	<b>1,845</b>	<b>62.9</b>
<b>Internally Managed</b>	<b>1,089</b>	<b>37.1</b>
	<b>2,934</b>	<b>100.0</b>

# Statement of Responsibilities



Ian Coleman  
Director of Finance

## The Authority's Responsibilities

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

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

## The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2004.

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

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

The Director of Finance has also:

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

## The Director of Finance's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2004 and its income and expenditure for the year then ended.

Director of Finance  
September 2004

# Audit Report to Merseyside Pension Fund

I have audited the Pension Fund accounts, on pages 9 to 13, which have been prepared in accordance with the accounting policies applicable to pension funds set out on page 10.

This report is made solely to Merseyside Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

## Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 14, the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice "Financial Reports of Pensions Schemes 1996". My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly the financial transactions of the Pension Fund during the year, and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I read the other information published with the statements of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

## Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the pension fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I evaluated the overall adequacy of the presentation of the information in the financial statements.

## Opinion

In my opinion the financial statements present fairly the financial transactions of Merseyside Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Signature		Date	September 2004
Name	Judith Tench	Address	Audit Commission The Heath Business and Technical Park Runcorn Cheshire WA7 4QF



# Scheme Administration



Peter Mawdsley  
Principal Pensions Officer

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

A list of the participating employers is shown in Appendix A. The Scheme is a public service pension scheme regulated by statute through the Office of the Deputy Prime Minister (ODPM). It is a contributory final salary scheme, which is contracted out of the Second State Pension and is exempt approved for tax purposes.

## Development of the Scheme

Since 1922 the Local Government Pension Scheme has developed from a scheme which just provided pensions for officers only, to today's Scheme which provides pensions and lump sums for all members, spouses and children's pensions, ill health, redundancy and death cover. Quite clearly it is a comprehensive scheme and yet, through the co-operation of the Government, employer and employee representatives, the Scheme is constantly changing and adapting to modern day needs and demands.

The current regulations introduced from 1 April 1998 are currently the subject of a stocktaking exercise by the responsible Government department the ODPM.

Membership	31 March 2004	31 March 2003
Contributors	48,175	48,392
Pensioners	36,603	36,572
Deferred beneficiaries	18,330	15,772

## Legislation

The principal regulations were amended during the year by the following statutory instruments:

The Local Government Pension and Discretionary Compensation (Local Authority Members in England) Regulations 2003

(Into force 1 May 2003)

Provisions for admission of certain elected members to the Scheme.

The Local Government Pension Scheme (Amendment) Regulations 2003

(Into force 1 October 2003)

To take account of new paternity and adoption leave provided for by the Employment Act 2002.

The Local Government Pension Scheme (Amendment) (No.2) Regulations 2003

(Into force 19 December 2003)

Changes to the provisions dealing with admission agreements to enable non-scheme employers to be members of the Scheme.

The Local Government Pension Scheme (Amendment) Regulations 2004

(Into force 1 April 2004, except regulations 27 to 32 – 1 June 2004)

Simplification amendments resulting from the stocktake review of the scheme, changes to the dispute procedure and requirements to produce a Funding Strategy Statement and to issue Annual Benefit Statements to active and deferred members.

Further information on the content and effects of these changes is available on request from the Fund and copies can be accessed via the Fund website.

## Control of Early Retirement Costs

The Fund is continuing to monitor the costs of non-ill health early retirements and to require additional contributions from those employers who exceed their agreed capital allowance.

## Service Standards Charter

Results of performance in respect of the 12 month period to 31 March 2004 against target are shown below:

Performance Targets	Target	Within Target Performance %
1 Payment of retirement benefits	7 days	93
2 Payment of monthly pensions	100%	100
3 Payment of transfer values	7 days	99
4 Provision of inward-transfer quotes	10 days	90
5 Payment of refunds	7 days	100
6 Provide mis-selling costs	10 days	95
7 Provide valuation in divorce cases	10 days	99
8 Respond to members' enquiries	10 days	97

## Key Improvement Areas

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

- 1 Improved efficiency through development of information technology capability and application.
- 2 Enhanced communications, consultation and marketing of the benefits of the Scheme to employers, employees and beneficiaries.
- 3 Development of training policies and procedures to ensure the quality of service provision to Scheme members.

