

**Date:** Friday 19<sup>th</sup> August, 2022, at 10.00am

**Venue:** Teesside Airport Business Suite, Teesside International Airport, Darlington  
DL2 1NJ

**Membership:**

Chris White – (Chair - Independent Member)

John Baker – (Independent Member)

Allan Armstrong – (Independent Member)

Cllr Anne Watts – (Audit and Governance Committee Representative)

### EXTRAORDINARY MEETING

#### AGENDA

- 1. Welcome & Introductions**
- 2. Apologies for Absence**
- 3. Declarations of Interest**  
Attached
- 4. Review & Approval of the STDC Financial Statements 2020/21 and Annual Governance Statement**  
Attached
- 5. External Audit Update Letter**  
Attached
- 6. Date and Time of Next Meeting**  
TBC

#### **Members of the Public - Rights to Attend Meeting**

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact:

[tvcagovernance@teesvalley-ca.gov.uk](mailto:tvcagovernance@teesvalley-ca.gov.uk)

## **South Tees Development Corporation Declaration of Interests Procedure**

1. The purpose of this note is to provide advice and guidance to all members of the Development Corporation Board and Audit & Risk Committee on the procedure for declaring interests. The procedure is set out in full in the Development Corporation's Constitution under the "Code of Conduct for Members" (Appendix 3).

### **Personal Interests**

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Development Corporation. As a general principle, members should act impartially and should not use their position at the Development Corporation to further their personal or private interests.
3. There are two types of personal interests covered by the Constitution:
  - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
    - i. a member of your family;
    - ii. any person with whom you have a close association;
    - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
    - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
    - v. any body as described in paragraph 3 b) i) and ii) below.
  - b. Any other personal interests. You have a personal interest in any business of the Development Corporation where it relates to or is likely to affect:
    - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Development Corporation;
    - ii. any body which:
      - exercises functions of a public nature;
      - is directed to charitable purposes;
      - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

## **Declarations of interest relating to the Councils' commercial role**

4. Financial relationships between the Development Corporation and individual councils do not in themselves create a conflict of interest for Council Leaders who are also Development Corporation Board members. Nor is it a conflict of interest if the Development Corporation supports activities within a council boundary. Nevertheless, there are specific circumstances where the Board may consider entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

## **Procedures for Declaring Interests**

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

### **Register of Interests**

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Development Corporation. If no declaration is received from elected members within 28 days the matter may be referred to the Head of Paid Service of your local authority and Leader of the political group you represent on your council for action. If a Declaration is not submitted within an appropriate timescale you may be prevented from attending committee meetings. Details of any personal interests registered will be published on the Development Corporation's website, with the full register available at the Development Corporation's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

### **Declaration of Interests at Meetings**

7. The Development Corporation will include a standing item at the start of each statutory meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

## **Sensitive Information**

10. Members can seek the advice of the Monitoring Officer if they consider that the disclosure of their personal interests contains sensitive information.

## AGENDA ITEM 4

### REPORT TO THE STDC AUDIT & GOVERNANCE COMMITTEE

19<sup>th</sup> August 2022

### REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

#### STDC FINANCIAL STATEMENTS 2020/21 COVERING REPORT

**SUMMARY** The purpose of this paper is to provide the committee, the STDC financial statements for 2020/21, including the external audit opinion.

#### RECOMMENDATIONS

It is recommended that the STDC Audit and Governance Committee endorses the Group Director of Finance and Resources to sign the financial statements.

#### DETAIL

1. The STDC Financial Statements for 2020/21, have been updated to reflect all changes discussed at the previous STDC Audit and Governance Committee and we are pleased to present to the committee for approval our final accounts for 2020/21 in appendix 1 below.
2. Our external auditors, Mazars, have completed their external audit of the Financial Statements and intend to issue an unmodified opinion.
3. A verbal update will be provided of the movements from the draft version of the accounts published in July 2021 to the final version brought to the committee below.
4. Our Annual Governance Statement is included in Appendix 2, it was approved at the last audit and risk committee and has been included for completeness.

#### FINANCIAL IMPLICATIONS

5. Financial implications are covered in the body of the report.

#### LEGAL IMPLICATIONS

6. There are no direct legal implications arising from this report.

#### RISK ASSESSMENT

7. The content of this report is categorised as low to medium risk.

## **EQUALITY & DIVERSITY**

8. No specific impacts on groups of people with protected characteristics have been identified.

**Name of Contact Officer:** Gary Macdonald

**Post Title:** Group Director of Finance and Resources

**Telephone Number:** 01642 527707

**Email Address:** Gary.Macdonald@teesvalley-ca.gov.uk

# South Tees Development Corporation Group Statement of Accounts 2020/21

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Movement in Reserves Statement for the year ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Comprehensive Income and Expenditure line shows the true economic cost of providing the Groups services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Grants Unapplied	Total Usable Reserves	Capital Adjustment Account	Other Unusable Reserves	Unusable Reserves	Total Group Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Movement in reserves during 2019/20</u></b>							
<b>Balance at 1 April 2019 brought forward</b>	1,523	2,509	<b>4,032</b>	(273)	(65)	<b>(338)</b>	<b>3,694</b>
Total Comprehensive Income and Expenditure	1,656	-	<b>1,656</b>	-	(364)	<b>(364)</b>	<b>1,292</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	(2,211)	2,716	<b>505</b>	(422)	(83)	<b>(505)</b>	-
<b>Increase/Decrease in Year</b>	<b>(555)</b>	<b>2,716</b>	<b>2,161</b>	<b>(422)</b>	<b>(447)</b>	<b>(869)</b>	<b>1,292</b>
<b>Balance at 31 March 2020 carried forward</b>	<b>968</b>	<b>5,225</b>	<b>6,193</b>	<b>(695)</b>	<b>(512)</b>	<b>(1,207)</b>	<b>4,986</b>
Amounts earmarked (Note 7)	646						
Amounts uncommitted	322						
<b>Total General Fund Balance at 31 March 2020</b>	<b>968</b>						
<b><u>Movement in reserves during 2020/21</u></b>							
<b>Balance at 1 April 2020 brought forward</b>	968	5,225	<b>6,193</b>	(695)	(512)	<b>(1,207)</b>	<b>4,986</b>
Total Comprehensive Income and Expenditure	(5,613)	-	<b>(5,613)</b>	-	(305)	<b>(305)</b>	<b>(5,918)</b>
Adjustments between accounting basis & funding basis under regulations (Note 6)	8,216	(5,172)	3,044	(2,953)	(91)	<b>(3,044)</b>	-
<b>Increase/Decrease in Year</b>	<b>2,603</b>	<b>(5,172)</b>	<b>(2,569)</b>	<b>(2,953)</b>	<b>(396)</b>	<b>(3,349)</b>	<b>(5,918)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>3,571</b>	<b>53</b>	<b>3,624</b>	<b>(3,648)</b>	<b>(908)</b>	<b>(4,556)</b>	<b>(932)</b>
<b>General Fund analysed over:</b>							
Amounts earmarked (Note 7)	3,249						
Amounts uncommitted	322						
<b>Total General Fund Balance at 31 March 2021</b>	<b>3,571</b>						



## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Comprehensive Income and Expenditure Statement for the year ended 31 March 2021

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

2019/20				2020/21			
£000s	£000s	£000s		£000s	£000s	£000s	
Expenditure	Income	Net		Expenditure	Income	Net	
9,544	(8,249)	<b>1,295</b>	Core Running Costs	6,500	(6,517)	<b>(17)</b>	
2,294	(2,057)	<b>237</b>	Enabling Infrastructure	23,601	(23,088)	<b>513</b>	
423	(423)	-	Development Costs	22,362	-	<b>22,362</b>	
<b>12,261</b>	<b>(10,729)</b>	<b>1,532</b>	<b>Cost Of Services</b>	<b>52,463</b>	<b>(29,605)</b>	<b>22,858</b>	
<b>Financing and Investment Income and Expenditure:</b>							
8	(8)	-	Net interest on the net defined benefit liability/asset	23	(13)	10	
<b>Taxation and Non-Specific Grant Income:</b>							
5	-	5	Taxation	-	-	-	
-	(3,193)	<b>(3,193)</b>	Capital grants and contributions	-	(13,940)	(13,940)	
<b>12,274</b>	<b>(13,930)</b>	<b>(1,656)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>52,486</b>	<b>(43,558)</b>	<b>8,928</b>	
		-	Share of (Surplus) or deficit on Joint Ventures			(3,315)	
		364	Re-measurements of the defined benefit liability			305	
		<b>364</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(3,010)</b>	
		<b>(1,292)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>5,918</b>	

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Balance Sheet as at 31 March 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by STDC. The net assets of the Group (assets less liabilities) are matched by the reserves held by the Group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Group are not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	31 March 2021 £000s	31 March 2020 £000s
<b>Non-current assets</b>			
Property, plant and equipment	8	34,328	11,500
Investment in Associates		3,315	-
<b>Total non-current assets</b>		<b>37,643</b>	<b>11,500</b>
<b>Current assets</b>			
Inventories		300	
Debtors	13	38,006	10,306
Cash and Cash Equivalents	14	9,484	6,603
<b>Total current assets</b>		<b>47,790</b>	<b>16,909</b>
<b>Current liabilities</b>			
Grant Receipts In Advance	21	(200)	(200)
Short Term Creditors	15	(49,120)	(11,512)
<b>Total current liabilities</b>		<b>(49,320)</b>	<b>(11,712)</b>
<b>Long term liabilities</b>			
Long Term Borrowing	16	(36,022)	(11,215)
Other Long Term Liabilities	16 & 22	(884)	(496)
Provisions		(139)	-
<b>Total long term liabilities</b>		<b>(37,045)</b>	<b>(11,711)</b>
<b>Net Assets:</b>		<b>(932)</b>	<b>4,986</b>
<b>Reserves</b>			
<b>Usable reserves:</b>			
General Fund Balance		322	322
Earmarked General Fund Reserves	7	3,249	646
Capital Grants Unapplied	7	53	5,225
		3,624	6,193
<b>Unusable Reserves:</b>			
Pensions Reserve	16 & 22	(884)	(496)
Capital Adjustment Account	9	(3,648)	(695)
Accumulated Absences Account		(24)	(16)
		(4,556)	(1,207)
<b>Total Reserves:</b>		<b>(932)</b>	<b>4,986</b>

Mayor Ben Houchen .....

Chair South Tees Development Corporation Board  
Date

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Cash Flow Statement For The Year Ended 31 March 2021

The Cash Flow Statement shows the changes in cash and cash equivalents of STDC during the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way contributions and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

	Note	2020/21 £000s	2019/20 £000s
<b>Net (surplus) or deficit on the provision of services</b>		<b>8,928</b>	(1,656)
<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements:</b>			
Depreciation, impairment and amortisation of non current assets		(22,177)	-
Revaluation Gains / (Losses)		-	(530)
Taxation		-	(5)
Pension Fund adjustments		(83)	(80)
Increase/(Decrease) in Inventories (Stock)		300	-
Increase/(Decrease) in Revenue Debtors (net of acquisition effects)	13	23,432	7,550
(Increase)/Decrease in Revenue Creditors (net of acquisition effects)	15	(22,976)	(9,878)
(Increase)/Decrease in Provisions (net of acquisition effects)		-	-
Increase/(Decrease) in Long Term Creditors		-	1,000
		<b>(21,504)</b>	(1,943)
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:</b>			
Capital Grants credited to surplus or deficit on the provision of services		-	(2,716)
		-	(2,716)
<b>Net cashflow from operating activities</b>		<b>(12,576)</b>	<b>(6,315)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment, investment property and intangibles		35,719	30
Purchase of Subsidiary (net cash acquired)		(1,217)	-
Other receipts from investing activities		-	2,716
<b>Net cashflow from investing activities</b>		<b>34,502</b>	2,746
<b>Financing activities</b>			
Movement in short and long term borrowings		(24,807)	-
<b>Net cashflow from financing activities</b>		<b>(24,807)</b>	-
<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(2,881)</b>	(3,569)
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>6,603</b>	<b>3,034</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	14	<b>9,484</b>	<b>6,603</b>
<b>The cashflow for operating activities includes the following items:</b>			

## **South Tees Development Corporation Group - Annual Financial Statements 2020/21**

### **Note 1: Group Structure**

During 2020/21 there has been the below changes to the group structure:

#### **South Tees Site Company ("STSC"):**

On 8th October 2020 STDC acquired South Tees Site Company Limited (STSC) from the Department for Business

- Energy and Industrial Strategy for a nominal sum. STSC is responsible for the management and keep safe of the former SSI steelworks site which vested into the ownership of STDC on the same day.
- As the organisation is 100% owned by the STDC it will be treated as a subsidiary.

The financial statements of STSC are prepared under FRS102 and are to the same financial year end as the

- Combined Authority. Where relevant and material accounting policies have been aligned to the Code of Practice on Local Authority Accounting.

#### **Teesworks:**

On 31 July 2020 STDC assumed a 50% shareholding in Teesworks Limited following the allotment of 2 £1 shares at

- nominal value. Teesworks Limited is accounted for as a joint venture vehicle between STDC and its private sector partners which manages commercialisation of land once remediated.

Details of other Group entities are set out below:

#### **South Tees Developments Limited ("STDL"):**

- On 3rd January 2019 STDC formed a new 100% subsidiary company South Tees Developments Limited.

South Tees Developments Ltd was set up in 2019 to hold and develop land areas on behalf of STDC. The masterplan

- for the redevelopment of the site under STDC has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy. Creating significant employment prospects for the area.
- As the organisation is 100% owned by the STDC it will be treated as a subsidiary.

