

**Date:** Monday 1<sup>st</sup> August, 2022, at 10.00am

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

**Membership:**

Chris White – (Chair - Independent Member)

John Baker – (Independent Member)

Allan Armstrong – (Independent Member)

TBC – (Audit and Governance Committee Representative)

### **AGENDA**

**1. Welcome & Introductions**

**2. Apologies for Absence**

**3. Declarations of Interest**

**4. Minutes from the Previous Meeting**

Attached

**5. Executive Update**

Attached

**6. STDC Financial Statements 2020/21 (Latest position) and revised Annual Governance Statement for noting**

Attached and Verbal Update

**7. STDC Draft Financial Statements 2021/22 and Annual Governance Statement**

Verbal Update

**8. External Audit follow up and completion letter for 2020/21**

Attached

**9. Draft Updated Terms of Reference**

Attached

**10. Internal Audit Reports**

Attached

**11. Internal Audit Annual Opinion**

Attached

**12. Internal Audit Annual Plan**

Attached

**13. Internal Audit Actions Update**

Attached

**14. Risk:**

**Risk Management Update**

Attached

*Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.*

**Risk Framework Compliance Update**

Attached

*Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this report and appendix are not for publication.*

**15. Forward Programme**

Attached

**16. Date and Time of Next Meeting**

TBC

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

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

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

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

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

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

### **Personal Interests**

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

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

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

## **Procedures for Declaring Interests**

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

### **Register of Interests**

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

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

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

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

## **Sensitive Information**

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

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

**Date:** Friday 18<sup>th</sup> March 2022

**Time:** 9:30am

**Venue:** Steel Gate House, Teesworks

<b>Attendees:</b>		<b>Apologies:</b>
Chris White (Chair - CW)	Darlington Building Society	John McNicholas (JM) - STDC
John Baker (JB)	Independent Member	Julie Gilhespie - TVCA
Allan Armstrong (AA)	Independent Member (observer)	
Michael Lockwood (ML)	A&G link (Redcar and Cleveland Borough Council)	
Gary MacDonald (GM)	TVCA	
Peter Judge	STDC and TVCA	
Natalie Robinson (NR)	STDC	
Victoria Smith (VS)	TVCA	
John McNicholas (JM)	STDC	
Ruth Callaghan (RC) (Secretariat)	TVCA	
Cameron Waddell (CW)	Mazars	
Michael Gibson (MG)	RSM	
Cath Andrew (CA)	Mazars	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	<b>Welcome and introductions</b>	The Chair welcomed everyone to the Meeting. AA was welcomed to his first meeting. It was noted that Adrian Jones was leaving the Committee due to leaving his role at Sir Robert McAlpine and the Committee are recommending that AA as replacement to STDC Board.	AA to be formally approved as a Committee Member by STDC Board	<b>GM</b>
2.	<b>Apologies for Absence</b>	Apologies as above.		
3.	<b>Declarations of Conflict of Interest</b>	There were no declarations of interest.  It was noted that, after the ratification of his membership, AA would need to complete the necessary Declaration of Interest.	<b>AA to complete declaration of interest. Then share with VS for audit purposes.</b>	<b>Governance team</b>
4.	<b>Minutes of previous meeting</b>	The record of the meeting held on 25 <sup>th</sup> November were an informal note as the meeting was not quorate. The record was agreed.  The following matters arising were noted: <ul style="list-style-type: none"> <li>• Risk summary still to be done for the next meeting.</li> <li>• MG had provided some further information on the scrap audit value. The sample had been around 25% of transactions reviewed.</li> <li>• A further paper setting out the testing of controls for scrap transactions had been shared with NR. This would be circulated to committee members.</li> </ul>	<b>NR to circulate that paper</b>	

		<ul style="list-style-type: none"> <li>Internal audit action tracker would be covered under the internal audit item.</li> <li>The final audit plan would need to be approved by Committee before May.</li> <li>The Audit Manager at has prepared an update progress report. Not quite worded properly on the minute.</li> </ul>	<b>Audit plan to be shared and approved outside of the meeting once approved by Senior Audit</b>	NR  NR/VS
5.	<b>Review of STDC ARC Terms of Reference</b>	<p>GM outlined that there had been dialogue with the Chair and other members around review of the Committee scope and activities, a particularly as it related to its role on Risk.</p> <p>STDC Board are making risk-based decisions which require a risk management framework to be in place and to be adequate. The role of the Committee is to seek assurance that the risk management framework is in place and is operating effectively.</p> <p>There had also been discussions with senior management about what they need from the Committee in terms of assurance.</p> <p>The amended Terms of Reference propose some amendments to the purpose and the name of the Committee.</p> <p>It was noted that pace of delivery meant that more risk-based decisions are being made by DC Board. The Committee does not assess individual risks on decisions rather its role is to ensure that framework is in place to ensure that risk can be monitored and managed effectively.</p> <p>JB observed that there might be some public criticism that risk is dropped from the title of the committee. It would need to be clear that there is an adequate mechanism in place for STDC Board to make its decisions and again assurance.</p>	<b>Undertake gap analysis of government audit handbook and redrafted Terms of Reference.</b>	NR/GM



		<p>It was noted that the draft contains some terminology that implies that the Committee does undertake risk assessments in decision-making and therefore this will need further review.</p> <p>It was agreed that a gap analysis between STDC ARC revised ToR and government audit handbook is undertaken</p> <p>Agreed that needed further refinement and discussion before approved. This work will be undertaken by Management and the Committee agreed for CW and JB to be briefed on this work along with further discussion regarding updates to the proposals. Following this meeting a revised proposed ToR will be circulated to the Committee Members for consideration and endorsement to put forward to STDC Board.</p>	<p><b>Bring forward the draft ToR for a further discussion and approval.</b></p>	<p><b>Governance</b></p>
6.	<b>Executive Update</b>	<p>GM presented the issues set out in the paper highlighting the Freeport Full Business Case (FBC) Primary Customs Zone in place and the first deal for the UK Infrastructure Bank (UKIB).</p> <p>It was noted that there appeared to be impact on supply of materials due to the war in Ukraine and this would be monitored in respect of the construction activities across the site. Risk management plans were in place to ensure programmes could identify and assess risks as required.</p> <p>The South Bank Quay project was on track to be ready for 2023.</p> <p>STSC in consultation with staff with consultation ending on Sunday 20<sup>th</sup> March. Some modifications to consultation following engagement with unions. A full range of support and training and business start-up being offered to staff. Management have engaged with staff and their representatives throughout the process and consultation period.</p> <p>JM had provided updates on key programme areas within the report.</p>		

		The Committee discussed the changes that had been made to the structure of STDC. It was noted that as the remediation winds down the focus would shift from a keep safe approach as site remediator to operating as an estate manager for the site. This would require the STSC to review its governance arrangements.		
7.	<b>Internal audit progress report – RSM</b>	<p>MG outlined the three papers.</p> <p>In terms of the progress paper – things had moved on since last report.</p> <p>The Chair asked for the graph in the report to be updated to show progress against where we had expected to be at the same point. There were no concerns about delivering the audit plan.</p> <p>Within the follow-up report they had looked at whether actions been completed and the evidence to support this. Auditors identified 9 actions. Reasonable progress had been made. There was satisfactory evidence for 8 out of 9. The action not progressed was a high-risk action which pulled down the overall score.</p> <p>The one high priority action related to financial regulations that these had been reported to Board and were now compliant. It was noted that there was substantial work undertaken to move to a single finance system having brought together the different parts of the group.</p> <p>Management will circulate evidence of completion so that action can be closed by first week in April</p> <p>The Group structure report looked at structure of the group to review the relationship between group elements. The Auditors had found substantial assurance.</p> <p>Assurance frameworks were put in place when first application for government funding was made and quarterly reporting to BEIS.</p>	<p><b>MG to update the Progress report going forward to compare progress to plan.</b></p> <p><b>NR - Disseminate evidence that outstanding action had been completed.</b></p>	

		<p>There has been a lot of change as programmes deliver. The current systems need to be agile enough to capture any changes to programmes as time moves on.</p> <p>Scoping meetings were discussed by the Committee – CW to be engaged to ensure the Audit on the effectiveness of the Committee answers the questions of the Committee.</p>	<p><b>CW to be included in scoping meetings for future relevant audits.</b></p>	
8.	<p><b>Internal Audit Actions Update – RSM</b></p>	<p>Paper as read. GM noted positive progress. Health and Safety – teams of people focused on these areas on a daily basis. Nothing critical causing issues for senior management however management remain vigilant in terms of regular reporting and escalation processes are in place as required.</p> <p>Tracking group risk at the proper level. Audit action tracking processes in place. Capture evidence that actions has been completed.</p> <p>GM updated the committee on the decontamination project.</p> <p>CW noted that one action remaining on several previous audits – he asked for a grid to show how many were outstanding per audit and when they should have been met.</p>	<p><b>Develop a grid to show how many actions were still outstanding in each area and how far behind they were.</b></p>	
9.	<p><b>External audit progress report</b></p>	<p>CW presented the external audit completion report. It was noted that Tait Walker were undertaking the subsidiary audits.</p> <p>It was noted that two adjustments had needed to be made to the draft accounts. VS explained the changes made to the finance team and new controls put in place to ensure these errors do not re-occur.</p> <p>It was noted that the committee need assurance from management that these controls have been put in place to allow them to sign off the final audited accounts.</p>	<p><b>Paper on final accounts to include the points of reassurance raised here.</b></p>	

		<p>GM explained that the controls and changes would be explained in the report that comes to the Committee when final accounts are presented.</p> <p>CW explained that this information should cover:</p> <ul style="list-style-type: none"> <li>• What's changed within the accounts and why;</li> <li>• What's in place to be content that current issues have been addressed; and</li> <li>• Next year process – how can the committee have a better level of reassurance next year that the issues have been fully addressed.</li> </ul> <p>GM noted that they had submitted to PSAA to procure for auditors for 23/24 FY onwards. The PSAA will allocate Auditors to Clients by December 2022 in line with statutory requirements.</p>	<p><b>Committee to meet again before next scheduled meeting to discuss and sign-off the final accounts.</b></p>	
	<b>Exclusion of the Press and Public</b>	<p>It was noted that there were no members of the press and public present.</p> <p>For completeness, the Chair proposed, and Committee agreed to pass a resolution to exclude the press and public under paragraph 3 of part 1 of schedule 12a of the Local Government Act 1972, in order to allow Board to consider matters of a commercially confidential nature.</p>		
<b>CONFIDENTIAL ITEMS</b>				
10	<b>Risk Management Update</b>	The Committee were provided an update on Risk Management.		
11.	<b>Risk Register</b>	As above.		
12.	<b>Deep Dive – Freeport</b>	NG updated the committee on progress with the Freeport.		
13.	<b>Forward plan</b>	<p>Terms of reference</p> <p>Forward plan update on materials for circulation between meetings.</p>		

14.	<b>Date and Time of Next Meeting</b>	16 <sup>th</sup> June 2022 7 <sup>th</sup> September 2022 23 <sup>rd</sup> November 2022		
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## AGENDA ITEM 5

### REPORT TO THE STDC AUDIT & RISK COMMITTEE

1<sup>st</sup> AUGUST 2022

### REPORT OF THE EXECUTIVE

## EXECUTIVE UPDATE REPORT

### SUMMARY

The purpose of this paper is to provide an update to the Board on the key activity within South Tees Development Corporation (STDC) since the last meeting.

### RECOMMENDATIONS

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

### OVERVIEW

1. Since the last update the Freeport OBC has been approved and the FBC submitted. We are hoping for a final approval of the FBC within the next few weeks. As a large area of the proposed Freeport sits within the Teesworks Site Boundary, work is ongoing to reflect the impacts of freeports on the wider regeneration programme to ensure best advantage is taken of freeport incentives. In particular, tax zones, which offer a range of time limited tax incentives to eligible businesses.
2. STDC has continued to develop a business case for additional funding linked to development of the Tees Valley Offshore Wind Hub on the South Bank area of the site. This business case has secured a further £20m of funding to support site preparation works and ensure that the site is ready to accommodate offshore wind manufacturers at the earliest opportunity. A large part of the Offshore Wind hub also forms part of the Teesside Freeport and is expected to have tax zone status. The complementary development of South Bank Quay has also received approval from the UK Investment Bank (UKIB) for £107m funding in line with the Business Case taken to the Board on 29<sup>th</sup> July 2021. We are expecting this £20m to be approved soon.
3. In February, as part of the plans for the proposed offshore wind hub, SeAH, a large Korean inward investor, announced plans to open and operate a plant for the production

of offshore wind turbine monopiles on the Teesworks Site and Heads of terms have been agreed. The plant is currently in the detailed design phase and is expected to commence building at the beginning of July.

4. A £150m investment has been agreed with Circular Fuels Limited who will take a site on Dorman Point.
5. Very promising conversations are underway with a number of other potential inward investors and commercial discussions are continuing.

## DETAIL

### FREEPORT

6. Following the submission of the Full Business Case (FBC) on 31st January, the Freeport has received and responded to HMG review panel questions and actions. The current HMG timetable suggests that the FBC process will conclude in June.
7. Following the approval of the FBC, Teesside Freeport (through TVCA) will enter into an MOU to deliver the objectives of Freeport. The draft MOU which has been circulated to all English Freeports is being reviewed by external council, Muckles LLP, on behalf of the Teesside Freeport.
8. A number of events were held in March to further develop the Centre for Frictionless Trade and this has culminated in a coming together of a parallel and complimentary project being developed through the ICC regarding digital trade. The combination of both concepts has led to the establishment of the ICC's Centre for Digital Trade and Innovation (C4DTI) which was launched on 8th April, some 12 months ahead of the Freeport schedule. The launch coincided with ICC's Digital Trade conference and can be viewed at [https://youtu.be/KGDyWA\\_U00g](https://youtu.be/KGDyWA_U00g). forward.
9. Marketing of Teesside Freeport is focussed on driving new investment and trade enquiries into the region. We have identified a gap in the knowledge of our target markets of what a freeport is and can offer, from stakeholder feedback. Consequently, our marketing focus in 2022 is to educate the market in tandem with Brand penetration.

