South Tees Development Corporation
Audit & Risk Committee
Agenda

Date: Wednesday 29th July at 10 am

Venue: Microsoft Teams meeting

Membership:

Chris White – (Chair - Independent member)
Paul Booth - (STDC Board)
Cllr Sandra Smith (TVCA A&R Representative)

Agenda

1. **Welcome & Introductions**

2. **Apologies for Absence**

3. **Declarations of Interest**

4. **Minutes of previous meeting**

   Attached

5. **Chief Executive's Update**

   Attached – Appendix 1 to this report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

6. **Draft accounts & Annual Governance Statement**

   Attached

7. **Internal Audit Plan 2020/21**

   Attached

8. **Update on Internal Audit Actions**

   Attached

9. **External Audit – Audit Progress Report**

   Attached

10. Risk Update

This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

11. Forward Programme & Action Register

Attached

12. AOB

13. Date and Time of Next Meeting:

21st October 2020

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: Sharon Jones, Governance & Scrutiny Officer,Sharon.jones@teesvalley-ca.gov.uk. 01642524580.

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.

<u>Sensitive Information</u>

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

South Tees Development Corporation

SOUTH TEES DEVELOPMENT CORPORATION (STDC) AUDIT & RISK COMMITTEE

These minutes are in draft form until approved at the next Committee meeting and are therefore subject to amendments.

Date: Thursday 28th May 2020 **Time:** 14.30pm

Venue: Microsoft Teams Live Event

Attendees:		**Apologies:**
Chris White (Chair - CW)	Darlington Building Society	Professor Jane Turner (Teesside University)
Paul Booth (PB)	STDC Board Member	Anand Srinivasan (Delphinus Advisory Ltd)
Cllr Sandra Smith	Redcar & Cleveland Council	John Baker (Vice Chair – STDC Board)
Julie Gilhespie (JG)	STDC	
John McNicholas (JM)	STDC	
Gary MacDonald (GM)	STDC	
Nolan Gray	STDC	
Mike Russell (MR)	STDC	
Neil Burgess (NB)	STDC	
Gareth Roberts (GR)	Mazars	
Phillip Church (PC)	RSM	
Rob Barnett (RB)	RSM	
Sharon Jones (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	**Welcome and introductions**	The Chair opened the meeting and introductions were given. Julie Gilhespie was welcomed to the meeting as the Interim CEO for STDC. Apologies were noted as detailed above.		
2.	**Quorum**	The meeting was noted as being quorate. PB advised he had to leave the meeting early so it was agreed to discuss all business requiring a decision first.		
3.	**Declarations of Conflict of Interest**	None		
4.	**Minutes of previous meeting**	The minutes of the meeting held on 3rd March 2020 were agreed as a true record.		
5.	**2020/21 Internal Audit Programme (RSM)**	A report was circulated regarding the Internal Audit Programme. PC gave an overview of the report. NB brought the Committee's attention to the response to internal risk audit report. The Committee was asked to endorse the recommendation in the report that risk registers and risk scores are reviewed at least every two months. Following this risk management will become a standing item on the agenda of the fortnightly Senior Management Team meetings, and this meeting will have central oversight of all risk registers and will ensure that they are kept updated for new, emerging or closed risks.		

		RESOLVED that the Committee endorsed this recommendation Paul Booth left the meeting at this point. GM advised that STDC Management team are now meeting fortnightly and are heavily focused on programme and project management, and delivery. Good progress is being made with this. The plan is not to build a highly staffed organisation but have a team to manage contracts. Projects will be outsourced and will require CDM compliant procedures from suppliers. CW advised that he felt that further work and development is still required. STDC need to define its approach to project management and governance. JG explained that lots of work has already been done and this is reflected in the business case provided to BEIS. It was suggested that the business case is brought to this committee as it demonstrates those things and how we will deliver the projects moving forward. CW asked how STDC will build a framework for monitoring and delivering projects underneath the business plan and how this committee can oversee and gain sight of that. It was advised that external resource will be utilised for this . It is still in the planning stage but a comprehensive project delivery plan will be produced.	**BEIS business case to be brought to next meeting**	**JG**
6.	**CEO Business Update**	A report detailing the key activity since the last meeting was circulated. **RESOLVED** that the detail of the report was noted.		
7.	**Internal Audit Feedback 2019-2020 (RSM)**	A report was circulated from RSM regarding the Internal Audit annual opinion. RB advised that the overall opinion is positive with an amber green rating which is an adequate and effective framework in place. There are areas where there are		

		opportunities for improvement. There were 47 actions raised. 20 low, 25 medium and 2 high priorities. A new action plan has been agreed, with review dates, so actions will be followed up and progress reported back to Committee. This should be seen as an opportunity for improvement to be taken forward. GM advised that lots of work has been happening to progress these items. There is a lot more depth behind the Risk Registers now. Project specific risk registers have been set up and lots of work is being done within teams regarding delivery activity and risk. We are confident we can show significant steps forward by the dates in the programme. CW advised he would like the Committee to reflect on the points that have gone round more than once. The Committee needs to get on top of these actions. He suggested a report be produced detailing overdue actions and what work is ongoing for completion of these and timescales for the completion**.** GM agreed to pick this up and provide a full update. **RESOLVED** that the report is noted.	**Full report on overdue risks to be provided**	**GM**
8.	**Internal Audit Update**	CW gave an update on Internal Audit. The main change is in the timetable. Government have amended the deadline for publishing of draft and final accounts. Draft has changed from end of May to end of August. Final has changed from end of July to end of November. We are all working to ensure that everything joined up and aiming to complete Audit by end of November. At this stage all timings have been agreed with the STDC team and everything is in hand. There are no issues anticipated. It was questioned whether Covid 19 has created any additional work within the audit process. CW advised that it is still too early to say. The first Local Government audit is due to start soon and may raise issues that we are not aware of at this stage.		

		RESOLVED that the update is noted.		
9.	**STDC Risk Report**	**A resolution was passed to exclude the press and public from the rest of the meeting as items from this point are confidential by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972** A report was circulated regarding the STDC Strategic Risk Register. NB advised that a Risk appetite column has been added and individual risks now have a specific risk appetite allocated to them. Risks have been grouped into 3 categories. Severe, high and medium. There are currently 20+ risks within the report. CW questioned if the CPO risk is ready for closure as stated in the report. There will be new and different risks in the new phase of organisation following CPO. Are these all adequately covered in the risk register and if not how do we incorporate this. GM advised this is all covered adequately in the delivery side. It was stated that feedback from the internal audit has been reflected and built into the Risk Register. JG advised that in providing an assurance review for the BEIS business case similar points were raised. We are still working through this to finalise it but part of it is to review the Risk Register to ensure it is up to date in the context of all of these things. There is an ongoing action for management to review and ensure it is kept fully up to date. CW asked if the changes in management, structure etc have been reflected in the register. This will be part of further updates. Once the changes have been signed off from a group perspective then we can implement the STDC part of this including Risk Register and governance structures.		

		The risk from Covid 19 is already included in the Register. SC have continued to operate over the last few months so measures have been put in place. We are comfortable with how the risk has been managed. There has been no indication that there is any risk regarding Government funding. Intention to invest does not appear to be affected. We will keep this under review as things progress. It was agreed to incorporate in a line in the Risk Register regarding how comfortable we are that funding will remain in place. **RESOLVED** that the report is noted.	**RR to be amended to include Government Funding**	**NB**
10.	**Forward Programme & Action Register**	The Forward Programme for the Committee needs updating. Transition timescales and audit deadlines will be included in the programme. It was also agreed that an ARC meeting needs to be scheduled in advance of the due diligence work being completed. The Committee also need to be provided with regular updates on transition and changes to the structure. Action The Forward Programme is to be reworked and shared at the next meeting for agreement. **Resolved** that the Action Register was discussed and updated as agreed.	**Forward Programme to be updated**	**GM**
11.	**AOB**	None		
12.	**Date and time of next meeting**	Date of next meeting - 29th July 2020		

AGENDA ITEM 5

REPORT TO THE STDC AUDIT & RISK COMMITTEE

29th JULY 2020

REPORT OF GROUP CHIEF EXECUTIVE

GROUP CHIEF EXECUTIVE UPDATE

SUMMARY

The purpose of this paper is to provide an update to STDC Audit & Risk Committee on the key activity within STDC since the last meeting.

RECOMMENDATIONS

It is recommended that the Committee notes the content of this update report

BUSINESS CASE

1. Following the update provided In June, STDC's Business Case to secure £71m of Government funding towards demolition and site remediation continued to progress as anticipated.
2. Since June the Business Case has passed a further review by BEIS Commercial leads at the beginning of June and recommendations have been reflected in the final business case document that was issued on 1 July and was presented to a Joint BEIS and MHCLG project investment committee on 15 July. Whilst we still await formal confirmation of the decision, we are very confident of a positive outcome.
3. The Business case will now pass to Treasury for final review with an anticipated outcome announced in mid-August. Once this is achieved, STDC will, subject to Board approval, be able to purchase the shares of STSC and transition to local ownership.
4. The final Business Case is enclosed as a confidential **Appendix 1** for information

COMMERCIAL

5. The commercial focus on delivering new business, job creation and value for STEL has continued at pace with several key deliverables in the month, summarised as follows:
   - Standard HoT's have been delivered and reviewed and form the basic legal framework to support negotiations;
   - The Rail management business case has been delivered and provided us with recommendations as to the way forward;
   - The valuations report has been received and indicated that the market remains positive and that the rentals of comparable locations and sectors are as planned

within our Business Case. In some areas we may expect to witness a premium;

- Transferred land held by Tata under restricted covenants transfer to STDL; and
- We have finalised the HoTs for the proposed energy recovery facility on Prairie site.

6. Together with our joint venture partners, we continue to pursue discussions for HoT's with a number of key potential customers.

7. Preparation work has commenced to make best use and maximise the value of existing infrastructure.

- **Electrical Infrastructure JV Procurement Process -** Preparations for the procurement have progressed and a Prior Information Notice was published on 8th July. Initial responses were positive and several Independent Distributed Network Operators have responded. The Formal OJEU notice and commencement of the procurement is scheduled before end July 2020. Prior to publishing the OJEU several agreements are being materially developed included the Selection Questionnaire, a Scope of Services, the Subscription and Shareholders Agreement, Instruction to Participate in Dialogue (including bid evaluation criteria) and a Financial Model, for internal use to support the evaluation criteria. Womble Bond Dickinson are providing legal support, KPMG are providing financial support and JBA Engineering are providing technical support.

  For the tender stage (expected end Aug 2020) further documentation will be developed including a detailed Instruction to Participate in Dialogue, Articles of Association, Business Purchase Agreements, Land Transfer Document, Design and Build Contracts, Operation and Maintenance Contracts, Customer Supply Contract (pro forma), customer connection agreement (pro forma), Business Plan and Investment Programme Template, Financial Model Template and further iterations of the Subscription and Shareholders Agreement. Tender stage participation is likely to be limited to 3 or 4 companies, as this will be a Competitive Dialogue, with the onus on the Successful Bidder providing the best overall solution to develop the site Electrical Infrastructure. Site visits are likely to occur during the tender stage in Sep 20.

  We expect to take a recommendation for appointment of a Joint Venture Partner to November's Board.

- **Energy From Waste Electrical Connections -** STDC have been approached by P-Mac Energy and the TV ERF power station projects for connection to the High Voltage Electrical Network. Studies are being undertaken by JBA Engineering to confirm that the generators can connect. It is likely that a conditional connection offer will be required for both projects before the Electrical JV Partner is appointed. As well as being a strategically positive development for the site, as either project will be capable of providing on-site power to high energy demand customers, it will also provide a positive for the Electrical JV procurement process as it confirms the appetite for third parties to connect to this electrical infrastructure.

PROGRAMME DEVELOPMENT

8. Work on the Prairie Site is progressing as follows:

- **Highway Access Scheme**
  - Detailed scheme design (by Atkins) is progressing well and is on programme;
  - Planning permission is expected no later than 28 August 2020;

- Construction commencement is likely to be brought forward by 2 weeks to 07 September 2020. Seymour Civil Engineering is the appointed contractor;
- Completion is scheduled for 30 April 2021; and
- Scheme cost estimate: £1.0M-£1.5M.

- **Site Preparation Works – Phase 1 (40 acres – western end of site)**
  - Full scheme design by our appointed consultant, Arcadis, is nearing completion;
  - The planning application for preparation of the whole STDC land area on the Prairie site was submitted 24 June 2020. Planning permission is anticipated no later than 18 September;
  - Construction commencement is on programme for 21 September 2020 – Seymour Civil Engineering is, again, the appointed contractor;
  - The Phase 1 advance works, comprising site clearance and building demolitions, are continuing;
  - Construction completion is scheduled for 26 March 2021 – we should be able to better this by 6 weeks by virtue of the advance works progression; and
  - Phase 1 scheme cost estimate: £3.2M-£3.7M.

- **Site Preparation Works – Phases 2 & 3 (80 acres – remainder of STDC owned land area)**
  - Consultant Arcadis is working up the scheme design and specifications for Phases 2 & 3 of the site preparation works, to inform tender documents;
  - We plan to go to tender on these works by 31 July 2020 latest;
  - Construction commencement is planned for 21 September 2020;
  - Construction completion is expected by 31 May 2021; and
  - Phases 2 & 3 scheme cost estimate: £7.5M-£8.0M.

- **Metals Recovery Area (50-acre site)**
  - Advance earthworks and site clearance activities to this 50-acre site commenced in March 2020 and are continuing;
  - Procurement of the contractor to execute the main site preparation works to the area is complete – Hall Construction Services was appointed 22 June 2020;
  - The ability to commence the site preparation works is constrained by the need to secure planning permission and the completion of land vesting, post-CPO; and
  - Construction is scheduled to commence 05 October 2020 and complete by 15 February 2021.
  - Scheme cost estimate: £2.5M-£3.0M. Overall contract value £4.7M.