The financial statements of STDL are prepared under FRS102 and are to the same financial year end as the

- Combined Authority. Where relevant and material accounting policies have been aligned to the Code of Practice on Local Authority Accounting.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 2: Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Group in comparison with those resources consumed or earned by the Group in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Group's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20				2020/21			
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£000s	£000s	£000s		£000s	£000s	£000s	
682	613	<b>1,295</b>	Core Running Costs	4,352	(4,369)	<b>(17)</b>	
(132)	369	<b>237</b>	Enabling Infrastructure	19,715	(19,202)	<b>513</b>	
-	-	-	Development Costs	200	22,162	<b>22,362</b>	
<b>550</b>	<b>982</b>	<b>1,532</b>	<b>Net Cost Of Services</b>	<b>24,267</b>	<b>(1,409)</b>	<b>22,858</b>	
(550)	(2,638)	(3,188)	Other Income and Expenditure	(23,666)	9,736	(13,930)	
-	<b>(1,656)</b>	<b>(1,656)</b>	Surplus or Deficit	<b>601</b>	<b>8,327</b>	<b>8,928</b>	
(322)			<b>Opening General Fund Balance</b>	<b>(322)</b>			
-			Less/Plus (Surplus) or Deficit	<b>601</b>			
-			Movements To Other Reserves	<b>(601)</b>			
<b>(322)</b>			<b>Closing General Fund Balance at 31 March 2021</b>	<b>(322)</b>			

# South Tees Development Corporation Group - Annual Financial Statements 2020/21

## Note 2: Expenditure & Funding Analysis

### Notes to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	14	73	(4,456)	<b>(4,369)</b>
Enabling Infrastructure	-	-	(19,202)	<b>(19,202)</b>
Development Costs	22,162	-	-	<b>22,162</b>
<b>Net Cost Of Services</b>	22,176	73	(23,658)	<b>(1,409)</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(13,940)	10	23,666	<b>9,736</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	8,236	83	8	<b>8,327</b>

Adjustments between Funding and Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	530	80	3	<b>613</b>
Enabling Infrastructure	369	-	-	<b>369</b>
Development Costs	-	-	-	<b>-</b>
<b>Net Cost Of Services</b>	899	80	3	<b>982</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,193)	-	555	<b>(2,638)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	(2,294)	80	558	<b>(1,656)</b>

**Adjustments for capital purposes:** this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Net Change for the Pensions Adjustments** - this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income.

**For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

**For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

**Other Differences** between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

## Expenditure and Income Analysed By Nature

The Group's expenditure and income is analysed as follows:

	2020/21	2019/20
	£000s	£000s
<b>Expenditure</b>		
Employee benefits expenses	4,835	1,016
Other services expenses	47,628	11,258
Interest payments	23	-
<b>Total Expenditure</b>	<b>52,486</b>	12,274
<b>Income</b>		
Fees, charges and other service income	(5,940)	(5,110)
Interest and investment income	(13)	(8)
Government grants and contributions	(37,605)	(8,812)
<b>Total Income</b>	<b>(43,558)</b>	(13,930)
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>8,928</b>	(1,656)

## Segmental Income

Income received on a segmental basis is analysed below:

	2020/21	2019/20
	£000s	£000s
<b>Services</b>	<b>Income from Services</b>	Income from Services
Core Running Costs	(2,212)	(5,110)
Enabling Infrastructure	(3,728)	-
<b>Total income analysed on a segmental basis</b>	<b>(5,940)</b>	<b>(5,110)</b>

## **South Tees Development Corporation Group - Annual Financial Statements 2020/21**

### **Note 3: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted**

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Interest Rate Benchmark Reform : Amendments to IFRS9, IAS39 & IFRS7
- Interest Rate Benchmark Reform Phase 2 : Amendments to IFRS4 and IFRS16.
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These changes are not expected to have a material impact on the Group's Accounts but it will be dependent on arrangements in place at that time and further details of the potential impact will be disclosed when more information becomes available.

### **Note 4: Critical Judgements in Applying Accounting Policies**

In applying its accounting policies the Group has had to make certain judgements about complex transactions or those involving uncertainty about future events.

There are no critical judgements for the Group.

### **Note 5: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by STDC about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in STDC's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide STDC with expert advice about the assumptions to be applied. Sensitivities are included in Note 22
- **Property Plant & Equipment:-** Within the Group valuations have been provided which have been reported subject to a Material Valuation Uncertainty clause due to the unique nature and scale of the land holdings. The inclusion of the 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. See note 8 for further references.



# South Tees Development Corporation Group - Annual Financial Statements 2020/21

## Note 6: Adjustments between Accounting Basis and Funding Basis under Regulations

2020/21	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	2,953	-	-	(2,953)
Adjustments involving the Capital Grants Unapplied Account	5,172	-	(5,172)	-
Adjustments involving the Pensions Reserve	83	-	-	(83)
Adjustments involving the Accumulated Absences Adjustment Account	8	-	-	(8)
<b>Total Adjustments</b>	<b>8,216</b>	<b>-</b>	<b>(5,172)</b>	<b>(3,044)</b>

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	422	-	-	(422)
Adjustments involving the Capital Grants Unapplied Account	(2,716)	-	2,716	-
Adjustments involving the Pensions Reserve	80	-	-	(80)
Adjustments involving the Accumulated Absences Adjustment Account	3	-	-	(3)
<b>Total Adjustments</b>	<b>(2,211)</b>	<b>-</b>	<b>2,716</b>	<b>(505)</b>

## Note 7: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21

Earmarked Reserves	Balance at 1 April 2020 £000s	Transfers Out 2020/21 £000s	Transfers In 2020/21 £000s	Balance at 31 March 2021 £000s
<b>Revenue Reserves</b>				
Planned Activities - STDC	(626)	-	-	(626)
Planned Activities - Subsidiaries	(20)	-	(2,603)	(2,623)
<b>Total Revenue Reserves</b>	<b>(646)</b>	<b>-</b>	<b>(2,603)</b>	<b>(3,249)</b>
Capital Grants Unapplied	(5,225)	5,172	-	(53)
<b>Total Capital Reserves</b>	<b>(5,871)</b>	<b>5,172</b>	<b>(2,603)</b>	<b>(3,302)</b>

Earmarked Reserves	Balance at 1 April 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
<b>Revenue Reserves</b>				
Planned Activities - STDC	(1,698)	1,072	-	(626)
Planned Activities - Subsidiaries	497	(517)	-	(20)
<b>Total Revenue Reserves</b>	<b>(1,201)</b>	<b>555</b>	<b>-</b>	<b>(646)</b>
Capital Grants Unapplied	(2,509)	-	(2,716)	(5,225)
<b>Total Capital Reserves</b>	<b>(3,710)</b>	<b>555</b>	<b>(2,716)</b>	<b>(5,871)</b>

### Details of reserves

The planned activities reserve for STDC relates to income received to carry out initial site investigation works.

The planned activities reserve for subsidiaries relates to funds held to carry out their activity.

Capital Grants Unapplied reserve relates to capital grants which have been received but are yet to be expended.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 8: Tangible Fixed Assets Plant, Property and Equipment

	Land & Buildings	Motor Vehicles	Plant & Machinery	Assets Under Construction	TOTAL
	£000s	£000s	£000s	£000s	£000s
<b>Cost</b>					
As at 1 April 2020	11,500	-	-	-	<b>11,500</b>
Additions	17,996	135	7	26,867	<b>45,005</b>
Revaluation	-	-	-	-	-
Reclassification	8,200	-	-	(8,200)	-
Disposals	-	-	-	-	-
As at 31 March 2021	<b>37,696</b>	<b>135</b>	<b>7</b>	<b>18,667</b>	<b>56,505</b>
<b>Depreciation</b>					
As at 1 April 2020	-	-	-	-	-
Additions	-	-	-	-	-
Depreciation Charge	-	14	2	-	<b>16</b>
Impairments	3,494	-	-	18,667	<b>22,161</b>
Reclassification	-	-	-	-	-
Derecognition of Disposals	-	-	-	-	-
As at 31 March 2021	<b>3,494</b>	<b>14</b>	<b>2</b>	<b>18,667</b>	<b>22,177</b>
<b>Net Book Value</b>					
As at 31 March 2020	11,500	-	-	-	11,500
As at 31 March 2021	<b>34,202</b>	<b>121</b>	<b>5</b>	<b>-</b>	<b>34,328</b>

#### Basis of Classification

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by external independent professional valuers on an annual basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

An independent valuers opinion of the current value of the STDC Group land was prepared by Avison Young in accordance with the RICS Valuation Global Standards 2017, CIPFA Code and the International Financial Reporting Standards and related definition of "Current value". This valuation has informed the revalued figure shown in the accounts with an effective date of 31/03/2021. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

The Valuer included a material uncertainty clause as per VPS 3 and VPGA 10 of the RICS valuation due to the unique nature and scale of the land holdings in relation to the £34.2 million land & buildings valuation in the above table. They clarify that: For the avoidance of doubt, the inclusion of the 'material uncertainty' declaration above does not mean that the valuation cannot be relied upon.

Assets under construction relate to the regeneration work being carried out on the land owned on the Development Corporation Site. As part of the annual valuation of the land the regeneration work undertaken to date is taken into account, therefore any impairment is first applied to the assets under construction before the land itself.

#### Basis of Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment attached to the land would be calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives, but the valuation of the land shown in the accounts allocates no value to the redundant buildings on it. Vehicles are depreciated over their expected useful lives. Assets in the course of construction are not depreciated until they are complete.

#### Contractual Commitments

At 31 March 2021 the Group had entered into contracts which would continue into the 2021/22 financial year. These consisted of £777,611 for preparation of land for development. (2019/20 £173,196)

# South Tees Development Corporation Group - Annual Financial Statements 2020/21

## Note 8: Tangible Fixed Assets Plant, Property and Equipment

	Land & Buildings	Motor Vehicles	Fixtures & Fittings	Assets Under Construction	TOTAL
	£000s	£000s	£000s	£000s	£000s
<b>Cost</b>					
As at 1 April 2019	12,000	-	-	-	<b>12,000</b>
Additions	30	-	-	-	<b>30</b>
Revaluation	(530)	-	-	-	<b>(530)</b>
Disposals	-	-	-	-	<b>-</b>
As at 31 March 2020	<b>11,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,500</b>
<b>Depreciation</b>					
As at 1 April 2019	-	-	-	-	<b>-</b>
Additions	-	-	-	-	<b>-</b>
Depreciation Charge	-	-	-	-	<b>-</b>
Impairments	-	-	-	-	<b>-</b>
Derecognition of Disposals	-	-	-	-	<b>-</b>
As at 31 March 2020	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Book Value</b>					
As at 31 March 2019	12,000	-	-	-	<b>12,000</b>
As at 31 March 2020	<b>11,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,500</b>

### Basis of Classification

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by external independent professional valuers on an annual basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

An independent valuers opinion of the current value of the STDC Group land was prepared by Avison Young in accordance with the RICS Valuation Global Standards 2017, CIPFA Code and the International Financial Reporting Standards and related definition of "Current value". This valuation has informed the revalued figure shown in the accounts with an effective date of 31/03/2020. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

The Valuer included a material uncertainty clause as per VPS 3 and VPGA 10 of the RICS valuation - Global Standards effective from 31 January 2020 because of the impact of Covid-19. They clarify that: For the avoidance of doubt, the inclusion of the 'material uncertainty' declaration above does not mean that the valuation cannot be relied upon.

### Basis of Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment attached to the land would be calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives, but the valuation of the land shown in the accounts allocates no value to the redundant buildings on it. Vehicles are depreciated over their expected useful lives. Assets in the course of construction are not depreciated until they are complete.

### Contractual Commitments

At 31 March 2020 the Group had entered into contracts which would continue into the 2020/21 financial year. These consisted of £173,196 million for preparation of land for development. (2018/19 nil)

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 9: Capital Adjustment Account

	2020/21 £000s	2019/20 £000s
<b>Balance at 1 April</b>	695	273
Revenue expenditure funded from capital under statute	-	584
Impairments	22,161	530
Depreciation	16	-
	<u>22,177</u>	<u>1,114</u>
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(13,940)	(107)
Application of grants to capital financing from the Capital Grants Unapplied Account	(5,172)	(477)
Statutory provision for the financing of capital investment charged against the General Fund	(111)	(108)
Capital expenditure charged against the General Fund balance	(1)	-
	<u>(19,224)</u>	<u>(692)</u>
<b>Balance at 31 March</b>	<b><u>3,648</u></b>	<b><u>695</u></b>

### Note 10: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year by the Group is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Group, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Group that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2021 £000s	31 March 2020 £000s
<b>Opening Capital Financing Requirement</b>	<b>11,107</b>	<b>11,215</b>
<b>Capital investment</b>		
Revenue expenditure funded from capital under statute	-	584
PPE Additions	44,998	-
<b>Sources of Finance</b>		
Government grants and other contributions	(19,112)	(584)
Sums set aside from revenue:		
Minimum Revenue Provision (MRP)	(111)	(108)
<b>Closing Capital Financing Requirement</b>	<b><u>36,882</u></b>	<b><u>11,107</u></b>

### Note 11: STDC Members' Allowances

STDC is part of the Tees Valley Combined Authority (TVCA) Group but retains its own separate Board (chaired by the Mayor of the Tees Valley) and governance committees with members drawn from both the public and private sectors. None of these members are paid any remuneration by either STDC Group nor the TVCA Group. Expenses claimed in 2020/21 amounted to £3,497 (2019/20 £nil).

The Mayor and his associated remuneration is reflected in the accounts of TVCA.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 12: Employee remuneration

The Chief Executive was previously employed by the South Tees Site Company, the organisation responsible for the safety, security and upkeep of the former SSI site. He left his role in early April 2020 and as such there were no costs recharged in relation to his services for 2020/21 (2019/20 £46,121).

The Director of Finance is employed by Tees Valley Combined Authority and a proportion of his salary is recharged to STDC, in 2020/21 this amounted to £51,944 (2019/20 £25,885).

