

**SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE**

**Date:** Friday 19<sup>th</sup> August 2022

**Time:** 10.00am

**Venue:** Teesside Airport Business Suite, Teesside International Airport,

<b>Attendees:</b>		<b>Apologies:</b>
Chris White (CW)	Chair	Julie Gilhespie - TVCA
John Baker (JB)	Independent Member	Peter Judge – TVCA
Allan Armstrong (AA)	Independent Member	Cameron Waddell - Mazars
Cllr Anne Watts (AW)	TVCA Audit & Governance Representative	
Gary Macdonald (GM)	TVCA	
Victoria Smith (VS)	TVCA	
Natalie Robinson (NR – via Teams)	Teesworks	
Derek Weatherill (DW)	Teesworks	
Cath Andrew (CA – via Teams)	Mazars	
Nicola Dean (ND) (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	<b>Welcome &amp; introductions</b>	<p>The Chair welcomed everyone to the Meeting, explaining that the meeting was a 1 item Agenda to look at the Financial Statements.</p> <p>Introductions were made and new Member, Cllr Anne Watts was introduced as the representative from the Tees Valley Combined Authority (TVCA) Audit and Governance Committee (A&amp;G) Committee, and her appointment would be notified to the STDC Board.</p>	Add AW's appointment to STDC Board Agenda	<b>Secretariat</b>
2.	<b>Apologies for Absence</b>	Apologies for absence were noted and submitted as above.		
3.	<b>Declarations of Interest</b>	There were no declarations of interest.		
4.	<b>Review &amp; Approval of the STDC Financial Statements 2020/21 and Annual Governance Statement</b>	<p>The Committee were provided with the South Tees Development Corporation (STDC) Financial Statements for 2020/21 and the Annual Governance Statement. Members were asked to review the content and approve the Group Director of Finance and Resources to sign the financial statements.</p> <p>GM advised changes had been made as discussed at the last meeting and that lessons learnt on what needs to be done to reduce amount of adjustments between draft and final so that there is significant improvement for next year, and indeed several actions have already been undertaken in this regard. The Auditors comments were considered and the work that had been undertaken with Mazars on responding to queries in a timely manner and improving communication was discussed.</p> <p>VS highlighted the changes from draft to the final version, and what that means to the Committee. It was advised that the pensions and valuations elements rely on external reports, but these aren't always received on time when draft is published, so those adjustments have now gone through. In such cases it was explained that the last year's reports were used as an approximation. VS confirmed the current set of accounts included up to date numbers reflecting the appropriately dated pension and valuation reports. Previously netted down the intercompany balances between the group but in line with the</p>	<b>Financial Statements to be signed</b>	<b>GM</b>