9. South Bank Area and South Bank Wharf developments are as follows:

  - Works continue on the following site surveys, consents and environmental assessment as well as concept design for the potential number 1 quay
  - The planning application submission is scheduled for 16 November 2020 and is on programme;
  - The marine works (new quay and river dredging) are scheduled to commence 10 August 2021 and complete in December 2022;
  - The outline planning application for 4.5M sq. ft of industrial building space was submitted 06 July 2020, on programme;

- The first phase of the landside site preparation works, to around 100 acres of land, is scheduled to commence 18 January 2021. However, advance works have already commenced, involving major site clearance, and these works will extend to other preparatory works, such as bridge and certain other structural demolitions; and
- A detailed planning application for site preparation will be submitted over the coming months, once ground investigations are complete. The plan is to go to tender on the first phase site preparation works by Sep/Oct 2020.

10. Demolition works is being specified in a number of packages as follows:

- **Package 1 – Various Buildings, Prairie Site**
  - The Prior Approval process has been concluded with RCBC and we have the consents needed to start demolitions; and
  - The contractor (Seymour) is now gearing up to commence demolition works on the Prairie Site once the STSC Coke Ovens Gas Main decontamination works in the locale are complete.

- **Package 2 – Heavy Fuel Oil (HFO) Tank Farm and Buildings at South Bank**
  - Prior Approval has been secured from RCBC for the HFO Tank Farm; similar for the various other buildings is expected by 27 July;
  - The advance cleaning/decontamination works contract for the Tank Farm has been progressed and Acumen will provide these services as a sub-contractor to Hall Construction. The works are scheduled to commence in August; and
  - Demolition of the HFO Tank Farm is scheduled to commence 12 October 2020 and complete in February 2021. The scheme is budgeted at £750K.

- **Package 3 – SSI Assets, Advance Demolitions**
  - STDC tendered an advance demolition programme in respect of certain SSI assets in 2018, in anticipation of a deal being done with the Thai Banks. This programme is supported by a fully developed tender pack and the plan is to re-tender the works in readiness for a start in October 2020, upon completion of land vesting;
  - Key demolitions within this package include certain facilities on the proposed NZT site and the gas holder structure at South Bank Coke Ovens; and
  - The works are scheduled to complete by March/April 2021, dependent on whether certain projects are impacted by any HSE imposed, more stringent measures and protocols, further to the investigation into the Ammonia Washers demolition project Scheme cost estimate: £1.2M-£1.5M.

- **Package 4 – Demolition Framework**
  - STDC has commenced the procurement of a Demolition Contractors' Framework – a process governed by OJEU rules, that will conclude in December 2020;
  - The Framework will be structured in two lots, namely: Lot 1 - large-scale, high complexity demolitions; Lot 2 – smaller scale demolitions of a lower complexity;
  - The Framework will address the majority share of the demolition projects across the site, including all of the large-scale, complex facilities, such as: Redcar Blast Furnace; Redcar Coke Ovens; the Sinter Plant; Lackenby Steelmaking Complex; and South Bank Coke Ovens;
  - The programme duration is estimated at 5 years minimum; and

- The plan is that the first demolitions under the Framework will be the major facilities located on the proposed NZT land area, commencing on site March/April 2021.

11. **'Bravo 10' Industrial Pipeline Diversion Project**

- A consultant has been appointed to scope out the civil and structural engineering works for a proposed advance Design & Build contract to deliver the necessary below ground infrastructure and highway improvement works to accommodate the pipeline diversion.
- An agreement has been executed between STDC and SembCorp for the pipeline diversion feasibility study, which will be delivered for SembCorp by Nortech.
- A completion of the project by April 2022 has been targeted.
- Scheme cost estimate: c. £5.0M.

12. **Materials Handling Facility (MHF), Warrenby**

- Dialogue has continued with Anglo American (Sirius) regarding the proposed Material Supply Agreement and a way forward has been determined, where we will take the material only if and as we need it.
- Preparation of the MHF is complete, should there be a need to utilise the facility.
- We are presently exploring the potential for using the mudstone material in addressing the remediation of the SLEMS, subject to further ground investigations and field trials being implemented, design solutions being developed, and related EA approvals being secured.

13. **Ground Investigations**

- The initial phase of ground investigation on the Metals Recovery Area has just been completed – this will inform the design of the site preparation works.
- A ground investigation on the SLEMS has now commenced – this will enable remediation options to be considered and developed.
- A further ground investigation is planned to start w/c 20 July on the major landfill at Warrenby, with the purpose of determining the potential for recycling and reuse of close to 1.0M cubic metres of material.
- Further ground investigations are currently being planned for:
- The new quay and hinterland development at South Bank
- The Teardrop site.

CPO

14. The CPO order has been approved in full with no modifications and the deadline for judicial review of the decision has passed. The first General Vesting Declaration was submitted on 29 June and, assuming there are no judicial review claims made, land will vest in the first week of October.
    - We are commencing work on looking at the second GVD, but this is not considered high priority at the moment.

FINANCE AND RESOURCES

15. The draft financial accounts for the year ended 31 March 2020 and a financial performance update for the three months to 30 June 2020 are presented as separate papers

FINANCIAL IMPLICATIONS

16. The financial implications of programme activity are captured in the STDC Delivery Group meetings throughout the year. The Group received regular financial updates linked to programme milestones and a procurement pipeline has been produced to integrate with the programme plan. This will ensure spending profiles are monitored and key critical expenditure path items are identified.

LEGAL IMPLICATIONS

17. Whilst matters with legal implications are discussed in this report, this update report has no specific legal implications

RISK ASSESSMENT

18. Specific identified areas of risk are highlighted following each section of the detailed report. These risks will be discussed at the next STDC SMT meeting to ensure additions/ updates are made to the appropriate risk registers.

CONSULTATION & COMMUNICATION

19. This paper has been prepared directly from separate reports prepared by the Senior Management team of STDC. As the purpose of this report is to provide updates/ information no further consultation has been undertaken/ is necessary.

EQUALITY & DIVERSITY

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

Name of Contact Officer: Julie Gilhespie
Post Title: Group Chief Executive
Telephone Number: 01642 528 834
Email Address: julie.gilhespie@teesvalley-ca.gov.uk

AGENDA ITEM 6

REPORT TO THE AUDIT AND RISK COMMITTEE

29th JULY 2020

REPORT OF HEAD OF FINANCE AND RESOURCES

STDC AND GROUP DRAFT UNAUDITED STATUTORY ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2019/20

SUMMARY

The purpose of this report is to present the draft statutory accounts for the year ended 31 March 2020.

RECOMMENDATIONS

It is recommended that the Audit and Risk Committee:

i. Endorses the enclosed draft unaudited accounts and recommends that STDC Board approves publication of the accounts by 1 September 2020 in accordance with the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020
ii. Considers and endorses the annual governance statement for 2019/20

DETAIL

Requirement to publish draft accounts

1. In accordance with the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020, as a public body STDC is required to publish its draft accounts for public inspection from no later than the 1st September 2020.

2. Publication is currently scheduled to take place on 31 July aligning with TVCA's publication timetable. The drafts will be made available on the STDC website.

3. The draft forward plan for Audit and Risk committee includes the presentation of a further draft of the accounts reflecting any audit feedback for review at the 21 October meeting, before submitting the final accounts to STDC Board for approval on 25th November in line with the 30th November deadline for filing of final audited accounts.

Results for the year

4. Overall, the group accounts show a net surplus of £0.7m in STDC. STDL is broadly break even, showing an £8k deficit as core operating costs are funded by TVCA as a grant:

	STDC	STDL	Group
Year ended 31 March 2020	**£'000**	**£'000**	**£'000**
Income	6,723	7,151	13,874
Expenditure	(5,943)	(6,630)	(12,573)
	780	**521**	**1,301**
Property revaluation	-	(530)	(530)
Surplus/(deficit)	**780**	**(9)**	**771**

STDC

5. Income of £6.7m comprises £3m of funding for operational costs from MHCLG, £3m funding for committed Prairie site remediation costs and £0.7m of TVCA funding for capital works and site investigations

6. Expenditure of £5.9m includes £1.8m of costs related to the CPO defence and hearing, £0.8m of capital works costs, £0.4m of site investigation works and £2.9m of general operating costs (including £0.4m of pension related adjustments)

STDL

7. Income of £7.1m includes £1.9m of grant funding from STDC for operating costs and £5.2mof electricity charges that are passed through to users of the HV electrical network across the STDL site at cost

8. Expenditure includes the £5.2m corresponding costs entry for electricity income alongside £0.7m of bad debt charges related to unpaid electricity charges from British Steel arising from its liquidation in May 2019. Remaining costs represent the day to day operating costs of STDL.

9. In accordance with the requirements of the CIPFA code STDL has revalued its land assets the result of which was a downward revaluation of £0.5m from £12m to £11.5m. This broadly reflects write down of legal fees and stamp duty capitalised on acquisition of the property. The book valuation of the property remains consistent with the purchase price paid by STDL in February 2019

Financial position

10. Summary group balances sheets for the 2019 and 2020 financial year are presented below:

Summary group balance sheets	2020	2019
As at 31 March	**£'000**	**£'000**
Fixed assets (Land)	11,500	12,000
Net current assets	5,677	3,961
Total assets less current liabilities	**17,177**	**15,961**
Long term liabilities (TVCA loan)	(12,215)	(12,215)
Long term liabilities (Pensions)	(496)	(52)
	(12,711)	**(12,267)**
Net Assets	**4,466**	**3,694**
Usable reserves	5,673	4,032
Unusable reserves	(1,207)	(338)
Total reserves	**4,466**	**3,694**

- The reduction in fixed asset carrying value reflects the revaluation of land assets as discussed in paragraph 9 above
- The Group shows strong liquidity at the close of the 2019/20 financial year with net current assets of £5.7m including positive cash balances of £6.6m
- Pension liabilities have significantly increased year on year due to the impact of underlying actuarial assumptions
- Overall TVCA has net useable reserves of £2.5m as at 31 March 2020

Annual Governance Statement

11. The annual governance statement for the year is attached, which reflects changes to the STDC's governance structure enacted at the June Board meeting and will be published alongside the annual accounts

FINANCIAL IMPLICATIONS

12. Whilst this report provides financial information it has no direct financial consequences

LEGAL IMPLICATIONS

13. This report has no specific legal implications

RISK ASSESSMENT

14. Publishing of draft accounts is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

15. These draft accounts have been consulted with the STDC Senior Management team, TVCA finance manager and Group Director of Finance.

EQUALITY & DIVERSITY

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

Name of Contact Officer:	Mike Russell
Post Title:	Head of Finance and Resources
Telephone Number:	01642 526 459
Email Address:	mike.russell@southteesdc.com

South Tees Development Corporation and Group

Draft Unaudited Financial Statements

for the year ended 31/03/2020

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Narrative Report

Introduction

Welcome to the South Tees Development Corporation and Group's Annual statement of Accounts for 2019/20 which have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

The South tees Development Corporation Group comprises South Tees Development Corporation (STDC) and its wholly owned subsidiary company South Tees Developments Limited.

The purpose of this narrative report is to provide a guide to the Corporation and Group's accounts as well as setting out the Corporation and Group's financial position.

Organisational overview and external environment

The South Tees Development Corporation was established in August 2017 in the wake of the closure of the SSI Steelworks, and is the first mayoral development corporation outside of London. STDC's long term objective is to create a world class, modern industrial park on the former steelworks site and surrounding land that will focus on advanced manufacturing and clean growth. This in turn will generate quality local employment and contribute significantly to decarbonisation of local industry and moving the UK towards "Carbon Net Zero" by 2050.

The South Tees Development Corporation Site is site is the largest industrial development opportunity in the UK comprising 4,500 acres in total. STDC's core operations are the remediation of contaminated, unsafe land within the site boundaries, completion of the demolition of redundant assets and bringing the site back into productive use by releasing over 2,000 acres of additional land for commercial investment.

In February 2019 STDC established its wholly owned subsidiary Company, South Tees Developments Limited. STDC exists to own and manage 1,420 acres of land acquired from TATA Steel Europe.

Governance and transparency

STDC is part of the Tees Valley Combined Authority (TVCA) Group but retains its own separate Board (chaired by the Mayor of the Tess Valley) and governance committees with members drawn from both the public and private sectors. The STDC constitution ensures alignment with the wider objectives of TVCA through the concept of "referral decision" for any significant matters.

A more detailed overview of STDC's governance arrangements is presented within its Annual Governance Statement which can be found at https://www.southteesdc.com/about-us/transparency-required-information/

Minutes of board meetings can be found at https://www.southteesdc.com/about-us/board-meetings/

2019/20 performance

Through 2019/20 STDC's principal focus was to complete the compulsory purchase order of the former SSI steelworks site which contains the majority of the contaminated and unsafe land as well as developing a business case to central government to secure funding to support regeneration activity.

Key milestones include

- **£71m funding commitment** - In January 2020, a £71m funding was committed by treasury in support of the regeneration of the STDC site (subject to final business case.) As at July 2020 the full business case for this funding has been submitted to government with a final decision expected in mid- August
- **Favourable CPO outcome** – Compulsory purchase proceedings took place during 2019/20 to secure the remining 870 acres of land owned by SSI in receivership and other remaining land interests, which sit within the boundaries of the South Tees Development Corporation Site.   On 29 April 2020, STDC's CPO was approved unconditionally paving the way for the remainder of the site to be acquired by STDC

Outlook, strategy, and operating model

As a result of the successful CPO conclusion, and in anticipation of release of funding from central government, the focus of STDC's activity is shifting towards land acquisition and delivery of its regeneration programme through 2020/21

Site regeneration

STDC's board has agreed an overall budget of £41m for the year including £26m for capital project works (subject to securing the additional government funding noted above). In the first quarter of 202/21 work commenced on site clearance whilst major procurements are being finalised to secure contractor resource and accelerate activity.

Narrative Report

Land acquisition
In July 2020 STDC made a "General Vesting Declaration" which will lead to transfer of the first tranche of ex SSI steelworks land into local ownership in early October 2020. Further General Vesting Declarations will be made in the year with the aim of taking ownership of all relevant land by the end of the calendar year.