### PROGRAMME DEVELOPMENT

10. Dorman Point
  - (a) The Eston Road highway scheme, providing a new roundabout access into the Dorman Point site, is virtually complete and will be fully operational by the end of July.
  - (b) Ground remediation works to the Dorman Point site are well-advanced with Phase 1 (25 acres) and Phase 2 (50 acres) completed. Phase 1 is the proposed location of the TV ERF project.

- (c) Construction of the new Teesworks Skills Academy building was completed at the end of March.

## 11. South Bank

- (a) On South Bank Quay Phase 1, construction of the main quay wall is virtually complete, with all of the 156 large diameter tubular steel piles now installed. Dredging works in the river are scheduled to commence in due course, with the project now targeted to achieve overall completion by August 2023.
- (b) Ground remediation works continue in preparing the 90-acre site for SeAH. The first phase of 45 acres was completed at the end of April, with the second 45-acre phase completing by the end of August. The first phase handover enables SeAH to commence mobilisation to site in May and construction of their factory facility in July.
- (c) Construction of the new 1.7km South Bank Link Road has commenced, with an advance phase of remediation works ongoing. The follow-on road building phase will commence July/August and complete in early Spring 2023. The project is current out to tender.
- (d) Construction work on the new South Bank Watercourse is well-advanced with the project set to complete in Summer 2023. The first phase earthworks operations are complete. The civil engineering works phase will commence in late September.

## 12. Demolition Works Programme

- (a) Progress on the demolition programme continues to surpass expectations, with several major projects such as the BOS Plant, Blast Furnace and Sinter Plant all being ahead of schedule. The overall programme has now been condensed into a 20-month timeframe concluding in March 2022. Notably, the primary blow-down phases of the Blast Furnace and BOS Plant are scheduled to take place in October and September respectively, three months earlier than planned.

## 13. Net Zero Teesside

- (a) The ground remediation works contractor has been appointed and is ready to commence works in preparing the NZT site for development, subject to securing planning permission for the project and the conclusion to the ongoing commercial negotiations with BP. It is anticipated that the remediation works will commence mid-August 2022, with a 16-month programme envisaged.
- (b) The preliminary hearing of the DCO Inquiry for the NZT project took place in May, and the Teesworks team continues its engagement with BP in this regard.

## 14. Key Risks to Delivery

- (a) As noted, STDC is working on a number of significant projects all of which carry delivery risks. These are actively in mitigation through our project management arrangements, with plans in place and measures being taken to address potential impacts to programme.

## EQUALITY & DIVERSITY

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





**Name of Contact Officer:** Gary Macdonald

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

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

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

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

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

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

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

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

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

2019/20				2020/21			
£000s	£000s	£000s		£000s	£000s	£000s	
Expenditure	Income	Net		Expenditure	Income	Net	
9,544	(8,249)	<b>1,295</b>	Core Running Costs	6,659	(6,676)	<b>(17)</b>	
2,294	(2,057)	<b>237</b>	Enabling Infrastructure	37,338	(36,825)	<b>513</b>	
423	(423)	-	Development Costs	20,208	(1,938)	<b>18,270</b>	
<b>12,261</b>	<b>(10,729)</b>	<b>1,532</b>	<b>Cost Of Services</b>	<b>64,205</b>	<b>(45,439)</b>	<b>18,766</b>	
<b>Financing and Investment Income and Expenditure:</b>							
8	(8)	-	Net interest on the net defined benefit liability/asset	23	(13)	10	
<b>Taxation and Non-Specific Grant Income:</b>							
5	-	5	Taxation	777	-	777	
-	(3,193)	<b>(3,193)</b>	Capital grants and contributions	-	(13,940)	(13,940)	
<b>12,274</b>	<b>(13,930)</b>	<b>(1,656)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>65,005</b>	<b>(59,392)</b>	<b>5,613</b>	
		364	Re-measurements of the defined benefit liability			305	
		<b>364</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>305</b>	
		<b>(1,292)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>5,918</b>	

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

### Balance Sheet as at 31 March 2021

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

	Note	31 March 2021 £000s	31 March 2020 £000s
<b>Non-current assets</b>			
Property, plant and equipment	8	34,328	11,500
<b>Total non-current assets</b>		34,328	11,500
<b>Current assets</b>			
Inventories		300	
Debtors	13	38,329	10,306
Cash and Cash Equivalents	14	12,310	6,603
<b>Total current assets</b>		50,939	16,909
<b>Current liabilities</b>			
Grant Receipts In Advance	21	(200)	(200)
Short Term Creditors	15	(48,954)	(11,512)
<b>Total current liabilities</b>		<b>(49,154)</b>	<b>(11,712)</b>
<b>Long term liabilities</b>			
Long Term Borrowing	16	(36,022)	(11,215)
Other Long Term Liabilities	16 & 22	(884)	(496)
Provisions		(139)	-
<b>Total long term liabilities</b>		<b>(37,045)</b>	<b>(11,711)</b>
<b>Net Assets:</b>		<b>(932)</b>	<b>4,986</b>
<b>Reserves</b>			
<b>Usable reserves:</b>			
General Fund Balance		322	322
Earmarked General Fund Reserves	7	3,249	646
Capital Grants Unapplied	7	53	5,225
		3,624	6,193
<b>Unusable Reserves:</b>			
Pensions Reserve	16 & 22	(884)	(496)
Capital Adjustment Account	9	(3,648)	(695)
Accumulated Absences Account		(24)	(16)
		(4,556)	(1,207)
<b>Total Reserves:</b>		<b>(932)</b>	<b>4,986</b>

Mayor Ben Houchen .....

Chair South Tees Development Corporation Board

Date

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

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

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

	Note	2020/21 £000s	2019/20 £000s
<b>Net (surplus) or deficit on the provision of services</b>		<b>5,613</b>	(1,656)
<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements:</b>			
Depreciation, impairment and amortisation of non current assets		(22,175)	-
Revaluation Gains / (Losses)		-	(530)
Taxation		-	(5)
Pension Fund adjustments		(83)	(80)
Increase/(Decrease) in Inventories (Stock)		300	-
Increase/(Decrease) in Revenue Debtors	13	28,024	7,550
(Increase)/Decrease in Revenue Creditors	15	(28,164)	(9,878)
(Increase)/Decrease in Provisions		(139)	-
Increase/(Decrease) in Long Term Creditors		-	1,000
		<b>(22,237)</b>	(1,943)
<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:</b>			
Capital Grants credited to surplus or deficit on the provision of services		-	(2,716)
		<b>-</b>	(2,716)
<b>Net cashflow from operating activities</b>		<b>(16,624)</b>	<b>(6,315)</b>
<b>Investing activities</b>			
Purchase of short term and long term investments		-	-
Purchase of property, plant and equipment, investment property and intangibles		35,724	30
Purchase of Subsidiary		-	-
Other receipts from investing activities		-	2,716
<b>Net cashflow from investing activities</b>		<b>35,724</b>	2,746
<b>Financing activities</b>			
Movement in short and long term borrowings		(24,807)	-
<b>Net cashflow from financing activities</b>		<b>(24,807)</b>	-
<b>Net (increase) or decrease in cash and cash equivalents</b>		<b>(5,707)</b>	(3,569)
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>6,603</b>	<b>3,034</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	14	<b>12,310</b>	<b>6,603</b>
<b>The cashflow for operating activities includes the following items:</b>			

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

## **Note 1: Group Structure**

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

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

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

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

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

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

### **Teesworks:**

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

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

Details of other Group entities are set out below:

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

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

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

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

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

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

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

### Note 2: Expenditure & Funding Analysis

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

2019/20				2020/21			
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£000s	£000s	£000s		£000s	£000s	£000s	
682	613	<b>1,295</b>	Core Running Costs	4,366	(4,383)	<b>(17)</b>	
(132)	369	<b>237</b>	Enabling Infrastructure	19,723	(19,210)	<b>513</b>	
-	-	-	Development Costs	(1,735)	20,005	<b>18,270</b>	
<b>550</b>	<b>982</b>	<b>1,532</b>	<b>Net Cost Of Services</b>	<b>22,354</b>	<b>(3,588)</b>	<b>18,766</b>	
(550)	(2,638)	(3,188)	Other Income and Expenditure	(22,898)	9,745	(13,153)	
-	<b>(1,656)</b>	<b>(1,656)</b>	Surplus or Deficit	<b>(544)</b>	<b>6,157</b>	<b>5,613</b>	
322			<b>Opening General Fund Balance</b>	<b>322</b>			
-			Less/Plus Surplus or (Deficit)	<b>544</b>			
-			Movements To/(From) Other Reserves	<b>(544)</b>			
<b>322</b>			<b>Closing General Fund Balance at 31 March 2021</b>	<b>322</b>			



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

## Note 2: Expenditure & Funding Analysis

### Notes to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	-	73	(4,456)	<b>(4,383)</b>
Enabling Infrastructure	-	-	(19,210)	<b>(19,210)</b>
Development Costs	20,005	-	-	<b>20,005</b>
<b>Net Cost Of Services</b>	20,005	73	(23,666)	<b>(3,588)</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(13,940)	10	23,675	<b>9,745</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	6,065	83	9	<b>6,157</b>

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

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

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

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

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

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

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

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

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

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

## Expenditure and Income Analysed By Nature

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

	2020/21	2019/20
	£000s	£000s
<b>Expenditure</b>		
Employee benefits expenses	8,006	1,016
Other services expenses	34,018	10,723
Depreciation, Amortisation and Impairment	22,181	530
Taxation	777	5
Interest payments	23	-
<b>Total Expenditure</b>	<b>65,005</b>	<b>12,274</b>
<b>Income</b>		
Fees, charges and other service income	(21,766)	(5,110)
Interest and investment income	(13)	(8)
Government grants and contributions	(37,613)	(8,812)
<b>Total Income</b>	<b>(59,392)</b>	<b>(13,930)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>5,613</b>	<b>(1,656)</b>

## Segmental Income

Income received on a segmental basis is analysed below:

	2020/21	2019/20
	£000s	£000s
<b>Services</b>	<b>Income from Services</b>	<b>Income from Services</b>
Core Running Costs	(2,212)	(5,110)
Enabling Infrastructure	(17,616)	-
Development Costs	(1,938)	-
<b>Total income analysed on a segmental basis</b>	<b>(21,766)</b>	<b>(5,110)</b>

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

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

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

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

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

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

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

There are no critical judgements for the Group.

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

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

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

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

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

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

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

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

### Note 7: Movements in Earmarked Reserves

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

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

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

#### Details of reserves

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

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

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

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

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

	Land & Buildings	Motor Vehicles	Plant & Machinery	Assets Under Construction	TOTAL
	£000s	£000s	£000s	£000s	£000s
<b>Cost</b>					
As at 1 April 2020	11,500	-	-	-	<b>11,500</b>
Additions	17,996	135	23	26,867	<b>45,021</b>
Revaluation	-	-	-	-	-
Reclassification	8,200	-	-	(8,200)	-
Disposals	-	-	-	-	-
As at 31 March 2021	<b>37,696</b>	<b>135</b>	<b>23</b>	<b>18,667</b>	<b>56,521</b>
<b>Depreciation</b>					
As at 1 April 2020	-	-	-	-	-
Additions	-	-	13	-	<b>13</b>
Depreciation Charge	-	14	5	-	<b>19</b>
Impairments	3,494	-	-	18,667	<b>22,161</b>
Reclassification	-	-	-	-	-
Derecognition of Disposals	-	-	-	-	-
As at 31 March 2021	<b>3,494</b>	<b>14</b>	<b>18</b>	<b>18,667</b>	<b>22,193</b>
<b>Net Book Value</b>					
As at 31 March 2020	11,500	-	-	-	11,500
As at 31 March 2021	<b>34,202</b>	<b>121</b>	<b>5</b>	<b>-</b>	<b>34,328</b>

#### Basis of Classification

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

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

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

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

#### Basis of Depreciation

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

#### Contractual Commitments

At 31 March 2021 the Group had entered into contracts which would continue into the 2021/22 financial year. These consisted of £3.5 million for preparation of land for development. (2019/20 £173,196)

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

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

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

#### Basis of Classification

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

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

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

#### Basis of Depreciation

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

#### Contractual Commitments

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

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

### Note 9: Capital Adjustment Account

	2020/21 £000s	2019/20 £000s
<b>Balance at 1 April</b>	695	273
Revenue expenditure funded from capital under statute	-	584
Impairments	22,162	530
Depreciation	19	-
	<u>22,181</u>	<u>1,114</u>
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(13,940)	(107)
Application of grants to capital financing from the Capital Grants Unapplied Account	(5,172)	(477)
Statutory provision for the financing of capital investment charged against the General Fund	(111)	(108)
Capital expenditure charged against the General Fund balance	(5)	-
	<u>(19,228)</u>	<u>(692)</u>
<b>Balance at 31 March</b>	<b><u>3,648</u></b>	<b><u>695</u></b>

### Note 10: Capital Expenditure and Financing

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

	31 March 2021 £000s	31 March 2020 £000s
<b>Opening Capital Financing Requirement</b>	<b>11,107</b>	<b>11,215</b>
<b>Capital investment</b>		
Revenue expenditure funded from capital under statute	-	584
PPE Additions	45,021	-
<b>Sources of Finance</b>		
Government grants and other contributions	(19,112)	(584)
Sums set aside from revenue:		
Minimum Revenue Provision (MRP)	(111)	(108)
<b>Closing Capital Financing Requirement</b>	<b><u>36,905</u></b>	<b><u>11,107</u></b>

### Note 11: STDC Members' Allowances

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

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

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

### Note 12: Employee remuneration

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

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

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

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

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

Engineering & Project Director, Commercial Director and Strategic Utilities Director were all in post for the full year. The remaining posts were all employed during the year with details set out below:-

Operations Director commenced in September 2020

EHSS Director role commenced in March 2021

Capital Projects Director role commenced in March 2021

Director of Estates role commenced in March 2021

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

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

The Assistant Director of Regeneration left in October 2019.

