

MEMORANDUM OF UNDERSTANDING – INVESTMENT CO-OPERATION

Draft v.6 – 30.6.17

Between:

1. **TEESSIDE PENSION FUND** (“the Fund”) of Kier Pensions Unit, PO box 340, Middlesbrough, TS21 2XP; and
2. **TEES VALLEY COMBINED AUTHORITY** (“the Authority”) of Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY,

together “the Parties”.

Summary

This Memorandum sets out a joint commitment and a basis of collaboration to support the economic development of the Tees Valley region. By working together, the Tees Valley Combined Authority and Teesside Pension Fund will together support long-term transformational programmes to bring economic growth, new jobs and prosperity. In doing so they will ensure good returns on the investment of pensioners’ money, securing good returns from a stake in the growth of the local economy. This Memorandum secures an important benefit from devolution, allowing investment decisions to be made closer to the people and businesses affected. By working together, the Authority and the Fund will expand the resources available to the local economy, and develop the long-term partnerships necessary to secure the delivery of the Tees Valley’s Strategic Economic Plan.

Background

1. The Fund is the Local Government Pension Scheme (LGPS) for local authority employees (and other eligible bodies) in the Teesside area. The Fund wishes to invest in additional projects and developments within the Tees Valley that meet its criteria for investment, and to be able to report to its members on such investments. The Fund has agreed to invest up to 5% of its value (currently approximately £200 million) in investments that support the local economy.
2. The Authority is a mayoral combined authority and was created in April 2016 as a partnership of five local authorities: Darlington, Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-On-Tees. Its purpose is to drive economic growth and job creation in the Tees Valley area (“the Area”). In 2016 the Authority published its Strategic Economic Plan (“SEP”), which sets out the growth ambitions and priorities for the Area to 2026 and incorporates the Area’s industrial strategy.

Co-Operation

3. The Parties wish to explore together the potential for the Fund to invest in suitable projects and developments in the Area that:-
 - a. meet the Fund’s criteria for investment; and
 - b. assist in the delivery of the SEP.

4. The Fund and the Authority agree to co-operate on opportunities to work together and increase investment in the Area, through:-
 - a. the development of a “top-down” investment fund set up for the general purpose of investing in projects and opportunities in the Area, with agreed criteria for investment; and
 - b. the establishment of a collaborative “bottom-up” process for identifying, evaluating and agreeing the opportunities for investment in specific projects as they are brought forward in the Area.

Parties’ Requirements

5. The Fund has certain minimum requirements that must be met from any potential investment, and will assess any investment opportunities on the basis of these requirements:-
 - a. Each investment requires approval by the Fund’s Pension Committee;
 - b. Each investment must secure a sufficient minimum risk-adjusted return: the required rate for each individual investment is dependent on the term of the investment and the risks involved (e.g. investment/project specific risks, any securitisation used, etc.);
 - c. There must be a method of valuing the investment/asset, preferably an industry standard method (e.g. commercial property valued in accordance with RICS Valuation – Professional Standards (the Red Book));
 - d. There must be sufficient security for the investment/asset (e.g. legal title, contracts, etc.); and
 - e. The arrangements for managing the investment/asset must be robust and resilient, including adequate reporting arrangements.
6. The Authority has published its Investment Plan, which sets out how it will identify and bring forward projects in the Area to deliver the SEP. As a democratic institution, the Authority is led by the Tees Valley Mayor and Cabinet, and all discussions are subject to their agreement. The Authority has also agreed an Assurance Framework with Government and adheres to this framework in making and reporting transparent and robust investment decisions.

Establishing co-funding opportunities

7. The Fund and the Authority will work together to progress the establishment and operation of a joint approach to funding, taking into account:-
 - a. The “in principle” commitment from the Fund to up to 5% of its value (currently approximately £200 million) being available for investment in the local economy;
 - b. The commitment from the Authority to invest at least £450 million (2017-21), as set out in its Investment Plan, with the potential for greater sums to be secured through new borrowing powers and further devolution of funding from central government; and
 - c. Opportunities for joint investment between the Fund and Authority, in support of common objectives and an agreed approach to project development.