South Tees Site Company (STSC) Transition
In line with the transfer of ex SSI land into STDC ownership the TVCA group is working to complete the transition of the South Tees Site Company into local ownership. South Tees Site Company is currently owned by the Department for Business, Energy and Industrial Strategy (BEIS) and is responsible for decontamination, keep safe, maintenance and security across the South Tees Development Corporation site. The transition of STSC will bring all activities on the STDC site into local control

Commercial activity

STDC is also in final stage discussions with a prospective joint venture partner which will work alongside the group to develop commercial interest on the site, secure inward investors and facilitate development. It is anticipated that these arrangements will be formalised during the 2019/20 financial year

Key risks
The nature of the STDC site brings with it number of safety and delivery risks. In particular, safeguarding individuals on site, maintaining site security and ensuring hazardous and toxic materials do not cause additional environmental harm. Central government continues to fund the activities of South Tees Site Company which manages these risks and is also decontaminating the site.

Medium term risks to delivery include the impact of unforeseen issues when redeveloping the site, relating to ground conditions and potentially unsafe structure. Where possible these risks are mitigated through survey activity and robust planning and safety management systems adopted by contractors on site

Ultimately there is a commercial risk linked to the level of appetite for investors to locate on site, however this is not considered significant and the site continues to receive interest and enquiries from potential investors

Covid-19
To date Covid-19 has had limited impact on the operations of STDC, as a result of a robust business continuity plan the relatively small core team were quickly able to transition to remote working and operations on site continued subject to appropriate adjustments to ensure safe working.
Management continues to monitor the Covid-19 situation and will continually review its risk assessment based on the latest available information.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Development Corporation and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Corporation and Group.

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.
Balance Sheet - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Corporation and Group. The net assets of the Corporation and Group (assets less liabilities) are matched by the reserves held by the Corporation and Group.
Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Corporation for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

STDC Movement in Reserves Statement for the year ended 31 March 2020

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 Provision of Services line shows the true economic cost of providing the Corporation's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Reserves £000s
Movement in reserves during 2019/20						
Balance at 1 April 2019	**2,020**	**-**	**2,509**	**4,529**	**(64)**	**4,466**
Total Comprehensive Income and Expenditure	780			780	-	780
Adjustments between accounting basis & funding basis under regulations (Note 5)	(2,155)	-	2,494	339	(339)	-
Increase/Decrease in Year	(1,376)	-	2,494	1,119	(339)	780
Balance at 31 March 2020 carried forward	644	-	5,003	5,647	(403)	5,245
	-					
(Annual Accounts						
Amounts earmarked (Note 6)	322					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2020	644					

	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Reserves £000s
Movement in reserves during 2018/19						
Balance at 1 April 2018	**2,174**	**-**	**925**	**3,099**	**(2)**	**3,097**
Total Comprehensive Income and Expenditure	1,368			1,368	1	1,369
Adjustments between accounting basis & funding basis under regulations (Note 5)	(1,522)	-	1,584	62	(63)	-
Increase/Decrease in Year	(154)	-	1,584	1,430	(62)	1,369
Balance at 31 March 2019 carried forward	2,020	-	2,509	4,529	(64)	4,466
General Fund analysed over:						
Amounts earmarked (Note 6)	1,698					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2019	2,020					

STDC Group Movement in Reserves Statement for the year ended 31 March 2020

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

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2019/20						
Balance at 1 April 2019	**1,523**	**-**	**2,509**	**4,033**	**(338)**	**3,696**
Total Comprehensive Income and Expenditure	771	-	-	771	-	771
Adjustments between accounting basis & funding basis under regulations (Note 5)	(1,625)		2,494	869	(869)	(0)
Increase/Decrease in Year	(854)	-	2,494	1,641	(869)	771
Balance at 31 March 2020 carried forward	669	-	5,003	5,674	(1,207)	4,467
General Fund analysed over:						
Amounts earmarked	347					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2020	669					

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2018/19						
Balance at 1 April 2018	**2,174**	**-**	**925**	**3,099**	**(4)**	**3,097**
Total Comprehensive Income and Expenditure	599	-	-	599	1	599
	-	-	-	-	-	-
Adjustments between accounting basis & funding	(1,250)	-	1,584	335	(335)	-
basis under regulations (Note 5)	-	-	-	-	-	-
Increase/Decrease in Year	(651)	-	1,584	934	(334)	599
Balance at 31 March 2019 carried forward	1,523	-	2,509	4,033	(338)	3,696
General Fund analysed over:						
Amounts earmarked	1,201					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2019	1,523					

STDC Comprehensive Income and Expenditure Statement
for the year ended 31 March 2020

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

2018/19				2019/20		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
1,636	(1,419)	**217**	Core Running Costs	2,951	(1,239)	**1,712**
965	(603)	**362**	Enabling Infrastructure	2,569	(2,057)	**512**
127	(127)	**-**	Development Costs	423	(423)	**-**
2,729	**(2,149)**	**580**	**Cost Of Services**	**5,943**	**(3,718)**	**2,224**
			Financing and Investment Income and Expenditure:			
1	(2)	(1)	Net interest on the net defined benefit liability/asset			-
			Taxation and Non-Specific Grant Income:			
-	(1,946)	(1,946)	Capital grants and contributions		(3,004)	(3,004)
2,730	**(4,097)**	**(1,368)**	**(Surplus) or Deficit on Provision of Services**	**5,943**	**(6,723)**	**(780)**
			(Surplus) or deficit on revaluation of non current assets			-
		(1)	Actuarial (gains) or losses on pension assets & liabilities			-
			Other (gains) and losses			-
		(1)	**Other Comprehensive Income and Expenditure**			**-**
		(1,369)	**Total Comprehensive Income and Expenditure**			**(780)**

STDC Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2020

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

2018/19				2019/20		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
2,922	(1,935)	**987**	Core Running Costs	9,581	(8,391)	**1,190**
965	(603)	**362**	Enabling Infrastructure	2,569	(2,057)	**512**
127	(127)	**-**	Development Costs	423	(423)	**-**
4,015	**(2,666)**	**1,349**	**Cost Of Services**	**12,573**	**(10,870)**	**1,703**
			Financing and Investment Income and Expenditure:			
1	(2)	**(1)**	Net interest on the net defined benefit liability/asset	-	-	**-**
-	-	**-**	***Taxation and Non-Specific Grant Income:***	-	-	**-**
-	(1,946)	**(1,946)**	Capital grants and contributions	-	(3,004)	**(3,004)**
4,016	**(4,614)**	**(598)**	**(Surplus) or Deficit on Provision of Services**	**12,573**	**(13,874)**	**(1,301)**
		-	(Surplus) or deficit on revaluation of non current assets			530
		(1)	Actuarial (gains) or losses on pension assets & liabilities			-
		-	Other (gains) and losses			-
		(1)	**Other Comprehensive Income and Expenditure**			**530**
		(599)	**Total Comprehensive Income and Expenditure**			**(771)**

STDC and Group Balance Sheet as at 31 March 2020

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Corporation and Group. The net assets of the Corporation and Group (assets less liabilities) are matched by the reserves held by the Corporation and Group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Corporation and 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 Corporation and Group is 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	Group	Group	STDC	STDC
		31 March 2020 £000s	**31 March 2019 £000s**	**31 March 2020 £000s**	**31 March 2019 £000s**
Non-current assets		-	-		
Property, plant and equipment	9	11,500	12,000	-	-
Asset in the course of construction	9	0	-	0	-
Long term loan	10	-	-	11,273	11,273
Long Term Debtors	11	-	-	150	150
Total non-current assets		11,500	12,000	11,423	11,423
Current assets					
Short term investments					
Debtors	12	9,733	2,756	7,093	2,602
Cash and Cash Equivalents	13	6,603	3,034	3,034	3,034
Total current assets		16,337	5,790	10,127	5,636
Current liabilities					
Short Term Creditors	14	(10,660)	(1,829)	(4,596)	(1,328)
Total current liabilities		(10,660)	(1,829)	(4,596)	(1,328)
Long term liabilities					
Long Term Creditors	15	(12,215)	(12,215)	(11,215)	(11,215)
Other Long Term Liabilities	16	(496)	(52)	(496)	(52)
Total long term liabilities		(12,711)	(12,267)	(11,711)	(11,267)
Net Assets:		**4,466**	**3,694**	**5,244**	**4,463**
Reserves					
Usable reserves:					
General Fund Balance	1	322	322	322	322
Earmarked General Fund Reserves	6	347	1,201	322	1,698
Capital Grants Unapplied		5,003	2,509	5,003	2,509
		5,673	4,032	5,648	4,528
Unusable Reserves:					
Capital Adjustment Account	27	(695)	(273)	108	-
Pensions Reserve		(496)	(52)	(496)	(52)
Accumulated Absences Account	5	(16)	(13)	(16)	(13)
		(1,207)	(338)	(404)	(65)
Total Reserves:		**4,466**	**3,694**	**5,244**	**4,463**

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July 2020

STDC and Group Cash Flow Statement For The Year Ended 31 March 2020

The Cash Flow Statement shows the changes in cash and cash equivalents of the Corporation and Group during the reporting period. The statement shows how the Corporation and 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 Corporation and Group are funded by way contributions and grant income or from the recipients of services provided by the Corporation and Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Corporation and 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 Corporation and Group.

	Note	Group 2019/20 £000s	Group 2018/19 £000s	STDC 2019/20 £000s	STDC 2018/19 £000s
Net (surplus) or deficit on the provision of services		**(1,301)**	**(598)**	**(1,227)**	**(1,368)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements:					
Revaluation losses		(421)	(273)	-	-
Pension Fund adjustments		(444)	(52)	(444)	(52)
Increase/(Decrease) in Revenue Debtors	12	6,978	2,749	4,491	2,595
(Increase)/Decrease in Revenue Creditors	14	(8,829)	(844)	(3,267)	(343)
(Increase)/Decrease in Long Term Creditors	15	447	(11,215)	447	(11,215)
Increase/(Decrease) in Long Term Debtors		-	-	0	150
		(2,268)	**(9,635)**	**1,227**	**(8,865)**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		-	-		
Capital Grants credited to surplus or deficit on the provision of services	\nnual Account	(2,494)	(1,584)	(2,494)	(1,584)
		(2,494)	**(1,584)**	**(2,494)**	**(1,584)**
		-	**-**		
Net cashflow from operating activities		**(6,064)**	**(11,817)**	**(2,494)**	**(11,816)**
Investing activities					
Purchase of property, plant and equipment, investment property and intangible assets		-	11,273	0	-
Purchase of short term and long term investments		-	-	0	11,273
Other receipts from investing activities		2,494	1,584	2,494	1,584
Net cashflow from investing activities		**2,494**	**12,857**	**2,495**	**12,856**
Financing activities					
Net (increase) or decrease in cash and cash equivalents		**(3,569)**	**1,040**	**0**	**1,040**
		-	**-**		
Cash and cash equivalents at the beginning of the reporting period		**(3,034)**	**(4,075)**	**(3,035)**	**(4,075)**
		-	**-**		
Cash and cash equivalents at the end of the reporting period	13	**(6,603)**	**(3,035)**	**(3,035)**	**(3,035)**

The cashflow for operating activities includes the following items:				
Interest received	**-**	**-**	**-**	**-**
Interest paid	**-**	**-**	**-**	**-**

Note 1: Group Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Corporation and Group in comparison with those resources consumed or earned by the Corporation and Group in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Corporation and 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.

2018/19				2019/20		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**	**STDC**	**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**
1,412	(1,194)	**218**	Core Running Costs	2,504	(792)	**1,712**
589	(227)	**362**	Enabling Infrastructure	1,763	(1,251)	**512**
-	-	**-**	Development Costs	-	-	**-**
2,001	**(1,421)**	**580**	**Net Cost Of Services**	**4,266**	**(2,043)**	**2,224**
(2,251)	303	(1,948)	Other Income and Expenditure	(4,267)	1,263	(3,004)
(250)	**(1,118)**	**(1,368)**	Surplus or Deficit	**0**	**(780)**	**(780)**
(72)			**Opening General Fund Balance**	**(322)**		
(250)			Less/Plus (Surplus) or Deficit	**0**		
(322)			**Closing General Fund Balance at 31 March 2019**	**(322)**		

2018/19				2019/20		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**	**Group**	**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**
1,684	(696)	**988**	Core Running Costs	3,881	(792)	**1,190**
589	(227)	**362**	Enabling Infrastructure	1,763	(1,251)	**512**
-	-	**-**	Development Costs	-	-	**-**
2,273	**(923)**	**1,350**	**Net Cost Of Services**	**5,645**	**(2,043)**	**1,703**
(2,523)	575	(1,948)	Other Income and Expenditure	(5,645)	2,642	**(3,004)**
(250)	**(348)**	**(598)**	Surplus or Deficit	**(0)**	**599**	**(1,301)**
(72)			**Opening General Fund Balance**	**(322)**		
(250)			Less/Plus (Surplus) or Deficit	**(0)**		
(322)			**Closing General Fund Balance at 31 March 2019**	**(322)**		

Note 1: Group Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:
STDC

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	-	(444)	(348)	**(792)**
Enabling Infrastructure	510	-	(1,761)	**(1,251)**
Development Costs	-	-	-	**-**
Net Cost Of Services	510	(444)	(2,109)	**(2,043)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,004)		4,267	**1,263**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(2,494)	(444)	2,158	**(780)**

Adjustments between Funding and Accounting Basis 2018/19

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	362	53	(1,609)	**(1,194)**
Enabling Infrastructure	-	-	(227)	**(227)**
Development Costs	-	-	-	**-**
Net Cost Of Services	362	53	(1,836)	**(1,421)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(1,946)	-	2,249	**303**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(1,584)	53	413	**(1,118)**

Notes to the Expenditure and Funding Analysis:

Group 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	-	(444)	(348)	(792)
Enabling Infrastructure	510	-	(1,761)	(1,251)
Development Costs			-	-
Net Cost Of Services	510	(444)	(2,109)	**(2,043)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,004)		5,646	2,642
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(2,494)	(444)	3,537	**599**

Group Adjustments between Funding and Accounting Basis 2018/19

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	635	54	(1,385)	(696)
Enabling Infrastructure			(227)	(227)
Development Costs			-	-
Net Cost Of Services	635	54	(1,612)	**(923)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(1,946)		2,521	575
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(1,311)	54	909	**(348)**

Notes to the Expenditure and Funding Analysis:

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.