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



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

## Note 12: Employee remuneration

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

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

## Note 13: Debtors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	2,846	578
Local Government	31,041	8,302
Other entities and individuals	4,442	1,426
	<b>38,329</b>	<b>10,306</b>

## Note 14: Cash and Cash Equivalents

	31 March 2021 £000s	31 March 2020 £000s
Bank and Imprests	12,310	6,603
	<b>12,310</b>	<b>6,603</b>

## Note 15: Short Term Creditors

	31 March 2021 £000s	31 March 2020 £000s
Central Government	(1,723)	(31)
Local Government	(25,684)	(1,998)
Other entities and individuals	(21,547)	(9,483)
	<b>(48,954)</b>	<b>(11,512)</b>

## Note 16: Other Long Term Liabilities

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

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

### Note 17: Related Party Transactions

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

#### Central Government

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

#### Related Parties

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

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

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

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

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

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

	<b>Long Term Debtors £000s</b>	<b>Short Term Debtors £000s</b>	<b>Long Term Creditors £000s</b>	<b>Short Term Creditors £000s</b>
Tees Valley Combined Authority	-	35,266	36,022	28,751
Stockton on Tees Borough Council	-	-	-	5
<b>Total</b>	<b>-</b>	<b>35,266</b>	<b>36,022</b>	<b>28,756</b>

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

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

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

### Note 18: External Audit Costs

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

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

### Note 19: Leases

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

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

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

### Note 20: Grant Income

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

	<b>2020/21</b>	2019/20
	<b>£000s</b>	£000s
<b>Credited to Taxation and Non Specific Grant Income</b>		
Development Grant from MHCLG	5,290	3,193
TVCA Investment Fund Grant	-	1,900
STDC Business Case Grant via TVCA	6,550	-
Get Building Fund Grant via TVCA	2,100	-
<b>Total</b>	<b>13,940</b>	<b>5,093</b>
<b>Credited to Services</b>		
TVCA Investment Fund Grant	8,126	-
STDC Business Case Grant via TVCA	13,704	-
Operating Grant BEIS	1,814	-
Operating Grant MHCLG	-	3,000
Development Grant from MHCLG	-	107
	<b>23,644</b>	<b>3,107</b>
<b>Capital and Revenue Grants Receipts in Advance</b>		
Development grant from TVCA	200	200
<b>Total</b>	<b>200</b>	<b>200</b>

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

### Note 21: Financial Instruments

#### Categories of Financial Instruments

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

#### Financial Assets

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

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

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

#### Financial Liabilities

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

#### Financial Instruments

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

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

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	-	-	47,094	16,178
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>47,094</b>	<b>16,178</b>

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

	<b>Long Term</b>		<b>Short Term</b>	
	<b>31 March 2021</b>	31 March 2020	<b>31 March 2021</b>	31 March 2020
	<b>£000s</b>	£000s	<b>£000s</b>	£000s
At Amortised Cost	(36,906)	(11,215)	(47,003)	(11,464)
<b>Total financial liabilities</b>	<b>(36,906)</b>	<b>(11,215)</b>	<b>(47,003)</b>	<b>(11,464)</b>

#### Financial Instruments - Fair Values

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

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

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

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

## Note 21: Financial Instruments

Financial Assets	Level	Balance Sheet		Fair Value	
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	£000s
Other Short Term Assets*	N/A	47,094	47,094	16,178	16,178
<b>Total Financial Assets</b>		<b>47,094</b>	<b>47,094</b>	<b>16,178</b>	<b>16,178</b>
<i>Recorded on Balance Sheet as:-</i>					
Short Term Debtors		34,784		9,575	
Cash and Cash Equivalents		12,310		6,603	
<b>Total Financial Assets</b>		<b>47,094</b>		<b>16,178</b>	

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

\* carrying amount.

Financial Liabilities	Level	Balance Sheet		Fair Value	
		31 March 2021		31 March 2020	
		£000s	£000s	£000s	£000s
Long Term Loans**	3	(36,022)	(36,022)	(11,215)	(11,215)
Other Long Term Liabilities*	3	(884)	(884)	(496)	(496)
Other Short Term Liabilities*	N/A	(47,003)	(47,003)	(10,968)	(10,968)
<b>Total Financial Liabilities</b>		<b>(83,909)</b>	<b>(83,909)</b>	<b>(22,679)</b>	<b>(22,679)</b>
<i>Recorded on Balance Sheet as:-</i>					
Short Term Creditors		(47,003)		(10,968)	
Long Term Creditors		(884)		(496)	
Long Term Borrowing		(36,022)		(11,215)	
<b>Total Financial Liabilities</b>		<b>(83,909)</b>		<b>(22,679)</b>	

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

\* carrying amount.

### Note 21: Financial Instruments

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

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

#### Key risks

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

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

#### Credit Risk:

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

#### Liquidity Risk

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

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

#### Market Risk

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

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

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

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

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

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

### Note 22: Defined Benefit Pension Scheme

#### Participation in Pension Scheme

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

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

#### Transactions Relating to Post-employment Benefits

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

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

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

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

### Note 22: Defined Benefit Pension Scheme Continued

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

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

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

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

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

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

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

#### Local Government Pension Scheme assets comprised:

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



## Note 22: Defined Benefit Pension Scheme Continued

### Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

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

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

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

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

### Impact on the Group's Cash Flows

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

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

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

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

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

### Note 23: Termination Benefits

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

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

### Note 24: Provisions

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

### Note 25: Contingent Liabilities

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

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

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

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

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

An incident occurred on the site during the preparation form the demolition of the South Bank Coke Ovens during the year. The incident is currently under investigation by the HSE and the outcomes and/or implication are not known. At the date of signing the accounts no conclusions have been reached and no contingent liability is reported as, in the judgement of management, the risk of such a liability is considered remote.

### Note 26: Post Balance Sheet Events

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

# South Tees Development Corporation

## Statement of Accounts 2020/21

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

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

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

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

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

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

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

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

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

### STDC Balance Sheet as at 31 March 2021

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

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

Mayor Ben Houchen .....

Chair South Tees Development Corporation Board

Date

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

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

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

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

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

### Note 1: Expenditure & Funding Analysis STDC

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

2019/20			2020/21		
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000s	£000s	£000s	£000s	£000s	£000s
1,204	83	<b>1,287</b>	2,013	(2,029)	<b>(16)</b>
(132)	369	<b>237</b>	3,692	(3,692)	-
-	-	-	-	18,184	<b>18,184</b>
<b>1,072</b>	<b>452</b>	<b>1,524</b>	<b>5,705</b>	<b>12,463</b>	<b>18,168</b>
(1,072)	(2,121)	(3,193)	(5,802)	(8,128)	(13,930)
-	<b>(1,669)</b>	<b>(1,669)</b>	<b>(97)</b>	<b>4,335</b>	<b>4,238</b>
322		<b>Opening General Fund Balance at 1 April</b>	322		
-		Less/Plus Surplus or (Deficit)	<b>(97)</b>		
-		Movements To/(From) Other Reserves	<b>97</b>		
<b>322</b>		<b>Closing General Fund Balance at 31 March</b>	<b>322</b>		



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

### Note 1: Expenditure & Funding Analysis STDC

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

Adjustments between Funding and Accounting Basis 2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000s	£000s	£000s	£000s
Core Running Costs	-	73	(2,102)	<b>(2,029)</b>
Enabling Infrastructure	-	-	(3,692)	<b>(3,692)</b>
Development Costs	18,184	-	-	<b>18,184</b>
<b>Net Cost Of Services</b>	18,184	73	(5,794)	<b>12,463</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(13,940)	10	5,802	<b>(8,128)</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services</b>	4,244	83	8	<b>4,335</b>

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

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

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

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

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

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

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

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

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

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

## Expenditure and Income Analysed By Nature

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

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

## Segmental Income

Income received on a segmental basis is analysed below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Note 6: Movements in Earmarked Reserves

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

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

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

#### Details of reserves

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

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

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

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

#### Basis of Classification

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

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

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

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

#### Basis of Depreciation

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

#### Contractual Commitments

At 31 March 2021 the Corporation had entered into contracts which would continue into the 2021/22 financial year. These consisted of £3.5 million for preparation of land for development. (2019/20 £173,196)

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

### Note 8: Capital Adjustment Account

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

### Note 9: Capital Expenditure and Financing

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

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

### Note 10: STDC Members' Allowances

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

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

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

### Note 11: Employee remuneration

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

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

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

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

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

Engineering & Project Director, Commercial Director and Strategic Utilities Director were all in post for the full year. The remaining posts were all employed during the year with details set out below:-

Operations Director commenced in September 2020

EHSS Director role commenced in March 2021

Capital Projects Director role commenced in March 2021

Director of Estates role commenced in March 2021

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

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

The Assistant Director of Regeneration left in October 2019.

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

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

## Note 11: Employee remuneration

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

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

## Note 12: Long Term Debtors & Loans

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

## Note 13: Debtors

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

## Note 14: Cash and Cash Equivalents

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

## Note 15: Short Term Creditors

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

## Note 16: Other Long Term Liabilities

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



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

### Note 17: Related Party Transactions

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

#### Central Government

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

#### Related Parties

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

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

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

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

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

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

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

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

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

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

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

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

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

### Note 18: External Audit Costs

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

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

### Note 19: Leases

The Corporation has no leases as a single entity

### Note 20: Grant Income

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

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

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

### Note 21: Financial Instruments

#### Categories of Financial Instruments

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

#### Financial Assets

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

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

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

#### Financial Liabilities

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

#### Financial Instruments

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

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

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

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

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

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

## Note 21: Financial Instruments

### Note 21: Financial Instruments Continued

#### Financial Instruments - Fair Values

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

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

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

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

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

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

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

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

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

\*\*

### Note 21: Financial Instruments

#### Note 21: Financial Instruments Continued

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

##### Key risks

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

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

##### Credit Risk:

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

##### Liquidity Risk

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

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

##### Market Risk

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

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

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

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

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

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

### Note 22: Defined Benefit Pension Scheme

#### Participation in Pension Scheme

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

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

#### Transactions Relating to Post-employment Benefits

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

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

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

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

### Note 22: Defined Benefit Pension Scheme Continued

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

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

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

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

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

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

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

#### Local Government Pension Scheme assets comprised:

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

## Note 22: Defined Benefit Pension Scheme Continued

### Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary have been:

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

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

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

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

### Impact on the Corporation's Cash Flows

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

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

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

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



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

### Note 23: Termination Benefits

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

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

### Note 24: Provisions

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

### Note 25: Contingent Liabilities

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

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

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

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

### Note 26: Post Balance Sheet Events

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

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

**General Principles**

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

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

**Going Concern**

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

**Accruals of Income and Expenditure**

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

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

**Cash and Cash Equivalents**

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

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

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

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

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

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

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

### Employee Benefits

#### Benefits Payable During Employment

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

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

#### Termination Benefits

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

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

### Post Employment Benefits

Employees of the Corporation are members of one pension scheme:

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

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

#### The Local Government Pension Scheme

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

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

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

Service cost comprising:

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

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

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

Remeasurements comprising:

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

Contributions paid to the Teesside Pension Fund:

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

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

**Post Employment Benefits**

Group entities make available defined contribution schemes set out below:

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

**Events after the Reporting Period**

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

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

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

**Financial Instruments**

All financial assets & liabilities are held at amortised cost.

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

**Financial Liabilities**

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

**Financial Assets**

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

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

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

**Government Grants and Contributions**

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

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

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

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

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

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

**Inventories**

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

**Leases**

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

**Overheads and Support Services**

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

**Provisions, Contingent Liabilities and Contingent Assets**

*Provisions*

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

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

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

*Contingent Liabilities & Contingent Assets*

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

**Reserves**

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

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

**Revenue Expenditure Funded from Capital under Statute**

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

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

**VAT**

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

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

**Fair Value Measurement**

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

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

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

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

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

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

**Consolidation**

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

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

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

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

**Business Combinations**

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

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

**Investments in associates and joint ventures**

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

**Property, plant and equipment**

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

**(i) Land and buildings**

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

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

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

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

**(iii) Components of costs**

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

**Depreciation**

Freehold land is not depreciated.

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

**Subsequent expenditure**

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



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

**Disposal**

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

**Capital Expenditure and Capital Financing**

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

## **South Tees Development Corporation**

### **Annual Governance Statement 2020/21**

#### **1. Introduction**

Good governance continues to be central to the delivery and assurance of our organisational objectives.

South Tees Development Corporation's (STDC) governance operations have integrated with the wider Tees Valley Combined Authority Group (TVCA) governance framework and have been operating effectively since 2020.

The Group's responsibilities are reliant upon maintaining robust governance arrangements which ensure the effective delivery of our activities while ensuring an effective system of internal control, assurance and the management of risk.

Our ambition remains to oversee the creation of a world-class centre for the clean energy, offshore and innovation sectors, creating 20,000 good-quality, well-paid jobs. The pace and ambition for the site remains high and the role of STDC's group Boards unchanged. It's Boards maintain robust governance and programme assurance, risk management and oversight of the discharge of health and safety responsibly whilst the group co-ordinates the competing priorities of a complex programme of works on what remain a COMAH site. It is also our ambition that our governance framework continues to add genuine value to the decisions and policymaking of the organisation.

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

The South Tees Development Corporation and its subsidiaries are 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 Local Government Act 1999 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 standards in the Public Sector.

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 our 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 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, delegations and how decisions are made.

