



LONDON PENSIONS FUND AUTHORITY

measuring performance
against strategic
objectives

Performance Report

2004-05

Introduction

LPFA is one of the UK's largest administering authorities of the Local Government Pension Scheme with a Fund membership of 73,000, including over 200 employing authorities and assets of over £2.9 billion. LPFA currently operates 8 agency administration contracts covering over 110,000 scheme members.

This Performance Report is a key element of the LPFA's Annual Report and Accounts documentation and describes the Authority's performance against the strategy statement for the period April 2004 to March 2005. In order to assess the Authority's overall performance during 2004-05 it should be read in conjunction with the Annual, Governance, Investment and Financial Reports.

Highlights 2004-05

- On-time processing rises to 98.8%, satisfaction levels up and complaints down.
- Annual Benefit Statements issued to all scheme members.
- Funding Strategy Statement published and triennial valuation completed.
- New accounting software selected and implemented.
- Major review of investment strategy undertaken.
- Active and responsible investment policy published.
- Bexley agency contract held against competition.
- Equality standard Level 3 completed in parallel with Level 4 planning.
- Investors in People accreditation won for a further three years.
- Policy away-days held for managers and for Board Members.

Performance Plan 2004-05

The Authority is required to submit a strategy statement to the Mayor of London each year setting out LPFA's aims, objectives and plans over a three year period.

The high level strategy statement forms the basis of an annual Performance Plan with strategic objectives being the Authority's targets for the year. This plan contains details of lead officers and key target dates.

Each objective is delivered by implementation plans which focus key tasks into direct actions with targets and measures of success.

These plans aid production of team, and individual staff, performance plans and more specific reference points and targets.

Achievements against the Performance Plan, together with financial performance, are monitored and reported quarterly to the LPFA's Performance Committee and the Greater London Authority (GLA).

On the following pages a summary of performance during the year is given under each objective.

Performance indicators

LPFA has a long history of setting standards, monitoring performance and publishing results. LPFA's strategy is not only to maintain best practice in this respect but to develop comparable statistics nationally for pension scheme administration and fund investment.

The key performance indicators over the last four years are shown on Pages 9 to 11.

The Performance Committee is responsible for:

- ~ the preparation and monitoring of the performance plan; and
- ~ the development of new business initiatives.

The Committee met four times during the year, and considered 17 reports on agency contracts, current initiatives, LPFA's performance against the performance plan and the efficiency and quality plan.

Strategic Objective 1

To maintain the administration of the scheme and the Fund's investments to agreed standards and within budget, and to identify areas of continuous improvement.

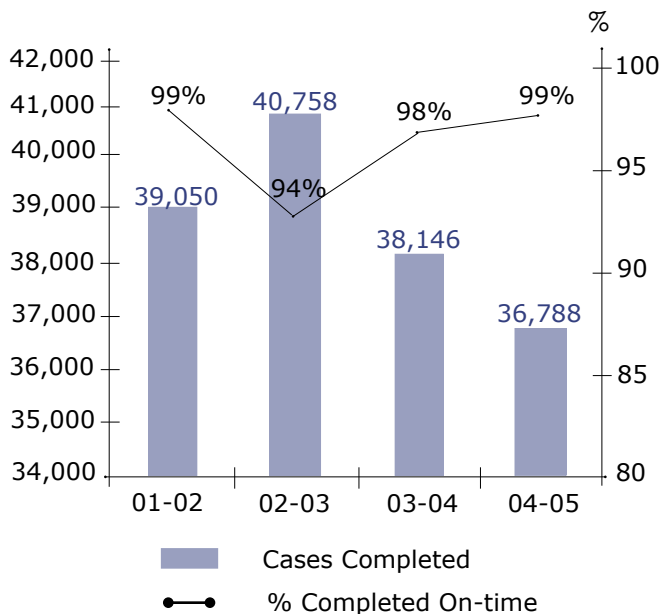
Building on the developments of performance indicators and the "Right First Time" initiative, a rolling series of process and functional reviews took place to ensure services remain effective and improve.