During the year the amendment to Group Governance arrangements by Tees Valley Combined Authority resulted in the roles and responsibilities of the Chief Executive, Commercial Director and Director of Finance & Resources being amended to cover the Group.

Remuneration of Senior Employees 2020/21						
Post holder information	Salary (Including fees & Allowances) £	Expense Allowances £	Benefits In Kind £	Total Remuneration excluding pension contributions £	Pension contributions £	Total Remuneration including pension contributions £
CEO	35,000	-	-	35,000	-	35,000
Engineering & Project Director	136,247	-	-	136,247	27,522	163,769
Commercial Director	123,300	32	-	123,332	24,907	148,239
Strategic Utilities Project Director	92,475	-	-	92,475	18,680	111,155
Operations Director	70,000	-	3,150	73,150	14,140	87,290
EHSS Director	6,500	-	-	6,500	1,313	7,813
Capital Projects Director	5,484	-	-	5,484	1,108	6,592
Director of Estates	3,375	-	-	3,375	682	4,057
<b>TOTAL</b>	<b>472,381</b>	<b>32</b>	<b>3,150</b>	<b>475,563</b>	<b>88,352</b>	<b>563,915</b>

The CEO left his post in April 2020 and the above payment includes costs associated with his redundancy.

Engineering & Project Director, Commercial Director and Strategic Utilities Director were all in post for the full year.

The remaining posts were all employed during the year with details set out below:-

Operations Director commenced in September 2020

EHSS Director role commenced in March 2021

Capital Projects Director role commenced in March 2021

Director of Estates role commenced in March 2021

Remuneration of Senior Employees 2019/20						
Post holder information	Salary (Including fees & Allowances) £	Expense Allowances £	Benefits In Kind £	Total Remuneration excluding pension contributions £	Pension contributions £	Total Remuneration including pension contributions £
Engineering & Project Director	132,600	3,934	-	136,534	22,542	159,076
Assistant Director of Regeneration	68,501	484	-	68,985	-	68,985
Senior Non Executive Director	16,667	110	-	16,777	-	16,777
Interim Commercial Director	25,000	6,831	-	31,831	-	31,831
CEO	34,306	-	-	34,306	-	34,306
Commercial Director	37,053	1,976	-	39,029	6,299	45,328
Strategic Utilities Project Director	14,483	125	-	14,608	2,462	17,070
<b>TOTAL</b>	<b>328,610</b>	<b>13,460</b>	<b>-</b>	<b>342,070</b>	<b>31,303</b>	<b>373,373</b>

The previous CEO left the organisation in September 2018. The Senior Non Executive Director acted as the CEO the appointment of the new CEO in September 2019.

The Assistant Director of Regeneration left in October 2019.

The Commercial Director started in January 2020 and the Strategic Utilities Director started in February 2020.

# South Tees Development Corporation Group - Annual Financial Statements 2020/21

## Note 12: Employee remuneration

	Number of Employees	Number of Employees
	2020/21	2019/20
£50,001 - £55,000	3	3
£55,001 - £60,000	-	-
£60,001 - £65,000	-	-
£65,001 - £70,000	1	-
£70,001 - £75,000	-	-

Remuneration of the senior staff has been excluded from the salary range analysis shown in the table above.

## Note 13: Debtors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	2,901	578
Local Government	32,229	8,302
Other entities and individuals	2,876	1,426
	<b>38,006</b>	<b>10,306</b>

## Note 14: Cash and Cash Equivalents

	31 March 2021 £000s	31 March 2020 £000s
Bank and Imprests	9,484	6,603
	<b>9,484</b>	<b>6,603</b>

## Note 15: Short Term Creditors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	(232)	(31)
Local Government	(25,684)	(1,998)
Other entities and individuals	(23,204)	(9,483)
	<b>(49,120)</b>	<b>(11,512)</b>

## Note 16: Other Long Term Liabilities

	31 March 2021 £000s	31 March 2020 £000s
Net pensions liability	(884)	(496)
Provisions	(139)	
Long Term Borrowing	(36,022)	(11,215)
	<b>(37,045)</b>	<b>(11,711)</b>

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 17: Related Party Transactions

The Group is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence them or to be controlled or influenced by them. Disclosure of these transactions allows readers to assess the extent to which STDC might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Group.

#### Central Government

Central government has effective control over the general operations of Group – it is responsible for providing the statutory framework within which they operate, provides the majority of its funding in the form of grants (via TVCA) and prescribes the terms of many of the transactions that they have with other parties. Grants received from government departments are set out in the subjective analysis in Note 20.

#### Related Parties

South Tees Development Corporation was established by Tees Valley Combined Authority and is part of their overall group structure.

Tees Valley Combined Authority Cabinet members are leaders from the constituent local authorities and therefore these organisations are classed as related parties to STDC group.

The tables below set out the income and expenditure during year between the Group and these organisations.

<b>2020/21</b>	<b>Income Received £000s</b>	<b>Expenditure £000s</b>
Tees Valley Combined Authority	30,480	192
Stockton on Tees Borough Council	-	9
<b>Total</b>	<b>30,480</b>	<b>201</b>

<b>2019/20</b>	<b>Income Received £000s</b>	<b>Expenditure £000s</b>
Tees Valley Combined Authority	1,900	-
Stockton on Tees Borough Council	-	1
Redcar & Cleveland Borough Council	5	30
South Tees Site Company	14	117
<b>Total</b>	<b>1,919</b>	<b>148</b>

As at 31 March 2021 the below balances were held in the Group's balance sheet in respect of the controlled organisations.

	<b>Long Term Debtors £000s</b>	<b>Short Term Debtors £000s</b>	<b>Long Term Creditors £000s</b>	<b>Short Term Creditors £000s</b>
Tees Valley Combined Authority	-	32,229	36,022	25,684
Stockton on Tees Borough Council	-	-	-	5
<b>Total</b>	<b>-</b>	<b>32,229</b>	<b>36,022</b>	<b>25,689</b>

As at 31 March 2020 the below balances were held in the Group's balance sheet in respect of the controlled organisations.

	<b>Long Term Debtors £000s</b>	<b>Short Term Debtors £000s</b>	<b>Long Term Creditors £000s</b>	<b>Short Term Creditors £000s</b>
Tees Valley Combined Authority	-	8,302	11,215	4,958
South Tees Site Company	-	-	-	4
Redcar & Cleveland Borough Council	-	-	-	61
Stockton on Tees Borough Council	-	-	-	1
<b>Total</b>	<b>-</b>	<b>8,302</b>	<b>11,215</b>	<b>5,024</b>

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 18: External Audit Costs

The Group has incurred the following costs in relation to the audit of the Statement of Accounts and to non-audit services provided by the Group's external auditors:

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Fees payable to Mazars LLP with regard to external audit services	16	13
Fees payable to Tait Walker with regard to external audit services	9	5
	<b>25</b>	<b>18</b>

### Note 19: Leases

The Group is required to review all lease transactions and consider whether they are operational or finance leases.

STDL has leases which came with the land (both as lessee and lessor), they do not transfer the risks and rewards to the lessee, so do not qualify as finance leases. The nature of the agreements is for rents of items which could not be seen as assets e.g. pipework.

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Income	(213)	(257)
Expenditure	173	195

### Note 20: Grant Income

The Group credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21.

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
<b>Credited to Taxation and Non Specific Grant Income</b>		
Development Grant from MHCLG	5,290	3,193
TVCA Investment Fund Grant	-	1,900
STDC Business Case Grant via TVCA	6,550	-
Get Building Fund Grant via TVCA	2,100	-
<b>Total</b>	<b>13,940</b>	<b>5,093</b>
<b>Credited to Services</b>		
TVCA Investment Fund Grant	8,156	-
STDC Business Case Grant via TVCA	13,704	-
Operating Grant BEIS	1,806	-
Operating Grant MHCLG	-	3,000
Development Grant from MHCLG	-	107
	<b>23,666</b>	<b>3,107</b>
<b>Capital and Revenue Grants Receipts in Advance</b>		
Development grant from TVCA	200	200
<b>Total</b>	<b>200</b>	<b>200</b>



# South Tees Development Corporation Group - Annual Financial Statements 2020/21

## Note 21: Financial Instruments

### Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Group becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

### Financial Assets

A financial asset is a right to future economic benefits controlled by the Group that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Group. The financial assets held by the Group during the year are accounted for under the following classification:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Group.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Group and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Group. The majority of the Group's financial liabilities held during the year are measured at amortised cost and comprised of long term loans from Public Works Loans Board and trade payables for goods and services received

### Financial Instruments

The value of debtors and creditors reported in the tables below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	-	-	43,938	16,178
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>43,938</b>	<b>16,178</b>

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	(36,022)	(11,215)	(48,662)	(11,464)
<b>Total financial liabilities</b>	<b>(36,022)</b>	<b>(11,215)</b>	<b>(48,662)</b>	<b>(11,464)</b>

### Financial Instruments - Fair Values

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cashflows at 31st March 2021.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. Pooled Property Fund based on the latest market value from quarterly unaudited accounts.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability. For PWLB loans payable, PWLB premature repayment rates. For non-PWLB loans payable, prevailing market rates.
- Level 3 – fair value is determined using unobservable inputs. Loans are based on estimated creditworthiness taking into account security held against loans.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 21: Financial Instruments

Financial Assets	Level	Balance Sheet		Fair Value	
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	£000s
Other Short Term Assets*	N/A	43,938	43,938	16,178	16,178
<b>Total Financial Assets</b>		<b>43,938</b>	<b>43,938</b>	<b>16,178</b>	<b>16,178</b>
<i>Recorded on Balance Sheet as:-</i>					
Short Term Debtors		34,454		9,575	
Cash and Cash Equivalents		9,484		6,603	
<b>Total Financial Assets</b>		<b>43,938</b>		<b>16,178</b>	

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the

\* carrying amount.

Financial Liabilities	Level	Balance Sheet		Fair Value	
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	(Restated) £000s
Long Term Loans**	3	(36,022)	(36,022)	(11,215)	(11,215)
Other Short Term Liabilities*	N/A	(48,662)	(48,662)	(11,464)	(11,464)
<b>Total Financial Liabilities</b>		<b>(84,684)</b>	<b>(84,684)</b>	<b>(22,679)</b>	<b>(22,679)</b>
<i>Recorded on Balance Sheet as:-</i>					
Short Term Creditors		(48,662)		(11,464)	
Long Term Borrowing		(36,022)		(11,215)	
<b>Total Financial Liabilities</b>		<b>(84,684)</b>		<b>(22,679)</b>	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the

\* carrying amount.

### Note 21: Financial Instruments

The long term loans are owed to Tees Valley Combined Authority, repayment terms of these loans are on a 366 day notice period.  
\*\*

### Nature and Extent of Risks Arising from Financial Instruments

#### Key risks

The Group's activities expose it to a variety of financial risks; the key risks are:

- **credit risk – the possibility that other parties might fail to pay amounts due to the Group**
- **liquidity risk – the possibility that the Group might not have funds available to meet its commitments to make payments**
- **market risk – the possibility that financial loss might arise for the Group as a result of changes in such measures as interest rates and stock market movements**

#### Credit Risk:

The Group carries out financial checks on customers to ensure that all risks of non payment are assessed and minimised. Any treasury investments are only placed with organisations of high credit quality as set out in the Groups Treasury Management Strategy.

#### Liquidity Risk

The Group manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Group is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

#### Market Risk

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Group has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Group's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Price Risk: The Group, excluding the pension fund, does not invest in equity shares or marketable bonds.

Foreign Exchange Risk: The Group has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 22: Defined Benefit Pension Scheme

#### Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Group makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Group participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Group and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

#### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Group resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
· Current service cost	232	150
· Past service cost	-	9
<b>Financing and Investment Income and Expenditure</b>		
Net interest cost	10	-
<b>Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services</b>	<b>242</b>	159
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
· Return on plan assets (excluding the amount included in the net interest expense)	(141)	(122)
· Actuarial gains and losses arising on changes in financial assumptions	452	(10)
· Actuarial gains and losses due to liability experience	(6)	(13)
· Actuarial gains and losses due to changes in demographic assumptions	-	509
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>305</b>	364
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the (Surplus) or Deficit for the		
· Provision of Services for post employment benefits in accordance with the Code	(242)	(159)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
· Employers' contributions payable to scheme	<b>159</b>	<b>79</b>

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is £0.305m (2019/20 £0.364m)

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 22: Defined Benefit Pension Scheme Continued

#### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Present value of defined benefit obligation	(1,564)	(1,127)
Fair value of assets	680	631
Net liability recognised in the Balance Sheet	<b>(884)</b>	(496)

#### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Opening fair value of scheme assets at 1 April	631	133
Interest income	13	8
Remeasurement gains and (losses)	141	122
Contributions from the employer	159	79
Contributions from employees into the scheme	73	41
Benefits paid	(337)	248
<b>Closing balance value of scheme assets at 31 March</b>	<b>680</b>	631

#### Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Opening balance of defined benefit obligation at 1 April	(1,127)	(185)
Current service cost	(232)	(150)
Interest cost	(23)	(8)
Contributions by scheme participants	(73)	(41)
Actuarial gains and losses - financial assumptions	(452)	10
Actuarial gains and losses - demographic assumption	-	13
Actuarial gains and losses - liability experience	6	(509)
Benefits paid	337	(248)
Past service cost	-	(9)
<b>Closing balance of defined benefit obligation at 31 March</b>	<b>(1,564)</b>	(1,127)

#### Local Government Pension Scheme assets comprised:

	<b>Fair value of scheme assets</b>		<b>Fair value of scheme assets</b>	
	<b>2020/21</b>		<b>2019/20</b>	
	<b>£000s</b>	<b>%</b>	<b>£000s</b>	<b>%</b>
Equity investments (Quoted)	543	79.8%	459	72.7%
Property (Quoted)	51	7.5%	56	8.9%
Cash	51	7.5%	85	13.4%
Other Investments	35	5.2%	31	5.0%
	<b>680</b>	<b>100%</b>	<b>631</b>	<b>100%</b>

## Note 22: Defined Benefit Pension Scheme Continued

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

	2020/21	2019/20
Mortality assumptions:		
<u>Longevity at 65 for current pensioners:</u>		
Men	21.9	21.8
Women	23.6	23.5
<u>Longevity at 45 for future pensioners:</u>		
Men	23.3	23.2
Women	25.4	25.3
<u>Other assumptions:</u>		
Rate of inflation (CPI)	2.6%	1.8%
Rate of increase in salaries	3.6%	2.8%
Rate of increase in pensions	2.6%	1.8%
Rate of Pension accounts revaluation rate	2.6%	1.8%
Rate for discounting scheme liabilities	2.1%	2.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the Defined Benefit Obligation in the Scheme

	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	1,620	1,564	1,508
Rate of increase in salaries (increase or decrease by 0.1%)	1,577	1,564	1,551
Rate of increase in pensions payment (increase or decrease by 0.1%)	1,595	1,564	1,533
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,520	1,564	1,608

### Impact on the Group's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Group has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service Scheme may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension Scheme in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings Scheme to pay pensions and other benefits to certain public servants.