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

	Group	Group	STDC	STDC
	2019/20	**2018/19**	**2019/20**	**2018/19**
	£000s	**£000s**	**£000s**	**£000s**
Expenditure				
Employee b Annual Accounts	928	874	928	874
Other services expenses	10,809	3,141	4,148	1,855
Pension payments	444	1	444	1
Total Expenditure	**12,181**	**4,016**	**5,520**	**2,730**
Income				
Fees, charges and other service income	(5,282)	(518)	-	(2)
Interest and investment income	-	(2)	-	(2)
Local Government grants and contributions	(1,900)	-	-	-
Government grants and contributions	(6,300)	(4,094)	(6,300)	(4,094)
Total Income	**(13,482)**	**(4,614)**	**(6,300)**	**(4,098)**
(Surplus) or Deficit on the Provision of Services	**(1,301)**	**(598)**	**(780)**	**(1,368)**

Segmental Income

Income received on a segmental basis is analysed below:	**2019/20**	**2018/19**	**2019/20**	**2018/19**
	£000s	**£000s**	**£000s**	**£000s**
Services	**Income from Services**	**Income from Services**	**Income from Services**	**Income from Services**
Core Running Costs	(5,282)	(518)	-	(2)
Total income analysed on a segmental basis	**(5,282)**	**(518)**	**0**	**(2)**

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:

- IFRIC 23 Uncertainty over Income Tax Treatments

The corporation has sought independent tax advice to ensure correct tax treatment of the activities is recognised in the accounts. It is therefore believed that the treatment is correct and nothing falls under the scope of this standard.

Note 3: Critical Judgements in Applying Accounting Policies

In applying it's accounting policies the Corporation and Group has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

The decision to prepare group accounts. South Tees Developments Ltd commenced activities with the acquisition of land on 22nd February 2019. The comparative results therefore show a partial year for this subsidiary.

Bad Debt Provision. South Tees developments Ltd trades with the current and former British Steel which has gone into compulsory liquidation. The Directors have prudently provided a 100% provision against the debt due from the former in the financial year.

Classification and valuation basis of the land in the Group accounts. The Directors have considered the options of possible acounting treatment and have decided to show the land under Property Plant and Equipment.

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 the Corporation and Group 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 the Corporation and Group's Balance Sheet at 31 March 2020 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 the Corporation with expert advice about the assumptions to be applied. Sensitivities are included in Note 21.

- The valuation of the land in Property, Plant and Equipment has been informed by an independent RICS valuer who has provided a 'red book' report showing the valuation used in the accounts.

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

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	(2,494)		2,494	-
Adjustments involving the Pensions Reserve	444			(444)
Adjustments involving the Accumulated Absences Adjustment Account	3			(3)
Total Adjustments	**(2,155)**	**-**	**2,494**	**(339)**

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	-			-
Adjustments involving the Capital Grants Unapplied Account	(1,584)		1,584	-
Adjustments involving the Pensions Reserve	52			(52)
Adjustments involving the Accumulated Absences Adjustment Account	10			(10)
Total Adjustments	**(1,522)**	**-**	**1,584**	**(62)**

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Group Adjustments involving the Capital Adjustment Account	422		-	(422)
Group Adjustments involving the Capital Grants Unapplied Account	(2,494)		2,494	-
Group Adjustments involving the Pensions Reserve	444			(444)
Group Adjustments involving the Accumulated Absences Adjustment Account	3			(3)
Total Adjustments	**(1,625)**	**-**	**2,494**	**(869)**

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Group Adjustments involving the Capital Adjustment Account	273			(273)
Group Adjustments involving the Capital Grants Unapplied Account	(1,584)		1,584	-
Group Adjustments involving the Pensions Reserve	52			(52)
Group Adjustments involving the Accumulated Absences Adjustment Account	10			(10)
Total Adjustments	**(1,249)**	**-**	**1,584**	**(335)**

Note 6: Movements in Earmarked Reserves - STDC

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 2019/20.

Earmarked Reserves	Balance at 31 March 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
Revenue Reserves				
Planned Activities	(1,698)	1,376		(322)
Total Revenue Reserves	**(1,698)**	**1,376**	**-**	**(322)**

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Planned Activities	(2,102)	404	-	(1,698)
Total Revenue Reserves	**(2,102)**	**404**	**-**	**(1,698)**

Note 6: Movements in Earmarked Reserves - Group

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 2019/20.

Earmarked Reserves	Balance at 31 March 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
Revenue Reserves				
Planned Activities - STDL	(1,698)	1,376		(322)
Planned Activities - Subsidiary	497	1,378		(25)
Total Revenue Reserves	**(1,201)**	**2,754**	**-**	**(347)**

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Planned Activities - STDL	(2,102)	404		(1,698)
Planned Activities - Subsidiary		497		497
Total Revenue Reserves	**(2,102)**	**901**	**-**	**(1,201)**

Note 7: Members' Allowances

There are no elected members of the Corporation nor the Group. It is wholly controlled by the Tees Valley Combined Authority and as such there is no members remuneration by STDC nor the Group.

Note 8: Employee Remuneration STDC and Group.

The Chief Executive is employed by the South Tees Site Company, a Government run organisation responsible for the safety, security and upkeep of the former SSI site. His remuneration is included in the table information for that entity.
The Director of Finance is employed by Tees Valley Combined Authority.
Neither of the above received direct remuneration from STDC, however a proportion of the Director of Finance salary was recharged to STDC by TVCA and in 2019/20 this amounted to £25,885. (2018/19 £11,461)

Remuneration of the CEO's senior staff are shown in the following table.

Remuneration of Senior Employees

Post holder information	Salary (Including fees & Allowances) £	Expense Allowances £	Benefits in kind £	Total Remuneration excluding pension contributions 2019/20 £	Pension contributions £	Total Remuneration including pension contributions 2019/20 £	Total Remuneration including pension contributions 2018/19 £
Engineering and Project Director	132,600			**132,600**	22,542	**155,142**	145,762
Assistant Director of Regeneration	68,501			**68,501**	-	**68,501**	58,395
Senior Non Executive Director	16,667			**16,667**	-	**16,667**	20,556
Interim Commercial Director	55,833			**55,833**	-	**55,833**	41,129
Commercial Director	37,053			**37,053**	6,299	**43,352**	-
Strategic Utilities Director	14,483			**14,483**	2,462	**16,945**	-
	325,137	-	-	325,137	31,303	356,440	265,842

The Senior Non Executive Director deputised for the CEO role until the appointment of the new CEO in September 2019.

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	Number of Employees 2019/20	Number of Employees 2018/19
50,001 - £55,000	3	1
55,001 - £60,000	-	1

Remuneration of the CEO and his senior staff has been excluded from the salary range analysis in the table above

Note 9: Property, Plant and Equipment (STDC and Group)

	Group		STDC	
	Other Land and Buildings	TOTAL	Other Land and Buildings	TOTAL
	£000s	£000s	£000s	£000s
Cost				
As at 1 April 2019	12,273	**12,273**	-	**-**
Additions	0	**0**	0	**0**
Revaluation	(773)	**(773)**		**-**
Disposals		**-**		**-**
As at 31 March 2020	11,500	11,500	0	0
Depreciation				
As at 1 April 2019	-	**-**	-	**-**
Depreciation Charge	-	**-**	-	**-**
Impairments	-	**-**	-	**-**
Derecognition of Disposals	-	**-**	-	**-**
As at 31 March 2020	-	**-**	-	**-**
	-	-	-	-
Net Book Value				
As at 1 April 2019	12,000	12,000	-	-
As at 31 March 2020	11,500	11,500	0	0

	Group		STDC	
	Other Land and Buildings	TOTAL	Other Land and Buildings	TOTAL
	£000s	£000s	£000s	£000s
Cost				
As at 1 April 2018	-	**-**	-	**-**
Additions	12,273	**12,273**	-	**-**
Revaluation	(273)	**(273)**		**-**
Disposals		**-**		**-**
As at 31 March 2019	12,000	12,000	-	-
Depreciation				
As at 1 April 2018	-	**-**	-	**-**
Depreciation Charge	-	**-**	-	**-**
Impairments	-	**-**	-	**-**
Derecognition of Disposals	-	**-**	-	**-**
As at 31 March 2019	-	**-**	-	**-**
	-	-	-	-
Net Book Value				
As at 1 April 2018	-	-	-	-
As at 31 March 2019	12,000	12,000	-	-

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 independent professional valuers (GVA) on a triennial 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 independant valuers opinion of Fair Value was prepared in accordance with the RICS Valuation- Global Standards 2017, CPIFA Code, and the International Financial Reporting Standards (IFRS) and related definition of "Fair Value". This valuation has informed the revalued figure shown in the accounts. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

Basis of depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment 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.

Treatment of revaluation supluses/(losses)

Surpluses on revaluation are shown as a non usable revaluation reserve, losses are recognised in surplus/deficit on the provision of services in so far as they do not reduce a previously created revaluation reserve.

Note 10: Long Term Loan

During the year South Tees Development Corporation made a loan to South Tees Developments Ltd, a company set up to hold the land, run the repurposing projects and maintain the estate management of the first section of the STDC site to be acquired.

Note 11: Long Term Debtors - Group and STDC

	Group	Group	STDC	STDC
	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Other receivables	-	-	150	150
	-	**-**	**150**	**150**

Note 12: Short Term Debtors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade Receivables	590	-	-	-
Prepayments	154	194	2	40
Other receivables	8,989	2,562	7,091	2,562
	9,733	**2,756**	**7,093**	**2,602**

Note 13: Cash and Cash Equivalents - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Bank and Imprests	6,603	3,034	3,034	3,034
	6,603	**3,034**	**3,034**	**3,034**

Note 14: Short Term Creditors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade payables	(4,213)	-	(1,998)	-
Other Payables	(3,104)	(1,829)	(2,598)	(1,328)
Other entities and individuals	(3,343)	(505)		-
	(10,660)	**(1,829)**	**(4,596)**	**(1,328)**

Note 15: Long Term Creditors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade payables	-	-	-	-
Other Payables	(12,215)	(12,215)	(11,215)	(11,215)
	(12,215)	**(12,215)**	**(11,215)**	**(11,215)**

Note 16: Other Long term Liabilities - Group and STDC

	31 March 2020 £000s	31 March 2020 £000s	31 March 2020 £000s	31 March 2019 £000s
Pension Provision	(496)	(52)	(496)	-52
	(496)	**(52)**	**(496)**	**(52)**

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 the Corporation or to be controlled or influenced by the Corporation. Disclosure of these transactions allows readers to assess the extent to which the Corporation 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 the Corporation – it is responsible for providing the statutory framework within which the Corporation operates, provides the majority of its funding in the form of grants (via TVCA) and prescribes the terms of many of the transactions that the Corporation has with other parties.

Members

Members of the TVCA have direct control over the Corporation's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 7. During 2018/19, there were no related party transactions between TVCA members and STDC.

Tees Valley Combined Authority (TVCA)

STDC was set up under the control of TVCA. The trading arrangement between these two entities results in material balances due to and from TVCA at the year end.

Entities Controlled or Significantly Influenced by the Corporation

No elected member or senior officer of the corporation sit on any board or management committee of any entities which are significantly controlled or influenced by the corporation.

Related Parties

South Tees Development Corporation was established by Tees Valley Combined Authority and is part of their overall group structure.
South Tees Site Company is a Government controlled organisation who is responsible for the safety, security and upkeep of the former SSI Site.
South Tees Developments Limited is a wholly owned subsidiary of South Tees Development Corporation.
Details of the Income and Expenditure with these organisations is set out below:-

	Group		STDC	
2019/20	**Income Received £000s**	**Expenditure £000s**	**Income Received £000s**	**Expenditure £000s**
Tees Valley Combined Authority	(1,900)	6,716	(6,300)	4,126
South Tees Developments Ltd	-	-	(101)	-
Stockton Borough Council	-	1	-	1
Redcar & Cleveland Borough Council	5	30	5	30
South Tees Site Company	(14)	117	(14)	76
Total	**(9)**	**6,864**	**(110)**	**4,233**

2018/19	**Income Received £000s**	**Expenditure £000s**	**Income Received £000s**	**Expenditure £000s**
Tees Valley Combined Authority	-	-	-	-
South Tees Developments Ltd	-	-	-	-
Redcar & Cleveland Borough Council	-	31	-	31
South Tees Site Company	(2)	192	(2)	192
Total	**(2)**	**223**	**(2)**	**223**

The below table sets out the amounts owed to and from the corporation as at 31 March 2019:-

	Group		STDC	
2019/20	**Owed by STDC To £000s**	**Owed to STDC From £000s**	**Owed by STDC To £000s**	**Owed to STDC From £000s**
Tees Valley Combined Authority	11,215	2,146	11,215	4,737
South Tees Developments Ltd	-	-	-	11,778
Stockton Borough Council	-	1	-	1
Redcar & Cleveland Borough Council	61	-	-	-
South Tees Site Company	4	-	-	-
Total	**11,279**	**2,147**	**11,215**	**16,516**

2018/19	**Owed by STDL To £000s**	**Owed to STDL From £000s**	**Owed by STDC To £000s**	**Owed to STDC From £000s**
Tees Valley Combined Authority	11,215	3,716	11,215	2,561
South Tees Developments Ltd	-	-	-	11,423
Redcar & Cleveland Borough Council	31	-	-	-
South Tees Site Company	75	-	75	-
Total	**11,321**	**3,716**	**11,290**	**13,984**

Note 18: External Audit Costs

The Group has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Groups external auditors:

	Group		STDC	
	2019/20	**2018/19**	**2019/20**	**2018/19**
	£000s	**£000s**	**£000s**	**£000s**
Fees payable to Mazars LLP with regard to external audit services	21	21	21	21
Fees payable to Mazars LLP for the certification of grant claims	-	-	-	-
Fees payable in respect of other services provided by Mazars LLP	-	-	-	-
	21	**21**	**21**	**21**

Note: There is no additional charge this year for the audit of South Tees Developments Limited

Note 19: Grant Income

The Corporation credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

	Group		STDC	
	2019/20	**2018/19**	**2019/20**	**2018/19**
Credited to Taxation and Non Specific Grant income	**£000s**	**£000s**	**£000s**	**£000s**
South Tees Industrial Zone Access Grant From Tees Valley Combined Authority			-	-
South Tees Developments Ltd Grant From Tees Valley Combined Authority	1,900	-	-	-
Development Grant for Prairie site From MHCLG	3,004	1,946	3,004	1,946
Total	**4,904**	**1,946**	**3,004**	**1,946**

	Group		STDC	
	2019/20	**2018/19**	**2019/20**	**2018/19**
Credited to Services	**£000s**	**£000s**	**£000s**	**£000s**
Operating Grant From MHCLG	3,000	2,000	3,000	2,000
Development Grant for Prairie site From MHCLG	296	14	296	14
Total	**3,296**	**2,014**	**3,296**	**2,014**

Note 20: Financial Instruments - STDC

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.