Changes in operational procedures that emerged involved key staff in their implementation both in practice and developing the training programme.

In a period in which the Government generally and the Office of the Deputy Prime Minister (ODPM) for local government plan significant changes to the sustainability of pension schemes, LPFA was at the forefront of discussions and guidance on implementation.

- ~ A report was issued to Assistant Directors by the 'Right First Time' project team recommending revised procedures and systems to be introduced by 31st December 2004 in respect of retirement benefit processing. Record 'cleansing' and data matching for end year bulk processing was also completed.
- ~ A report on investment management arrangements and fee structures was reported to the Investment Strategy Committee in January 2005.
- ~ A framework for a programme of staff involvement was produced and reported to the Executive Policy Group in September 2005.
- ~ The majority of Annual Benefit Statements were sent in respect of all LPFA employers by the 31st December 2004 for both active and deferred members. Some statements were withheld because of doubts as to their accuracy. These statements were issued as the queries were resolved and a final batch of statements, with suitable warnings, was sent prior to 31st March 2005, the regulatory date by which all members had to be issued with a statement.

Workload



- ~ The ODPM issued a Green Paper on LGPS modernisation but the implementation date is still to be determined. The planned administration structure review was therefore deferred.

Strategic Objective 2

To secure greater control and reduction of costs, year on year, by optimising efficiency and effectiveness.

LPFA continues to review the costs of services it procures and the unit costs of its administration.

Commercial costing methodology focused cost control and the pricing of new business to maximise a fair contribution to fixed costs.

LPFA systems rely on computer and related technology to drive efficiencies. Innovations in deliverable systems continue to be implemented.

- ~ A draft 3 year rolling plan evaluating scope for efficiencies in unit costs was submitted to the Performance Committee on 22nd June 2004; this will be further developed in 2005-06 taking into account the Gershon Report.
- ~ A review of London County Stock administration and custody arrangements took place during the year and agreements concluded.
- ~ A paper was presented to the Performance Committee in September 2004 regarding the implementation of a new costing methodology and reporting framework. The Chairman of the Performance Committee and officers agreed a revised basis to apply for the 2005-06 budget.
- ~ An evaluation of options for a general ledger and management accounting system was undertaken resulting in the implementation of a new system which was subjected to thorough testing. Live operation began for the 2005-06 financial year with dual running in the first quarter.
- ~ The new and amended policies needed to implement an IT system security standard to mirror BS 7799 were reported to the Audit Committee together with a draft high level 'Security Principles' document. The implementation of the revised arrangements will take place in 2005-06.

LPFA Performance Index

Indicator	Score	
	2003 -04	2004 -05
1) Investment costs as a % of fund value	9	8
2) Investment returns: Total Fund	0	7
3) Funding Level: Total Fund as a %	10	7
4) % of members satisfied with the service	8	9
5) Complaints as a % of workload	7	9
6) Administration costs as a % of fund value	9	8
7) Administration costs per fund member	4	3
8) Staff/Fund member ratio	6	6
9) Cases completed on-time - top 10 cases	8	9
10) Average elapsed time - top ten cases	0	0
Total Score	61	66

Strategic Objective 3

To maintain an investment strategy that balances growth and sustainability to protect and enhance the viability of the fund.

The triennial valuation together with proposals to strengthen future sustainability through the preparation and publication of a Funding Strategy Statement were a major influence on strategy over the year.

Developments to underpin the Myners principles on trustee duties and accountability ran alongside the continued implementation of long term asset allocation targets.

The evaluation of investment returns was a key element of the valuation exercise and an asset/liability study informed the review of asset strategy and management structures long term.