The Group anticipates to pay £0.165m contributions to the scheme in 2021/2022.

The weighted average duration of the defined benefit obligation for scheme members is 27.9 years.

## South Tees Development Corporation Group - Annual Financial Statements 2020/21

### Note 23: Termination Benefits

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21 £000s	2019/20 £000s
£1 to £20,000	-	-	1	1	1	1	3	15
£20,001 to £40,000	-	-	1	-	1	-	35	-
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	1	-	1	-	61	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>99</b>	<b>15</b>

### Note 24: Provisions

Within South Tees Site Company a provision of £139k exists in relation to statutory redundancy payments for employees transferred from SSI UK (in liquidation) who remained in employment. (2019/20 Nil)

### Note 25: Contingent Liabilities

Since incorporation STDC has prepared its accounts on the assumption that, as a public body, it would be subject to an exemption from Corporation Tax. Accordingly, no Corporation Tax liabilities have been recognised in its accounts to date.

However, following recent dialogue, confirmation has yet to be received from HMRC that this treatment is acceptable. Accordingly, there remains a possibility that STDC will be required to account for Corporation tax from its date of incorporation.

In accordance with the International Financial Reporting Interpretations Committee's interpretation 23 STDC has continued to assume that a Corporation tax exemption applies as, STDC considers this treatment to be appropriate and the most probable agreed outcome with HMRC.

However, should HMRC determine that STDC is subject to Corporation Tax, our current estimate of the potential Corporation tax liability to 31 March 2021 is £1,095,000. This assumes reported comprehensive income to March 2021 is equivalent to taxable profits and subject to corporation tax at 19%. Should a tax liability crystallise more work would be needed at the time to calculate the exact liability.

Within STSC the company's staff were transferred from SSI UK in Liquidation in a TUPE like arrangement. Enhanced payment in lieu of notice was offered to those who remained in post throughout its liquidation and this will be honoured upon final decommissioning of the site. There is a potential outflow of £537,815 which is dependant on staff remaining in post throughout the full decommissioning process. If staff leave before this they will not be entitled to these terms, consequently the timing and amount are uncertain and hence no provision has been made.

### Note 26: Post Balance Sheet Events

On 18 August 2021, an agreement was reached to transfer 40% of the share capital in Teesworks Limited to DCS Industrial Limited and JC Musgrave Limited, with South Tees Development Corporation retaining 10% of the Share Capital. The transfer is in exchange for Teesworks taking on the future development of the site together with the net future liabilities in preparing the site for tenants. As part of the agreement an option exists, allowing the purchase of areas of the Teesworks site for a value which is equal to a value determined by an independent valuer. The transaction has an effective date of 26 November 2021. (2019/20 Nil)

# South Tees Development Corporation

## Statement of Accounts 2020/21



## South Tees Development Corporation - Annual Financial Statements 2020/21

### STDC Movement in Reserves Statement for the year ended 31 March 2021

This statement shows the movement in the year on the different reserves held by the Corporation, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Comprehensive Income and Expenditure line shows the true economic cost of providing the Corporations services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Grants Unapplied	Total Usable Reserves	Capital Adjustment Account	Other Unusable Reserves	Unusable Reserves	Total Corporation Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b><u>Movement in reserves during 2019/20</u></b>							
<b>Balance at 1 April 2019 brought forward</b>	2,020	2,509	<b>4,529</b>	-	(65)	<b>(65)</b>	<b>4,464</b>
Total Comprehensive Income and Expenditure	1,669	-	<b>1,669</b>	-	(364)	<b>(364)</b>	<b>1,305</b>
Adjustments between accounting basis & funding basis under regulations (Note 5)	(2,741)	2,716	<b>(25)</b>	108	(83)	<b>25</b>	-
<b>Increase/Decrease in Year</b>	<b>(1,072)</b>	<b>2,716</b>	<b>1,644</b>	<b>108</b>	<b>(447)</b>	<b>(339)</b>	<b>1,305</b>
<b>Balance at 31 March 2020 carried forward</b>	<b>948</b>	<b>5,225</b>	<b>6,173</b>	<b>108</b>	<b>(512)</b>	<b>(404)</b>	<b>5,769</b>
Amounts earmarked (Note 6)	626						
Amounts uncommitted	322						
<b>Total General Fund Balance at 31 March 2020</b>	<b>948</b>						
<b><u>Movement in reserves during 2020/21</u></b>							
<b>Balance at 1 April 2020 brought forward</b>	948	5,225	<b>6,173</b>	108	(512)	<b>(404)</b>	<b>5,769</b>
Total Comprehensive Income and Expenditure	(4,238)	-	<b>(4,238)</b>	-	(305)	<b>(305)</b>	<b>(4,543)</b>
Adjustments between accounting basis & funding basis under regulations (Note 5)	4,238	(5,172)	(934)	1,025	(91)	934	-
<b>Increase/Decrease in Year</b>	<b>-</b>	<b>(5,172)</b>	<b>(5,172)</b>	<b>1,025</b>	<b>(396)</b>	<b>629</b>	<b>(4,543)</b>
<b>Balance at 31 March 2021 carried forward</b>	<b>948</b>	<b>53</b>	<b>1,001</b>	<b>1,133</b>	<b>(908)</b>	<b>225</b>	<b>1,226</b>
<b>General Fund analysed over:</b>							
Amounts earmarked (Note 6)	626						
Amounts uncommitted	322						
<b>Total General Fund Balance at 31 March 2021</b>	<b>948</b>						

## South Tees Development Corporation - Annual Financial Statements 2020/21

### STDC Comprehensive Income and Expenditure Statement for the year ended 31 March 2021

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the year of providing services in accordance with generally accepted accounting practices.

2019/20				2020/21			
£000s	£000s	£000s		£000s	£000s	£000s	
Expenditure	Income	Net		Expenditure	Income	Net	
2,526	(1,239)	<b>1,287</b>	Core Running Costs	2,259	(2,275)	<b>(16)</b>	
2,294	(2,057)	<b>237</b>	Enabling Infrastructure	3,692	(3,692)	<b>-</b>	
423	(423)	<b>-</b>	Development Costs	18,184	-	<b>18,184</b>	
<b>5,243</b>	<b>(3,719)</b>	<b>1,524</b>	<b>Cost Of Services</b>	<b>24,135</b>	<b>(5,967)</b>	<b>18,168</b>	
<b>Financing and Investment Income and Expenditure:</b>							
8	(8)	<b>-</b>	Net interest on the net defined benefit liability/asset	23	(13)	<b>10</b>	
<b>Taxation and Non-Specific Grant Income:</b>							
-	(3,193)	<b>(3,193)</b>	Capital grants and contributions	-	(13,940)	<b>(13,940)</b>	
<b>5,251</b>	<b>(6,920)</b>	<b>(1,669)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>24,158</b>	<b>(19,920)</b>	<b>4,238</b>	
		364	Re-measurements of the defined benefit liability			305	
		<b>364</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>305</b>	
		<b>(1,305)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>4,543</b>	

## South Tees Development Corporation - Annual Financial Statements 2020/21

### STDC Balance Sheet as at 31 March 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by STDC. The net assets of the Corporation (assets less liabilities) are matched by the reserves held by the Corporation. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Corporation may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Corporation are not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	31 March 2021 £000s	31 March 2020 £000s
<b>Non-current assets</b>			
Property, plant and equipment	7	14,623	-
Long Term Loan	12	24,253	11,273
Long Term Debtors	12	505	-
<b>Total non-current assets</b>		<b>39,381</b>	<b>11,273</b>
<b>Current assets</b>			
Debtors	13	32,833	7,243
Cash and Cash Equivalents	14	1,727	3,034
<b>Total current assets</b>		<b>34,560</b>	<b>10,277</b>
<b>Current liabilities</b>			
Grant Receipts In Advance	20	(200)	(200)
Short Term Creditors	15	(35,609)	(3,870)
<b>Total current liabilities</b>		<b>(35,809)</b>	<b>(4,070)</b>
<b>Long term liabilities</b>			
Long Term Borrowing	16	(36,022)	(11,215)
Other Long Term Liabilities	16 & 22	(884)	(496)
<b>Total long term liabilities</b>		<b>(36,906)</b>	<b>(11,711)</b>
<b>Net Assets:</b>		<b>1,226</b>	<b>5,769</b>
<b>Reserves</b>			
<b>Usable reserves:</b>			
General Fund Balance		322	322
Earmarked General Fund Reserves	6	626	626
Capital Grants Unapplied		53	5,225
		<b>1,001</b>	<b>6,173</b>
<b>Unusable Reserves:</b>			
Pensions Reserve	16 & 22	(884)	(496)
Capital Adjustment Account	8	1,133	108
Accumulated Absences Account		(24)	(16)
		<b>225</b>	<b>(404)</b>
<b>Total Reserves:</b>		<b>1,226</b>	<b>5,769</b>

Mayor Ben Houchen .....

Chair South Tees Development Corporation Board  
Date

## South Tees Development Corporation - Annual Financial Statements 2020/21

### STDC Cash Flow Statement For The Year Ended 31 March 2021

The Cash Flow Statement shows the changes in cash and cash equivalents of STDC during the reporting period. The statement shows how the Corporation generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Corporation are funded by way contributions and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Corporation's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Corporation.

	Note	2020/21 £000s	2019/20 £000s
<b>Net (surplus) or deficit on the provision of services</b>		<b>4,238</b>	(1,669)
<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements:</b>			
Depreciation, impairment and amortisation of non current assets		(18,197)	-
Pension Fund adjustments		(83)	(80)
Increase/(Decrease) in Revenue Debtors	13	25,590	4,641
(Increase)/Decrease in Revenue Creditors	15	(25,927)	(2,742)
Increase/(Decrease) in Long Term Debtors	12	13,485	(150)
		<b>(5,132)</b>	1,669
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:</b>			
Capital Grants credited to surplus or deficit on the provision of services		(13,940)	(2,716)
		<b>(13,940)</b>	(2,716)
<b>Net cashflow from operating activities</b>		<b>(14,834)</b>	<b>(2,716)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment, investment property and intangibles		27,008	-
Other receipts from investing activities		13,940	2,716
<b>Net cashflow from investing activities</b>		<b>40,948</b>	2,716
<b>Financing activities</b>			
Movement in short and long term borrowings		(24,807)	-
<b>Net cashflow from financing activities</b>		<b>(24,807)</b>	-
<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>1,307</b>	-
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>3,034</b>	<b>3,034</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	14	<b>1,727</b>	3,034
<b>The cashflow for operating activities includes the following items:</b>			

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 1: Expenditure & Funding Analysis STDC

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Corporation in comparison with those resources consumed or earned by the Corporation in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Corporation's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20			2020/21		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s	£000s	£000s	£000s
1,204	83	<b>1,287</b>	1,999	(2,015)	<b>(16)</b>
(132)	369	<b>237</b>	3,692	(3,692)	-
-	-	-	-	18,184	<b>18,184</b>
<b>1,072</b>	<b>452</b>	<b>1,524</b>	<b>5,691</b>	<b>12,477</b>	<b>18,168</b>
(1,072)	(2,121)	(3,193)	(5,802)	(8,128)	(13,930)
-	<b>(1,669)</b>	<b>(1,669)</b>	<b>(111)</b>	<b>4,349</b>	<b>4,238</b>
(322)		<b>Opening General Fund Balance at 1 April</b>	<b>(322)</b>		
-		Less/Plus (Surplus) or Deficit	<b>(111)</b>		
-		Movements To Other Reserves	<b>111</b>		
<b>(322)</b>		<b>Closing General Fund Balance at 31 March</b>	<b>(322)</b>		

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 1: Expenditure & Funding Analysis STDC

#### Notes to the Expenditure and Funding Analysis: STDC

Adjustments between Funding and Accounting Basis 2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	14	73	(2,102)	<b>(2,015)</b>
Enabling Infrastructure	-	-	(3,692)	<b>(3,692)</b>
Development Costs	18,184	-	-	<b>18,184</b>
<b>Net Cost Of Services</b>	18,198	73	(5,794)	<b>12,477</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(13,940)	10	5,802	<b>(8,128)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	4,258	83	8	<b>4,349</b>

Adjustments between Funding and Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	-	80	3	83
Enabling Infrastructure	369	-	-	369
Development Costs	-	-	-	-
<b>Net Cost Of Services</b>	369	80	3	<b>452</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,193)	-	1,072	(2,121)
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	<b>(2,824)</b>	<b>80</b>	<b>1,075</b>	<b>(1,669)</b>

**Adjustments for capital purposes:** this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

**Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

**Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

**Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

**Net Change for the Pensions Adjustments** - this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income.

**For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

**For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

**Other Differences** between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

## Expenditure and Income Analysed By Nature

The Corporation's expenditure and income is analysed as follows:

	2020/21	2019/20
	£000s	£000s
<b>Expenditure</b>		
Employee benefits expenses	1,447	834
Other services expenses	22,688	4,408
Interest payments	23	8
<b>Total Expenditure</b>	<b>24,158</b>	<b>5,250</b>
<b>Income</b>		
Fees, charges and other service income	(166)	-
Interest and investment income	(13)	(8)
Government grants and contributions	(19,741)	(6,911)
<b>Total Income</b>	<b>(19,920)</b>	<b>(6,919)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>4,238</b>	<b>(1,669)</b>

## Segmental Income

Income received on a segmental basis is analysed below:

	2020/21	2019/20
	£000s	£000s
<b>Services</b>	<b>Income from Services</b>	<b>Income from Services</b>
Core Running Costs	(166)	-
<b>Total income analysed on a segmental basis</b>	<b>(166)</b>	<b>-</b>

## **South Tees Development Corporation - Annual Financial Statements 2020/21**

### **Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted**

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Interest Rate Benchmark Reform : Amendments to IFRS9, IAS39 & IFRS7
- Interest Rate Benchmark Reform Phase 2 : Amendments to IFRS4 and IFRS16.
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These changes are not expected to have a material impact on the Corporation's Accounts but it will be dependent on arrangements in place at that time and further details of the potential impact will be disclosed when more information becomes available.