## Consultation

Consultation will continue to be carried out on satisfaction levels with the service provided by the Fund with all groups of stakeholders, including active members, pensioners, deferred beneficiaries and employers.

The Service Standards Charter between the Fund and employers has been updated and incorporated in the Employers Guide.

## Comparisons/Benchmarking

The Fund participated in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking survey in 2002/2003. The results of unit cost comparison were as follows: -

	2002/03	2001/02
Merseyside Pension Fund	£20.50	£21.20
CIPFA Average	£21.00	£20.60
Private Sector in-House	£37.80	£36.07
Private Sector Outsourced	£29.10	£28.01

The figures reflect a reduction in Unit Costs for the Fund from £21.20 in 2001/02. This is as a result of a reduction in charges for Information Technology (IT) and an increase in the number of Frozen Refund cases.

The individual totals within the survey showed that the Fund had a lower staffing cost than the CIPFA average, but had a higher expenditure on literature and member communications. This reflects the Fund's greater commitment to improving the quality of communications in such areas as postage of relevant information to members' home address. There have also been additional costs arising from communicating on other matters such as the introduction of an additional AVC provider.

## Scheme Administration

The Fund is also continuing to participate in a benchmarking forum consisting of representatives of five leading Metropolitan Administering Authorities in an effort to seek out best practice.

### Internal Dispute Resolution Cases

During the year to 31 March 2004, 2 new cases were dealt with by the panel of Appointed Persons responsible for complaints against decisions made by the Fund.

A total of 21 new cases were dealt with by the Appointed Person responsible for complaints against decisions made by employers. As in previous years the majority of cases have concerned either refusal to grant ill health retirement or to bring preserved benefits into payment early on ill health grounds.

From 1 June 2004, individual employers became responsible for considering Stage 1 appeals against decisions by them, with the Fund responsible for considering Stage 1 appeals against its own decisions and all Stage 2 appeals, instead of the Office of the Deputy Prime Minister.

### Annual Employers' Conference

The eighth Annual Conference is to be held on Tuesday 16 November 2004, in the Lecture Theatre of the Maritime Museum at Albert Dock, Liverpool.



## Consulting Actuary's Statement

**MERCER**  
Human Resource Consulting

**MERSEYSIDE PENSION FUND**  
**ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2004**  
**Statement by the Consulting Actuary**

The levels of contribution paid into the Fund in 2003/04 were governed by the 2001 actuarial valuation of the Fund. Each employer paid the contribution rate certified in our contribution certificate dated 27 March 2002 – these rates were determined having regard to the individual circumstances of that employer.

The principal financial assumptions used for the 2001 actuarial valuation were as follows:

	For past service liabilities	For future service liabilities
Investment return	5.8 per cent per annum	6.5 per cent per annum
Earnings growth*	3.3 per cent per annum	3.5 per cent per annum
Price inflation	2.3 per cent per annum	2.5 per cent per annum

\* plus a salary scale for officers to allow for incremental increases.

The valuation method used was the Projected Unit Method.

The results of the 2001 valuation showed that, at the valuation date of 31 March 2001, the Fund's assets were sufficient to cover 94 per cent of its liabilities.

A further actuarial valuation is being carried out with an effective date of 31 March 2004. As a result, the contribution rates payable by the employers will be revised with effect from 1 April 2005.

*Stephen Jacques*

Stephen Jacques  
Fellow of the Institute of Actuaries

September 2004

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 AIC Marsh & McLennan Company Ltd

## Appendix A Employer Membership

### CURRENT SCHEDULED BODIES

Birkenhead Sixth Form College	Merseyside Passenger Transport Executive
Burton Manor Residential Home	Merseyside Police Authority
Carmel College	National Probation Service (Merseyside)
Dingle, Granby, Toxteth Education Action Zone	Prescot Town Council
Halewood Parish Council	Rainford Parish Council
Hugh Baird College	Rainhill Parish Council
King George V College	Sefton MBC
Knowsley Community College	Southport College
Knowsley MBC	St. Helens Community College
Knowsley Parish Council	St. Helens MBC
Liverpool City Council	Speke Garston Education Action Zone
Liverpool Community College	Valuation and Community Charge Tribunal
Liverpool John Moores University	Waste Disposal Authority
Mersey Waste Limited	Whiston Parish Council
Merseyside Fire & Civil Defence Authority	Wirral Metropolitan College
Merseyside Magistrates Committee	Wirral MBC
Merseyside Passenger Transport Authority	

