

**AGENDA ITEM 7**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**27 JULY 2017**

**REPORT OF THE  
INVESTMENT DIRECTOR**

**PORTOFOLIO: INVESTMENT AND  
BUSINESS GROWTH**

**INVESTMENT CO-OPERATION WITH TEESSIDE PENSION FUND**

**SUMMARY**

The Teesside Pension Fund has proposed that up to 5% of its Funds should be made available to support projects which promote the economic development of the Tees Valley region, while also meeting its fiduciary responsibilities to generate a return and protect the long-term interests of its pensioners. They further propose to develop this investment programme in partnership with the Tees Valley Combined Authority, in order to ensure that investments contribute to the Strategic Economic Plan. This is a very welcome development, which in principle could add up to £200 million of additional investment for the Tees Valley. Discussions are continuing to set up the practical arrangements, and it is now proposed to enter into a Memorandum of Understanding.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Welcome the commitment of the Teesside Pension Fund to direct investment to support local economic development, and to deliver this in partnership with the Combined Authority;
- ii. Note the progress in developing a joint approach to the identification and development of investment proposals;
- iii. Agree to sign the attached Memorandum of Understanding, and delegate to the Managing Director the authority to finalise the agreement in partnership with the Teesside Pension Fund.

## DETAIL

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.
2. Subject to formal approval of the MoU by its Pensions Committee, the Fund has agreed to invest up to 5% of its value (currently approximately £200 million) in investments that support the local economy.
3. The Combined Authority and the Pension Fund have agreed to:-
  - i. co-operate on opportunities to work together and increase investment in the Tees Valley, through:-
    - the development of a “top-down” investment fund set up for the general purpose of investing in projects and opportunities, with agreed criteria for investment; and
    - 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, including through the Combined Authority’s Expression of Interest and project approval processes;
  - ii. subject to each party’s approval processes, work to minimise project evaluation and due diligence processes, and so reduce costs; and
  - iii. investigate the potential for the Pension Fund’s external fund managers to second a member of staff to the Combined Authority and the Pension Fund on a joint shared-cost basis, to assist with the identification and evaluation of suitable projects for co-investment.
4. The draft MoU is attached to this report **at Appendix 1**. Although not legally binding, on either party, it sets out the working relationship and provides assurance to both parties that their individual interests are advanced through partnership. The draft was discussed and agreed in principle by the Teesside Pension Fund Investment Panel at its meeting on 28 June 2017.

## FINANCIAL IMPLICATIONS

5. There are no immediate significant financial implications arising from this Report. The MoU proposed the creation of a jointly-funded seconded analyst post, provided from the Pension Fund’s external fund managers, as and when that is agreed. This can be supported from within the Combined Authority’s existing Development Fund, agreed by Cabinet to support project development. Funding for particular investment projects will continue to be approved through the Combined Authority’s established decision-making processes, as they come forward.

## LEGAL IMPLICATIONS

6. There are no specific legal issues arising from this report. The MoU is not legally binding.

## **RISK ASSESSMENT**

7. There are no significant risks arising from this report. The operation of the MoU will be monitored through liaison and reporting processes to be set up by the Combined Authority and the Pension Fund. This report is therefore categorised as low to medium risk and existing management systems are sufficient to control and reduce risk.

## **CONSULTATION**

8. The MoU has been developed in cooperation with officers from the Teesside Pension Fund. Wider consultation has not been undertaken, given the non-binding nature of the MoU.

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