### **Note 3: Critical Judgements in Applying Accounting Policies**

In applying its accounting policies the Corporation has had to make certain judgements about complex transactions or those involving uncertainty about future events.

There are no critical judgements for the Corporation as a single entity.

### **Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by STDC about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in STDC's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Pension liabilities:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide STDC with expert advice about the assumptions to be applied. Sensitivities are included in Note 22
- **Property Plant & Equipment:-** Within the Corporation valuations have been provided which have been reported subject to a Material Valuation Uncertainty clause due to the unique nature and scale of the land holdings. The inclusion of the 'material valuation uncertainty' declaration does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. See note 7 for further references.



## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2020/21	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	(1,025)	-	-	1,025
Adjustments involving the Capital Grants Unapplied Account	5,172	-	(5,172)	-
Adjustments involving the Pensions Reserve	83	-	-	(83)
Adjustments involving the Accumulated Absences Adjustment Account	8	-	-	(8)
<b>Total Adjustments</b>	<b>4,238</b>	<b>-</b>	<b>(5,172)</b>	<b>934</b>

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	(108)	-	-	108
Adjustments involving the Capital Grants Unapplied Account	(2,716)	-	2,716	-
Adjustments involving the Pensions Reserve	80	-	-	(80)
Adjustments involving the Accumulated Absences Adjustment Account	3	-	-	(3)
<b>Total Adjustments</b>	<b>(2,741)</b>	<b>-</b>	<b>2,716</b>	<b>25</b>

### Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21

Earmarked Reserves	Balance at 1 April 2020 £000s	Transfers Out 2020/21 £000s	Transfers In 2020/21 £000s	Balance at 31 March 2021 £000s
<b>Revenue Reserves</b>				
Planned Activities	(626)	-	-	(626)
<b>Total Revenue Reserves</b>	<b>(626)</b>	<b>-</b>	<b>-</b>	<b>(626)</b>

Earmarked Reserves	Balance at 1 April 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
<b>Revenue Reserves</b>				
Planned Activities	(1,698)	1,072	-	(626)
<b>Total Revenue Reserves</b>	<b>(1,698)</b>	<b>1,072</b>	<b>-</b>	<b>(626)</b>

#### Details of reserves

The planned activities reserve relates to income received to carry out initial site investigation works.

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 7: Non Current Assets Plant, Property and Equipment

	Land & Buildings	Motor Vehicles	Fixtures & Fittings	Assets Under Construction	TOTAL
	£000s	£000s	£000s	£000s	£000s
<b>Cost</b>					
As at 1 April 2020	-	-	-	-	-
Additions	17,996	135	-	14,689	32,820
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
As at 31 March 2021	17,996	135	-	14,689	32,820
<b>Depreciation</b>					
As at 1 April 2020	-	-	-	-	-
Additions	-	-	-	-	-
Depreciation Charge	-	14	-	-	14
Impairments	3,494	-	-	14,689	18,183
Derecognition of Disposals	-	-	-	-	-
As at 31 March 2021	3,494	14	-	14,689	18,197
<b>Net Book Value</b>					
As at 31 March 2020	-	-	-	-	-
As at 31 March 2021	14,502	121	-	-	14,623

#### Basis of Classification

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by external independent professional valuers on an annual basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

An independent valuers opinion of the current value of the STDC Group land was prepared by Avison Young in accordance with the RICS Valuation Global Standards 2017, CIPFA Code and the International Financial Reporting Standards and related definition of "Current value". This valuation has informed the revalued figure shown in the accounts with an effective date of 31/03/2021. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

The Valuer included a material uncertainty clause as per VPS 3 and VPGA 10 of the RICS valuation due to the unique nature and scale of the land holdings. They clarify that: For the avoidance of doubt, the inclusion of the 'material uncertainty' declaration above does not mean that the valuation cannot be relied upon.

Assets under construction relate to the regeneration work being carried out on the land owned on the Development Corporation Site. As part of the annual valuation of the land the regeneration work undertaken to date is taken into account, therefore any impairment is first applied to the assets under construction before the land itself.

#### Basis of Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment attached to the land would be calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives, but the valuation of the land shown in the accounts allocates no value to the redundant buildings on it. Vehicles are depreciated over their expected useful lives. Assets in the course of construction are not depreciated until they are complete.

#### Contractual Commitments

At 31 March 2021 the Corporation had entered into contracts which would continue into the 2021/22 financial year. These consisted of £544,413 million for preparation of land for development. (2019/20 £173,196)

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 8: Capital Adjustment Account

	2020/21 £000s	2019/20 £000s
<b>Balance at 1 April</b>	(108)	-
Revenue expenditure funded from capital under statute	-	(584)
Impairments	18,184	-
Depreciation	14	-
	<u>18,198</u>	<u>(584)</u>
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(13,940)	107
Application of grants to capital financing from the Capital Grants Unapplied Account	(5,172)	477
Statutory provision for the financing of capital investment charged against the General Fund	(111)	(108)
	<u>(19,223)</u>	<u>476</u>
<b>Balance at 31 March</b>	<b><u>(1,133)</u></b>	<b><u>(108)</u></b>

### Note 9: Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year by STDC is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Corporation, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Corporation that has yet to be financed. The CFR is analysed in the bottom part of this note.

	31 March 2021 £000s	31 March 2020 £000s
<b>Opening Capital Financing Requirement</b>	<b>11,107</b>	<b>11,215</b>
<b>Capital investment</b>		
Revenue expenditure funded from capital under statute	-	(584)
PPE Additions	32,820	-
Loans to Subsidiaries	11,099	-
<b>Sources of Finance</b>		
Government grants and other contributions	(19,112)	584
Sums set aside from revenue:		
Minimum Revenue Provision (MRP)	(111)	(108)
<b>Closing Capital Financing Requirement</b>	<b><u>35,803</u></b>	<b><u>11,107</u></b>

### Note 10: STDC Members' Allowances

STDC is part of the Tees Valley Combined Authority (TVCA) Group but retains its own separate Board (chaired by the Mayor of the Tees Valley) and governance committees with members drawn from both the public and private sectors. None of these members are paid any remuneration by either STDC Group nor the TVCA Group. Expenses claimed in 2020/21 amounted to £3,497 (2019/20 £nil).

The Mayor and his associated remuneration is reflected in the accounts of TVCA.

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 11: Employee remuneration

The Chief Executive was previously employed by the South Tees Site Company, the organisation responsible for the safety, security and upkeep of the former SSI site. He left his role in early April 2020 and as such there were no costs recharged in relation to his services for 2020/21 (2019/20 £46,121).

The Director of Finance is employed by Tees Valley Combined Authority and a proportion of his salary is recharged to STDC, in 2020/21 this amounted to £51,944 (2019/20 £25,885).

During the year the amendment to Group Governance arrangements by Tees Valley Combined Authority resulted in the roles and responsibilities of the Chief Executive, Commercial Director and Director of Finance & Resources being amended to cover the Group.

Remuneration of Senior Employees 2020/21						
Post holder information	Salary (Including fees & Allowances)	Expense Allowances	Benefits In Kind	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
CEO	35,000	-	-	35,000	-	35,000
Engineering & Project Director	136,247	-	-	136,247	27,522	163,769
Commercial Director	123,300	32	-	123,332	24,907	148,239
Strategic Utilities Project Director	92,475	-	-	92,475	18,680	111,155
Operations Director	70,000	-	3,150	73,150	14,140	87,290
EHSS Director	6,500	-	-	6,500	1,313	7,813
Capital Projects Director	5,484	-	-	5,484	1,108	6,592
Director of Estates	3,375	-	-	3,375	682	4,057
<b>TOTAL</b>	<b>472,381</b>	<b>32</b>	<b>3,150</b>	<b>475,563</b>	<b>88,352</b>	<b>563,915</b>

The CEO left his post in April 2020 and the above payment includes costs associated with his redundancy.

Engineering & Project Director, Commercial Director and Strategic Utilities Director were all in post for the full year.

The remaining posts were all employed during the year with details set out below:-

Operations Director commenced in September 2020

EHSS Director role commenced in March 2021

Capital Projects Director role commenced in March 2021

Director of Estates role commenced in March 2021

Remuneration of Senior Employees 2019/20						
Post holder information	Salary (Including fees & Allowances)	Expense Allowances	Benefits In Kind	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
Engineering & Project Director	132,600	3,934	-	136,534	22,542	159,076
Assistant Director of Regeneration	68,501	484	-	68,985	-	68,985
Senior Non Executive Director	16,667	110	-	16,777	-	16,777
Interim Commercial Director	25,000	6,831	-	31,831	-	31,831
CEO	34,306	-	-	34,306	-	34,306
Commercial Director	37,053	1,976	-	39,029	6,299	45,328
Strategic Utilities Project Director	14,483	125	-	14,608	2,462	17,070
<b>TOTAL</b>	<b>328,610</b>	<b>13,460</b>	<b>-</b>	<b>342,070</b>	<b>31,303</b>	<b>373,373</b>

The previous CEO left the organisation in September 2018. The Senior Non Executive Director acted as the CEO the appointment of the new CEO in September 2019.

The Assistant Director of Regeneration left in October 2019.

The Commercial Director started in January 2020 and the Strategic Utilities Director started in February 2020.

# South Tees Development Corporation - Annual Financial Statements 2020/21

## Note 11: Employee remuneration

	Number of Employees	Number of Employees
	2020/21	2019/20
£50,001 - £55,000	3	3
£55,001 - £60,000	-	-
£60,001 - £65,000	-	-
£65,001 - £70,000	1	-
£70,001 - £75,000	-	-

Remuneration of the senior staff has been excluded from the salary range analysis shown in the table above.

## Note 12: Long Term Debtors & Loans

	31 March 2021 £000s	31 March 2020 £000s
Other entities and individuals	24,758	11,273
	<b>24,758</b>	<b>11,273</b>

## Note 13: Debtors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	1,570	333
Local Government	31,041	6,402
Other entities and individuals	222	508
	<b>32,833</b>	<b>7,243</b>

## Note 14: Cash and Cash Equivalents

	31 March 2021 £000s	31 March 2020 £000s
Bank and Imprests	1,727	3,034
	<b>1,727</b>	<b>3,034</b>

## Note 15: Short Term Creditors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	69	26
Local Government	25,684	1,998
Other entities and individuals	9,856	1,846
	<b>35,609</b>	<b>3,870</b>

## Note 16: Other Long Term Liabilities

	31 March 2021 £000s	31 March 2020 £000s
Net pensions liability	884	496
Long Term Borrowing	36,022	11,215
	<b>36,906</b>	<b>11,711</b>

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 17: Related Party Transactions

The Corporation is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence them or to be controlled or influenced by them. Disclosure of these transactions allows readers to assess the extent to which STDC might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Corporation.

#### Central Government

Central government has effective control over the general operations of Corporation – it is responsible for providing the statutory framework within which they operate, provides the majority of its funding in the form of grants (via TVCA) and prescribes the terms of many of the transactions that they have with other parties. Grants received from government departments are set out in the subjective analysis in Note 20.

#### Related Parties

South Tees Development Corporation was established by Tees Valley Combined Authority and is part of their overall group structure.

Tees Valley Combined Authority Cabinet members are leaders from the constituent local authorities and therefore these organisations are classed as related parties to STDC.

South Tees Site Company was a Government controlled organisation who is responsible for the safety, security and upkeep of the former SSI Site. This was brought into the group on 9th October 2020

South Tees Developments Limited is a wholly owned subsidiary of South Tees Development Corporation.

Teesworks Ltd is the joint venture between STDC and its private sector partners with 50/50 ownership.

The tables below set out the income and expenditure during year between stdc and these organisations.

2020/21	Income Received £000s	Expenditure £000s
Tees Valley Combined Authority	14,451	192
South Tees Site Company	-	11
Teesworks	-	827
Stockton on Tees Borough Council	-	9
<b>Total</b>	<b>14,451</b>	<b>1,039</b>

2019/20	Income Received £000s	Expenditure £000s
South Tees Site Company	-	76
Stockton on Tees Borough Council	-	1
Redcar & Cleveland Borough Council	5	30
<b>Total</b>	<b>5</b>	<b>107</b>

As at 31 March 2021 the below balances were held in the Corporation's balance sheet in respect of the controlled organisations.

