

# Pensions CIV Sectoral Joint Committee      Item no: 10

## Finance Report

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**Date:** 12 July 2017

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**Summary:** This report provides the Committee with a finance update on delivery against the 2017/18 business plan and MTFS.

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**Recommendations:** The committee is recommended to note and discuss the contents of this report.

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## Financial Report for Q1 2017/18

1. The financial summary below compares the current Q1 2017 to the Q1 MTFS. Due to the timing of the Committee meeting, at the time of writing this report actuals are only available for April and May with a forecast for June. However, there is unlikely to be a material variance to the June month forecast
2. The outturn for Q1 is a profit of £467k compared to a MTFS budgeted plan of £250k. The principle reasons for the variance are:
  - i. LCIV's agreed fee for negotiating lower LGIM fees which was not budgeted and
  - ii. Timing differences arising on staff recruitment which were budgeted to start effective beginning of the quarter
3. The service charge of £25k per shareholder (32 shareholders following the merger of Richmond and Wandsworth) and two thirds of the Development Funding Charge (DFC) ie £50k were invoiced in April. The balance of the DFC, £25k, will be invoiced in December. The management accounts have been prepared on an accruals basis not an invoiced basis.
4. In respect of the passive fee for LGIM invested assets, the fee is accrued monthly and will be billed annually in arrears. Details of the composition of the LGIM passive fee are detailed below.

## Income

5. The service charge and DFC are in line with the MTFS. The variance in active equity management fees arises from the delay in the launch of Longview which is now launching in Q2 rather than Q1, and the delays in Majedie and Newton which were budgeted for the beginning of April launch but transitioned at the end of May.
6. The favourable variance on passive equity management fees relates to the LGIM fees which were not included in the MTFS as the fee charging arrangement had not been agreed at the time of the sign off of the MTFS.

## Expenses

7. The main reasons for the favourable variances on expenses are highlighted below:
  - **Staff expenses** – the MTFS had assumed a number of hires (5) effective the beginning of the quarter and a further five hires in June. Due to these timing delays in hiring, there is a cost saving of £150k. The MTFS had also anticipated a 2% pay increase 1% increase plus staff banding increments if relevant has been made. As mentioned earlier in this report the pension funding contribution rate to the COLPF LGPS scheme of which LCIV is a member has increased from 17.5% to 21%. The full year impact on the current staff headcount is @£35k.
  - **Facilities** – cost is headcount related and therefore under budget.
  - **Legal and Professional** – the estimated costs have been reduced as third party fund launch costs primarily legal in this quarter are now being charged to the funds when launched.

FY 2017/18 BUDGET - BY QUARTER	Q1 Actual	MTFS	Q1 Variance
INCOME		Q1	
Service Charge	200,000	200,000	0
Development Funding Charge	600,000	600,000	0
<b>Management Fee by Fund</b>			
Allianz	42,510	37,625	4,885
Baillie Gifford	103,273	90,938	12,335
Majedie	15,744	22,067	-6,323
Newton Global Equity	14,575	20,833	-6,258
Longview	0	9,375	-9,375
<b>Total Active Equity</b>	176,102	180,838	-4,736
Ballie Gifford DGF	22,697	21,000	1,697
Ruffer Absolute Return	27,342	20,625	6,717
Pyrford Global Return	12,944	12,438	506
Newton Real Return	21,169	20,638	532
Multi-Asset Subscriptions	0	0	0
<b>Total Multi-Asset</b>	84,152	74,700	9,452
Total Management Fee	319,433	255,538	63,895
Total Income	1,119,433	1,055,538	63,895
<b>EXPENSE</b>			
<b>Staff Costs</b>			
Total Staff costs	352,664	484,621	131,957
<b>Facilities</b>			
Total Facilities	72,765	89,814	17,049
<b>Legal and Professional</b>			
Total Legal and Professional	177,909	176,500	-1,409
<b>Travel and General Expenses</b>			
Total Travel and Sub/Prof Fees	11,163	16,844	5,681
<b>Technology</b>			
Total Technology	10,488	12,115	1,626
<b>Data Feeds</b>			
Total Data Feed Costs	27,337	27,500	163
Total Operating Expenses	652,325	807,393	155,068
EBITDA	467,107	248,144	218,963
Depreciation	487	460	-27
Interest Income	1,138	3,750	-2,612
PBT	467,758	251,434	216,325

8. The calculation of the LGIM fees are set out below:

Name of Borough	AUM AS @ 30/04/17 £m	Basis Point Charge £ 0.0050%
Barnet	402,740,624	1,678
Brent	370,000,000	1,542
Camden	483,657,569	2,015
Hammersmith and Fulham	299,829,897	1,249
Hillingdon	288,620,407	1,203
Haringey	821,239,171	3,422
Islington	95,995,554	400
Kensington and Chelsea	357,534,137	1,490
Newham	344,498,109	1,435
Southwark	408,687,652	1,703
Sutton	71,106,144	296
Tower Hamlets	340,967,847	1,421
Wandsworth	316,449,072	1,319
Westminster	133,000,000	554
<b>Total</b>	<b>4,734,326,183</b>	<b>19,726</b>