Financal 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 three classifications:

- 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.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

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.

Financal 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 a 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:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	11,423	11,423	10,127	5,636
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**11,423**	**11,423**	**10,127**	**5,636**

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

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(11,215)	(11,215)	(4,553)	(1,294)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(11,215)**	**(11,215)**	**(4,553)**	**(1,294)**

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**

Note 20: Financial Instruments STDC Group

Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Corporation and 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.

Financal Assets
A financial asset is a right to future economic benefits controlled by the Corporation and 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 Corporation and Group. The financial assets held by the Corporation and Group during the year are accounted for under the following three classifications:

- 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.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

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 and Group.

Financal 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 a 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:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	-	-	16,182	5,582
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**-**	-	**16,182**	5,582

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

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(12,215)	(12,215)	(10,617)	(1,587)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(12,215)**	(12,215)	**(10,617)**	(1,587)

Nature and Extent of Risks Arising from Financial Instruments

Key risks
The Corporation and 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 Corporation and Group**
- **liquidity risk – the possibility that the Corporation and Group might not have funds available to meet its commitments to make payments**

Note 21: Defined Benefit Pension Schemes

Participation in Pension Schemes
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.

STDL has no direct employees and is therefore not part of the LGPS.

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:

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	150	134
• Past service cost	9	-
Financing and Investment Income and Expenditure		
Net interest cost	-	(1)
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**159**	**133**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expense)	(122)	(3)
• Actuarial gains and losses arising on changes in financial assumptions	(10)	11
• Actuarial gains and losses due to changes in demographic assumptions	(13)	(9)
• Actuarial gains and losses due to liability experience	509	-
• Actuarial gains and losses due to acquisitions	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**364**	**(1)**
Movement in Reserves Statement		
• Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	205	(134)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	**79**	**80**

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is £0.444m. 2019 £0.001m

Pension Assets and Liabilities Recognised in the Balance Sheet

Changes to the present value of the defined benefit obligation

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Present value of defined benefit obligation	(1,127)	(185)
Fair value of assets	631	133
Net liability recognised in the Balance Sheet	**(496)**	**(52)**

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

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Opening fair value of scheme assets	133	11
Interest income	8	2
Remeasurement gains and (losses)	122	3
Contributions from the employer	79	80
Contributions from employees into the scheme	41	39
Net increase from acquisitions	-	-
Benefits paid	248	(2)
Closing balance at 31 March 2019	**631**	**133**

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

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

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Opening balance at 1 April	(185)	(11)
Current service cost	(150)	(134)
Interest cost	(8)	(1)
Contributions by scheme participants	(41)	(39)
Actuarial gains and losses - financial assumptions	10	(11)
Actuarial gains and losses - demographic assumptions	13	9
Actuarial gains and losses - liability experience	(509)	-
Benefits paid	(248)	2
Past service cost (inc. curtailments)	(9)	-
Net increase from acquisitions	-	-
Past service cost	-	-
Closing balance at 31 March 2019	**(1,127)**	**(185)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2019/20 £000s	%
Equity investments (Quoted)	459	72.7%
Property (Quoted)	56	8.9%
Government Bonds	-	0.0%
Corporate Bonds	-	0.0%
Cash	85	13.4%
Other Investments	32	5.0%
	631	**100%**

	Fair value of scheme assets 2018/19 £000s	%
Equity investments (Quoted)	96	71.9%
Property (Quoted)	12	9.2%
Government Bonds	-	0.0%
Corporate Bonds	-	0.0%
Cash	22	16.8%
Other Investments	3	2.1%
	133	**100%**

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:

	2019/20	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.8	22.2
Women	23.5	24.1
Longevity at 45 for future pensioners:		
Men	23.2	23.9
Women	25.3	25.9
Other assumptions:		
Rate of inflation (RPI)	2.7%	3.2%
Rate of inflation (CPI)	2.1%	2.1%
Rate of increase in salaries	3.1%	3.1%
Rate of increase in pensions	2.1%	2.1%
Rate of Pension accounts revaluation rate	2.1%	2.1%
Rate for discounting scheme liabilities	2.4%	2.5%
Take-up of option to convert annual pension into retirement lump sum	80.0%	80.0%

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

2019/20	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	151	145	139
Rate of increase in salaries (increase or decrease by 0.1%)	145	145	145
Rate of increase in pensions payment (increase or decrease by 0.1%)	150	145	140
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	140	145	150

2018/19	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	191	185	179
Rate of increase in salaries (increase or decrease by 0.1%)	187	185	183
Rate of increase in pensions payment (increase or decrease by 0.1%)	190	185	181
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	178	185	192

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 2019.

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 schemes 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 schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Corporation anticipates to pay £0.225m contributions to the scheme in 2020/2021. (2019/2020 £0.082m.)

The weighted average duration of the defined benefit obligation for scheme members is 27.9 years. (2018/2019 37.4 years.)

Guaranteed Minimum Pension (GMP) and McCloud Judgement

At 31 March 2019 the group did not make any amendments for the potential impact of GMP and the McCloud Judgement. The actuary report dated 31 March 2020 has included within its calculations the impact of both of these cases. Any increase in liabilities at 31 March 2020 arising from the impact of GMP has been charged through other comprehensive income. The potential McCloud judgement liability has been presented as a past service cost this year.

Note 22: Termination Benefits - STDC and Group

2019/20 There was one termination payment to a director of the Corporation of £0.01m

In 2018/19 there was one termination payment made to an officer (ie not a director) of the Corporation of £0.01m

Note 23: Provisions - STDC and Group

The only provision made in the year is a bad debt provision relating to the debt due to STDL from British Steel.

Note 24: Contingent Liabilities - STDC and Group

The Corporation has no contingent liabilities.

Note 25: Post Balance Sheet Events - STDC and Group

Events after the Reporting Period

On 29 April 2020 the South Tees Development Corporation (Land at the former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019 ("the Order"), was confirmed without modification. The order allows STDC to take ownership of the remaining land within the boundaries of the South Tees Development Corporation site through a formal vesting process.

On 3 July 2020 STDC submitted its first "General Vesting Declaration" to give notice to occupiers of land withing the scope of CPO that land is to be acquired. Compensation will be payable to parties displaced by the vesting in consideration for the land acquired, however at this time it is not possible to determine the exact value due to ongoing negotiations.

Annual Accounts

Note 26: Leases - STDC and Group

The Corporation and 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), these 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.
Annual ongoing commitments with these leases are:

	2019/20 £000s	**2018/19 £000s**
Income	254	255
Expenditure	194	202

Note 27: Capital Adjustment Account - STDC and Group

	2019/20 £000s	**2018/19 £000s**
Balance at 1 April 2018	273	-
	273	-
- Revaluation losses on property, plant and equipment	530	273
- Revenue expenditure funded from capital under statute	806	376
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	(296)	(14)
Application of grants to capital financing from the Capital Grants Unapplied Account	(510)	(362)
Statutory provision for the financing of capital investment charged against the General Fund	(108)	
Capital expenditure charged against the General Fund balance		-
	422	273
Other adjustments	**-**	**0**
Balance at 31 March 2019	**695**	**273**

Note 28: Capital Expenditure and Financing - STDC and Group

	31 March 2020 £000s	31 March 2019 £000s
Opening Capital Financing Requirement	**11,215**	**-**
Capital investment		
Land & Buildings		11,215
Assets In Course of construction		
Revenue expenditure funded from capital under statute	806	376
Sources of Finance		
Government grants and other contributions	(806)	(376)
Sums set aside from revenue:		
Direct revenue contributions		-
Minimum Revenue Provision	(108)	-
Closing Capital Financing Requirement	**11,107**	**11,215**

Note 29: Statement of Accounting Policies - STDC and Group

General Principles
The Statement of Accounts summarise the Corporation and Group's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 Corporation Accounting in the United Kingdom 2018/19, 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.

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.

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.

Note 29: Statement of Accounting Policies - STDC and Group

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

Post Employment Benefits
Employees of the Corporation are members of one pension scheme:

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

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

- 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.

Note 29: Statement of Accounting Policies - STDC and Group

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

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Corporation and Group becomes a party to the contractual provisions of a financial instrument. The Corporation now has a long term creditor relating to a loan from TVCA.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Corporation and Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. 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.

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.

Note 29: Statement of Accounting Policies - STDC and Group

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, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

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

Note 29: 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.

Property, plant and equipment

(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 independent professional valuers on a triennial 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.

Note 29: Statement of Accounting Policies - STDC and Group

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.

c) 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.

d) 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.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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 and Group 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.

Capital Expenditure and Capital Financing

Capital expenditure in STDL has been financed by a loan from STDC. The expenditure in the year was the acquisition of land for regenearative purposes in line with the masterplan.

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

Responsibilities for the Annual Financial Statements

The Corporation and Group's Responsibilities

The South Tees Development Corporation and 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 Corporation and Group's 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;
- Annual Accounts
- 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 and Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2019.

G Macdonald **Date: July 2020**
Director of Finance

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2019.

G Macdonald **Date: July 2020**
Director of Finance

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TEES DEVELOPMENT CORPORATION

Annual
Accounts

Appendix A

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.
Annual Accounts

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 Authority 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 Authority 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.

Appendix A

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 Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

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.

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. 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.

Appendix A

Glossary of Terms

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

Non Operational Assets
Non current assets held by a Authority 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 25th 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	Enhanced transparency, risk management and decision-making.	Chief Executive/Director of Finance & Resources	End July 2020

Development Corporation and associated vehicles.			

Signed

Ben Houchen	Tees Valley Mayor and Chair of South Tees Development Corporation	*signature*	*date*
Julie Gilhespie	Acting Chief Executive, South Tees Development Corporation	*signature*	*date*

SOUTH TEES DEVELOPMENT CORPORATION

Internal Audit Strategy 2020 / 2023 (including the 2020/21 Internal Audit Plan)

Presented at the Audit and Risk Committee meeting of: 29 July 2020

This report is solely for the use of the persons to whom it is addressed.
To the fullest extent permitted by law, RSM Risk Assurance Services LLP
will accept no responsibility or liability in respect of this report to any other party.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

EXECUTIVE SUMMARY

Our Internal Audit Plan for 2020/21 is presented for consideration by the Audit and Risk Committee.

The key points to note from our plan are:

2020/2021 internal audit priorities: internal audit activity for 2020/2021 is based on analysing your strategic risk register, area-based risk registers and assurance framework, as well as other factors affecting you in the year ahead. Our detailed plan for 2020/2021 is included at section two.

The internal audit priorities have been discussed and agreed with the following individuals of the organisation:

- Group Director of Finance and Resources; and
- Head of Finance and Resources.

Level of resource: the level of resource required to deliver the plan is in section two of this report and our daily rates are in line with our tender submission.

Core assurance: the key priorities and changes within the organisation during the period have been reflected within the proposed audit coverage for 2020/2021 and beyond. During the development of the internal audit plan the following key areas / documents were discussed/reviewed:

- Strategic Risk Register;
- Master Plan, November 2019;
- CPO Risk Register;
- Programme Development Risk Register;
- Estates Management Risk Register;

- Finance Risk Register; and
- Procurement Risk Register.

‘Agile’ approach: our approach to working with you is that we will respond to your changing assurance needs. By employing agile or a flexible approach to our service delivery, we are able to change the focus of audits / audit delivery; keeping you informed of these changes in our progress papers to the Audit and Risk Committee during the year.

Delivery methods: We will also consider our approach to the delivery of internal audit assignments during the current Covid-19 restrictions, employing remote audit technologies through the use of secure Sharefile and virtual meeting facilities as necessary. The success of using remote audit technologies is limited to the extent to which information can be shared electronically, however, we will consider whether there are any reviews which can be undertaken using this method and flex audit timings as necessary.