- ~ Draft principles for a Funding Strategy Statement were published to all employing authorities along with details of LPFA's wish to develop a more structured employer communications strategy. Consultation meetings were held and a draft document was published and comments received by 31st January. The final statement was agreed by the Board.
- ~ Data for the triennial valuation exercise was submitted to the Fund actuary by 30th June 2004. Results were finalised and certificates issued to employers and ODPM by the financial year end.
- ~ A Board 'away-day' at the end of March undertook an extensive review of investment strategy, risk and management. Significant changes in strategy were decided in relation to the Fund's liabilities and an outline implementation plan was agreed as a key outcome.
- ~ Evaluations of alternative asset classes were reported quarterly to the Investment Strategy Committee throughout the year.
- ~ Options relating to 'bonds' and 'index linked in-house' in the light of cash flow expectations were reported to the Investment Strategy Committee in June 2004.

Strategic Objective 4

To increase LPFA's share of the available market by creating and winning new business opportunities in order to strengthen core operational capability.

Key partnerships with other pensions administrators were planned to drive innovative administration options.

Winning and retaining key borough agency work remains a significant contribution to LPFA as an effective leading edge LGPS administrator.

New services and products emerged from an inclusive development programme embracing new IT solutions to today's problems.

- ~ Scope for joint initiatives with potential partners was reported to the Performance Committee along with areas of potential co-operation with London Regional Transport (LRT) Pensions.
- ~ There is a potential for future co-operation in joint web developments with Bath and North East Somerset (Avon Pension Fund) and this was reported to the Performance Committee.
- ~ A new business implementation planning structure was completed and was in time to be incorporated into the successful tender submission for LB Bexley covering administration and pensions payroll.
- ~ Revised contract negotiations were conducted with Hackney and the major changes are that Hackney are now responsible for the provision of pensionable remuneration data and there is a revised incentive payment scheme in place.
- ~ The use of the corporate website was reviewed along with the communications strategy and a revised links page has been added.
- ~ A client 'needs and perceptions' survey was conducted with all agency clients and the reaction, generally, was positive.
- ~ The Employer website has been enhanced to allow an online process for retirements; this is currently available only to selected employers but will be rolled out to all participating employers by August 2006.

Total workload

Agency	No. of cases	% of total workload
LPFA	36,788	36%
Brent	9,627	9%
Bexley	5,675	6%
Ham. & Ful.	8,915	9%
LFEPa	4,429	4%
Newham	6,420	6%
Westminster	10,532	10%
Hackney	8,817	9%
Hounslow	11,523	11%

Strategic Objective 5

To integrate equalities into all aspects of LPFA's policies, working practices and services.

The drive to achieve the Local Government Equality Standard had a fundamental impact on LPFA in establishing comprehensive consultation and scrutiny procedures, operating best employer practice, and improving equality of access to all services.

- ~ Consultation with external experts was completed with a full analysis and recommendations reported to the Corporate Equalities Steering Group (CESG) in March 2005.
- ~ An interim level 3 assessment was completed by 31st July 2005 and interim action required to achieve level 4 was also reported resulting in a revised target for achievement of 31st December 2005.
- ~ Continuous self assessment is conducted by the CESG and monitoring undertaken by the Corporate Services Unit.
- ~ Impact, Needs / Requirements Assessments (INRAs) were completed and targets reported to the CESG in January 2005.
- ~ Data collection and monitoring systems are in place in respect of employment, training and recruitment. Service delivery systems are being developed in parallel with INRA outputs and team business planning.
- ~ Several improvements to service delivery were identified during the INRA process and actions have been included in a detailed action plan annexed to the Corporate Equality Plan.
- ~ Compliance questionnaires were sent to all suppliers and contractors along with the data they will have to provide annually. An agreed process and an approved supplier list is now in place.
- ~ Objectives and target setting were considered following the initial round of INRA reviews and have been linked to team business planning currently underway.
- ~ A system for reviewing progress against objectives and targets has been established and complements that used for quarterly monitoring of overall performance.
- ~ An equality analysis of staff and Fair Employment Policy audit were conducted as part of a wider review. A report from Dunnett Shaw was reported to the Board proposing revisions to staff terms and conditions.
- ~ A Leadership for Diversity programme was conducted in December and January involving 32 senior staff. Further equality and diversity training for all staff was conducted in April and May 2005 and future specific training for HR staff was identified and reported to the CESG.