The Constitution – which can only be amended with agreement of the Tees Valley Combined Authority Cabinet – also sets out expected standards of behaviour for both officers and members. The Constitution clearly sets how both the activities of the Chair, Group Chief Executive and other Senior Officers will be subject to a robust set of checks and balances, and details how this scrutiny process will be delivered. The constitution underwent a comprehensive review and representation at the end of the last financial year, with amendments proposed and accepted the STDC Board and TVCA Cabinet.

#### 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 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.

## Referral Decisions

The STDC Constitution sets out a provision that requires STDC Board to identify any decision or issue which may result in a significant risk of:

- a. A financial liability; or
- b. A statutory liability; or
- c. An environmental or criminal liability

to the Combined Authority Group or to any or all of its Constituent Authorities, and to refer such decisions or issues to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision. There has not been a need for such a referral in the last financial year.

## Monitoring Officer

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Group Chief Legal Officer is the Authority's designated Monitoring Officer, who has functional responsibility for Legal, Procurement, Governance and Information Governance functions. There are monthly meetings between Statutory Officers to ensure joined up working and the management of complex issues. 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**

South Tees Site Company was set up in 2016 with a focus on keeping the former SSI Steelworks site safe, ongoing maintenance and removing safety hazards. In October 2020, the company became a wholly owned subsidiary of South Tees Development Corporation. whose role it is to oversee site activity with a particular focus on safety. Operations of the Site Company are now being wound down as roles and responsibilities of the organisation change from a keep safe and demolition phase to a construction phase by external investors.

### **South Tees Developments Limited**

South Tees Developments Limited was set up to hold the land acquired by STDC from Tata Steel and SSI - to realise the regeneration and redevelopment ambitions of the site. The company employs a small number of staff. STDL has now adopted the trading name, Teesworks. This company has its own Board.

### **Teesworks Ventures Limited**

This is a wholly owned subsidiary of STDC and is dormant. It was created solely for the purposes of a potential name swap with Teesworks Limited.

### **Other interests: Teesworks Limited**

STDC holds a minority interest (10%) in Teesworks Limited. Teesworks Limited uses the name 'Teesworks' under licence arrangements. Care has been taken to ensure legal and financial separation of duties.

### **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 Declaration of Interest.

## **Gifts & Hospitality**

All Development Corporation employees and members must declare any offers of gifts or hospitality and the Combined Authority maintains a register of these offers, even if these offers are declined.

## **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.

## **Governance Arrangements**

Following the integration of Development Corporation governance functions with the wider Combined Authority group in 2020, the Corporation 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, Data Protection and Freedom of Information request handling.

A group support services arrangement has been put in place to ensure suitable support is in place for STDC at this important time as well as to avoid duplication of duties across the group structure.

STDC group has adopted the trading style 'Teesworks' however for legal purposes we are keen to ensure that the individual legal personalities remain separate.

## **Freedom of Information and Environmental Information Regulation Requests**

STDC is subject to the Freedom of information Act 2000 and the Environmental Information Regulations 2004. The group Governance Team processes such requests for STDC. Over the last financial year STDC has received and responded to 15 such requests for information.

## **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 Risk Committee, where appropriate.

### **External Audit**

Our most recent auditor's report, issued on December 4<sup>th</sup> 2020, concluded that:

*"On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, South Tees Development Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.*

We expect to receive our 2020/21 auditor's report on August 1<sup>st</sup> 2022, we expect the conclusion to be in line with the 2019/20 report."

### **Internal Audit**

An Annual Internal Audit Report was received 24<sup>th</sup> May 2021 which concluded that:

"The organisation has an adequate and effective framework for risk management, governance, and internal control.

However, our work has identified further enhancements to the framework of our risk management, governance, and internal control to ensure that it remains adequate and effective"

The following opinions were provided in the Audit Report:

#### **Governance**

*We did not perform a specific governance review at the organisation in 2020/21, however we have covered elements of the governance frameworks in place for the following reviews and have used this work to support our governance opinion:*

*Key Financial Controls and South Tees Site Company: Actions Follow Up.*

*Each of the above reviews received a positive assurance opinion.*

*We concluded that the governance arrangements in place, for the organisation, were adequate and effective.*

#### **Risk**

*We did not perform a specific risk management review at the organisations in 2020/21; however, our risk management opinion is informed by the assessment of the risk*



mitigation controls and compliance with those controls in our risk-based reviews in the following area:

- **Project / Programme Assurance** (Failure to deliver the required programme outputs and outcomes in the desired timescales)

The specific review (above), which is directly linked to the organisation's strategic risk register, resulted in a reasonable assurance opinion.

We have also attended all Audit and Risk Committee meetings throughout the year and confirmed the organisation's risk management arrangements continued to operate effectively and were adequately reported and scrutinised by committee members; with regular updates provided and the risk register shared and reviewed, with appropriate oversight.

## Control

We undertook three audits (including the one risk driven review mentioned above) of the control environment that resulted in formal assurance opinions.




These three reviews concluded that two reasonable (positive) and one substantial (positive) assurance opinions could be taken by the Board.

We identified that the organisation required further implementation / embedding of a control framework, or to improve the application of the established control framework, for those areas reviewed.

Furthermore, the implementation of agreed management actions agreed during the course of the year are an important contributing factor when assessing the overall opinion on control.

We have performed a Follow Up review during the year which concluded that good progress had been made towards the implementation of those actions agreed.

The following assignments were completed 20/21 which concluded:

Assignment	Assurance level	Actions agreed		
		L	M	H
Follow Up of Previous Internal Audit Management Actions	Good Progress	1	0	0
South Tees Site Company: Actions Follow Up		3	0	0
Project / Programme Management		1	3	0
Key Financial Controls		0	0	1

To date (July 2022), all of these actions have now been implemented.



## 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 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.

### Signed

Ben Houchen

Tees Valley Mayor  
and Chair of South  
Tees Development  
Corporation

*Signature*



*date*  
27/07/2022

Julie Gilhespie

Group Chief  
Executive, South  
Tees Development  
Corporation

*signature*



*Date*  
27/07/2022

Audit and Risk Committee Members  
South Tees Development Corporation  
Teesside Management Offices  
Redcar  
TS10 5QW

Direct +44 (0)191 383 6300  
Dial  
Email [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

28 July 2022

Dear Members

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

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

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

Matter	Update/conclusion reached	Status
Our considerations of Fraud, Laws and regulations, Provisions and liabilities and Going concern	Response now received and considered. There are no matters that we need to report arising from the responses, other than to request that the responses are provided on a timelier basis in future years.	Complete
Movement in reserves statement and reserves	Detailed testing of balances and notes has been completed. There is £97,000 of minimum revenue provision and depreciation charged to the general fund but this has been offset by £97,000 surplus on the general fund.	Complete
Debtors	We received and reviewed management's review of future income to support the recoverability of debtors.  We have also received and reviewed a response to a query on income cut-off, with no issues to raise.	Complete

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

VAT number: 839 8356 73

Matter	Update/conclusion reached	Status
Creditors, segmental analysis, senior officer remuneration and journals	Detailed transaction testing is complete. There was an amendment to note 11 employee remuneration to include disclosure for the Chief Executive and take out Teesworks directors who do not meet the definition of senior officers.	Complete
Financial instruments	Review of disclosures for consistency did not highlight any issues, the disclosure note was updated to reflect the changes in the single entity accounts reported in the Audit Completion Report.	Complete
Group consolidation audit work	<p>We received a response to our Group Instructions, issued in November 2022 and updated in July 2022, on 25 July 2022.</p> <p>The component auditor for STDL has kept us up to date with progress throughout the year as they have tried to complete their audit work.</p> <p>We were advised on 14 July that the STDL audit was complete, and the component auditors file was ready for our review.</p> <p>We reviewed the component auditor's file as soon as we were able, on 18 July. We have no specific matters to report from our review of the component auditor's file.</p> <p>Management provided an updated set of STDC/STDC Group financial statements, incorporating the changes made by the component auditor to the STDL accounts, on 13 July 2022. Our work is now focused on review of the amended financial statements. This process is ongoing, and we are working through it as efficiently and quickly as possible, but without jeopardising our audit quality.</p> <p>We will issue a further letter to report any subsequent findings when our work on checking the amended statements is complete.</p>	Ongoing
Events after the Balance Sheet date.	<p>We are aware that management has updated the PBSE disclosure to reflect matters occurring since the draft statements were produced. We have reviewed the amended disclosure and there are no matters arising to raise with you.</p> <p>As is usual at the end of the audit process, we will discuss subsequent events with management and further review available post balance sheet information at the point we are due to sign the audit opinion. We will also review the management representation letter when it is received. Only if any matters arise from this which we need to report to you, will we issue a further letter.</p>	Ongoing and on track

Matter	Update/conclusion reached	Status
Property, plant and equipment and contractual commitments	<p>Testing of property, plant and equipment audit work is complete with no issues to raise with you.</p> <p>No further update to report at this stage in relation to contractual commitments, information from management is awaited.</p>	Ongoing
Provisions and contingencies	<p>We challenged management on the disclosure in the draft statements. We have no further matters to report.</p>	Complete
Review and closure processes, including checking the amended version of the financial statements produced by finance as a result of our audit.	<p>We have now reviewed the final draft of the statements, incorporating audit adjustments, and are satisfied that the adjustments, as previously reported in our Audit Completion Report have now been made appropriately.</p> <p>The impact of the various changes made to the statements has meant we have reviewed and now finalised our materiality levels for the audit of the Corporation's single entity accounts as it is based on a percentage of expenditure. We have amended materiality which has now been adjusted to £490,000 for single entity and £1,704,000 for group, with triviality amended to £15,000 and £51,000 respectively. As a consequence, we are required to review all other audit work completed to date as our audit procedures are framed around the materiality level set, and then undertake any additional procedures that may be required with a lower materiality level. We have undertaken this review and are satisfied that no further additional testing is required.</p> <p>The only other procedures now outstanding relate to our usual final routine closedown matters.</p> <p>We are now liaising with management to identify a suitable date for sign off of the financial statements, which we hope will be in the coming days.</p>	Ongoing
Annual governance statement	<p>An annual governance statement for Tees Valley Combined Authority was published in July 2021 in line with the statutory guidance, which referenced the Corporation as part of the group. However, as the Corporation is a separate legal entity, a further Corporation specific annual governance statement is required. This was published on 27 July 2022. We are currently reviewing the annual governance statement.</p>	Ongoing

As we have been unable to conclude our audit procedures for the reasons set out above, we will issue a further letter to Members when we are able to do so, and when our procedures are complete.

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

Yours faithfully

**Cameron Waddell**  
Key Audit Partner



## Appendix A Draft management representation letter

To: Mr Cameron Waddell  
Partner  
Mazars LLP  
The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

[Date]

### **South Tees Development Corporation (and Group) - audit for year ended 31 March 2021**

This representation letter is provided in connection with your audit of the financial statements of South Tees Development Corporation (and Group) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

#### **My responsibility for the statement of accounts and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from me for the purpose of the audit; and
- unrestricted access to individuals within the Corporation/Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance and Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

#### **Accounting records**

I confirm that all transactions have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Corporation and Committee meetings, have been made available to you.

#### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider them appropriate for the year.

#### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

#### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.



There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Corporation/Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code and applicable law.

### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Corporation/Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### **Fraud and error**

I acknowledge my responsibility as Director of Finance and Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Corporation/Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Corporation's/Group's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Related party transactions**

I confirm that all related party relationships, transactions and balances (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Corporation's/Group's related parties and all related party relationships and transactions of which I am aware.

### **Impairment review**

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

### **Charges on assets**

All the Corporation's/Group's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Service Concession Arrangements**



I am not aware of any material contract variations, payment deductions or additional service charges in 2020/21 in relation to the Corporation's PFI schemes that you have not been made aware of.

#### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

#### **Covid-19**

I confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Corporation, including the impact of mitigation measures and uncertainties, and that the disclosures in the accounts, including the event after the balance sheet note to the financial statements, fairly reflects that assessment.

#### **Going concern**

To the best of my knowledge there is nothing to indicate that the Corporation will cease to continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts

#### **Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure.

Yours sincerely

Director of Finance, Development and Business Services

Date.....

## Appendix B Independent auditor's report to the members of South Tees Development Corporation

### Report on the audit of the financial statements

#### Opinion on the financial statements

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

In our opinion, the financial statements:

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

#### Basis for opinion

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

**THE WORDING OF THIS PARAGRAPH IS SUBJECT TO INTERNAL REVIEW AND IS SUBJECT TO CHANGE**

#### Emphasis of Matter

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

We draw attention to note 8 of the financial statements, which describes the unique nature and scale of the Corporation's land holdings. As disclosed in note 8 of the financial statements, the valuer of the Corporation's land included a 'material valuation uncertainty' declaration within their report. Our opinion is not modified in respect of this matter.

#### Conclusions relating to going concern

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

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

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



## **Other information**

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

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

We have nothing to report in this regard.

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

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

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

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

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

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



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

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

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

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

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

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit and Risk Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

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

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

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

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

We have nothing to report in this respect.

### **Responsibilities of the Corporation**



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

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

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

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

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

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

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

We have nothing to report in these respects.

### **Use of the audit report**

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

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

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

[Signature]



Cameron Waddell

Key Audit Partner

For and on behalf of Mazars LLP

The Corner

Bank Chambers

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Newcastle upon Tyne

NE1 1DF

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Item 9

FORMAT TO BE AMENDED POST CHANGES – ARIAL SIZE 11

DATED: 11<sup>th</sup> April 2022

SOUTH TEES DEVELOPMENT CORPORATION

GROUP AUDIT& GOVERNANCE  
COMMITTEE  
TERMS OF REFERENCE

Version Control			
Issue No	Version	Date	Approved for Issue
01	Draft	14-02-18	21-02-18
02	Updated draft	15-02-19	24-07-19
03	Updated draft	26-08-20	30-09-20
04	Updated draft	06-01-21	27-01-21
05	Updated draft	11-02-22	
06	Updated draft	12/04/2022	

## SOUTH TEES DEVELOPMENT CORPORATION

(STDC) ("Organisation")

### GROUP AUDIT & GOVERNANCE COMMITTEE TERMS OF REFERENCE

#### 1. INTRODUCTION

1.1 The primary purpose of the STDC Group Audit & Governance Committee ("the Committee") is to assist the STDC Group Board in fulfilling its oversight responsibilities in matters concerning risk by providing independent assurance of the adequacy of the governance arrangements and the internal control environment. The Committee considers matters of governance and probity and is a key component of STDC's corporate governance arrangements. It provides independent review of governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

1.2 In performing its duties, the Committee will maintain effective working relationships with the Board, the Organisation's management and various professionals (including external and internal auditors, legal, financial and risk professionals). Where escalation is required, this will be fed into the Board via the relevant Head of Service update.