### CURRENT ADMISSION BODIES

Age Concern – Liverpool	Liverpool Council for Social Aid
Arriva North West	Liverpool Hope University
Beechwood Educare Centre	Liverpool Vision
Berrybridge Housing Ltd	Local Government Association
Birkenhead Citizens Advice Bureau	Local Government International Bureau
Birkenhead Market Services Ltd	Mellors Catering Ltd
C.I.C. Drug Services	Merseyside Innovation Centre
Catholic Childrens' Society	Merseyside Lieutenancy
CDS Housing	Merseyside Society for the Deaf
Central Youth Club Ltd	Merseyside Welfare Rights
Cobalt Housing Ltd	Merseyside Youth Association
Commission for Social Care Inspection	Mott MacDonald (M.I.S.)
Community Technical Services Agency	National Care Standards Commission (NCSC)
Diocese of Liverpool	Netherley Citizens Advice Bureau
Enterprise (Liverpool Cleansing)	North Huyton New Deal New Future
Enterprise (Liverpool Housing)	North Liverpool Citizens Advice Bureaux
Enterprise (Liverpool Highways) Ltd	Nugent Care Society
Enterprise (St. Helens)	Parkhaven Trust
Garston Citizens Advice Bureau	Partners Credit Union
Geraud Markets (Liverpool) Ltd	Reliance Secure Task Management
Glenvale Transport Ltd	Sefton Education Business Partnership
Greater Merseyside Connexions	Sheila Kay Fund
Greater Hornby Homes	Sir Robert Jones Memorial Workshops
Green Apprentices Ltd	South Liverpool Housing Ltd
Groundwork Trust Ltd	Southern Neighbourhood Council
Helena Housing	Speke Garston Development Company
Hopkinson Catering Ltd	St. Gabriel's Community Home
Jarvis Workspace (Wirral Schools)	St. Helens & District Society for the Deaf
Jarvis Workspace FM Ltd (Liverpool Schools)	Taylor Shaw Catering Ltd
Knowsley Housing Trust	The Peoples Centre
LACORS	The Port Sunlight Village Trust
Lairdsides Communities Trust	Vauxhall Neighbourhood Council
Lee Valley Housing Association Ltd	Village Housing Association Ltd
Libraries North West	Vinci Services Ltd (Holst FM)
Liverpool & Knowsley Family Service Unit	Vinci Services Ltd (Lorne Stewart)
Liverpool 8 Law Centre	Wavertree Citizens Advice Bureau
Liverpool Airport PLC	Wirral Autistic Society
Liverpool Citizens Advice Bureau	Wirral Council for Voluntary Service
Liverpool Community Rights	

## Appendix B Fund Background

### Merseyside Pension Fund – Background Details

Merseyside Pension Fund was formed upon the re-organisation of Local Government in 1974 when the Merseyside County Council was set up to carry out selected functions for the area. Smaller funds were combined to form one large fund with an initial size of around £42 million.

The Local Government re-organisation of 1986 saw the abolition of the Metropolitan County Council, and subsequently on 1 October 1987 the responsibility was transferred by statute to Wirral Metropolitan Borough Council, who were charged with the administration and management of the Fund.

The Fund at that time had increased in value to approximately £1.1 billion, although the October 1987 stock market crash wiped some £300 million off the value in the first month of Wirral's stewardship. Since then growth of the Fund has been steady and at times spectacular. With assets of £2.97 billion as at 31 March 2004 the Fund ranked fifth largest Local Government fund, and amongst the top 40 largest pension funds in the United Kingdom.

Wirral Council gave a commitment in 1987 to maintain a Fund presence in Liverpool to facilitate visits from the majority of its members, who live on the north side of the Mersey. The administration offices are in Castle Street in Liverpool City Centre, within Castle Chambers, an office building owned by the Fund.



## Appendix C Pension Committee Items

### Wirral MBC Pensions Committee

#### Reports Considered at Pensions Committee

The Committee met on 6 occasions during 2003/2004 to discuss the following items. Reports from the Investment Monitoring Working Party and the Pensions Information Office are also considered at each Committee Meeting.