Strategic Objective 6

To achieve best practice in corporate governance throughout all areas of LPFA's operations.

The governance framework was strengthened to embrace freedom of information, environmental and risk awareness, and published.

Responsible investing remained a key priority in developing practice on positive engagement in collaboration with other funds and through our investment managers.

Communication and consultation needs to remain effective and a programme of initiatives was developed both internally and externally.

- ~ A new corporate governance framework was agreed and circulated to all the Board members as part of the familiarisation process. Formal approval was given by the Board in October 2004.
- ~ The Freedom of Information Scheme was activated in January 2005 and the corporate website now includes the publication scheme along with a detailed site map.
- ~ A new approach to active responsible investment was reported to the Board and published within the updated Statement of Investment Principles in December 2004.
- ~ The environmental policy developed in 2003-04 was implemented and an end of year report prepared for the June 2005 Board.
- ~ The internal communications strategy was reviewed to reflect staff survey results and the outcome of the Equality INRAs.
- ~ LPFA officers met with London Older People's Resource Facility (links to GLA) in April 2004 and agreed to maintain regular contact especially regarding newsletters, events and equalities consultation.

Strategic Objective 7

To develop an informed, motivated and diverse organisation.

Investors In People (IiP) accreditation renewal led the progress to a "learning organisation" and the training and development of the staff and the Board members remains a continuous process.

Performance planning was improved greatly with new appraisal procedures and continued to strengthen an inclusive engagement process through all levels of the organisation.

Recruitment processes were enhanced to deliver diversity targets and to meet equality shortfalls.

- ~ LPFA was re-accredited with IiP status for a further 3 years.
- ~ A revised training programme was produced and implemented.
- ~ The response to contact made with external organisations indicates that the possibility of joint training is low. It is proposed to maintain contact and to reconsider options in future months.
- ~ The Board member contracts were extended by the Mayor to 31st July 2004 in May and then for a further year to 31st July 2005. Induction packs were issued at the end of August and a special briefing session held for new members. The Mayor has recently indicated his intentions regarding re-appointments and these are set out in the Governance Report.
- ~ The 'away-day' concept for business planning was extended to managers and, with an external facilitator, produced much input to the following years Performance Plan. Managers identified six priorities: internal communication, use of IT, business development, planning, clarity of structure and reputation management.
- ~ The induction and initial training structure was reviewed and some improvements identified which will be implemented in 2005-06.

Performance Indicators

achieved	achieved	achieved	achieved	plan
2001-02	2002-03	2003-04	2004-05	2004-05

Corporate

The level of the LGES reached	n/a	0	2	3	3
Percentage of senior management posts filled by women	33%	33%	37.5%	37.5%	40%
Number of working days lost to sickness	11	8	10.3	8.98	8
Voluntary leavers as a percentage of staff	21%	14%	7.8%	8%	5%
Early retirements as a percentage of the total workforce (Redundancy/Efficiency)	0%	0%	0%	0%	0%
Ill-health retirements as a percentage of early retirements	0%	0%	0%	0.8% (1 person)	0%
Percentage of invoices which were paid in 30 days ¹	No data	70%	89%	74%	100%
Training and development cost per member of staff	£243	£325	£506	£451	£500

Investment

Investment costs as a % of Fund value ²	0.10%	0.11%	0.12%	0.15%	0.10
Investment returns:					
Active sub-Fund	-2.3%	-26.0%	22.5%	10.6%	-
Pensioner sub-Fund	2.2%	5.9%	7.4%	6.1%	-
Asset / Liability Profile					
Active sub-Fund					
~ Equity : non-equity	85:15	85:15	82:18	86:14	-
~Contributors : non contributors	52:48	47:53	46:54	45:55	-
Pensioner sub-Fund					
~ Equity : non-equity	10:90	10:90	14:86	15:85	-
~Contributors : non contributors	6:94	5:95	5:95	5:95	-

1. Internal processing currently being reviewed to correct poor performance in this area

2. Investment management expenses were £1m over budget in part due to higher fees based on rising market values, additional external monitoring services and fees on new asset classes.