1.3 To perform his or her role effectively, each member of the Committee must be familiar with these terms of reference as well as the Organisation's business operations and risks. To assess the effectiveness of each committee members' understanding and knowledge in these disciplines, an annual self-assessment and Committee effectiveness assessment will be issued to each member for completion.

#### 2. MEMBERSHIP

2.1 The Committee shall, as a minimum, comprise at least five members, which shall include:

2.1.1 the Independent Chair;

2.1.2 any 3 other nominated members; and

2.1.3 The Committee Secretariat, who is a representative of the TVCA Audit & Governance Committee.

2.2 Additional members of the Committee shall be appointed by the Board. The decision of the Board to appoint a new member must include a vote in favour of such appointment by the Board.

2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals (such as the chairperson of the Board, other Directors, Group Risk Manager) may be invited to attend all or part of any meeting, as and when appropriate and necessary.

- 2.4 Subject always to the requirements set out in paragraph 2.1, initial appointments to the Committee are made by the Board and shall be for such period as the Board shall determine. On appointment to role, any new members will receive a letter of appointment which outlines the appointment and purpose of the role, support and training available, the commitments expected from members and any performance measures.
- 2.5 The Board shall appoint a deputy chairperson from the nominated members who will chair the meetings in the absence of the Chairperson.
- 2.6 The Committee may require the attendance of external professionals, (including, without limitation, auditors, risk professionals, legal and financial advisors and surveyors) and/or any employee of the STDC at any of its meetings (upon prior written notice) and may require the disclosure of any information relating to the STDC to such professionals. Where reasonable, the Committee may obtain legal or other professional advice at the cost of the STDC on terms of any matter within these terms of reference.
3. SECRETARY
  - 3.1 The secretary shall be appointed from the Governance Team of TVCA.
4. QUORUM
  - 4.1 The quorum necessary for the transaction of business shall be not less than three members, one of whom must be the Chair or deputy. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
5. FREQUENCY OF MEETINGS
  - 5.1 The Committee shall meet quarterly.
6. NOTICE OF MEETINGS
  - 6.1 Meetings of the Committee shall be called:
    - 6.1.1 by any member of the Committee;
    - 6.1.2 at the request of external professionals if they consider necessary; or
    - 6.1.3 by any member of the Board.
  - 6.2 Unless otherwise agreed, notice of each meeting (confirming the venue, time and date, together with an agenda of items to be discussed) shall be forwarded to each member of the Committee, any other person required to attend and all other relevant Directors no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.
7. MINUTES OF MEETINGS
  - 7.1 The Governance and Administration function of the Group shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.



7.2 The Governance and Administration function of the Group shall ascertain, at the beginning of each Committee meeting, the existence of any conflicts of interest and minute them accordingly

7.3 Draft minutes of Committee meetings shall be approved by the Chairperson (or Deputy if the Chairperson was absent). Once approved, minutes should be circulated to all other members of the Committee and Board, unless a conflict of interest exists, or it would otherwise be inappropriate to do so.

## 8. DUTIES

8.1 The Committee shall carry out the duties below for STDC. Such duties may be varied by the Board from time to time:

8.1.1 To review the STDC's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

8.1.2 To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the STDC's framework of governance, risk management and control.

8.1.3 To consider the External Auditors opinion of the STDC's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

8.1.4 To consider the STDC's framework of assurance and ensure that it adequately addresses the risks and priorities of the STDC.

8.1.5 To agree the risk management Policy and Framework and seek assurances on the effective development and operation of risk management in the STDC Group on behalf of the Board

8.1.6 To seek assurances regarding risk-related issues reported to the committee.

8.1.7 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

8.1.8 To review the assessment of fraud risks and potential harm to the Development Corporation from fraud and corruption.

8.1.9 To monitor the counter-fraud strategy, actions and resources.

8.1.10 To review the STDC Group Enterprise Risk Register to gain assurance that residual risk is within the appetite for the STDC and for those areas that are not within appetite to gain assurance plans are in place to manage those risks.

- 8.1.11 The Committee will review the relevance of the Committee Terms of Reference and prepare an annual effectiveness statement which will support the performance of the committee in year.

## Internal audit

- 8.1.12 The Head of Internal Audit will have confidential access to the Chair of The Committee.
- 8.1.13 To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

- 8.1.14 To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 8.1.15 To approve sign interim changes to the risk based internal audit plan and resource requirements.
- 8.1.16 To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 8.1.17 To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b) Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.
- 8.1.18 To consider the head of internal audit's annual report:
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.
  - b) The opinion on the overall adequacy and effectiveness of the STDC's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- 8.1.19 To consider summaries of specific internal audit reports as requested.
- 8.1.20 To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Corporation or there are concerns about progress with the implementation of agreed actions.
- 8.1.21 To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

8.1.22 To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

8.1.23 To support the development of effective communication with the head of internal audit.

## External audit

8.1.24 To review proposals made in relation to the appointment of external providers of external audit services and to make recommendations.

8.1.25 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

8.1.26 To consider specific reports as agreed with the external auditor.

8.1.27 To comment on the scope and depth of external audit work and to ensure it gives value for money.

8.1.28 To commission work from internal and external audit.

8.1.29 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies. Review the clarity and completeness of disclosures in the financial statements.

## Financial reporting

8.1.230 To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the STDC.

8.1.31 To consider the Audit Risk Assessment, and the basis of significant accounting estimates and assumptions applied by management.

8.1.32 Monitor the adequacy and effectiveness of the financial controls in place for combating fraud and corruption

8.1.30 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

8.1.31 To recommend approval of the annual accounts to the STDC Board.

## Accountability arrangements

8.1.32 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and

effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

- 8.1.33 To report to STDC Board on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

## Standards

- 8.1.34 To promote and maintain high standards of conduct by STDC members and co-opted members.
- 8.1.35 To ensure the STDC members and co-opted members observe the Members' Code of Conduct.
- 8.1.36 To advise the STDC Board on the adoption or revision of the Members' Code of Conduct.
- 8.1.37 To monitor complaints received by STDC in respect of Member conduct.
- 8.1.38 To conduct hearings following investigation and determine complaints made against members and co-opted members.
- 8.1.39 Where a member or co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.

## 9. GENERAL DUTIES

- 9.1 In carrying out their specific duties set out above, each member of the Committee should also consider their general duties as a representative of STDC, including:
  - 9.1.1 the duty to act in the way he or she considers, in good faith, would be most likely to promote the success of STDC for the benefit of its members, having regard to all relevant factors;
  - 9.1.2 the duty to exercise independent judgment;
  - 9.1.3 the duty to exercise reasonable care, diligence and skill;
  - 9.1.4 the duty to avoid conflicts of interest; and
  - 9.1.5 the duty to act in accordance with the STDC's constitution and only exercise his or her powers for the purposes for which they were conferred.

## 10. REPORTING RESPONSIBILITIES

- 10.1 The chairperson of the Committee shall make available all Agenda papers, minutes and reports as required by the Board in respect of its proceedings.

- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall, as a minimum, produce a report of its activities and the STDC's risk management and strategy.
- 10.4 The Directors' report in the annual report and accounts should set out risk management objectives and policies including in relation to financial instruments.

## 11. OTHER MATTERS

- 11.1 The Committee shall have regard to the Code of Good Practice for Corporate Governance and the Audit and Risk Assurance Committee Handbook at all times when dealing with matters assigned to it.
- 11.2 The Committee shall:
  - 11.2.1 have access to sufficient resources in order to carry out its duties;
  - 11.2.2 where any member of the Committee requests the same, ensure that appropriate and timely training is provided to members relative to their role as a member of the Committee. This may take the form of an induction programme for new members and ongoing training for all members;
  - 11.2.3 give due consideration to laws and regulations, as appropriate;
  - 11.2.4 oversee any investigation of activities which are within its terms of reference; and
  - 11.2.5 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## 12. AUTHORITY

- 12.1 The Committee is authorised:
  - 12.1.1 to seek any information it requires from any employee of STDC in order to perform its duties;
  - 12.1.2 to obtain, at STDC's expense, outside legal or other professional advice on any matter within its terms of reference; and to call any employee to be questioned at a meeting of the Committee as and when required.



# South Tees Development Corporation

## Internal Audit Progress Report

**1 August 2022**

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

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# Contents

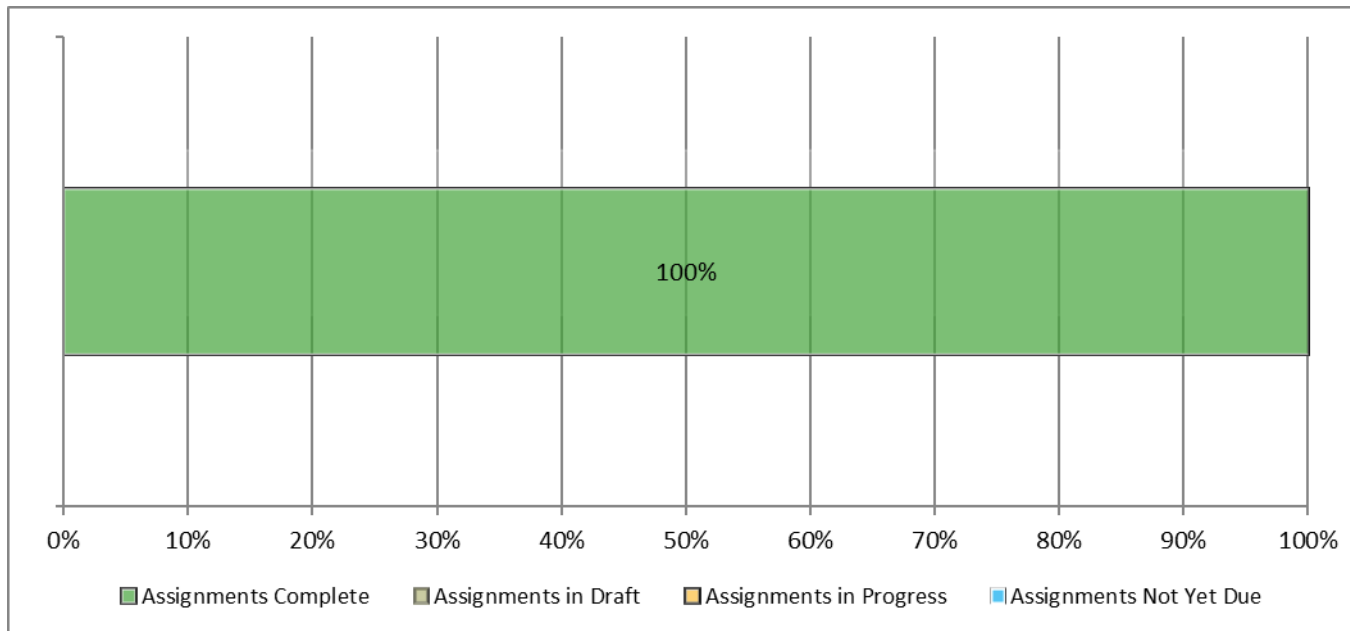
- 1 Introduction .....3
- 2 Reports .....4
- Appendix A – Progress against the 2022/23 internal audit plan .....7
- Appendix B - Key performance indicators (KPIs).....8



# 1 Introduction

The internal audit plan for 2021/22 was discussed by the Audit and Risk Committee on 2 June 2021. As the committee was not quorate, the plan was discussed and approved outside of the meeting and the Group Director of Finance and Resources confirmed its approval on 21 June 2021.

The graphic below provides a summary update on progress against the 2021/22 plan.