	Long Term Debtors £000s	Short Term Debtors £000s	Long Term Creditors £000s	Short Term Creditors £000s
Tees Valley Combined Authority	-	31,041	36,022	25,684
South Tees Site Company	-	-	-	1
South Tees Developments Limited	24,759	-	-	-
Teesworks	-	-	-	3,331
Stockton on Tees Borough Council	-	-	-	5
<b>Total</b>	<b>24,759</b>	<b>31,041</b>	<b>36,022</b>	<b>29,021</b>

As at 31 March 2020 the below balances were held in the Corporation's balance sheet in respect of the controlled organisations.

	Long Term Debtors £000s	Short Term Debtors £000s	Long Term Creditors £000s	Short Term Creditors £000s
Tees Valley Combined Authority	-	6,402	11,215	1,998
South Tees Developments Limited	11,273	505	-	-
Stockton on Tees Borough Council	-	-	-	1
<b>Total</b>	<b>11,273</b>	<b>6,907</b>	<b>11,215</b>	<b>1,999</b>

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 18: External Audit Costs

The Corporation has incurred the following costs in relation to the audit of the Statement of Accounts and to non-audit services provided by the Corporation's external auditors:

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Fees payable to Mazars LLP with regard to external audit services	16	13

### Note 19: Leases

The Corporation has no leases as a single entity

### Note 20: Grant Income

The Corporation credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21.

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
<b>Credited to Taxation and Non Specific Grant Income</b>		
Development Grant from MHCLG	5,290	3,193
STDC Business Case Grant via TVCA	6,550	-
Get Building Fund Grant via TVCA	2,100	-
<b>Total</b>	<b>13,940</b>	<b>3,193</b>
<b>Credited to Services</b>		
TVCA Investment Fund Grant	5,801	-
Operating Grant MHCLG	-	3,000
Development Grant from MHCLG	-	107
	<b>5,801</b>	<b>3,107</b>
<b>Capital and Revenue Grants Receipts in Advance</b>		
Development grant from TVCA	200	200
<b>Total</b>	<b>200</b>	<b>200</b>

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 21: Financial Instruments

#### Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Corporation becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

#### Financial Assets

A financial asset is a right to future economic benefits controlled by the Corporation that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Corporation. The financial assets held by the Corporation during the year are accounted for under the following classification:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Corporation.

#### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Corporation and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Corporation. The majority of the Corporation's financial liabilities held during the year are measured at amortised cost and comprised of long term loans from Public Works Loans Board and trade payables for goods and services received

#### Financial Instruments

The value of debtors and creditors reported in the tables below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	24,758	11,273	32,925	9,942
<b>Total financial assets</b>	<b>24,758</b>	11,273	<b>32,925</b>	9,942

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	(36,022)	(11,215)	(35,435)	(3,828)
<b>Total financial liabilities</b>	<b>(36,022)</b>	(11,215)	<b>(35,435)</b>	(3,828)



# South Tees Development Corporation - Annual Financial Statements 2020/21

## Note 21: Financial Instruments

### Note 21: Financial Instruments Continued

#### Financial Instruments - Fair Values

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cashflows at 31st March 2021.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. Pooled Property Fund based on the latest market value from quarterly unaudited accounts.
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability. For PWLB loans payable, PWLB premature repayment rates. For non-PWLB loans payable, prevailing market rates.
- Level 3 – fair value is determined using unobservable inputs. Loans are based on estimated creditworthiness taking into account security held against loans.

Financial Assets	Level	Balance Sheet	Fair Value	Balance Sheet	Fair Value
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	£000s
Loans to Subsidiaries**	3	24,758	24,758	11,273	11,273
Other Short Term Assets*	N/A	32,925	32,925	9,942	9,942
<b>Total Financial Assets</b>		<b>57,683</b>	<b>57,683</b>	<b>21,215</b>	<b>21,215</b>
<i>Recorded on Balance Sheet as:-</i>					
Long Term Debtors		24,758		11,273	
Short Term Debtors		31,198		6,908	
Cash and Cash Equivalents		1,727		3,034	
<b>Total Financial Assets</b>		<b>57,683</b>		<b>21,215</b>	

The fair value of short-term financial assets held at amortised cost, including trade receivables, is assumed to approximate to the carrying amount.

\*\* The loans to subsidiaries have repayment terms of a 366 day notice period.

Financial Liabilities	Level	Balance Sheet	Fair Value	Balance Sheet	Fair Value
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	£000s
Long Term Loans**	3	(36,022)	(36,022)	(11,215)	(11,215)
Other Short Term Liabilities*	N/A	(35,435)	(35,435)	(3,828)	(3,828)
<b>Total Financial Liabilities</b>		<b>(71,457)</b>	<b>(71,457)</b>	<b>(15,043)</b>	<b>(15,043)</b>
<i>Recorded on Balance Sheet as:-</i>					
Short Term Creditors		(35,435)		(3,828)	
Long Term Borrowing		(36,022)		(11,215)	
<b>Total Financial Liabilities</b>		<b>(71,457)</b>		<b>(15,043)</b>	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

The long term are owed to Tees Valley Combined Authority, repayment terms of these loans are on a 366 day notice period.

\*\*

### Note 21: Financial Instruments

#### Note 21: Financial Instruments Continued

#### Nature and Extent of Risks Arising from Financial Instruments

##### Key risks

The Corporation's activities expose it to a variety of financial risks; the key risks are:

- **credit risk – the possibility that other parties might fail to pay amounts due to the Corporation**
- **liquidity risk – the possibility that the Corporation might not have funds available to meet its commitments to make payments**
- **market risk – the possibility that financial loss might arise for the Corporation as a result of changes in**

##### Credit Risk:

The corporation carries out financial checks on customers to ensure that all risks of non payment are assessed and minimised. Any treasury investments are only placed with organisations of high credit quality as set out in the Groups Treasury Management Strategy.

##### Liquidity Risk

The Corporation manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Corporation is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

##### Market Risk

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances)
- investments at variable rates – the interest income credited to the (Surplus) or Deficit on the Provision of Services
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the (Surplus) or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the (Surplus) or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Corporation has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Corporation's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Price Risk: The Corporation, excluding the pension fund, does not invest in equity shares or marketable bonds.

Foreign Exchange Risk: The Corporation has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 22: Defined Benefit Pension Scheme

#### Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Corporation makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Corporation has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Corporation participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Corporation and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

#### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Corporation resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of Services:</b>		
· Current service cost	232	150
· Past service cost	-	9
<b>Financing and Investment Income and Expenditure</b>		
Net interest cost	10	-
<b>Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services</b>	<b>242</b>	159
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>		
· Return on plan assets (excluding the amount included in the net interest expense)	(141)	(122)
· Actuarial gains and losses arising on changes in financial assumptions	452	(10)
· Actuarial gains and losses due to liability experience	(6)	(13)
· Actuarial gains and losses due to changes in demographic assumptions	-	509
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>305</b>	364
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the (Surplus) or Deficit for the		
· Provision of Services for post employment benefits in accordance with the Code	(242)	(159)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
· Employers' contributions payable to scheme	<b>159</b>	<b>79</b>

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is £0.305m (2019/20 £0.364m)

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 22: Defined Benefit Pension Scheme Continued

#### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Corporation's obligation in respect of its defined benefit plans is as follows:

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Present value of defined benefit obligation	(1,564)	(1,127)
Fair value of assets	680	631
Net liability recognised in the Balance Sheet	<b>(884)</b>	(496)

#### Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Opening fair value of scheme assets at 1 April	631	133
Interest income	13	8
Remeasurement gains and (losses)	141	122
Contributions from the employer	159	79
Contributions from employees into the scheme	73	41
Benefits paid	(337)	248
<b>Closing balance value of scheme assets at 31 March</b>	<b>680</b>	631

#### Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	<b>Local Government Pension Scheme</b>	
	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
Opening balance of defined benefit obligation at 1 April	(1,127)	(185)
Current service cost	(232)	(150)
Interest cost	(23)	(8)
Contributions by scheme participants	(73)	(41)
Actuarial gains and losses - financial assumptions	(452)	10
Actuarial gains and losses - demographic assumption	-	13
Actuarial gains and losses - liability experience	6	(509)
Benefits paid	337	(248)
Past service cost	-	(9)
<b>Closing balance of defined benefit obligation at 31 March</b>	<b>(1,564)</b>	(1,127)

#### Local Government Pension Scheme assets comprised:

	<b>Fair value of scheme assets</b>		<b>Fair value of scheme assets</b>	
	<b>2020/21</b>		<b>2019/20</b>	
	<b>£000s</b>	<b>%</b>	<b>£000s</b>	<b>%</b>
Equity investments (Quoted)	543	79.8%	459	72.7%
Property (Quoted)	51	7.5%	56	8.9%
Cash	51	7.5%	85	13.4%
Other Investments	35	5.2%	31	5.0%
	<b>680</b>	<b>100%</b>	<b>631</b>	<b>100%</b>

## Note 22: Defined Benefit Pension Scheme Continued

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

	2020/21	2019/20
Mortality assumptions:		
<u>Longevity at 65 for current pensioners:</u>		
Men	21.9	21.8
Women	23.6	23.5
<u>Longevity at 45 for future pensioners:</u>		
Men	23.3	23.2
Women	25.4	25.3
<u>Other assumptions:</u>		
Rate of inflation (CPI)	2.6%	1.8%
Rate of increase in salaries	3.6%	2.8%
Rate of increase in pensions	2.6%	1.8%
Rate of Pension accounts revaluation rate	2.6%	1.8%
Rate for discounting scheme liabilities	2.1%	2.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

### Impact on the Defined Benefit Obligation in the Scheme

	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	1,620	1,564	1,508
Rate of increase in salaries (increase or decrease by 0.1%)	1,577	1,564	1,551
Rate of increase in pensions payment (increase or decrease by 0.1%)	1,595	1,564	1,533
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	1,520	1,564	1,608

### Impact on the Corporation's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Corporation has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service Scheme may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension Scheme in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings Scheme to pay pensions and other benefits to certain public servants.

The Corporation anticipates to pay £0.165m contributions to the scheme in 2021/2022.

The weighted average duration of the defined benefit obligation for scheme members is 27.9 years.

## South Tees Development Corporation - Annual Financial Statements 2020/21

### Note 23: Termination Benefits

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21 £000s	2019/20 £000s
£1 to £20,000	-	-	-	1	-	1	-	15
£20,001 to £40,000	-	-	1	-	1	-	35	-
£40,001 to £60,000	-	-	-	-	-	-	-	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,001 to £150,000	-	-	-	-	-	-	-	-
£150,001 to £200,000	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>35</b>	<b>15</b>

### Note 24: Provisions

There are no provisions for the Corporation (2019/20 Nil)

### Note 25: Contingent Liabilities

Since incorporation STDC has prepared its accounts on the assumption that, as a public body, it would be subject to an exemption from Corporation Tax. Accordingly, no Corporation Tax liabilities have been recognised in its accounts to date.

However, following recent dialogue, confirmation has yet to be received from HMRC that this treatment is acceptable. Accordingly, there remains a possibility that STDC will be required to account for Corporation tax from its date of incorporation.

In accordance with the International Financial Reporting Interpretations Committee's interpretation 23 STDC has continued to assume that a Corporation tax exemption applies as, STDC considers this treatment to be appropriate and the most probable agreed outcome with HMRC.

However, should HMRC determine that STDC is subject to Corporation Tax, our current estimate of the potential Corporation tax liability to 31 March 2021 is £1,095,000. This assumes reported comprehensive income to March 2021 is equivalent to taxable profits and subject to corporation tax at 19%. Should a tax liability crystallise more work would be needed at the time to calculate the exact liability.

### Note 26: Post Balance Sheet Events

On 18 August 2021, an agreement was reached to transfer 40% of the share capital in Teesworks Limited to DCS Industrial Limited and JC Musgrave Limited, with South Tees Development Corporation retaining 10% of the Share Capital. The transfer is in exchange for Teesworks taking on the future development of the site together with the net future liabilities in preparing the site for tenants. As part of the agreement an option exists, allowing the purchase of areas of the Teesworks site for a value which is equal to a value determined by an independent valuer. The transaction has an effective date of 26 November 2021. (2019/20 Nil)

**Note 27: Statement of Accounting Policies - STDC and Group**

**General Principles**

The Statement of Accounts summarise the Corporation and Group's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Corporation and Group is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

**Going Concern**

The Corporation and Group meets its working capital requirements through cash received via the form of Government Grants, borrowing from parent company Tees Valley Combined Authority and cash generated from operations. There is confirmation that this support will continue for a minimum of 12 months from the date of issuing these financial statements and as such they are prepared on the basis of a going concern.

**Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Corporation and Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Corporation and Group.
- Income from the provision of services is recognised when the Corporation and Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Corporation and Group.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

**Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Corporation and Group's cash management.

**Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Corporation and Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## Note 27: Statement of Accounting Policies - STDC and Group

### Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Corporation. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Corporation or Group to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Corporation or Group can no longer withdraw the offer of those benefits or when the Group recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Corporation or Group to the pension fund or pensioner in the

### Post Employment Benefits

Employees of the Corporation are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Council.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Corporation and its predecessor.

#### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Corporation are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside Pension Fund attributable to the Corporation are included in the Balance Sheet at their fair value:
  - quoted securities* – current bid price
  - unquoted securities* – professional estimate
  - unitised securities* – current bid price
  - property* – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- *current service cost*: the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- *past service cost*: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.