Performance Indicators

achieved	achieved	achieved	achieved	plan
2001-02	2002-03	2003-04	2004-05	2004-05

Administration

% of Fund members satisfied with the overall service	90%	91%	92%	96%	95%
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Number of complaints	40	82	50	35	50
Number of complaints as a percentage of the workload	0.10%	0.20%	0.13%	0.10%	0.10%
% of complainants satisfied with handling of complaint	48%	62%	50%	61%	75%
Number of responses	13	27	4	10	n/a
Number of complaints classified as:					
~ Pensions Ombudsman	2	1	2	0	0
~ Internal Disputes Resolution Procedure (IDRP) ¹	0	1	5	13	0
Administration costs as % of Fund Value	0.11%	0.14%	0.14%	0.14%	0.12%
Administration cost per Fund member ²	£41.41	£42.00	£48.94	£51.26	£53.44
Staff/Fund member ratio	1:1,782	1:1,740	1:1,786	1:1,787	1:1,750
Overall % of LPFA cases completed on time	99.2%	94.3%	98.1%	98.8%	99.0%
Regulation changes notified within 3 months	100%	100%	100%	100%	100%

1. The increase in IDRP cases is due to the continued publication of the procedure in all scheme and other literature.
2. The rise in costs over the period relates to increases in pay levels which are in line with average earnings, and in 2003-04 and 2004-05 to extra staffing resources to undertake the actuarial valuation.

Performance Indicators

LPFA Fund	achieved 2001-02	achieved 2002-03	achieved 2003-04	achieved 2004-05
Contributors	22,444	21,862	21,460	21,473
Deferred beneficiaries	17,844	19,140	19,895	20,172
Pensioners / dependants	31,853	32,017	32,217	32,155
Total membership	72,141	73,019	73,572	73,800
Staff numbers ¹	40.5	42	41.2	41.3
Cases completed	39,050	40,758	38,146	36,788
% of total workload	45%	39%	36%	36%
% completed on-time	99%	94%	98%	99%
Ave cases per staff	964	970	926	891

1. Staff numbers shown here reflect those employed on LPFA Fund pensions administration only.

Top ten case types	std	cases	% o/t	cases	% o/t	cases	% o/t	cases	% o/t
Admissions	10	4,545	98.6	4,266	91.8	3,313	99.9	3,175	99.9
Transfers in	10	3,019	99.4	3,527	96.5	2,629	99.6	2,319	99.9
Transfers out	15	2,190	99.4	2,055	94.2	2,007	99.6	2,166	99.7
Estimates – employees	10	1,525	99.5	1,604	94.2	1,711	99.1	1,899	99.5
Estimates - employer	5	351	99.7	636	95.6	834	99.4	925	99.9
Retirement benefits	5	905	98.6	979	94.7	813	98.2	713	98.7
Deferred benefits	15	1,873	99.1	2,973	94.5	2,377	99.5	1,847	99.9
Refunds	10	1,159	99.7	1,198	95.3	1,043	99.7	742	99.5
Deaths	5	1,467	98.6	1,667	92.6	1,622	99.1	1,525	99.2
Correspondence	5	5,536	99.7	5,872	96.5	4,210	98.2	5,379	98.9
Total top 10		22,570	99.1	24,777	94.0	20,559	99.2	20,690	99.4
Other case types		16,480	97.8	15,981	94.0	17,587	96.8	16,098	98.0
Total case types		39,050	99.2	40,758	94.3	38,146	98.1	36,788	98.8

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