9. In respect of service fees, the following amounts are outstanding from thirteen boroughs:

Fees outstanding as at 30th June 2017				
London Borough of Barnet				90,000
London Borough of Camden				90,000
London Borough of Croydon				90,000
London Borough of Ealing				90,000
London Borough of Enfield				90,000
Royal Borough of Greenwich				90,000
London Borough of Hammersmith & Fulham				90,000
Royal Borough of Kensington & Chelsea				90,000
London Borough of Merton				90,000
London Borough of Newham				90,000
London Borough of Sutton				90,000
London Borough of Wandsworth				90,000
City of Westminster				90,000
				<b>1,170,000</b>

### Quarterly MTFS

10. The MTFS by quarter is set out in the table below. The Committee is asked to note that It reflects the incidence of costs increasing quarter on quarter as headcount rises together with the increasing use of third party costs as the operating model and systems are built out.

FY 2017/18 BUDGET - BY QUARTER	MTFS	MTFS	MTFS	MTFS	2017/18
INCOME	Q1	Q2	Q3	Q4	MTFS
Service Charge	200,000	200,000	200,000	200,000	800,000
Development Funding Charge	600,000	600,000	600,000	600,000	2,400,000
<b>Management Fee by Fund</b>					
Allianz	37,625	37,625	37,625	37,625	150,500
Baillie Gifford	90,938	90,938	90,938	90,938	363,750
Majedie	22,067	33,100	33,100	33,100	121,367
Newton Global Equity	20,833	31,250	31,250	31,250	114,583
Longview	9,375	28,125	28,125	28,125	93,750
Gobal Equity 1	0	0	12,500	12,500	25,000
Global Equity 2	0	0	12,500	12,500	25,000
Global Equity 3	0	0	9,375	9,375	18,750
Global Equity 4	0	0	0	9,375	9,375
Global Equity 5	0	0	0	9,375	9,375
Global Equity 6	0	0	0	0	0
Active Equity Subscriptions	0	0	6,428	6,428	12,856
<b>Total Active Equity</b>	<b>180,838</b>	<b>221,038</b>	<b>261,841</b>	<b>280,591</b>	<b>944,306</b>
Ballie Gifford DGF	21,000	21,000	21,000	21,000	84,000
Ruffer Absolute Return	20,625	20,625	20,625	20,625	82,500
Pyrford Global Return	12,438	12,438	12,438	12,438	49,750
Newton Real Return	20,638	20,638	20,638	20,638	82,550
Multi-Asset Subscriptions	0	0	3,735	3,735	7,470
<b>Total Multi-Asset</b>	<b>74,700</b>	<b>74,700</b>	<b>78,435</b>	<b>78,435</b>	<b>306,270</b>
Total Management Fee	255,538	295,738	340,276	359,026	1,250,576
<b>Total Income</b>	<b>1,055,538</b>	<b>1,095,738</b>	<b>1,140,276</b>	<b>1,159,026</b>	<b>4,450,576</b>

EXPENSE					
<b>Staff Costs</b>					
Total Staff costs	484,621	575,271	629,164	629,164	2,318,220
<b>Facilities</b>					
Total Facilities	89,814	89,814	89,814	89,814	359,256
<b>Legal and Professional</b>					
Total Legal and Professional	176,500	351,500	351,500	351,500	1,231,000
<b>Travel and General Expenses</b>					
Total Travel and Sub/Prof Fees	16,844	16,844	16,844	16,844	67,375
<b>Technology</b>					
Total Technology	12,115	98,781	98,781	98,781	308,458
<b>Data Feeds</b>					
Total Data Feed Costs	27,500	27,500	27,500	27,500	110,000
<b>Total Operating Expenses</b>	<b>807,393</b>	<b>1,159,710</b>	<b>1,213,603</b>	<b>1,213,603</b>	<b>4,394,309</b>
<b>EBITDA</b>	<b>248,144</b>	<b>-63,972</b>	<b>-73,327</b>	<b>-54,577</b>	<b>56,267</b>
Depreciation	460	460	460	460	1,842
Interest Income	3,750	3,750	3,750	3,750	15,000
PBT	251,434	-60,683	-70,038	-51,288	69,425
Tax					

11. The MTFS assumed the following fund launches:-

- Longview – May now July £450m
- Global Equity I - September £550m
- Global Equity II – December £300m
- Fixed Income - March £600m

### **Regulatory Capital**

12. As a FCA regulated entity, the Company is required to maintain sufficient regulatory capital as determined for a full scope Alternative Investment Fund Manager ('AIFM'). The amount of capital required is determined by the higher of one quarter of annual expenditure or a certain percentage of actual assets under management (0.02% in excess of Euro250,000). A formal calculation is submitted to the FCA on a quarterly basis and a summary of the Regulatory Capital Statement as at 31st March 2017 is given below.

13. Regulatory Capital Statement as of 31st March 2017

Tier 1 Regulatory Capital	£3,546k
Own Funds Requirement	<u>£778k</u>
Surplus Capital	£2,768k

### **Recommendations**

14. The Committee is recommended to note and discuss the contents of this report.

### **Financial Implications**

The financial implications are contained within the body of the report.

### **Legal implications**

There are no legal implications for the Committee that have not been considered in the report.

### **Equalities implications**

There are no equalities implications for the committee.