**Note 27: Statement of Accounting Policies - STDC and Group**

- net interest on the net defined benefit liability: i.e. net interest expense for the Corporation - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses*: changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Corporation to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

**Post Employment Benefits**

Group entities make available defined contribution schemes set out below:

- South Tees Site Company - the scheme is administered by Aviva via Jelf, an independent pensions managing agent. Each employee has their own independent pension policy. The charge for the year represents contributions payable in the year.
- South Tees Developments Limited - the scheme is administered by Nest pension.

**Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Financial Statements are adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

**Financial Instruments**

All financial assets & liabilities are held at amortised cost.

**Note 27: Statement of Accounting Policies - STDC and Group**

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Corporation becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Corporation has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Corporation has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid within the general fund. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. The Corporation has a long term creditor relating to a loan from TVCA.

**Financial Assets**

The Corporation recognises expected credit losses on all of its financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Corporation. For most of the loans that the Corporation and Group has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

**Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Corporation and Group when there is reasonable assurance that:

- the Corporation and Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Corporation and Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where Capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**Note 27: Statement of Accounting Policies - STDC and Group**

**Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined on the basis of the initial invoice price.

**Leases**

The Corporation and Group is required to review all lease transactions to consider whether they are operational or finance leases. STDL has leases which came with the land (both as a lessee and lessor), these do not transfer the risks and rewards to the lessee, so do not qualify as finance leases.

**Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Corporation and Group's arrangements for accountability and financial performance.

**Provisions, Contingent Liabilities and Contingent Assets**

*Provisions*

Provisions are made where an event has taken place that gives the Corporation and Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Corporation and Group may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Corporation and Group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

*Contingent Liabilities & Contingent Assets*

A contingent liability arises where an event has taken place that gives the Corporation and Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Corporation and Group. A contingent asset arises where an event has taken place that gives the Corporation a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Corporation. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Reserves**

The Corporation and Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Corporation and Group expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Corporation and Group.

**Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Corporation has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of levy.

REFCUS funding will be used to remediate phase 1 of the land acquired last year.

**VAT**

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

**Note 27: Statement of Accounting Policies - STDC and Group**

**Fair Value Measurement**

The Corporation and Group measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Corporation and Group measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Corporation and Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation and Group uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

**Consolidation**

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the noncontrolling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the group.

**Business Combinations**

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

**Note 27: Statement of Accounting Policies - STDC and Group**

**Investments in associates and joint ventures**

Investments in associates and joint ventures are accounted for using the equity method. The carrying amount of the investment in associates and joint ventures is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group. Unrealised gains and losses on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

**Property, plant and equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment. The de-minimis level for the capitalisation of assets is £10,000

**(i) Land and buildings**

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by external independent professional valuers on an annual basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognised in the asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognised against the asset revaluation reserve. All other decreases in carrying amounts are recognised as a loss in the statement of comprehensive income.

**(ii) Other property, plant and equipment**

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

**(iii) Components of costs**

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset and any fair value gains or losses on qualifying cash flow hedges of property, plant and equipment that are transferred from the hedging reserve.

**Depreciation**

Freehold land is not depreciated.

Vehicles are depreciated using straight line method over the useful life of the asset between 4 and 10 years.

**Subsequent expenditure**

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

**Note 27: Statement of Accounting Policies - STDC and Group**

**Disposal**

On Disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within 'Other (losses)/gains - net'. Any amount in revaluation reserve relating to that asset is transferred to retained profits directly.

**Capital Expenditure and Capital Financing**

Capital expenditure in STDL has been financed by a loan from STDC. The expenditure in the prior year was the acquisition of land for regenerative purposes in line with the masterplan. Subsequent capital expenditure within STDL relates to the regeneration of the land under ownership of STDL.

## **Responsibilities for the Annual Financial Statements**

### **The Corporation and Group's Responsibilities**

The South Tees Development Corporation Group is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Group, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

### **The Chief Financial Officers Responsibilities**

The Chief Financial Officer is responsible for the preparation of the Groups Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Certification of the accounts by the Chief Financial Officer**

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of South Tees Development Corporation Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2021.



**G Macdonald**  
**Group Director of Finance & Resources**

**Date:** 31/07/2021

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st July 2021

**G Macdonald**  
**Group Director of Finance & Resources**

**Date:**

**Independent auditor's report to the members of South Tees Development Corporation**

**Report on the audit of the financial statements**

**Opinion on the financial statements**

We have audited the financial statements of South Tees Development Corporation ('the Corporation') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Corporation and Group Comprehensive Income and Expenditure Statement, the Corporation and Group Movement in Reserves Statement, the Corporation and Group Balance Sheet, the Corporation and Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- Give a true and fair view of the financial position of the Corporation and the Group as at 31st March 2021 and of the Corporation's and the Group's expenditure and income for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Corporation and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter**

**Material uncertainty relating to the valuation of the Corporation's land**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 8 to the financial statements that describes the unique nature and scale of the Corporation's land holdings and the material valuation uncertainty statement made by the valuer of the Corporation's land in their valuation report.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

□

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Corporation's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

□

Our responsibilities and the responsibilities of the Director of Finance and Resources with respect to going concern are described in the relevant sections of this report.



**Independent auditor's report to the members of South Tees Development Corporation**

**Other information**

The Director of Finance and Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of the Director of Finance and Resources for the financial statements**

As explained more fully in the Statement of the Director of Finance and Resources' Responsibilities, the Director of Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance and Resources is also responsible for such internal control as the Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Corporation will continue in operational existence for the foreseeable future. The Director of Finance and Resources is responsible for assessing each year whether or not it is appropriate for the Corporation and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

**Independent auditor's report to the members of South Tees Development Corporation**

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance and Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- Discussing with management and the Audit and Risk Committee the policies and procedures regarding compliance with laws and regulations;
- Communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Corporation and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of management and the Audit and Risk Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Risk Committee. As with any audit, there remained a risk of non-detection of irregularities, as these

**Independent auditor's report to the members of South Tees Development Corporation**

We are also required to conclude on whether the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Matter on which we are required to report by exception**

We are required to report to you if, in our view, we are not satisfied that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Corporation's arrangements. On the basis of our work to date, having regard to the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

**Responsibilities of the Corporation**

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

**Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Corporation's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

**Independent auditor's report to the members of South Tees Development Corporation**

**Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- We issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- We make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- We exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

**Use of the audit report**

This report is made solely to the members of South Tees Development Corporation, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Corporation's Whole of Government Accounts consolidation pack and the work necessary to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Cameron Waddell  
Key Audit Partner  
For and on behalf of Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

## **Glossary of Terms**

### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **Amortised cost**

The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

### **Capital Charge**

A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

### **Capital Expenditure**

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

### **Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

### **Contingency**

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

### **Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

### **Effective interest method**

This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

### **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Corporation and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

### **Extraordinary Items**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Corporation and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

### **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

## **Glossary of Terms**

### **Finance Lease**

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

### **Going Concern**

The concept that the Corporation will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

### **Government Grants**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Corporation in return for past or future compliance with certain conditions relating to the activities of the Corporation.

### **Inventories**

Comprise the value of items held in the following categories:

- a) goods or other assets purchased for resale;
- b) consumable stores;
- c) raw materials and components purchased for incorporation into products for sale;
- d) products and services in intermediate stages of completion;
- e) long term contract balances; and
- f) finished goods.

### **Investments**

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Corporation. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

### **Long Term Contracts**

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

### **Net Book Value**

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

### **Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### **Net Realisable Value**

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

## **Glossary of Terms**

### **Non Current Assets**

Tangible assets that yield benefits to the Corporation and the services it provides for a period of more than one year.

### **Non Operational Assets**

Non current assets held by a Corporation but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

### **Operating Lease**

A lease other than a finance lease.

### **Operational Assets**

Non current assets held and occupied, used or consumed by the Corporation in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

### **Post Balance Sheet Events**

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### **Prior Year Adjustments**

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

### **Prudence**

The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

### **Usable Reserves**

Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

### **Unusable Reserves**

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".



## **South Tees Development Corporation Annual Governance Statement 2020/21**

### **1. Introduction**

This Annual Government Statement comes at a pivotal moment for the South Tees Development Corporation.

As this statement was published, the public inquiry into compulsory purchase orders sought by the Corporation came to a conclusion, with the Planning Inspectorate ruling in favour of the Corporation and granting us the powers that we need to bring the land into local control, get spades into the ground and make our visionary 25-year Master Plan for the site a reality.

This Master Plan will see the creation of a world-class centre for the clean energy, offshore and innovation sectors, creating 20,000 good-quality, well-paid jobs.

But as the Development Corporation moves into its delivery phase, the need for good governance grows stronger. Over the next twelve months our organisation is likely to grow in complexity as we move towards the transition of the South Tees Site Company into the wider Development Corporation and ensure appropriate oversight and scrutiny of delivery vehicles established as part of the Compulsory Purchase Order process and site development.

It is for this reason that the past year has seen us integrate our governance function into that of the wider Tees Valley Combined Authority Group. This move was designed to deliver greater transparency and efficiency of the Development Corporation's day-to-day decision-making process. We are already seeing the impact of that decision in strengthening both our delivery and openness.

### **2. The Scope of Responsibility**

The South Tees Development Corporation is responsible for ensuring that our operations are conducted in accordance with the law and appropriate standards. We are also responsible for making sure public money is used effectively and appropriately and is properly accounted for. We have a responsibility to ensure we have proper arrangements in place for the governance of our affairs and effective exercise of our functions, including the management of risk. We also have a duty under the 1999 Local Government Act to make continuous improvements to the way we operate.

Our Constitution sets out how we operate, how decisions are made, what our governance arrangements are and what processes are followed to ensure these are effective, transparent and accountable.

These arrangements are designed to be consistent with the principles and best practice outlined in the CIPFA guidance on good governance.



This Annual Governance Statement details how we have complied with this framework and how we meet our responsibilities under the Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.

### **3. The Purpose of our Governance Framework**

Meaningful and dynamic corporate governance establishes the conditions and culture for us to work effectively, economically and ethically.

Our governance framework comprises the systems and procedures we believe will achieve our strategic objectives and deliver our activities in an appropriate and cost-effective way. These objectives, as laid out in 25-year Master Plan are:

- To further the economic development and regeneration of the South Tees area, so that it becomes a major contributor to the Tees Valley economy and the delivery of the Tees Valley's Strategic Economic Plan;
- To attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;
- To transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community;
- To contribute to the delivery of the UK Industrial Strategy, by supporting the growth of internationally competitive industries with access to global markets, taking a comprehensive approach to redevelopment at a scale that enables the realisation of an international-level investment opportunity.

Our governance framework enables us to monitor the achievement of these strategic objectives, and the system of internal control which derives from it allows us to manage risk at a realistic level. Although it is impossible to eliminate all risk, this structure is designed to identify and prioritise risks to the achievement of our objectives, evaluate the likelihood of those risks being realised and manage their impact should they be realised.

### **4. The Key Elements of our Governance Framework**

The following arrangements are in place to quantify the quality of our services, ensure that they are delivering our objectives and make certain that we are providing value for money.

#### **The Constitution**

The responsibilities of Development Corporation's employees and members are clearly laid out in our Constitution. This document – subject to annual review – explicitly documents how the Corporation operates, responsibilities for specific functions, schemes of delegation and how decisions are made.

The Constitution – which can only be amended by the unanimous agreement of members – also sets out expected standards of behaviour for both officers and members.

The Constitution clearly sets how both the activities of the Chair, Chief Executive and other Senior Officers will be subject to a robust set of check and balances, and details how this scrutiny process will be delivered.

As part of the integration of the South Tees Development Corporation (STDC) governance structure into the wider Tees Valley Combined Authority group governance structure an ongoing review of existing Development Corporation governance procedure has been undertaken to ensure compatibility between policies and procedures, compliance with regulatory requirements and to deliver a group-wide approach to governance.

This Governance Review has included a number of constitutional amendments, including new commitments to the publication of Board and Audit & Risk Committee papers and allowing public access to meetings of these committees.

### **Statutory and non-Statutory Committees**

The South Tees Development Corporation Currently operates the following statutory committees:

- A **Board**, the ultimate decision-making body of the Development Corporation with a constitutional responsibility to guide and oversee delivery of the key objectives of the STDC.
- An **Audit & Risk Committee** with oversight responsibilities in matters concerning risk, financial affairs and probity, overseeing STDC's internal audit and external audit arrangements.

### **Monitoring Officer**

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Commercial and Legal Manager at Redcar and Cleveland Borough Council is the Corporation's designated Monitoring Officer and a protocol is in place with all directors, to safeguard the legality of all Corporation activities. All Board reports are considered for legal issues before submission to members.

### **Internal Audit**

The Corporation's Internal Audit function, undertaken by RSM Limited, ensures compliance with the relevant standards and statutory requirements. The service liaises with relevant statutory and senior officers throughout the year to develop and maximise the effectiveness of the Corporation's internal control systems and delivers an annual report on the quality of our processes.

The internal audit service we receive is independent, comprehensive and rigorous, and our provider has liaised regularly with officers to implement a number of service improvement recommendations, a process which will continue and accelerate in the coming year.

### **External Audit**

The purpose of the External Auditors, Mazars, is to provide an opinion on the accounts and Value For Money conclusion.

### **Chief Financial Officer and Financial Arrangements**

Under the requirements of Section 73 of the 1985 Local Government Act the Corporation has appointed a suitably-qualified Chief Finance Officer, the Group Director of Finance and Resources, shared with the Combined Authority.

This officer, who is part of the Senior Management Team of both the Combined Authority and the Development Corporation is responsible for:

- The operation of a robust system of budgetary control, including quarterly and annual financial reports indicating financial performance against forecasts.
- Ensuring that the Authority's finance function is appropriately resourced.
- Assessing the short, medium and long-term implications of all material business decisions, and identifying and mitigating financial and organisational risks arising from them.
- Aligning the Corporation's business and financial planning processes.
- Promoting good financial management throughout the organisation.