CONTENTS

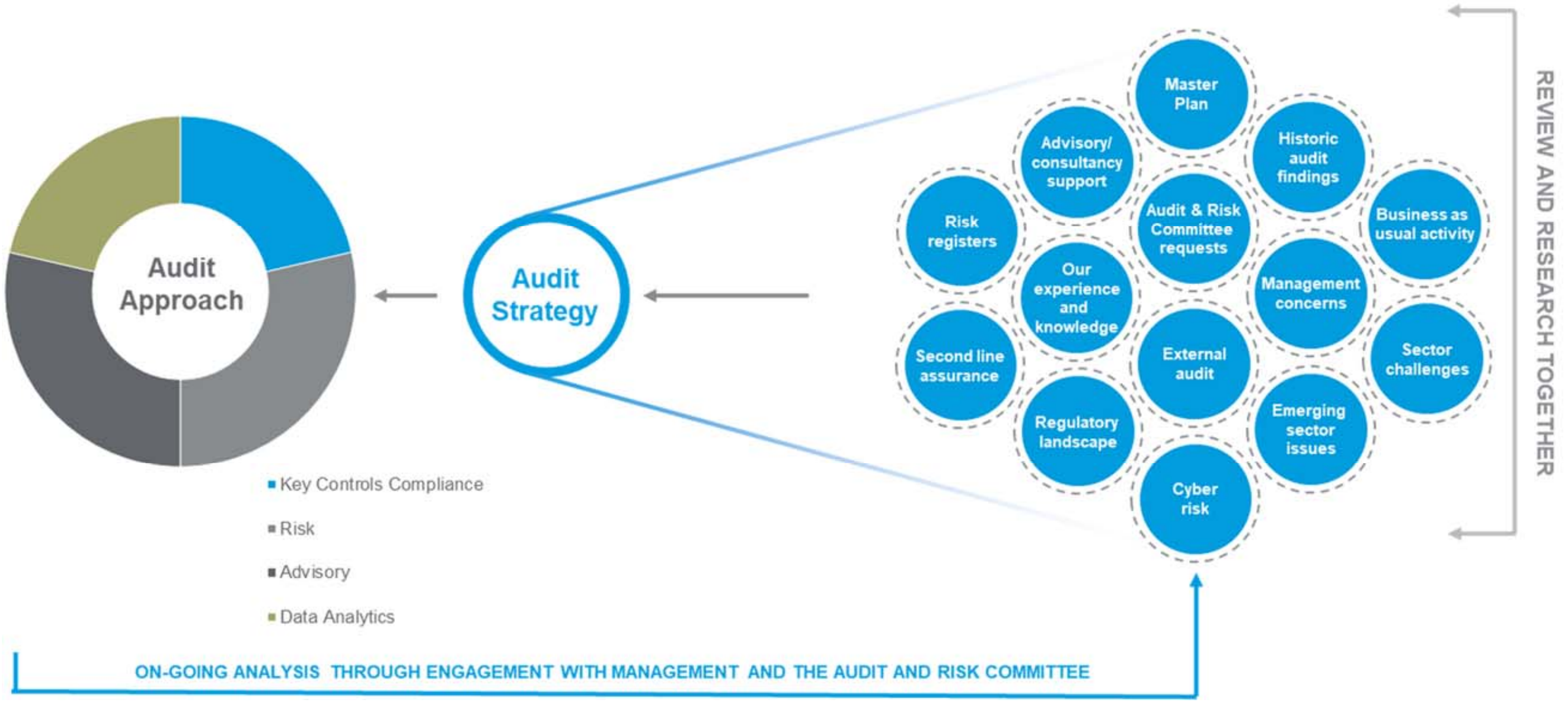
1. YOUR INTERNAL AUDIT PLAN

Our approach to developing your internal audit plan is based on analysing your strategic risks, risk profile and assurance framework as well as other factors affecting South Tees Development Corporation in the year ahead, including changes within the sector.

Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk registers / assurance framework to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with senior management and the Audit and Risk Committee.

Figure A: Audit considerations – sources considered when developing the Internal Audit Strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high level strategic plan (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2020/21

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2020/21. The table details the strategic risks / strategic objectives which may warrant internal audit coverage. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Objective of the review (Strategic risk)	Days / fee	Proposed timing	Proposed Audit and Risk Committee
Strategic risk			
Risk: Failure to deliver the required programme outputs and outcomes in the desired timescales **Project Assurance** The Corporation will be engaging in a number of projects and we will use project / contract management specialists to ensure an appropriate framework is in place. Of the 16 strategic risks documented by the organisation, eight of these relate to project and programme delivery.	15 days / £7,260	Week commencing 11 January 2021	February 2021
Core Assurance			
Contingency Due to the changing nature of the business, we have included a number of days that will focus on a specified area as agreed with management.	8 days / £3,872	Week commencing 21 September 2020	October 2020
Key Financial Controls Review of recording of asset and transactions between the STDC and the other entities that form part of the Group structure.	8 days / £3,872	Week commencing 19 October 2020	December 2020
Other Internal Audit Activity			
Follow Up of Previous Internal Audit Management Actions To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	5 days / £2,420	Week commencing 4 January 2021	February 2021
Management This will include: • Annual planning;	5 days / £2,420	Throughout the year	-

Objective of the review (Strategic risk)	Days / fee	Proposed timing	Proposed Audit and Risk Committee
• Preparation for, and attendance at, Audit and Risk Committee; • Regular liaison and progress updates; • Liaison with external audit and other assurance providers; and • Preparation of the annual opinion.			
Total:	41 days / £19,844		

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Audit and Risk Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Rob Barnett as your Head of Internal Audit, supported by Philip Church as your Client Manager.

Core team

The delivery of the 2020/2021 audit plan will be based around a core team.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that ""there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to audit committee and the supporting working papers." RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2020 / 2023

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in Section 1 above, as well as our own view of the risks facing the sector as a whole.

Assurance Provided	
(red)	Red - Minimal Assurance / Poor Progress
(orange)	Amber/red - Partial Assurance / Little Progress
(yellow)	Amber/green - Reasonable Assurance / Reasonable Progress
(green)	Green - Substantial Assurance / Good Progress
(grey)	Advisory / AUP
(teal)	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance) 2018/19	2019/20	2020/21	2021/22	2022/23
Strategic risks					
Failure to deliver the required programme outputs and outcomes in the desired timescales		(grey)	✓ (Project Assurance)	✓ (Project Assurance)	✓ (Project Assurance)
Failure to manage cost estimates within acceptable tolerances					
Potentially overestimating likely revenues/acre					
Potential delays in the STSC decontamination project					
Risks are either not identified, not actioned or not prioritised in a satisfactory way.		Risk Management (orange)			

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance) 2018/19	2019/20	2020/21	2021/22	2022/23
Area risks					
Procurement risk register A failure to adhere to strict procurement rules governing engagement with potential bidders.		Procurement		✓ (Procurement)	
Procurement risk register Not having sufficient resources available to properly manage service supply contracts					✓ (Training / Succession Planning)
Estates risk register Delays in obtaining Tata asbestos register.					✓

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance) 2018/19	2019/20	2020/21	2021/22	2022/23
					(Asbestos Management)
Core Assurance					
Key Financial Controls	Creditor Payments	Budget Setting and Control	✓	✓	✓
Strategic Fraud Risk Assessment					
Human Resources	Recruitment and Selection				✓ (Recruitment and Selection)
Governance	Governance: Committee Structure			✓	

Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

	Internal Audit – Third Line of Assurance (Independent review / assurance)				
Audit Area	2018/19	2019/20	2020/21	2021/22	2022/23
Health and safety				✓	✓
Other Internal Audit Activity					
Follow Up of Previous Internal Audit Management Actions			✓	✓	✓

APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for South Tees Development Corporation. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Audit and Risk Committee.

The internal audit service is provided by RSM Risk Assurance Services LLP (“RSM”).

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to Rob Barnett (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive, with further reporting lines to the Group Director of Finance and Resources and Head of Finance and Resources.

The Head of Internal Audit has unrestricted access to the Chair of Audit and Risk Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to South Tees Development Corporation. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit and Risk Committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit and Risk Committee. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Audit and Risk Committee for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Audit and Risk Committee.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Audit and Risk Committee to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'internal audit', 'senior management' and 'board'.

- Internal audit - a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Senior management - who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.

- Board - The highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "board" may refer to a committee or another body to which the governing body has delegated certain functions (e.g. an audit committee).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit and Risk Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The Head of Internal Audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit and Risk Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Audit and Risk Committee and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation’s governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation’s annual governance statement.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm’s terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Audit and Risk Committee.

Fraud

The Audit and Risk Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit and Risk Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Audit and Risk Committee is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

Robert Barnett
Head of Internal Audit

RSM Risk Assurance Services LLP
1 St. James' Place, Newcastle Upon Tyne, NE1 4AD

T: +44 (0)191 255 7000 | **M:** +44 (0) 7809 560103 | **W:** www.rsmuk.com

rsmuk.com

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of **South Tees Development Corporation**, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

This report is released to you on the basis that it shall not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by agreed written terms), without our prior written consent.

We have no responsibility to update this report for events and circumstances occurring after the date of this report.

RSM Risk Assurance Services LLP is a limited liability partnership registered in England and Wales no. OC389499 at 6th floor, 25 Farringdon Street, London EC4A 4AB.

AGENDA ITEM 8

REPORT TO THE AUDIT AND RISK COMMITTEE

29th JULY 2020

REPORT OF HEAD OF FINANCE AND RESOURCES

PROGRESS AGAINST INTERNAL AUDIT ACTIONS

SUMMARY

The purpose of this report is to provide an update on progress against internal audit actions.

RECOMMENDATIONS

It is recommended that the Audit and Risk Committee notes the content of this report.

DETAIL

1. Following closure of the internal Audit Cycle for 2019/20 an internal log has been created to capture all outstanding recommendations. The log will be monitored by STDC's management team and an update will be provided as a standing item at future Audit and Risk Committee meetings
2. The entire log has been presented for information at this meeting, to provide a full overview of the recommendations and their progress. Moving forward it is intended that reporting will be provided by exception highlighting any items that are overdue or considered high priority/risk.
3. In total STDC had 35 open internal audit actions carried in at May 2020 of which 7 have since been marked complete by management. Of the remaining 28 actions 23 actions are being progressed by the lead manager.
4. Two actions on the log are categorised as High priority and relate to an advisory Project Management review undertaken in May 2020. Both actions are being progressed and are not due for completion until October 2020.
5. Seven actions are showing as overdue on the log none of which are high priority. One low priority action has yet to be commenced (See below):[i]

Overdue actions	Report date	Action status In progress	Not started
Budget setting and control	Feb-20	3	-
Follow up of 2018/19 actions	May-20	2	1
Procurment	Jan-20	1	-
Total		6	1
High priority		-	-
Medium Priority		*4*	-
Low Priority		*2*	*1*

***Note**: Follow up audit comprises actions carried in from March 2019 and earlier*

- **Budget setting and control** – Three outstanding actions link to further development of month-end processes, improving reforecasting and development of management accounts. Completion of these actions is partly dependent on implementation of a new finance system across the STDC group which is currently underway
- **Follow up –** The single issue marked as not progressed relates to the drafting of specific procurement policies and procedures. This can only be undertaken once the procurement strategy is finalised and the finance system is implemented. The remaining two actions relate to a partly progressed training requirement relating to GDPR and finalising the process of updating risk registers.
- **Procurement** – The single overdue action relates to implementation of an STDC procurement strategy. In line with the new group structure, a single procurement strategy for the TVCA Group is currently in late stages of development and will encompass the requirements of STDC.

FINANCIAL IMPLICATIONS

6. This report has no direct financial implications.

LEGAL IMPLICATIONS

7. This report has no direct legal implications

RISK ASSESSMENT

8. Monitoring of internal audit actions is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

9. The internal audit log has been circulated amongst relevant action holders and feedback captured.

EQUALITY & DIVERSITY

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

Name of Contact Officer: **Mike Russell**
Post Title: Head of Finance and Resources
Telephone Number: 01642 526 459
Email Address: **mike.russell@southteesdc.com**

Date 21-Jul-20

Status	**Description**
1	The entire action has been fully implemented
2	Partly impemented
3	Not implemented
4	Superseeded
5	Closed and agreed with internal audit

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Internal Audit report	**Recommendation reference**	**Priority**	**Reccomendation**	**Target date**	**Management update**	**Last updated**	**Status**	**Staus desc**	**Owner**
Procurement	1	Medium	The Corporation will implement a procurement strategy. Until the Corporation has implemented their own procurement strategy, they will issue a holding statement confirming continued compliance with TVCA's Contract Procedure Rules.	31-Mar-20	In line with the development of an alligned approach to TVCA group shared services a TVCA Group strategy has been developed and once approved will be adopeted as the STDC procurement strategy	20/07/2020	2	Partly impemented	Procurement Manager
Procurement	2	Low	The Corporation will create a forward plan of procurement activity to be conducted with a plan to have a live formal forward plan in place by September 2020.	30-Sep-20	Pipeline now in place, work underway to finalise format and develop reporting for SMT and operational review	20/07/2020	2	Partly impemented	Procurement Manager
Procurement	3	Medium	The Corporation will ensure that for each contract the Contract Justification Form has been completed and approved, and there is evidence of Board approval for the tendering of goods and services, if the value of the contract dictates	30-Dec-19	This is embedded in our processes, marked as complete. To be confirmed by Auditors in a spot check audit	20/07/2020	1	The entire action has been fully implemented	Procurement Manager
Procurement	4	Medium	The Corporation will complete the Award of Contract Form in full before a contract commences.	30-Dec-19	This is embedded in our processes, marked as complete. To be confirmed by Auditors in a spot check audit	20/07/2020	1	The entire action has been fully implemented	Procurement Manager
Procurement	5	Low	The Corporation will notify the owner of the contracts register at TVCA of the information to be added onto the contracts register.	31-Mar-20	This is embedded in our processes, marked as complete. To be confirmed by Auditors in a spot check audit	20/07/2020	1	The entire action has been fully implemented	Procurement Manager

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Project Management	1	Medium	Define and agree the requirements for a STDC project management approach.	31-Jan-21	The framework is in the process of being developed, inclusive of the solution to delivery of the PMO functional support. A preferred solution has been determined and the requirements will now be detailed.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	2	High	In the absence of a defined STDC approach, define a set of principles that STDC will apply for governance and controls and the standards they require of their project management service provider(s). These should later be incorporated into the STDC project management approach.	31-Oct-20	STDC is in the process of developing the full requirements for PMO functionalilty. A model has been developed, and the plan is to go to market in Q4 2020 for external service provider support to provide the necessay governance and controls.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	3	Medium	Within the STDC project management approach, formalise the handover of the mandate, business case, etc. to project managers, and consider also how project managers can contribute to the pre-handover activities.	31-Oct-20	STDC will be recruiting into it's project and programme delivery team over the coming few months and plans are in place to take the team through the business case and delivery plans over the coming three years. Weekly project and programme delivery team meetings have been operational since April 2020 and these are being utilised as the vehicle for effective comms	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	4	Medium	Within the STDC project management approach, encourage learning from experience (it is suggested that this be one of STDC's project management principles). The approach should consider lessons at all stages and in particular when starting up and initialising projects.	31-Jan-21	The emerging considerations for PMO functional support via an external service provider will address issues such as performance management, project reviews, capturing lessons learned, etc, which will feed in to subsequent project and programme planning. STDC is in consultation with specialist service providers who are helping develop related requirements.	17-Jul-20	2	Partly impemented	Engineering & Programme Director