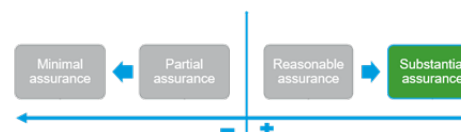


## 2 Reports

### 2.1 Summary of final reports being presented to this committee

We have finalised the following reports from the 2021/22 audit plan since the previous meeting. These are the final reports for 2021/22 and with these, the 2021/22 plan is complete. These are detailed below:

Assignment	Opinion issued	Actions agreed		
		L	M	H
<b><u>Effectiveness of Partnership Arrangements</u></b>	<b>Substantial Assurance</b>	0	0	0
<p><u>Objective:</u></p> <p>There are adequate and effective systems and processes in place within STDC to ensure oversight over Teesworks Ltd.</p> <p>Risk: GSR-R010: Lack of alignment of priorities and accountable/responsible persons.</p> <p><u>Conclusion:</u></p> <p>Taking account of the issues identified, the Board can take <b>substantial assurance</b> that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.</p> <p>As a result of sample testing, walkthroughs, review of documentation and interviews with staff, we have not detected any issues and therefore have raised no management actions.</p> <p><u>Context:</u></p> <p>The South Tees Development Corporation (STDC) is a 100% subsidiary of the Tees Valley Combined Authority (TVCA). The key purpose of STDC is to clear and redevelop the old SSI Steelworks site. In order to do so, STDC must manage a number of key supplier / partnership arrangements.</p>				





Assignment	Opinion issued	Actions agreed		
		L	M	H
<p>Key to managing these arrangements is the STDC Delivery Group. This group is chaired by the Group Chief Executive and Has responsibility for overseeing STDC’s operations including the performance of all delivery partners and facilitating appropriate reporting to the overall TVCA Executive Group and the STDC Board. The STDC Delivery Group is supported by five STDC Operational Groups that manage the day-to-day operational activities of STDC as follows:</p> <ul style="list-style-type: none"><li>Keepsafe – responsible for managing the health and safety COMAH (control of major accident hazards) assets and working with project teams to support their decontamination and demolition.</li><li>Commercial – to identify commercial opportunities and liaise with investors and funding bodies to progress transactions and land and property legal agreements, as well as leading on branding and communication matters.</li><li>Projects – to lead the progression of the capital programme, including letting and managing contracts and dealing with strategic planning matters. Also has responsibility for the STDC master programme and project spend.</li><li>Performance – to control budget and cashflow, and be responsible for performance monitoring, providing management information to the STDC Board, TVCA, the Department for Business, Energy, and Industrial Strategy (BEIS) and the Ministry for Housing, Communities and Local Government (MHCLG). Would also manage the procurement pipeline.</li><li>Estates – to manage the Teesworks site, the ‘Estate Management Company’, with responsibility for common services and securing/managing tenant service charges. Will also be responsible for additional services, such as quay handling and rail connections.</li></ul> <p>Our review was undertaken to determine whether the control framework in place surrounding the effectiveness of partnership arrangements is clearly mapped through the governance framework and detailed within the Operational and Delivery Group structures, thus ensuring that there are clear lines of reporting, delegation and decision-making authority throughout the Group.</p>				

<b><u>Projects: Demolition Programme and South Bank Quay Project</u></b>	<b>Reasonable Assurance</b>	1	0	0
<p><u>Objective:</u></p> <p>There are adequate and effective systems and processes in place within STDC to ensure the delivery of projects and programmes in line with related objectives.</p> <p>Risk: GSR-R023: Failure to meet objectives.</p> <p><u>Conclusion:</u></p>				





Assignment

Opinion issued

Actions agreed

L M H

Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

One low priority management action was raised as a result of this review, as follows:

- We found that one action from the previous Project – Programme Management audit from May 2021 and the Project Management Audit Report from May 2020 was not yet fully implemented. The action was to ensure that programme level required outcomes / outputs will be developed into KPIs and built into the project KPIs and targets. However, we found that there is not yet a defined suite of reported KPIs currently in place, but this may be an area for further development going forward.

Context:

The South Tees Development Corporation (STDC) has, as its key purpose, responsibility to clear and redevelop the old SSI Steelworks site. This requires delivery of numerous, significant capital projects. Of note here, in terms of ongoing commitments, are the Teesworks Demolition Programme (a series of discrete demolition projects) valued at circa £100M and the £94M South Bank Quay Phase 1. At the request of management this audit was focused on these two significant projects.

In the context of STDC delivering a minimum 10-year programme of capital projects across Teesworks, the organisation has been working with external consultant Faithful+Gould (F+G) to establish and implement appropriate project systems and controls to manage such projects and the related key supplier / partnership arrangements. Both of the major projects referenced above are expected to be completed by mid- / late- 2023. Beyond this milestone, delivery of the majority of the further capital projects required to enable the site for new development will be the responsibility of STDC’s private sector JV delivery partner, that now holds the majority stake in Teesworks. For this reason, STDC management has decided that, whilst key project controls elements of the PMO have been established, there is no rationale for continuing to fully develop the integrated PMO and roll this out for what will likely be a period of only a further 12 months from completion of its development. However, the core project controls and reporting tools developed by F+G are being utilised on the Demolition Programme and South Bank Quay and will be applied on near term further capital projects to be delivered directly by STDC.

We conducted an initial audit of this area in March 2020 which was followed up in March/April 2021. Our follow-up report reference 4.20.21 issued on 24 May 2021 identified that seven management actions were still in progress at that time (one high, five medium and one low), and raised a further four management actions (three medium and one low), which have been followed up as part of this review.

## Appendix A – Progress against the 2022/23 internal audit plan

The current Covid-19 situation means that our clients and internal audit are working differently. We understand and recognise the organisation's strategic objectives, and that the developments around Covid-19 will continue to impact on all areas of the organisation's risk profile. We will continue to work closely with management to deliver an internal audit programme which remains flexible and agile to ensure it meets your needs in the current circumstances. The 2022/23 Internal Audit plan was agreed by management on 28 March 2023, and a revised plan was issued following changes requested by management on 7 April 2022.

Assignment	Status	Audit and Risk Committee reporting per approved internal audit plan	Actual reporting to the Audit and Risk Committee
Logic Models	Fieldwork commenced week commencing 13 June 2022	September 2022	-
Procurement to Pay Process	Fieldwork scheduled to start week commencing 8 August 2022 <b>Planning document issued</b>	November 2022	-
Scrap and Disposal of Assets	Fieldwork scheduled to start week commencing 15 August 2022	November 2022	-
GE Programme / South Bank Quay	Fieldwork scheduled to start week commencing 5 September 2022	November 2022	-
COMAH Declassification	Fieldwork scheduled to start week commencing 17 October 2022	March 2023	-
Effectiveness of the Audit and Risk Committee	Fieldwork scheduled to start week commencing 21 November 2022	March 2023	-
Follow-Up of Previous Internal Audit Management Actions	Fieldwork scheduled to start week commencing 16 January 2023	March 2023	-

## Appendix B - Key performance indicators (KPIs)

Delivery			Quality		
	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	6 days (average)	Conformance with PSIAS and IIA Standards	Yes	Yes
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	As and when required
Final report issued within 3 days of management response	3 days	1 day (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working day	-



## For more information contact

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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 UK 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 UK 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 UK 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.



# SOUTH TEES DEVELOPMENT CORPORATION

## Effectiveness of Partnership Arrangements

Internal audit report 4.21/22

REVISED FINAL

20 July 2022

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.

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# 1. EXECUTIVE SUMMARY

With the use of secure portals for the transfer of information, and through electronic communication means, remote working has meant that we have been able to complete our audit / assignment and provide you with the assurances you require. It is these exceptional circumstances which mean that the majority of this audit has been conducted remotely. Based on the information provided by you, we have been able to sample test the control framework.

## Why we completed this audit

A review of the effectiveness of partnership arrangements was undertaken as part of the agreed internal audit plan for 2021/22 to determine whether the partnership arrangements in respect of South Tees Development Corporation (STDC) and its subsidiary or related entities is appropriately monitored to ensure that any issues regarding performance are promptly identified.

The South Tees Development Corporation (STDC) is a 100% subsidiary of the Tees Valley Combined Authority (TVCA). The key purpose of STDC is to clear and redevelop the old SSI Steelworks site. In order to do so, STDC must manage a number of key supplier / partnership arrangements.

Key to managing these arrangements is the STDC Delivery Group. This group is chaired by the Group Chief Executive and has responsibility for overseeing STDC's operations including the performance of all delivery partners and facilitating appropriate reporting to the overall TVCA Executive Group and the STDC Board. The STDC Delivery Group is supported by five STDC Operational Groups that manage the day-to-day operational activities of STDC as follows:

- **Keepsafe** – responsible for managing the health and safety COMAH (control of major accident hazards) assets and working with project teams to support their decontamination and demolition.
- **Commercial** – to identify commercial opportunities and liaise with investors and funding bodies to progress transactions and land and property legal agreements, as well as leading on branding and communication matters.
- **Projects** – to lead the progression of the capital programme, including letting and managing contracts and dealing with strategic planning matters. Also has responsibility for the STDC master programme and project spend.
- **Performance** – to control budget and cashflow, and be responsible for performance monitoring, providing management information to the STDC Board, TVCA, the Department for Business, Energy, and Industrial Strategy (BEIS) and the Ministry for Housing, Communities and Local Government (MHCLG). Would also manage the procurement pipeline.
- **Estates** – to manage the Teesworks site, the 'Estate Management Company', with responsibility for common services and securing/managing tenant service charges. Will also be responsible for additional services, such as quay handling and rail connections.

Our review was undertaken to determine whether the control framework in place surrounding the effectiveness of partnership arrangements is clearly mapped through the governance framework and detailed within the Operational and Delivery Group structures, thus ensuring that there are clear lines of reporting, delegation and decision-making authority throughout the Group.

## Conclusion

We found that STDC has robust governance arrangements in place, which are clearly mapped out and well understood by all relevant parties. As a result of sample testing, walkthroughs, review of documentation and interviews with staff, we have not detected any issues and therefore have raised no management actions.

### Internal audit opinion:

Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.



## Key findings

**Our audit review identified that the following controls are suitably designed, consistently applied, and are operating effectively:**

- ✓ South Tees Development Corporation have a clearly aligned structure covering all subsidiaries and joint ventures documented within a detailed Constitution document. Through detailed review of the breakdown of all companies, subsidiaries, and joint ventures there is a clearly defined matrix of all aspects of the operations of each company.
- ✓ South Tees Development Corporation has a clearly defined structure and related governance mechanism which have been appropriately authorised in accordance with the Group's Constitution.
- ✓ Through a comprehensive review of the structure and governance processes within South Tees Development Corporation, it is clearly noted that these processes are directly supported by a clear set of Financial Regulations and Scheme of Delegation.
- ✓ There is a clearly developed communication mechanism in place to ensure effective communication between the Operational and Delivery Groups throughout, ensuring all relevant parties are actively involved in discussions and decisions and communicated with in relation to such matters.



The Delivery Group and each Operational and has a detailed Terms of Reference which clearly and appropriately maps to its purpose and sets out the responsibility of each member.

Additionally, there is a clearly defined meeting matrix to ensure that the timing and frequency of meetings is in line with the reporting requirements so that there is a clear “flow” of information and decisions between each group.



Through a comprehensive review of the Group’s Constitution document, we noted that there is a there is a clear organigram which details the governance framework ensuring that key entities are detailed such that all key activities within the Group are covered with no unnecessary duplication.



South Tees Development Corporation hold a comprehensive database of risk assessments covering all key activities across the corporation which are managed by the Group Risk Manager. Through a review of key risk registers we confirmed that identified risks are reviewed at the appropriate levels within the Operational and Delivery Groups ensuring all risks are reviewed and updated monthly and reported to the Risk and Audit Committee bimonthly.



There is a clear cycle of meetings generated prior to each year starting in line with the Terms of Reference for each governing body, The structure of meetings is split across the four main areas of the organisation, these being:

- TVCA;
- TIAL (Teesside International Airport Limited);
- STDC; and
- Freeport

Under each section is noted the mandatory meetings across the Group with sub-sections detailing the frequency of the meeting. By cross-referencing this information, we confirmed that all meetings stipulated within the Terms of Reference of the Group are correctly contained within the meeting spreadsheet. Additionally, we confirmed that the schedule of meetings is correctly timed within the year to ensure that the generation of reports and meeting minutes can be attained prior to Group Board and other key governance meetings held.



There is a clear mechanism in place to ensure there is a clear line of effective communication on key decisions made within the group, these include the publication of a quarterly BEIS/ MHCLG reports, used as a reporting tool across the Group to provide details of key decisions, milestones, risks, and mitigations across the Group. Additionally, all key officers attend Delivery Group and Operational Group meetings to ensure the continuity of communications throughout the Group prior to Board review.



The Corporation hold a comprehensive decision and action log that is continually reviewed and updated to record all decisions made and actions arising within the Operational and Delivery Groups. Details of all actions are communicated to key owners prior to meetings to actively attain updates on ongoing progress.



Review of papers and actions arising from Delivery Group meetings indicated that there is a high degree of scrutiny over the delivery of project workstreams by the organisation's key delivery partners.

## APPENDIX A: CATEGORISATION OF FINDINGS

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Area	Control design not effective*		Non Compliance with controls*		Agreed management actions		
					Low	Medium	High
Effectiveness of Partnership Arrangements	0	(11)	0	(11)	0	0	0
<b>Total</b>					<b>0</b>	<b>0</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

## APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

### Objective relevant to the scope of the review

Objective of the area under review	Risk relevant to the scope of the review	Risk source
There are adequate and effective systems and processes in place within STDC to ensure oversight over Teesworks Ltd.	GSR-R010: Lack of alignment of priorities and accountable/responsible persons	Risk Register

### Scope of the review

The South Tees Development Corporation (STDC) is a 100% subsidiary of the Tees Valley Combined Authority (TVCA). The key purpose of STDC is to clear and redevelop the old SSI Steelworks site. In order to do so, STDC must manage a number of key supplier / partnership arrangements.

Key to managing these arrangements is the STDC Delivery Group, chaired by the Group Chief Executive, and supported by five STDC Operational Groups which manage the day-day operational activities of STDC: Keepsafe; Commercial; Projects; Performance; and Estates.

Our review will focus on the following areas:

- The structure and related governance mechanism are clearly set out in a governance framework document.
- The structure and related governance mechanism have been appropriately authorised in accordance with the Group's Constitution.
- The structure and governance processes are supported by a clear set of financial regulations and scheme of delegation.
- The structure and related governance mechanism have been effectively communicated to all relevant parties.
- Each group within the Delivery Group framework has a clear Terms of Reference which articulates its purpose, authority and reporting lines.
- The governance framework includes all key entities and covers all key activities with no unnecessary duplication.
- Key risks are considered at the appropriate level / forum and risk registers updated on a timely basis.
- The frequency and timing of each group meeting, and supporting reporting lines, are optimised to ensure that there are no unnecessary gaps or delays in reporting or escalation within the governance framework.

- Each group receives sufficient information on a timely basis in order to fulfil its duties and make effective decisions when required.
- When decisions are made, whether these are communicated effectively and on a timely basis to all who need to be made aware.
- What evidence is recorded and retained of decisions made and actions arising.