Project Identification and Evaluation

8. The Authority operates a process of calling for Expressions of Interest (“Eols”) under its Investment Plan, initially on a quarterly basis. The Authority will:-
 - a. call for and receive Eols on behalf of itself and also the Fund; and
 - b. build in to its arrangements for evaluating and developing specific projects an assessment of the potential for any such project to receive investment from the Fund.

9. The Fund and Authority will co-fund appropriate development capacity, hosted by the Authority, to support project evaluation and development. This could be delivered through co-location or secondment of a member of the Fund’s staff, external appointment or otherwise. This additional resource would be appointed for an initial fixed term of one year and would:-
 - a. Support the Authority in identifying, developing and evaluating good quality business cases for investment;
 - b. Identify opportunities for co-investment between the Fund, the Authority, the private sector, and other partners as appropriate;
 - c. Oversee the programme management of the Fund’s commitment of resources for local investment, ensuring that the financial and project assurance requirements of the Fund are met; and
 - d. Present business cases for support from the Fund’s Investment Panel, alongside the Authority’s own governance and decision-making arrangements.

Working Together

10. The Parties will set up a joint group to manage the implementation of this MoU (“the Review Group”):-
 - a. The Review Group will consist of 3 representatives nominated by each Party, until agreed otherwise;
 - b. The Review Group will meet as often as necessary to carry out its purpose;
 - c. The Review Group will have agreed terms of reference, with agreed mechanisms for:-
 - i. reporting its recommendations to each Party in accordance with that Party’s own requirements;
 - ii. managing any conflict of interest; and
 - iii. managing any dispute;
 - d. The Review Group will review, evaluate and report on propositions for investment from the Fund, as agreed.

11. The Parties will agree the gateway mechanism for reviewing and agreeing any potential project-specific investment through the Review Group. Ideally projects will be commissioned jointly by the Parties where possible, but in any event the evidence gathering and evaluation of project funding opportunities will be managed jointly up to an agreed point in the process, following which the parties will each manage their respective evaluations and approvals as appropriate.

12. Where a specific project may technically be located outside the Area, it may nonetheless be considered for investment under this MoU if:-
- a. it will produce outcomes that contribute significantly to the delivery of the SEP within the Area; and
 - b. the investment still meets the Fund's minimum requirements as set out earlier (para. 5).
13. The Parties will specifically review the potential to invest in the delivery of new housing in the Area, on the same basis as other investments under this Memorandum, and in support of the Authority's proposals for an Investment Partnership with central government, and partnership with Registered Social Providers or other housing delivery partners.

Key Principles

14. In addition to meeting the Parties' respective requirements set out at paragraph 5 above, the Parties agree that the key principles underpinning this co-operation are:-
- a. Any investments under this MoU will be in furtherance of the SEP, and the alignment of a potential projects with the SEP will be one of the factors to be taken into account when assessing whether a specific investment will be made;
 - b. All processes (including evaluation, reporting and data management) will be robust but will be kept as straightforward and timely as possible;
 - c. In the interests of efficiency, all operational and transaction costs will be shared as appropriate and minimised as far as possible, and the Parties will seek to join up their project development and appraisal processes, using the same independent advisors where possible, so that these processes will suffice for the purposes of both Parties;
 - d. Specifically, where possible the Parties' due diligence arrangements will be integrated and/or aligned, taking into account:-
 - i. the need to share capacity and maximise development resources for this purpose;
 - ii. the need to avoid any potential conflict of interest; and
 - iii. any need either Party may have for independent due diligence advice on a specific investment decision; and
 - e. All project and investment information will be kept confidential between the Parties.

General

15. The parties commit to working together to continue to develop this collaborative funding model.
16. Senior representatives from each of the Parties will meet every six months to review the operation of this MoU.
17. Each Party will meet its own costs of operating the arrangements set out in this MoU.
18. The timing and content of any announcement on:-

- a. The establishment and/or operation of this MoU and/or the Review Group; and
- b. all investment recommendations by the Review Group and their implementation,

will be agreed in advance between the Parties.

19. This MoU will not be legally binding.

Date:

Signed: for the Fund

Signed: for the Authority

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Appendix 1 – Illustrative Flowchart *[to follow]*

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