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Project Management	5	Medium	Within the STDC project management approach, ensure that roles and responsibilities for project management, governance and technical delivery are documented and agreed on a per-project basis.	31-Jul-20	This will be captured in the Project Execution Planning that will be delivered and regulated through the PMO funcional support.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	6	Low	Allow the project managers control over project budgets within defined levels of authority once Agresso systems are rolled out.	31-Oct-20	This is a Work In Progress. The Finance Team has developed the chart of accounts, and plans are in place for the roll-out of Agresso. We are also developing a more granular scheme of delegation, commensuarate with a growth in project activity and resources.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	7	Medium	Establish a project management office with a defined charter (and therefore defined services). This will relieve project managers of project administrative tasks and assist with management information and reporting, governance and assurance.	31-Jan-21	Activities are underway in developing the delivery model and resourcing requirements for the PMO. A proposed model has been determined and we will go to market for the PMO Functional Support role in Q4 2020 - a role that will cover project planning/ scheduling, risk management, document/ information management, compliance assurance, progress reporting, performance management, etc.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	8	Medium	Formalise a project assurance model to sit alongside the enterprise risk management framework such that all parties can be assured that projects remain on track to deliver against their intended objectives in a structured and well-managed way.	31-Oct-20	Interim measures are being formulated to address the period between now and the role out of the fully-functioning PMO	17-Jul-20	2	Partly impemented	Engineering & Programme Director

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Project Management	9	High	Define workflows for project and organisation-wide decision making and approvals and consider whether the use of a PPM tool to assist with this is appropriate (we understand that the use of Agresso is already being discussed).	31-Oct-20	This action is in development stage - work has started and is on track to be completed by the due date.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	10	Low	Apply HM Treasury and Infrastructure and Projects Authority (IPA)'s Project Initiation Routemap for larger projects. The Routemap (and its supporting modules) offers diagnostics and references for strategic decision-making during project initiation by addressing the most common capability gaps that sponsors and clients need to enhance for asset-rich infrastructure projects. .	31-Jan-21	This is being considered as part of the role out of the PMO and PMO Functionality	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	11	Low	Introduce key performance indicators (KPIs) at portfolio level as an aid to decision-making and performance management across the portfolio.	31-Jan-21	The Performance Management Framework and related KPIs will be established as part of the PMO functionaility. The action is on track to be completed by the due date.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	12	Low	Re-align the terms of reference of the boards and committees to best practice portfolio management (see AXELOS Limited's Management of Portfolios (MoP) for further guidance. The current project groupings could provide the basis of a portfolio structure, and the Planning and Infrastructure Committee could provide oversight of the portfolios in terms of providing investment/prioritisation.	31-Oct-20	The P&I and B&I committees have been dropped. Oversight of programme and project delivery will now fall to the establsihed Delivery Group, made up of members of STDC and its private sector JV partner. It is unlikely that there will be any move to re-align the Terms of Reference of the Board, and this is essentially deemed unnecessary. The ToR of the STDC Delivery Group have been drafted as part of the Business Case to Government, focused on delivery of the Regeneration Programme. These will be subject to periodic review.	17-Jul-20	1	The entire action has been fully implemented	Engineering & Programme Director

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Project Management	13	Medium	Ensure that senior management and other executives in a decision-making role within STDC understand their responsibilities in a project-driven environment.	31-Oct-20	The organisational structure is presently undergoing review and revision, cognisant of the establsihment of the JV and the transitioning of STSC into local ownership. Senior management and other executives' roles will be clearly defined as part of the related restructuring.	17-Jul-20	2	Partly impemented	Engineering & Programme Director
Project Management	14	Medium	Assess resourcing requirements for client side project management activities and resolve ensure adequate headroom to address capability development (e.g. set up of Agresso, development of programme management framework, lessons learned) on top of day-to-day project delivery.	31-Jul-20	Resourcing neeeds have been assessed, an organisational structure has been developed, and the near term recruitment plans have been signed off. Recruitment activities will commence in August 2020	17-Jul-20	1	The entire action has been fully implemented	Engineering & Programme Director
Budget Setting and Control	1	Medium	We will formalise and document a budget setting and monitoring timetable for 2020/21 onward.	31-Jan-20	The Budgeting process for 202/21 has been completed following handover of the Head of Finance Role in March 2020. A quarterly review process will be implemented moving forward and this will be documented alongside the planning cycle for 2021/22 and link to ooutputs from and operation of the new fiance system. Likely completion August 2020	Jul-20	2	Partly impemented	Interim Head of Finance
Budget Setting and Control	3	Low	We formalise the budget re-forecasting process so that forecasts are reviewed and adjusted, if required, three times a year (in line with every second meeting of the A and RC).	30-Jun-20	See comment to Budget Setting and Control reccomendation 1 above	Jul-20	2	Partly impemented	Interim Head of Finance

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Budget Setting and Control	4	Medium	We will maintain an action log for the monthly Finance Meetings to ensure the outcomes of these meetings, or any actions raised during, are monitored.	31-Jan-20	A new SMT meeting agenda has been implemented for STDC including a regular finance update. The SMT action register will be used to capture finance actions moving forward.	Jul-20	1	The entire action has been fully implemented	Interim Head of Finance
Budget Setting and Control	5	Medium	We will present full management accounts to the A and RC to allow for sufficient challenge.	29-Feb-20	STDC is in the process of implementing a new finance system which is anticipated to be operational in July/ August 2020. Full management accounts and budgetary control reports will be produced from the system following implementation. In the interim a set of manually produced management accounts will be produced for the first quarter of 2020/21.	Jul-20	2	Partly impemented	Interim Head of Finance
Follow up of 2018/19 actions	1	Medium	The Corporation will ensure that each project risk register will be collated into a corporate risk register. The corporate risk register will be reviewed by the Senior Management Team to ensure that all risks are identified and are within the accepted risk appetite levels set by STDC. The completed risk register will be presented for approval in the timescale indicated by management, to the Audit and Risk Committee in September 2019.	30-Oct-20	Once the STSC acquisition is complete, the Corporation will perform an exercise to ensure that all project risk registers are collated into a corporate risk register. The corporate risk register will be reviewed by the Senior Management Team to ensure that all risks are identified and are within the accepted risk appetite levels set by STDC.	May-20	2	Partly impemented	Project Services Consultant

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Follow up of 2018/19 actions	2	Low	The Corporation will ensure that the draft Freedom of Information Policy, including the publication scheme, is subject to appropriate scrutiny and will be implemented as a formal document. Once the policy is finalised, staff will require training on how to deal with different types of information requests.	30-May-20	May - 20 After adoption, staff will require training on how to deal with different types of information requests. July -20 Policy approved by Board on June 3rd. General GDPR trianing was rolled out to all STDC stadff and completed in June 2020. Specific training on information requests will be given as part of wider governance training planned for August 2020.	May-20	2	Partly impemented	Governance and Administration Manager
Follow up of 2018/19 actions	3	Medium	The Corporation will ensure that a performance framework will be created, in conjunction with the development of the business plan. Realistic and sufficiently challenging measures and key performance indicators will be incorporated, and performance will be reported against the Corporation's stated objectives included in the constitution, Master Plan and the business plan (when this document is produced). All measures will clearly link into expected outcomes and the Master Plan.	31-Dec-20	May-20 The Corporation will ensure that as STDC operationalises its business case, a performance framework will be created, in conjunction with finalisation of the business plan. July-20 - STDC has completed its full business case submission for government in July 2020 which oulines key performance criteria for the STDC group moving forward. Once funding is confirmed this will be operationalised into a formal performance framework	Jul-20	2	Partly impemented	CEO
Follow up of 2018/19 actions	4	Medium	STDC will perform a review of the TVCA Treasury Management Policy, adding or removing any provisions that do not relate to STDC. The updated Treasury Management Policy will be presented to the Corporation for scrutiny and approval.	30-Aug-20	May 20 - STDC will perform a review of the TVCA Treasury Management Policy, adding or removing any provisions that do not relate to STDC. Ju;y -20 - The Treaury management policy was completed and approved by STDC Board in June 2020	Jul-20	1	The entire action has been fully implemented	Finance Manager

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Follow up of 2018/19 actions	5	Low	We will ensure that the risk management framework is up to date and reflects any action identified as a result of this audit, and then communicate the document to all staff within the business. We will then publish the framework in a shared location.	30-Oct-20	We will ensure that the risk management framework is up to date and reflects any action identified as a result of previous risk management audits and any further 'risk' exercises that take place post STSC transition period.	May-20	2	Partly impemented	Project Services Consultant
Follow up of 2018/19 actions	6	Low	We will review the risk scoring matrix to ensure it is in line with best practice and reflects the approved risk appetite of the organisation.	30-Oct-20	We will review the risk scoring matrix to ensure it is in line with best practice and reflects the approved risk appetite of the organisation.	May-20	3	Not implemented	Project Services Consultant
Follow up of 2018/19 actions	7	Low	We will review the format of the risk register to allow a reference to one or more of the strategic delivery priorities of the organisation.	30-Oct-20	We will review the format of the risk register to allow a reference to one or more of the strategic delivery priorities of the organisation.	May-20	3	Not implemented	Project Services Consultant
Follow up of 2018/19 actions	8	Medium	We will develop a mechanism to ensure risk registers are maintained up to date and that there is central oversight of these. This will be discussed with the Board at the risk appetite workshop, where a decision will be made on the frequency of the updates required for each risk register or risk rating.	28-May-20	Senior Management will discuss a mechanism to ensure that risk registers are kept updated for any new, emerging or closed risks. This will include a body that has central oversight of all risk registers. Once established, the mechanism will be presented at the ARC where a decision will be made on the frequency of the updated required for each risk register or risk rating.	May-20	2	Partly impemented	Project Services Consultant
Follow up of 2018/19 actions	9	Medium	We will review the format of the risk register to ensure we begin to capture the controls in place on which we are relying to bring the risk rating of its current level. We will then begin an exercise to identify the assurances we have in place over these controls, which we can use to drive future assurance activities.	30-Oct-20	We will review the format of the risk register to ensure we begin to capture the controls in place on which we are relying to bring the risk rating of its current level.	May-20	3	Not implemented	Project Services Consultant

Internal Audit report	Recommendation reference	Priority	Reccomendation	Target date	Management update	Last updated	Status	Staus desc	Owner
Follow up of 2018/19 actions	10	Low	We will record the impact of the potential opportunities identified, should the opportunity be realised or missed / not taken. This new requirement will be included in the risk management framework and communicated to risk owners.	30-Oct-20	The Project Services Manager will perform a review of existing risk registers to ensure that the impact of potential opportunities, should the opportunity be realised or missed / not taken is clearly stated. This new requirement will be included in the risk management framework and communicated to risk owners.	May-20	3	Not implemented	Project Services Consultant
Follow up of 2018/19 actions	11	Medium	An exercise is already planned for October 2019 to formulate a risk appetite statement and a tolerance level for each of the risk types, which is in line with the Corporation's Delivery Strategy. We will ensure that the Risk Management Framework is updated to reflect the outputs of this exercise, and the risk appetite statement and tolerance levels are communicated to all staff.	30-Oct-20	The Risk Management Framework and associated risk registers and plans will be updated in line with the outputs of risk workshops undertaken in October 2019 and any future 'risk' based exercises. Specifically, the Risk Management Framework will clearly state its risk appetite and tolerance level. Once complete this will be communicated to all staff members.	May-20	2	Partly impemented	Project Services Consultant
Follow up of 2018/19 actions	"not due"	Low	Once the VAT registration issues have been resolved, assurance has been given that the list of required procurement procedures identified by management once the STDC procurement policy has been approved, will be produced. Procedures will also be implemented to ensure that the contract register is monitored and that ongoing contract management arrangements are effective.	31-Mar-20	May 20 - We were advised that this action was still in the process of being implemented, and the VAT registration issues are currently sat with PWC for completion. July 20 - Policies and procedures to be formalised following alongside completion of the group procurment strategy (see Procurement audit reccomendation1)	May-20	3	Not implemented	Procurement Manager

Audit progress report

South Tees Development Corporation (and Group)

July 2020

MAZARS

CONTENTS

This document is to be regarded as confidential to South Tees Development Corporation. It has been prepared for the sole use of the Audit and Risk Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Risk Committee with an update on progress in delivering our responsibilities as your external auditors.

Changes in accounts and audit timetable

In April 2020 The Ministry of Housing, Communities and Local Government (MHLCG) confirmed that a statutory instrument (SI) amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The new effects of the amendments to the regulations are to change the dates that local bodies are required to publish draft and final accounts, and to remove the 'common' period during which local electors can inspect and object to local authority accounts.

The key changes for publication of draft and final accounts are as follows:

• The date for authorities to publish draft financial statements moves from 31 May to **31 August 2020**.

• The date for publication of final (audited) financial statements moves from 31 July to **30 November 2020**.

The requirement for a 'common' inspection period has been removed. The requirement to hold a 30-working-day inspection period remains, but for 2019-20 authorities can commence the inspection period at any time, except it must commence **no later than 1 September 2020**. This will allow authorities to produce their draft accounts and commence their inspection periods as soon as they are able.

Audit progress

Since the Committee last met we have:

- continued to liaise with relevant staff at the Corporation and also at Tees Valley Combined Authority (as the STDC Group's parent) in respect of our 2019/20 year end audit work including agreeing an updated year end timetable to reflect the changes to the national timetable for 2020. This will see our work commence at the end July 2020, and we plan to report our findings to the Audit and Risk Committee in October 2020, before Board consider the final statements in November 2020; and
- continued to liaise with the component auditor for South Tees Developments Limited (STDL), which form a component in the Corporation Group (the other component being South Tees Development Corporation itself). We are aware that the STDL audit is being undertaken to a later timetable than originally envisaged, however, they are still expected to be completed ahead of the stage we would need to review the work; and
- continued to liaise with management and review key Board and Committee papers to inform our ongoing risk assessment for our VFM conclusion.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

1. AUDIT PROGRESS

Mazars response to the COVID-19 pandemic

During the ongoing coronavirus situation, Mazars has implemented clear and decisive measures to ensure the welfare of our people and clients while ensuring that we continue to deliver for those who rely on us.