#### 30 June 2003

Main Issues for 2003/2004  
Internal Dispute Resolution Procedure – Appointed Persons  
Pensions for Councillors  
Training for Members  
External Mandates  
Venture Capital  
LGPS Stocktake Exercise Update  
Institutional Investor Group on Climate Change  
Changes to Provisions Covering Admissions  
Admission Body Applications  
Use of Consultants

#### 17 September 2003

Changes to the Scheme of Delegation  
Fund Accounts: Year Ended 31 March 2003  
Investment Performance Review 2002/2003  
Review of Statement of Investment Principles  
Best Value Update  
Stocktake Exercise – Update  
Stocktake – Funding Strategy Proposals  
Appointment of Strategic Advisor  
External Investment Manager Mandates  
Bank Signatories  
Interim Actuarial Review as at 31 March 2003  
Bond Fund – Schroders  
Internal Dispute Resolution Procedure – Update  
Admission Body Matters

#### 12 November 2003

Institutional Investor Group on Climate Change Conference  
Stocktake Exercise – Update  
Schroders Bond Mandate  
AVC With-Profits Advice  
Custodianship Contract with the Bank of New York  
Admission Applications

#### 18 December 2003

Stocktake Exercise – Phase 2 Policy Proposals  
Upgrade of Workflow System  
Appointment of Property Estate Manager  
Appointment of Strategic Property Investment Adviser  
Review of Potential Unfunded Liabilities for Admission Bodies  
Appointment of Property Investment Valuer  
Currency Hedging

#### 27 January 2004

Annual Audit Letter 2002/2003  
Audit – Management Arrangements  
Diagnostic Report  
Currency Hedging  
Treasury Management Policy Statement Plan & Strategy 2004/2005  
Stocktake of the LGPS – Administration, Communication & Delivery  
LGPS Scheme Members Seminar  
NAPF Conference  
AVCs – Developments at Standard Life  
Proposed Inland Revenue Reforms of Taxation of Pensions  
Budget 2004/2005  
Appointment of Independent Strategic Advisor  
Admission Applications

#### 23 March 2004

Finance Department Plan 2004/2007  
CIPFA Annual Conference  
Policy Review – Abatement of Pensions on Re-employment  
Incidence of Ill Health Retirement  
The Pensions Bill  
Stocktake Exercise – Representation & Communication Strategies  
DWP Discussion Paper – Informed Choices for Working & Saving  
Appointment of Property Estate Manager  
Service Re-Engineering  
Scheme AVCs – Standard Life With-Profits Policies  
Scheme AVCs Equitable Life Update  
Membership of the Pensions Committee  
Death Grant Nomination Dispute  
Admission Applications

### Investment Monitoring Working Party

Meetings were held on:- 14 May 2003, 2 September 2003, 27 November 2003 and 24 February 2004.

## Appendix D Information Contacts

### Merseyside Pension Fund

Internet Website Address: <http://www.mersey-pens-fund.demon.co.uk>

Area	Name	Telephone number	Extension
Assistant Director of Finance	John Parry	0151 227 3316	1312
Pensions Administration	Peter Mawdsley	0151 236 4205	1333
Transfers	Margaret Rourke	0151 236 4197	1369
Benefits/Payroll	Kevin Greenough	0151 236 4208	1354
Communication	Sue Davies	0151 236 4208	1361
AVC / Added Years	David Brown	0151 236 4240	1380
Information Technology	Karl Sherbrooke	0151 236 4208	1342

### Resolution of Disputes

Fund Decisions	Director of Finance	0151 666 3491
Employer Appeals	Principal Pensions Officer	0151 236 4205

### Scheme Employers

Fire and Civil Defence	Helen Jones	0151 225 2194	
Knowsley M.B.C.	Mary McDonald	0151 443 4177	
Liverpool C.C.	Vanessa Duncan	0151 233 3003	
Liverpool J.M.U.	Terry Jones	0151 231 3562	
Arriva North West	Angela Irwin	0151 522 2814	
Merseytravel	Linda Gedman	0151 227 5181	
Sefton M.B.C.	Mike Nelson	0151 922 4040	4126
St. Helens M.B.C.	Eric Astley	01744 456038	
Police Authority	Ann Williams	0151 709 6010	8251
National Probation Service (Merseyside)	Kevin Stamper	0151 920 9201	
Waste Disposal	Peter Leyland	0151 709 3607	2351
Wirral M.B.C.	Brian Beecroft	0151 666 3524	

# Notes