		<p>code, have now grossed them out so can see what a subsidiary owes and what is owed to the subsidiary. It was advised that between draft and final also made a change to allocate the expenditure more accurately between the STDC company and the Group company so that expenditure sat in the company where the land was, so to be more representative of where the money had been spent on site.</p> <p>VS advised that the bottom line £4.9m change is due to moving the expenditure from one to the other and that the aggregates were split between the two. The other bottom-line change was noted to be due to legal costs when the site company was acquired. It was explained that the External Audit Opinion is unmodified and that the accounts are a true and fair position.</p> <p>The Chair agreed that the accounts were unmodified but highlighted the Emphasis of Matter (EoM) within the accounts. The committee discussed the reasons for the EOM paragraph and that this was not an issue idiosyncratic to the Group or the sector in which it operates. The committee agreed it understood the reasons for the EoM and why it was included within the accounts.</p> <p>The Chair asked about the changes to the accounts, how we've got to where we are and what they say now at a group level. GM advised because of the operation of the site there are a lot of liabilities that need managing and this is reflected in the capital expenditure plans. Due to the nature of the site decontamination and remediation capital expenditure, subsequent impairments are made to fixed assets on the balance sheet to reflect the fact that expenditure incurred does not impact positively on the valuation in the accounts. GM commented on the alignment of the financial position of the Group in relation to the business plans originally submitted to Government and the fact the group was 'on track' to match the outcomes and performance expected in these plans.</p> <p>AW asked what the provisions for net pension liabilities are. VS explained this is for the eventuality of a restructure being announced to staff and so have to recognise a provision to that. This figure was explained to be in reference to SSI staff when they came over as they had provisions in their contract. Net pension liabilities were discussed and that there are multiple pension schemes. Current liability in respect to that is the monthly payment. Accounting for defined pension was explained to be complex as there is an asset and a liability. Value of the assets and liabilities changes monthly, and payments are the same – these are managed by MBC who invest the funds. GM explained there are periodic actuarial reviews which updates the assumptions, and it was noted that they come back on funding solutions as</p>		
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	<p>to what the balance needs to look like for future funding needs, if needed at all and plans are then put in place. The Chair noted that the auditors review of the assumption in the actuarial liability gives assurance that the amount to be given to pensions is a reasonable number.</p> <p>The Chair highlighted the importance for the Audit Committee confirming they are comfortable with the going concern assumption. GM advised that from managements perspective they are comfortable with it as it's expected that this will be returned over time but it was explained that, as Group Finance Director, GM provides a letter of support of the arrangements from TVCA to STDC for that reason and see support is there and also in STDC Constitution that if decisions constitute a referral decision it goes back to TVCA but also get central government funding as well.</p> <p>Cath Andrew, (CA), Senior Manager at Mazars advised the going concern assertion in public sector is different, as it is considered from a point of continued funding. The Committee was informed that TVCA are guaranteeing the funding, so Mazars don't see that as a concern for STDC. VS advised it was worth noting that South Tees Development Limited is not a public sector organisation and Azets previously did some detailed testing on that as a limited company and in their opinion as a going concern, is fine. The Committee discussed and agreed they were comfortable with the going concern assertion.</p> <p>The Chair asked Management on a plan of action on the aim to reduce the number of changes between published draft accounts and final accounts in the future. GM noted that re-assurance is taken from the team structure now as there is a Group Financial Controller and a Finance Manager who oversee both entities and apply same rigor to STDC and South Tees Site Company (STSC), so that the process mirrors TVCA. Notwithstanding the changes mentioned where STDC rely on others, GM assured the Committee that they have already seen a reduced set of amendments because of work done by the team and the detail they've gone through. VS elaborated advising that 2 years ago the Airport Audit received a number of control recommendations, and this year that has reduced to one. It was explained that timeliness has been improved. Engagement with Auditors has also been worked on and complex areas have been agreed up front. This same approach is looking to be adopted with Mazars in future. Financial controls have been tightened up and extra review points in each process. The Chair acknowledged the progress clearly made by the Group but emphasised the requirement to continue to work and improve this area. It was agreed the internal timetable for 21/22 accounts would be shared so committee members could see headline areas.</p>	<p><b>Report on progress against the timetable and will circulate that</b></p>	<p><b>GM/VS/Mazars</b></p>
		<p><b>Share Management Papers on Complexity</b></p>	<p><b>GM/VS/Mazars</b></p>

	<p>The Chair asked about the Management Papers provided to the auditors on areas of significant risk and suggested if there's mapping of where those areas are, it would be useful for the Committee to see what papers are produced and to what standard of quality, to ensure the Auditors are getting the level of information, they require to give assurance to the Committee.</p> <p>AA identified the usable reserve at end of 20/21 being a significant decrease and asked if that was something to worry about. GM explained it was mainly timings as funding is received in advance from Government at various intervals as agreed by grant conditions. Some is expended but what remains gets carried forward and are in the usable reserves. Our obligations on site mean there is a borrowing element as well. It is also fully expected that the level of useable reserves will reduce as programmes deliver in future years.</p> <p>JB asked if the funding programme causes restraints. GM stated that one of the challenges with the nature of the site is to consider the forward forecasts on income levels for example, so have to take a risk-based review on investment that STDC make against those funding sources but keep this constantly under review. The nature of the revenue sources STDC have were explained to be long term business cases that have been through due diligence. The risk profile was noted to always be changeable and reduced as more tenants come onto the site.</p> <p>The Chair highlighted the dependencies between the Auditors and that Mazars rely on Azets, so an action suggested was for management to get Azets to present to the Committee for 21/22 accounts.</p> <p>The Committee agreed that the changes to the Accounts had been sufficiently explained since the submission of the draft and that the questions and challenges from the Committee had received appropriate assurance from management and Auditors. CA advised there were no further issues to raise that would prevent the Committee signing off the Accounts and they be in position to approve next week. Emphasis of matter was considered, and the Committee agreed they were happy with that, and it being published in the Accounts. Members agreed for the Accounts to be signed.</p> <p><b>RESOLVED THAT: Members noted the STDC Financial Statements 2020/21 and Annual Governance Statement and agreed for these to be signed and passed to Mazars.</b></p>	<p><b>Invite Azets to appropriate future meetings</b></p>	<p><b>Secretariat</b></p>
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5.	<b>External Audit Follow Up and Completion Letter for 2020/21</b>	CA presented the External Audit & Follow Up Letter noting the hope was to sign off next week.  <b>RESOLVED THAT: Members noted the report.</b>		
6.	<b>Date and Time of Next Meeting</b>	TBC It was agreed that a DRAFT Forward Plan would be circulated, getting input from Mazars, RSM and Azets and asking for member’s feedback.	<b>Compile &amp; circulate draft of Forward Plan</b>	<b>Secretariat</b>