There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

### **South Tees Site Company**

The land at the STDC site is currently managed by the South Tees Site Company Ltd (STSC), an interim government body established in December 2016 to ensure the safe, secure and cost-effective management of the former site. This company has its own Board, which contains representation from the Development Corporation.

### **Risk Management Framework**

The Corporation operates a comprehensive and proactive Risk Management Framework outlining its approach to Risk Management. Central to this strategy is a Corporate Risk Register which details what risks have been identified, the probability and impact of these risks being realised and which controls are in place to mitigate against these risks. This report is periodically reviewed by Senior Officers and scrutinised by the Audit & Risk Committee.

This Risk Framework is supported and informed by a board-level Risk Appetite Statement.

### **Declarations of Interest and Code of Conduct**

All Development Corporation employees and members are subject to a formal Code of Conduct –forming part of the Constitution - and must complete, at least annually, a formal and published Declaration of Interest.

A revised Declaration of Interests process has been agreed as part of a recently completed Governance Review.

### **Gifts & Hospitality**

The Combined Authority maintains a register of offers of Gifts and Hospitality made to members and officers of the Combined Authority, even if these offers are declined.

A revised Gifts & Hospitality process has been agreed as part of a recently completed Governance Review.

### **Anti-fraud and Corruption Strategy**

The Corporation is committed to preventing fraud, bribery and corruption within the organisation and ensuring funds are used as they are intended and will seek the appropriate disciplinary, regulatory, civil and criminal sanctions against fraudsters and where possible attempt to recover losses.

An Anti-fraud and Corruption Strategy exists to:

- Improve the knowledge and understanding of all staff, irrespective of their position, about the risk of fraud, bribery and corruption.
- Promote an anti-crime culture and an environment where staff feel able to raise concerns.
- Set out the Corporation's responsibilities in terms of deterrence, prevention, detection and investigation of fraud, bribery and corruption.
- Ensure appropriate sanctions are considered following an investigation, which may include internal disciplinary action, civil recovery and/or criminal prosecution.

A revised Anti-fraud and Corruption Strategy has been agreed as part of a recently completed Governance Review.

### **Governance Arrangements**

Following the integration of Development Corporation governance functions with the wider Combined Authority group, the Corporation now has access to a dedicated Governance Team to ensure that the Development Corporation is compliant with its regulatory responsibilities and to advise both members, employees and partner organisations. The team oversees number of areas including transparent decision making, Declarations of Interest, Whistle-blowing and Freedom of Information request handling.

## **5. Review of effectiveness**

The Development Corporation is responsible for conducting, at least annually, a review of the effectiveness of its governance arrangements. Any areas for review are overseen and co-ordinated by the Group Chief Executive and Group Director of Finance & Resources and any findings reported to the Audit and Governance Committee, where appropriate.

### **External Audit**

Our most recent auditor's report, issued on July 25<sup>th</sup> 2019, concluded that:

*"In all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019".*

### **Internal Audit**

An annual Internal Audit Report is awaited. Recent audits of our individual areas of our governance framework made the following conclusions:

- **Budget setting and control:** *"Our review highlighted examples of strong practice.... (but) our review identified a number of areas where the Corporation could improve its control framework around budgeting and monitoring*
- **Procurement:** *"the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area."*

## **6. Impact of COVID-19**

Although the COVID-19 outbreak in March 2020 presented significant challenges to day-to-day operations of the South Tees Development Corporation – particularly work on site - robust pre-existing business continuity plans ensured in was possible to minimise the impact of the disruption on our governance arrangements.

The Corporation responded to the unprecedented situation by:

- Ensuring continuity of the governance framework by immediately re-arranging all non-statutory meetings to take place by video conferencing and preparing for statutory meetings to take place by video conferencing in advance of this power being granted to local authorities.
- Implementing power to temporarily hold statutory meetings remotely granted under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local

Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 from April 2020.

- Implementing guidance from the relevant supervisory authority – the Information Commissioner’s Office – relating to the treatments of Freedom of Information requests during the outbreak and informing request makers.
- Adjusting financial reporting schedules to reflect revised deadlines and communicating these changes to the appropriate committee members.

## 7. Conclusion

It is our conclusion – validated by external opinion – that the Development Corporation operates a satisfactory and improving governance framework which supports the achievement of its policies, aims and objectives and meets all statutory requirements and ensures public money is used effectively and appropriately and is properly accounted for.

## 8. Progress

The following actions have been proactively taken since the publication of the previous Annual Governance Statement in order to mitigate against future risks and continue to strengthen our arrangements.

Action	Outcome
Integration of governance framework with Tees Valley Combined Authority.	Improved transparency and effectiveness of decision-making process.
Governance Review	Ongoing review of effectiveness of every aspect of governance framework to provide greater assurance for Board members, committee members, senior officers and stakeholders.
Risk Appetite Statement and Risk Threshold	Board-level adoption of Risk Appetite Statement and Risk Threshold levels detailed in Risk Management Framework.

## 9. Action Plan

The following actions are envisaged for the future development of our governance and risk management systems.

Action	Outcome	Responsibility	By When
Review and updating of Corporation Constitution	Reviewed constitution	Chief Executive	End July 2020
Governance Review	Enhanced transparency, decision-making and assurance	Director of Finance & Resources	Autumn 2020
Introduction of TVCA Group Governance Framework Toolkit	Further embed governance framework across organisation.	Director of Finance & Resources	Autumn 2020
Review of governance of delivery of constituent elements of Combined Authority Group – including South Tees Development Corporation and associated vehicles.	Enhanced transparency, risk management and decision-making.	Chief Executive/Director of Finance & Resources	End July 2020

**Signed**

Ben Houchen

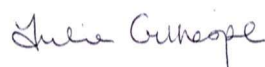
Tees Valley Mayor and  
Chair of South Tees  
Development  
Corporation



*31 July 2020*

Julie Gilhespie

Acting Chief  
Executive, South Tees  
Development  
Corporation



*31 July 2020*

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17 August 2022

Dear Members

#### Update/conclusion of pending matters– Audit Completion Report

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report follow up letter dated July 2022.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached	Status
Group consolidation audit work	<p>The component auditor reported £125,562 of unadjusted errors in the STDL accounts relating to an unrecorded liability (£72,566), a rent accrual adjustment (£23,315) and an intercompany difference (£29,861).</p> <p>Management provided an updated set of STDC/STDC Group financial statements on 13 July 2022.</p> <p>The accounts were changed, based on our initial assessment of the arrangements in place, to include Teesworks consolidated as a subsidiary rather than a joint venture, we were provided with all relevant documents, but we initially misunderstood the level of control.</p> <p>In the final version of the consolidation we received, a formula error resulted in the full year transactions for South Tees Site Company being included rather than the period for which the Company was part of the Group. The previous version we received in May 2022 correctly accounted for South Tees Site Company.</p>	Complete

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861.

VAT number: 839 8356 73

Matter	Update/conclusion reached	Status
	<p>Impairment charges relating to intercompany balances in the cash flow were incorrect and have been amended.</p> <p>Property, plant and equipment was not consistent with STDL and STSC accounts. This impacted the disclosure note only and not the primary statements and has been amended.</p> <p>There is a potential under accrual of £32k on STSC energy, leading to an extrapolated error of £74k, which is not material but a non-trivial unadjusted misstatement.</p> <p>The Group contingent liability disclosures included a disclosure of an event that is not a contingent liability, management included this for consistency as the subsidiary auditors had requested this be included in the STDL accounts. This has been removed.</p>	
Events after the Balance Sheet date.	No further matters have arisen from our final review to report to you.	Complete
Contractual commitments	Further analysis of contractual commitments resulted in the value being reduced from £3.5m to £0.777m to exclude payments already made. This is a disclosure note impact only.	Complete



Matter	Update/conclusion reached	Status
<p>Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.</p>	<p>We have now reviewed the final draft of the statements, incorporating audit adjustments, and are satisfied that the adjustments, as previously reported in our Audit Completion Report have been made appropriately.</p> <p>A summary of changes from the original July 2021 published group accounts and the final audited version is included in Appendix A. The majority of changes are due to amendments made to the single entity accounts reported in our ACR in March 2022, with an additional amendment of £465,000 to both the CIES and balance sheet due to group consolidation.</p> <p>There are the following amendments to draw to your attention:</p> <ul style="list-style-type: none"> <li>• Incorrect classification of expenditure between STDC and STD L £1.887m;</li> <li>• Year-end creditors not accrued in the draft accounts £0.148m;</li> <li>• Purchase costs in respect of acquiring STSC incorrectly capitalised and not taken to revenue £0.470m;</li> <li>• Additional funding to be received from TVCA to support in-year revenue costs £3.619m;</li> <li>• Reduction in in-year impairment of PPE additions due to reclassification of expenditure from capital to revenue and from STDC to STD L £4.960m;</li> <li>• Reclassification of LGPS balance £0.056m;</li> <li>• Income cut-off error - York Potash £0.074m;</li> <li>• Short term creditors included £0.056m relating to deductions due to the Teesside LGPS which should have been other entities and liabilities rather than Local Government;</li> <li>• Financial liabilities in the financial instruments note included amounts that were not financial instruments.</li> </ul> <p>There is the following unadjusted error to bring to your attention:</p> <ul style="list-style-type: none"> <li>• Short term creditors include the increase in the accumulated absences creditor of £8,186. The total creditor as at 31/03/2021 of £24,450 has been included in the accumulated absences account on the balance sheet. Short term creditors are therefore understated by £16,264, the balance on accumulated absence as at 31/03/2020.</li> </ul> <p>A number of disclosures and accounting policies have been updated or expanded to provide additional information and ensure Code compliance.</p> <p>The only other procedures now outstanding relate to our usual final routine closedown matters.</p> <p>We are now liaising with management to identify a suitable date for sign off of the financial statements, which we hope will be in the coming days.</p>	<p>Complete</p>

Matter	Update/conclusion reached	Status
Annual governance statement	An annual governance statement for Tees Valley Combined Authority was published in July 2021 in line with the statutory guidance, which referenced the Corporation as part of the group. However, as the Corporation is a separate legal entity, a further Corporation specific annual governance statement is required. This was published on 27 July 2022. We have reviewed the annual governance statement and have no significant issues to raise. The reference to Teesworks in the annual governance statement describes the position as it currently stands rather than how it was at 31 March 2021.	Complete

We also identified a control point in relation to the bank reconciliation, priority ranking 2 (medium) which means, in our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future:

#### Description of deficiency

Our review of the of the bank reconciliation noted that the March 2021 reconciliation was dated 2 February 2022, over ten months after the year-end.

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#### Potential effects

Unexpected transactions may be processed through the bank without being identified and challenged.

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#### Recommendation

The bank reconciliations should be prepared on a more timely basis.

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#### Management response

The internal bank reconciliation was performed and reviewed on a timely basis, however the outsourced banking section reconciliation wasn't provided till we requested this for audit purposes. Going forward we will request this monthly and ensure it reconciles to the one prepared by the group finance team.

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If you wish to discuss these or any other points, then please do not hesitate to contact me.

Yours faithfully

**Cameron Waddell**  
Key Audit Partner

## Appendix 1 – summary of changes to consolidated group accounts

STDC group

CIES	Published	Updated	Difference
	£000	£000	£000
Core Running Costs	0	-17	17
Enabling Infrastructure	1,313	513	800
Development Costs	21,962	22,362	-400
<b>Cost Of Services</b>	<b>23,275</b>	<b>22,858</b>	<b>417</b>

### *Financing and Investment Income and Expenditure:*

Group share of profit in JV	-3,596	0	-3,596
Net interest on the net defined benefit liability/asset	0	10	-10

### *Taxation and Non-Specific Grant Income:*

Capital grants and contributions	-9,487	-13,940	4,453
<b>(Surplus) or Deficit on Provision of Services</b>	<b>10,192</b>	<b>8,928</b>	<b>1,264</b>

Share of surplus on JV	0	-3,315	3,315
Actuarial (gains) or losses on pension assets & liabilities	305	305	0
<b>Other Comprehensive Income and Expenditure</b>	<b>305</b>	<b>-3,010</b>	<b>3,315</b>

<b>Total Comprehensive Income and Expenditure</b>	<b>10,497</b>	<b>5,918</b>	<b>4,579</b>
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STDC group

Balance sheet	Published	Updated	Difference
	£000	£000	£000
Non-current assets			
Investments in subsidiaries	3,596	3,315	281



Property, plant and equipment	28,978	34,328	-5,350
<b>Total non-current assets</b>	<b>32,574</b>	<b>37,643</b>	<b>-5,069</b>
<b>Current assets</b>			
Inventories	500	300	200
Debtors	10,832	38,006	-27,174
Cash and Cash Equivalents	9,483	9,484	-1
<b>Total current assets</b>	<b>20,815</b>	<b>47,790</b>	<b>-26,975</b>
Current liabilities			
Grants Receipts in Advance	0	-200	200
Short Term Creditors	-19,265	-49,120	29,855
<b>Total current liabilities</b>	<b>-19,265</b>	<b>-49,320</b>	<b>30,055</b>
Long term liabilities			
Long Term Borrowing	-38,752	-36,022	-2,730
Other Long Term Liabilities	-884	-884	0
Provisions	0	-139	139
Total long term liabilities	-39,636	-37,045	-2,591
 Net Assets:	 -5,512	 -932	 -4,580
 Reserves			
Usable reserves:			
General Fund Balance	12,657	322	12,335
Earmarked General Fund Reserves	171	3,249	-3,078
Capital Grants Unapplied	1,502	53	1,449
	14,330	3,624	10,706
Unusable Reserves:			
Capital Adjustment Account	-18,934	-884	-18,050
Pensions Reserve	-884	-3,648	2,764



Accumulated Absences Account	-24	-24	0
	-19,842	-4,556	-15,286
Total Reserves:	-5,512	-932	-4,580