**The following limitations apply to the scope of our work:**

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the risk and objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- We will not comment on the nature of decisions made, only on the evidence considered and timeliness of those decisions.
- Our review will not confirm whether all key risks have been considered, just whether the process appears sufficient to ensure that they are captured.
- We will not interview any external stakeholders during the course of our review.
- Our review will not cover any environmental or health and safety matters.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

Please note that the full scope of the audit can only be completed within the audit budget if all the requested information is made available at the start of the audit, and the necessary key staff are available to assist the audit process during the audit. If the requested information and staff are not available, we may have to reduce the scope of our work and/or increase the audit budget. If this is necessary, we will agree this with the client sponsor during the audit.

<b>Date of debrief / last evidence received</b>	9 May 2022	<b>Internal audit contacts</b>	Rob Barnett, Head of Internal Audit
<b>Draft report issued</b>	20 May 2022		Philip Church, Senior Manager
<b>Responses received</b>	23 May 2022		Mike Gibson, Client Manager
<b>Further evidence received</b>	20 June 2022		Darren Yarnold, Senior Auditor
<b>Final report issued</b>	23 May 2022	<b>Client sponsor</b>	Gary MacDonald, Group Director of Finance and Resources
<b>Revised final report issued</b>	20 July 2022		Victoria Smith, Group Finance Director
		<b>Distribution</b>	Gary MacDonald, Group Director of Finance and Resources
			Victoria Smith, Group Finance Director

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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 UK 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 UK 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 UK 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.





# SOUTH TEES DEVELOPMENT CORPORATION

Projects: Demolition Programme and South Bank Quay Project

Internal audit report 5.21/22

FINAL

23 May 2022

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

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# 1. EXECUTIVE SUMMARY

## Why we completed this audit

The South Tees Development Corporation (STDC) has, as its key purpose, responsibility to clear and redevelop the old SSI Steelworks site. This requires delivery of numerous, significant capital projects. Of note here, in terms of ongoing commitments, are the Teesworks Demolition Programme (a series of discrete demolition projects) valued at circa £100M and the £94M South Bank Quay Phase 1.

In the context of STDC delivering a minimum 10-year programme of capital projects across Teesworks, the organisation has been working with external consultant Faithful+Gould (F+G) to establish and implement appropriate project systems and controls to manage such projects and the related key supplier / partnership arrangements. These were to be developed and operated as an integrated PMO through the vehicle of an e-Programme Management Platform, such was the planned, significant range, scope and complexity of the capital programme of site preparation and infrastructure projects to be delivered directly by STDC over the coming 10 years or so.

Both of the major projects referenced above are expected to be completed by mid- / late- 2023. Beyond this milestone, delivery of the majority of the further capital projects required to enable the site for new development will be the responsibility of STDC's private sector JV delivery partner, that now holds the majority stake in Teesworks. For this reason, STDC management has decided that, whilst key project controls elements of the PMO have been established, there is no rationale for continuing to fully develop the integrated PMO and roll this out for what will likely be a period of only a further 12 months from completion of its development. That said, the core project controls and reporting tools developed by F+G are being utilised on the Demolition Programme and South Bank Quay and will be applied on near term further capital projects to be delivered directly by STDC.

F+G are working closely with STDC to oversee the South Bank Quay Phase 1 project in a project delivery management capacity, and a second consultant, Atkins, is performing the same role in respect of the Demolition Programme and the various individual projects within it. Both parties are therefore integral to the delivery of these projects and will be integral to the performance of this audit.

We conducted an initial audit of this area in March 2020 which was followed up in March/April 2021. Our follow-up report reference 4.20.21 issued on 24 May 2021 identified that seven management actions were still in progress at that time (one high, five medium and one low), and raised a further four management actions (three medium and one low), which have been followed up as part of this review.

## Conclusion

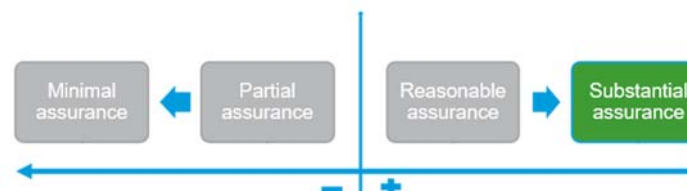
Our review has concluded that STDC have adequate controls and systems in place to manage the Demolition Programme and South Bank Quay projects, with support from F+G and Atkins as project managers. We verified that through regular meeting forums, decisions are made in a timely manner, progress on project delivery is communicated to stakeholders on a regular basis, and key discussions held, where applicable. Project delivery is monitored through the PowerBI Dashboard for the Demolition Programme and the CEMAR (contract event management and reporting) system for the South Bank Quay project, and we verified that the controls in place through these systems are well designed and functioning. We have raised no new management actions.

We further considered 11 management actions raised and outstanding from the RSM Project – Programme Management audit from May 2021 and the Project Management Audit Report from May 2020 within the scope of this review. From the 11 management actions, we have categorised five actions as implemented, five actions as superseded and one as ongoing. The one ongoing management action has been re-raised as **one low priority** management action and details can be found under section two of this report.

For details of progress against the previously agreed management actions, see Appendix A of this report.

### Internal audit opinion:

Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



## Key findings

**Our audit review identified that the following controls are suitably designed, consistently applied, and are operating effectively:**



The STDC Constitution was last updated and approved in July 2021. The constitution outlines the roles of the statutory officers, Board and processes for decision making. It includes the Financial Regulation and Scheme of Delegation to Chief Officers.

The constitution outlines the role of the Engineering and Programme Director as being commercially focused to lead on the complex regeneration of the South Tees Mayoral Development Corporation area and is responsible for developing, implementing, and delivering a comprehensive programme management approach that meets the current and future needs of the organisation. The delegations to the Engineering and Programme Director include proper administration to the Development Corporation's operational affairs, particularly in relation to the regeneration programme, its projects, procurement, risk, recruitment and learning and development.



The STDC Delivery Group meets on a monthly basis, and an update on progress of the Demolition Programme and South Bank Quay project is provided at each meeting. Attendees at this meeting include the Group Chief Executive, Group Director of Finance and Resources, and the Group Commercial Director. An action log is maintained for this meeting.



The STDC Board and the STDC Audit and Risk Committee receive regular reports on the progress of the Demolition Programme and the South Bank Quay project within the Group Chief Executive's updates, which are available on the website for review. Commentary is provided on project progress, including any significant risk areas or delays, and high-level financial performance information outlined.

## Demolition Programme



The Teesworks Delivery Partner Proposition from Atkins and F+G clearly outlines the intentions of the delivery partner to facilitate and support the delivery of the Demolition Programme. The document outlines the scope of works to be completed on behalf of Teesworks, confirms the governance arrangements in place and outlines responsibilities and accountability for project controls.



Atkins and F+G have created a Programme Commercial Summary in a PowerBI Dashboard to support the management of the Demolition Programme. The PowerBI Dashboard includes key project management information, including a budget summary, committed vs. certified expenditure, a detailed application summary, change management information, a programme summary and risk register.

This platform enables the team to monitor the progress on the Demolition Programme and information can be drilled down into for each sub-project and stage.



The F+G Planner sets out the programme for each sub-project of the Demolition Programme on the Primavera P6 system which outlines key milestones against each sub-project, and planned start and end dates. Updates to plans are made in the system once the Planner receives revised plans from the Project Manager or contractor, and revised plans are issued to the Project Management Team once complete.



The sub-projects of the Demolition Programme are covered by an overarching framework agreement and letter of intent to award. Given the time restrictions associated with the Demolition Programme, contracts were not in place at the point of project initiation. Whilst we note that there is a risk associated with not having individual signed contracts in place, we noted that Atkins and F+G are liaising with contractors to devise and agree contracts to cover both phase one and phase two of the Demolition Programme.

We have not raised a management action regarding contracts as work is ongoing to implement signed agreements. In week commencing 11 April 2022, the Projects Control Manager (Atkins) reported in the weekly commercial update meeting that three contracts were ready for signature, data had been prepared for seven contracts and issued to Womble Bond Dickinson for review, and six contracts had been issued to the contractors for review. At the closing meeting of the review, the Engineering and Programme Director informed us further progress had been made in agreeing contracts with the majority either ready to sign or signed at this stage. As regular reporting and significant progress is being made in implementing contracts, we have not raised a management action.



There is a Demolition Programme risk register in place, which feeds into the PowerBI dashboard. Mitigating actions and risk owners are outlined against each identified risk and the register is discussed as part of regular contract meetings and internal weekly / monthly meetings. The Group Risk Manager further outlined that risk meetings are carried out to ensure any required risk updates are made to the Group's Strategic Risk Register, and monthly risk reports are produced.



The Project Controls Manager (Atkins) presents a commercial update at fortnightly meetings on the Demolition Programme and weekly operations meetings, which are attended by the Engineering and Programme Director. These meetings are supported by bi-weekly meetings with each contractor, in which progress reports are discussed.

Financial performance is reported within each commercial update and costs are scrutinised in these meetings. The PowerBI Dashboard has a 'committed vs. certified' tab, which outlines the current budget and spend to date, including any variations. As at 12 May 2022, the overall budget for the Demolition Programme totals £110.05 million, with £84 million already instructed in purchase order value, totalling 76.33% of committed expenditure. Where significant variances are expected for individual sub-project budgets, the Engineering and Programme Director completes a variation to contract form which is submitted to the Group Finance Manager for updating within the accounts. We reviewed a sample of five variations and noted no issues.



Decision making and key discussions occur in regular meeting forums. Any key decisions translate into the project changes recorded on the change management tab of the PowerBI dashboard, which includes early warning notices, project manager instructions or compensation events. We selected a sample of 10 change management events and confirmed in all cases that decisions were considered or authorised (where applicable) by a responsible person within STDC.

### **South Bank Quay project**



There is a signed NEC (new engineering contract) in place between STDC and John Graham Construction for completion of the South Bank Quay project. The contract outlines the key requirements, agreed procedures, pricing, scope of works and governance arrangements in place for the South Bank Quay project. The South Bank Quay project commenced in September 2021, and the contract was signed in December 2021. In the interim, the commencement of the project was covered by a letter of intent to award.



There are two key sub-elements to the South Bank Quay project, known as phase 1A (within heavy lift platform location) and phase 1B (work zones 10-14). John Graham Construction the appointed contractor to cover the full scope of works. The agreed contract outlines start and completion dates, circumstances for compensation events, and financial payments relating to delayed damages.



The Project Manager (F+G) supports STDC in overseeing the South Bank Quay project. The South Bank Quay project is managed through the CEMAR (contract event management and reporting) software, which ensures that there is a full audit trail of decisions made. Decisions are recorded within various registers within the system, such as the compensation events register, project manager instruction register and the design submissions register. The contractor has access to the CEMAR system and all communications relating to the South Bank Quay project are logged through CEMAR.

We reviewed a sample of five compensation events within the CEMAR system and noted that sufficient audit trail was on the system to support decisions or key discussions. One event had been authorised by the Project Manager (STDC), another had been deleted by the client due to a decision not to go ahead with the requested works, and the remaining three had been responded to by the client and quotations were outstanding from the contractor. The CEMAR system includes a log of overdue actions to ensure that any delays in responses can be raised with the contractor, in line with the requirements of the NEC agreement.



A weekly operational meeting is held every Friday to discuss progress on the South Bank Quay project with key project stakeholders, including the Engineering and Programme Director or Project Manager on behalf of STDC. The weekly meetings are supported by monthly meetings with the contractor to discuss performance and progress reports are provided by contractor for discussion and challenge, where applicable, and monthly risk meetings.



The Engineering and Programme Director meets on a monthly basis with key contractor representatives for John Graham Construction on the South Bank Quay project and the F+G Director in steering group meetings. Action logs are maintained, and we obtained two examples. It was outlined that the regularity and frequency of meetings ensures that discussions are held with key stakeholders and decisions made in a timely manner. A monthly cost summary report is produced to document financial performance on the South Bank Quay project to ensure that expenditure against budget is regularly monitored.



The Engineering and Programme Director provides a monthly report to the Group Finance Team on anticipated expenditure commitment over the next three months for any new contracts or variation to contracts to support financial planning arrangements. The anticipated overrun for the South Bank Quay project is noted as £6.5 million in the Engineering and Programme Director's update for April 2022; however, it is noted that this is only an allowance at this stage and the cost won't be accrued until the project overrun actually occurs, therefore it will be a finance decision whether to make the allowance within the budget at this stage.

F+G are in the process of reviewing and scrutinising project costs, therefore the total figure of anticipated overspend may reduce. A variation to contract will be submitted once the total cost of overrun is estimated.

## 2. DETAILED FINDINGS AND ACTIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Risk: Projects				
<b>Control (Previous Management Action)</b>	<p><i>Raised within the RSM Project – Programme Management report (May 2021):</i></p> <p>The programme level required outcomes / outputs will be developed into KPIs and built into the project KPIs and targets.</p>	<b>Assessment:</b>		
		<b>Design</b>		✓
		<b>Compliance</b>		×
<b>Findings / Implications</b>	<p>We met the Engineering and Programme Director to discuss the implementation of the management actions raised in the RSM Project – Programme Management review from May 2021 and the Project Management Audit Report from May 2020. Details of the progress against these actions has been documented in Appendix A of this report.</p> <p>We have categorised one action as ongoing, the details of which are as follows:</p> <p>The Engineering and Programme Director outlined that the KPI section of the PMO was one of the functions which was never fully developed or functional. As noted above, STDC since changed its decision to implement a full PMO and outsourced project management to external consultants.</p> <p>The Engineering and Programme Director obtains an abundance of performance information relating to project performance from both the external consultants and appointed contractors, such as, budgetary information and social value metrics.</p> <p>However, there is not a defined suite of reported KPIs currently in place. The Engineering and Programme Director suggested this may be an area for further development going forward. We have therefore categorised the management action as ongoing and re-raised the management action.</p>			
<b>Management Action 1</b>	The programme level required outcomes / outputs will be developed into KPIs and built into the project KPIs and targets.	<b>Responsible Owner:</b>	<b>Date:</b>	<b>Priority:</b>
		Engineering and Programme Director	31 October 2022	Low

## APPENDIX A: CATEGORISATION OF FINDINGS

### Categorisation of internal audit findings

Priority	Definition
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

The following table highlights the number and categories of management actions made as a result of this audit.