Ensuring resilience and maintaining the level and quality of client service

- Beyond protecting the welfare of our clients and people, Mazars' first priority is to continue to deliver on our business commitments. As part of our existing contingency planning, we have implemented systems and procedures to ensure continuity and to minimise any disruption.
- Our teams have full access to remote working technology with secure access to their applications, tools and data, wherever they are, and agile working processes are well-established across the firm.
- In a shifting environment, we will continue to adapt our approach to best navigate the uncertain situation while keeping our people and our clients front of mind.
- All partners and staff are working remotely, and our teams are making full use of virtual meetings and agile working technology to stay connected with each other and our clients, deliver on our commitments, and provide continuity and support at the time it's most needed.

Mazars' external website contains further details of its response to the emerging situation, along with regular economic briefings.

https://www.mazars.co.uk/

Responding to changes – working with the Corporation

All Mazars' staff moved to remote working from the 16th March 2020. We are committed to supporting the Corporation as best we can, recognising first and foremost, the need to be flexible as the current environment changes and also potential pressures on the finance team of the Corporation. We have maintained open communication throughout this period and will continue to do so.

We are able to carry out the audit remotely and will put in place arrangements to allow this; for example, regular video conference calls, and a shared site for secure transfer of data if required. We have previously undertaken the vast majority of our work off site in prior years, and as such this should not be a significant change for the Corporation. We will maintain communication via e-mail, and regular telephone and video conferencing calls.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points
Financial Reporting Council and other regulators		
1.	**Statement in respect of current situation**	Highlights the impact for auditors and organisations and also the likelihood of an increase in modified opinions.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
2.	**CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, 30 April 2020**	This is technical guidance for those preparing financial statements.
National Audit Office (NA0)		
3.	**Overview of the UK government's response to the COVID-19 pandemic, 21 May 2020**	NAO's first publication considering the Government response to COVID-19.
4.	**Code of Audit Practice**	New Code governing work of auditors, applying from 1 April 2020 for 2020/21 audit year and beyond.
Public Sector Audit Appointments (PSAA)		
5.	**PSAA Publishes Findings of Audit Survey, 7 May 2020**	PSAA client survey. We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.
6.	**News release: Q&As, 9 April 2020**	PSAA seeks to answer questions raised in the 2020/21 scale fee process.
7.	**2020/21 audit fee scale, 31 March 2020**	Scale fees set for 2020/21 at same level as 2019/20, but PSAA indicates likely upward pressure on audit fees for both years.
8.	**Independent review of the sustainability of the local government audit market, 4 March 2020**	PSAA publishes an independent review.

2. NATIONAL PUBLICATIONS

1. Statement on Covid-19, *Financial Reporting Council and other Regulators*, March 2020

A joint statement was issued by the Financial Reporting Council, the Financial Conduct Authority and Prudential Regulation Authority in response to the current situation.

The statement sets out that:

"*"Successful and sustainable businesses underpin our economy and society by providing employment and creating prosperity. Equity and debt capital markets play a vital role providing finance to these businesses and will aid the recovery. Governments and regulators around the world remain focused on keeping capital markets open and orderly.*

Capital markets rely on timely, accurate information. Investors and other stakeholders rely on financial reporting – backed by high-quality auditing. However, companies and their auditors currently face unprecedented challenges in preparing and auditing financial information"

This statement highlights:

- highlights likelihood of more modified opinions (where difficulties in obtaining evidence or other issues);
- going concern assumption considerations and uncertainties; and
- guidance for companies and auditors.

https://www.fca.org.uk/news/statements/joint-statement-fca-frc-pra

2. CIPFA BULLETIN 05: Closure of the 2019/20 Financial Statements, *Chartered Institute of Public Finance and Accountancy*, 30 April 2020

This is technical guidance for those preparing financial statements. It covers emerging or urgent accounting issues. The bulletin for the 2019/20 financial statements includes guidance on accounting for issues relating to the COVID-19 pandemic.

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements

3. Overview of the UK government's response to the COVID-19 pandemic, *National Audit Office*, 21 May 2020

Significant outbreaks of disease are among the greatest risks faced by any society, threatening lives and causing significant disruption to public services and the economy. The scale and nature of the current COVID-19 pandemic and government's response is unprecedented in recent history.

This report is the first of a programme of work to be undertaken by the National Audit Office (NAO) to support Parliament in its scrutiny of the UK government's response to COVID-19.

https://www.nao.org.uk/report/summary-of-uk-governments-response-to-the-covid-19-pandemic/

2. NATIONAL PUBLICATIONS

4. Code of Audit Practice, *National Audit Office,* March 2020

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies. Schedule 6 of the Act extends this requirement to include NHS Foundation Trusts.

Local auditors must comply with the Code of Audit Practice. The Code must be reviewed at least every five years, so the Code that applies will depend on the financial year being audited.

The final draft of the latest Code has now been approved by Parliament and will come into force on 1 April 2020. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards. The NAO is now developing the detailed statutory Auditor Guidance Notes (AGNs) that will support the new Code. The most significant changes will be made to the guidance on auditor's work on arrangements to secure value for money (AGN 03) and auditor reporting (AGN 07). NAO plan to engage with stakeholders to develop this guidance over the coming months and will consult publicly in the summer/autumn of 2020.

We will brief the Committee on changes as more guidance emerges over the year. Key messages from the new Code are summarised below:

Audit of the financial statements

Auditors must still comply with underlying auditing standards.

Value for money arrangements

- Removal of 'except for' and 'adverse' conclusions.
- Work based around 3 reporting criteria:
    - Financial sustainability
    - Governance
    - Improving the 3Es – economy, efficiency and effectiveness
- Auditors must report when they are not satisfied that arrangements are in place. Where weaknesses are identified, recommendations are expected at any time of the audit.

Auditor reporting

- Auditor's Annual Report introduced:
    - Replaces Annual Audit Letter
    - Includes enhanced commentary against each of the specified VFM reporting criteria
    - To be issued in line with the audit report on the financial statements

https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/

2. NATIONAL PUBLICATIONS

5. PSAA Publishes Findings of Audit Survey, *Public Sector Audit Appointments*, 7 May 2020

PSAA has published the findings of a survey of audited bodies' feedback on their audits of 2018/19 accounts.

In the past, surveys have been undertaken by the audit firms themselves and have sought the responses of client Chief Finance Officers (CFOs) to a relatively small number of high level questions.

This year, coinciding with the first audits under Appointing Person arrangements, PSAA has introduced a new approach which incorporates a number of important changes.

To assure independence and confidentiality, it has commissioned the LGA's Research & Information team to administer the survey centrally. The views of both CFOs and Audit Committee Chairs have been sought recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. A longer list of survey questions has also been developed to probe more deeply into respondents' experience of different aspects of the audit and the auditor's performance.

PSAA hopes that audited bodies will find the survey results interesting and helpful in terms of stimulating discussion about their audit, identifying areas in which it went well or might have been improved. PSAA is encouraged by the volume of data which its new survey has generated and the opportunity it provides to identify good practice and/or discuss specific areas for improvement with individual audit firms.

We are delighted that these results show that Mazars has performed very well in its own right, and also in comparison to the other firms in the sector.

https://www.psaa.co.uk/2020/05/psaa-publishes-findings-of-audit-survey/

6. News release: Q&As, Public Sector Audit Appointments, 9 April 2020

PSAA consulted on the 2020/21 scale fees earlier this year and published the 2020/21 scale fees on 31 March 2020. Not surprisingly in these turbulent times for audit the consultation responses contained many questions. PSAA have published a 'Q&A', setting out their answers to them.

https://www.psaa.co.uk/2020/04/news-release-qas/

2. NATIONAL PUBLICATIONS

7. 2020/21 audit fee scale, *Public Sector Audit Appointments*, 31 March 2020

The consultation set out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2020/21 financial statements at bodies that have opted into PSAA's national auditor appointment scheme. Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantity at this stage. They include:

- issues which have given rise to additional audit work in relation to the 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews being undertaken and referred to in this progress report (see item 7 above); and
- the introduction of the new NAO Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.

In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.

The expectation is that such discussions should take place as soon as possible as part of planning discussions for 2019/20 audits, with a specific aim also to look ahead to identify any implications for 2020/21. In some cases it may not be possible to quantify the implications for audit work at this stage or perhaps even until the work is done. Nevertheless early discussions will help to align expectations and mitigate the risk of audited bodies being unaware of the prospect of charges for additional work until very late in the audit process.

Link to the PSAA consultation is set out below:

https://www.psaa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/

PSAA published its scale fees for 20202/21 on 31 March 2021, and concluded that:

"In current circumstances we do not have sufficient reliable information that would enable us to adjust the scale of fees for 2020/21, and so have maintained the scale fee at the level set for 2019/20 before audit work had started. In practice we recognise that in the event, with so much turbulence and change in the environment, additional fees variations are likely to arise for many bodies."

https://www.psaa.co.uk/audit-fees/2020-21-audit-fee-scale/

8. Independent review of the sustainability of the local government audit market, *Public Sector Audit Appointments*, 4 March 2020

PSAA has recently commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard (TR).

The TR report draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31st July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams.

https://www.psaa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/

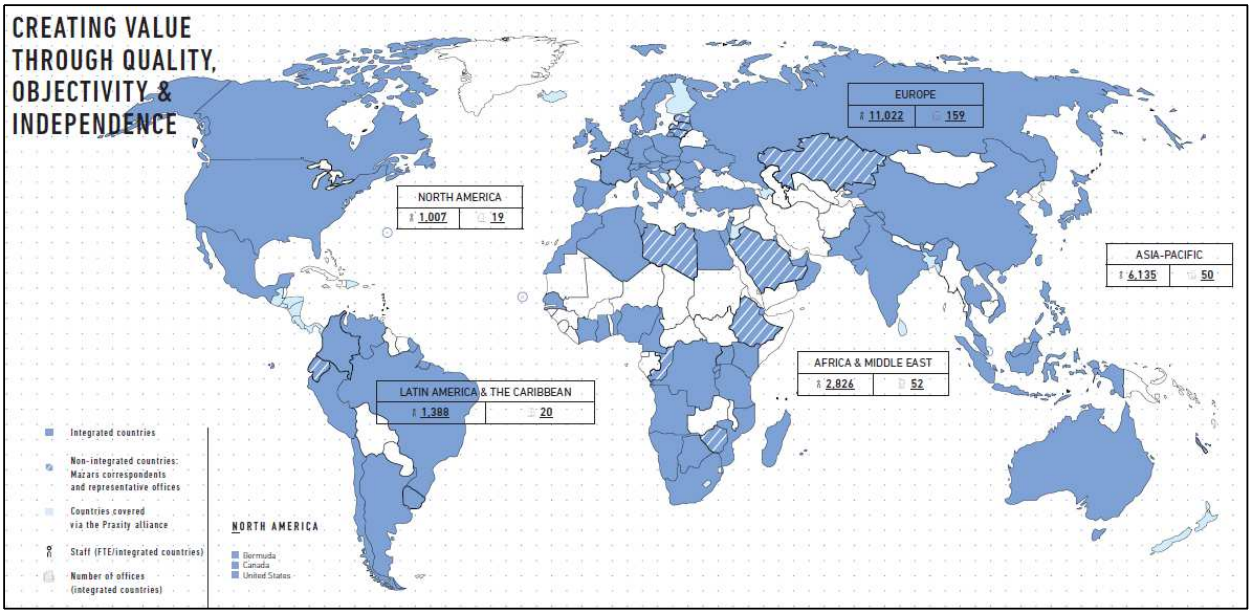
MAZARS

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.6 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



£181.3m

turnover 2017-18

26% in respect of audit services

▲ 4.4%

increase on prior year

CONTACT

Partner: Cameron Waddell

Phone: 0191 383 6300
Mobile: 07813 752053
Email: cameron.waddell@mazars.co.uk

Senior Manager: Gareth Roberts

Phone: 0191 383 6323
Mobile: 07815 879557
Email: gareth.roberts@mazars.co.uk

MAZARS

South Tees Development Corporation

South Tees Development Corporation - Audit & Risk Committee

Forward Programme

Standing Items

Minutes from the Previous Meeting
Risk Register
Internal audit progress report
External audit progress report
Forward Programme and Action register
Date of the Next Meeting

Audit & Risk Committee		
Date	**Venue**	**Item / Responsible Officer**
29th July 2020	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	CEO Update Draft Accounts and Annual Governance Statement Internal Audit Plan 2020/21 Update from Internal Audit Report External Audit – Audit Progress Report (STDC & Group) – Mazars
21st October 2020	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	2019/20 Final Accounts Internal Audit Report – TBC (from contingency) Update on Internal Audit Actions Risk Update External Audit – Audit Completion report (STDC & Group) - Mazars External Audit – Annual Audit letter (STDL) – Tait Walker
16th December 2020	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal Audit- Key financial controls External Audit – Annual Audit letter (STDC and Group) - Mazars External Audit – Progress report (STDC and Group) – Mazars

24th February 2021	Cavendish House Teesdale Business Park Stockton On Tees TS17 6QY	Internal audit Follow up Internal Audit Project Management Review – Tait Walker External Audit – 2020/21 Audit Strategy Memorandum (STDC and Group) - Mazars

Proposed Items to be scheduled

<u>Contacts:</u>
Sharon Jones – Governance & Scrutiny Officer
Tel – 01642 524580
Email – sharon.jones@teesvalley-ca.gov.uk

Confidential

Actions from STDC Audit & Risk Committee meeting 28th May 2020

Number	Action	Person responsible	Due Date	Status
1.	BEIS Business Case to be provided to the Committee for detailed overview of Project management and Governance	**JG**	**29th July**	
2.	Full report detailing overdue actions and what work is ongoing for completion of these, and timescales for completion to be provided to Committee	**GM**	**29th July**	
3.	Risk Register to be amended to incorporate in a line regarding Government funding.	**NB**	**ASAP**	
4.	Tata retention – Ongoing and dependent on response from Tata. Updates to be provided as and when available. Ultimate deadline for this is 21st February 2021	**MR**	**21-02-21**	**Ongoing**