Risk	Control design not effective*		Non Compliance with controls* **		Agreed actions		
					Low	Medium	High
Projects: Demolition Programme and South Bank Quay Project	0	(13)	1	(13)	1	0	0
<b>Total</b>					<b>1</b>	<b>0</b>	<b>0</b>

\* Shows the number of controls not adequately designed or not complied with. The number in brackets represents the total number of controls reviewed in this area.

\*\* Relates to a previous management action.



## APPENDIX A: PREVIOUSLY AGREED MANAGEMENT ACTIONS

The following is a summary of findings from review of management actions agreed from the RSM Project – Programme Management audit from May 2021 and the Project Management Audit Report from May 2020.

Ref	Recommended action	Priority	Update 2022	Status 2022
1	<p>Designed solutions in response to the 2020 management actions will be embedded with project managers / designers / suppliers having a clear understanding of the processes.</p> <p><b>Management response May 2021:</b></p> <p>The PMO is scheduled to be fully established and operational by mid-July; however, as an interim a series of project controls have been introduced to STDC's current projects. It would be beneficial for a further check to be conducted at that point to establish whether management actions have been met.</p>	Medium	<p>STDC have taken a different direction since the last internal audit and have not implemented a full PMO.</p> <p>Instead, the management of major projects (such as the Demolition Programme) has been outsourced to external consultants, Faithful+Gould (F+G) and Atkins, supported by dedicated Project Managers within STDC.</p> <p>As programme management consultants, F+G and Atkins have implemented a suite of project controls and processes to manage STDC's current projects, which we have tested throughout the audit and would therefore consider the management action to be implemented.</p>	Superseded
2	<p>Contract administration controls through CEMAR will be put in place for existing live projects that have been identified as having a significant period of time left to completion.</p> <p><b>Management response May 2021:</b></p> <p>New project contract administration is already beginning to be administered through CEMAR, the process of including priority historic projects in CEMAR is underway.</p>	Medium	<p>CEMAR is being actively used to manage the South Bank Quay project and we reviewed the use of the system during this audit.</p> <p>The initial plan was to also manage the Demolition Programme through the CEMAR system, which is a platform for administering project controls. However, the Demolition Programme is not managed through the CEMAR system as it was felt that current arrangements, through the PowerBI dashboard and tracking mechanisms, was sufficient to manage the project in line with NEC contract requirements.</p> <p>The Engineering and Programme Director outlined that the CEMAR system will be used in other projects going forward.</p>	Implemented

			As we were satisfied with the control mechanisms in place to manage the Demolition Programme and confirmed that the CEMAR system was appropriately established for the South Bank Quay project, we consider the management action to be implemented.	
<b>3</b>	The programme level required outcomes / outputs will be developed into KPIs and built into the project KPIs and targets.	<b>Low</b>	<p>The Engineering and Programme Director outlined that the KPI section of the PMO was one of the functions which was never fully developed or functional. As noted above, STDC since changed its decision to implement a full PMO and outsourced project management to external consultants.</p> <p>The Engineering and Programme Director does obtain an abundance of performance information relating to project performance from both the external consultants and appointed contractors, such as, budgetary information and social value metrics.</p> <p>However, there is not a defined suite of reported KPIs currently in place. The Engineering and Programme Director suggested this may be an area for further development going forward. We have therefore categorised the management action as ongoing.</p>	<b>Ongoing</b>
<b>4</b>	The outstanding management actions will be completed within the required timeframe.	<b>Medium</b>	This management action relates to actions raised in the previous RSM Project Management Audit Report from May 2020. The outstanding actions have been listed below and we have categorised this management action as implemented.	<b>Implemented</b>

5	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>Define and agree the requirements for a STDC project management approach.</p> <p><b>Management response May 2021:</b></p> <p>This is documented within the Project Execution Plan (PEP). The PMO has drafted a programme management plan which defines the approach.</p>	Medium	<p>The Engineering and Programme Director outlined that the programme management plan is no longer applicable, as Teesworks is not being run as a single programme. It was determined that the site was so vast, it was not suitable running the site like a single programme.</p> <p>The programme management approach was therefore not continued with, and we have superseded the management action.</p> <p>We did receive a proposal document from F+G and Atkins, which outlines the agreed approach to project management and how this approach interfaces with STDC.</p>	Superseded
6	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>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.</p> <p><b>Management response May 2021:</b></p> <p>Lessons learnt are to be discussed and a thematic exercise will take place to identify areas for further development / rectification.</p>	Medium	<p>As noted, the programme management approach is no longer applicable and there is no formalised approach to lessons learnt.</p> <p>However, the Engineering and Programme Director outlined that a 'lessons learnt' approach is embedded as part of regular meetings and dialogue. For example, for the Demolition Programme, weekly operational meetings and fortnightly commercial meetings in place to enable regular dialogue, challenge and consideration of lessons learnt. We understand that regular communication through forums is an approach across all projects.</p> <p>The STDC also acquire learnings from the appointment of external project management consultants.</p> <p>Whilst the management action is no longer applicable within the programme management approach context, we have categorised the management action as implemented through the implementation of regular meeting forums.</p>	Implemented

7	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>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.</p> <p><b>Management response May 2021:</b></p> <p>The PMO consultants are presenting their plans to the STDC executives in a few weeks where the plans are set for discussion and approval.</p>	Medium	<p>The Regional Director (F+G) provided us with the Demolition Delivery Partner Proposition dated 30 November 2021, which outlines how F+G and Atkins will facilitate and administer the delivery of demolition projects forming the Demolition Programme, on behalf of Teesworks. This includes information on the discharge of NEC 4 Project Manager and Supervisor duties, the provision of project management, including cost, commercial, benchmarking, risk and schedule management services at project level and collation / reporting at programme level, and the management and assurance of contractor compliance with scope, audit quality and performance of contractor delivery.</p> <p>We have considered this management action to be implemented.</p>	Implemented
8	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>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.</p>	Medium	<p>STDC have taken a different direction from that explained at the previous internal audit and have not implemented a PMO as such, therefore a defined charter is no longer necessary. Instead, external support to manage projects has been sought from F+G and Atkins.</p>	Superseded
9	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>Formalise an assurance model 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. Consider a “three-lines of defence” approach:</p> <ul style="list-style-type: none"> <li>• 1<sup>st</sup> line is the project management team;</li> </ul>	Medium	<p>The Engineering and Programme Director explained that STDC have not established a formal assurance model document for project management as STDC have not implemented a PMO. However, it was outlined STDC do have assurance through the project management team, through support from external consultants, and through internal audit.</p>	Superseded

	<ul style="list-style-type: none"> <li>• 2<sup>nd</sup> line is a project management office; and</li> <li>• 3<sup>rd</sup> line is internal audit and/or specialist external assurance.</li> </ul>			
10	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>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).</p>	High	<p>The CEMAR system is used to fully manage the South Bank Quay project and ensures approved project workflows are adhered to in decision making, for example, the Project Manager (F+G) does not have the authority to approve project expenditure or approve compensation events which alter the delivery timescales and total cost of the project (as outlined within the NEC contract agreement). Instead, the STDC Project Manager or Engineering and Programme Director must approve the compensation events within the financial authority limits (Project Manager up to £50,000), and this is set up within the CEMAR system. We undertook a walkthrough of the CEMAR system, and this exemplified that the Project Manager (F+G) did not have permissions to approve transactions.</p> <p>The Agresso system is the finance system used by the Group and authorisation limits are set up within the system.</p> <p>For the Demolition Programme, STDC have not implemented the CEMAR system; however, with the support of F+G and Atkins, the Demolition Programme is managed in line with contractual arrangements through the PowerBI Dashboard and supporting tracking spreadsheets.</p> <p>We were satisfied through the testing undertaken throughout the review that adequate project and organisation-wide decision-making approvals have been implemented to ensure tight control of project management, for example, with the use</p>	Implemented

			of variation to contract documentation, which require approval from the Engineering and Programme Director. Through the work completed as part of this audit, we would consider this management action implemented.	
11	<p><b>Raised in the RSM Project Management Audit Report May 2020:</b></p> <p>A logic model shows outcomes but KPIs have not been created to reflect this and do not flow to a project level.</p> <p>KPIs and targets are required that flow from the highest level through to projects.</p>	Low	<p>The Engineering and Programme Director outlined that KPIs are something which may need to be further explored and developed within STDC, as there is currently not a suite of defined KPIs in place.</p> <p>We have re-raised management action three from the Programme Management review undertaken in May 2021 relating to KPIs and have therefore categorised this management action as superseded.</p>	Superseded

## APPENDIX B: SCOPE

The scope below is a copy of the original document issued.

### Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following risk:

Objective of the area under review	Risk relevant to the scope of the review	Risk source
There are adequate and effective systems and processes in place within STDC to ensure the delivery of projects and programmes in line with related objectives.	GSR-R023: Failure to meet objectives.	Risk Register

The South Tees Development Corporation (STDC) has, as its key purpose, responsibility to clear and redevelop the old SSI Steelworks site. This requires delivery of numerous, significant capital projects. Of note here, in terms of ongoing commitments, are the Teesworks Demolition Programme (a series of discrete demolition projects) valued at £100M and the £94M South Bank Quay Phase 1.

In the context of STDC delivering a minimum 10-year programme of capital projects across Teesworks, the organisation has been working with external consultant Faithful & Gould (F&G) to establish and implement appropriate project systems and controls to manage such projects and the related key supplier / partnership arrangements. These were to be developed and operated as an integrated PMO through the vehicle of an e-Programme Management Platform, such was the planned, significant range, scope and complexity of the capital programme of site preparation and infrastructure projects to be delivered directly by STDC over the coming 10 years or so.

Both of the major projects referenced above are expected to be completed by mid- / late- 2023. Beyond this milestone, delivery of the majority of the further capital projects required to enable the site for new development will be the responsibility of STDC's private sector JV delivery partner, that now holds the majority stake in Teesworks. For this reason, STDC management has decided that, whilst key project controls elements of the PMO have been established, there is no rationale for continuing to fully develop the integrated PMO and roll this out for what will likely be a period of only a further 12 months from completion of its development. That said the core project controls and reporting tools developed by F&G are being utilised on the Demolition Programme and South Bank Quay, and will be applied on near term further capital projects to be delivered directly by STDC.

F&G are working closely with STDC to oversee the South Bank Quay Phase 1 project in a project delivery management capacity, and a second consultant, Atkins, is performing the same role in respect of the Demolition Programme and the various individual projects within it. Both parties are therefore integral to the delivery of these projects and will be integral to the performance of this audit.

We conducted an initial audit of this area in March 2020 which was followed up in March/April 2021. Our follow-up report reference 4.20.21 issued on 24 May 2021 identified that seven management actions were still in progress at that time (one high, five medium and one low), and raised a further four management actions (three medium and one low). We will follow-up progress of these actions during the course of this review.

Our review will focus on the following areas:

- There is a clear and well understood set of procedures in place to manage projects which is understood by all relevant parties.
- There is a clear log of each sub-element of the Demolition Programme and South Bank Quay projects showing key factors such as target dates, timescales, dependencies, gateway criteria (each sub-element being referred to below as projects in their own right).
- Each project has clearly defined objectives, timescales gateways and assigned responsibilities.
- Key risks relating to each project are identified, recorded and considered at the appropriate level / forum and risk registers updated on a timely basis. Mitigating actions are logged and tracked.
- Each project is subject to a periodic review conducted by / attended by those with the knowledge and authority to make effective decisions.
- All key discussions are recorded, and decisions authorised in line with the governance mechanism.
- When decisions are made, these are communicated effectively and on a timely basis to all who need to be made aware.
- Contractors have been evaluated and selected in accordance with the Group's Constitution, financial regulations and scheme of delegation.
- A formal signed contract is in place with all contractors with a clear specification of works, timescales, monitoring processes and penalty clauses.
- Regular, formal meetings are held with key contractors to understand progress and resolve issues.
- Costs are scrutinised at each project review meeting. All variations are discussed promptly with the STDC finance team so that appropriate adjustments can be made to accounting records or funding facilities on a timely basis.
- There is sufficient reporting in to the STDC Operational Groups / Delivery Group / Audit and Risk Committee and / or Board to ensure that informed and timely decisions can be made.

**The following limitations apply to the scope of our work:**

- The scope of the work will be limited to those areas examined and reported upon in the areas for consideration in the context of the risk and objectives set out for this review.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- At the request of management our review will focus on the two major projects, demolition and site clearance and South Bank Quay only since it is regarded that this is where the bulk of the risk, cost and effort is presently concentrated and will be over the coming 12 months or so.
- Since these two elements are already in progress, we will not comment on the decisions made to authorise them, although we will need to refer to the business cases and supporting documentation in order to conduct our audit.
- Also at the request of management, we will not review training on the grounds that management have asserted that all staff are suitably qualified / experienced.



- Our review will not confirm whether all key risks have been considered, just whether the process appears sufficient to ensure that they are captured.
- We will not contact any external contractors other than F&G and Atkins.
- Our review will not cover any environmental or health and safety matters.
- Our work does not guarantee the outcome (financial or otherwise) of any of the projects reviewed.
- Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

**Debrief held** 12 May 2022  
**Draft report issued** 23 May 2022  
**Responses received** 23 May 2022

**Final report issued** 23 May 2022

**Internal audit Contacts** Robert Barnett, Head of Internal Audit  
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Natalie Robinson, Group Risk Manager  
John McNicholas, Engineering and Programme Director

**Distribution** Gary MacDonald, Group Director of Finance and Resources  
Natalie Robinson, Group Risk Manager  
John McNicholas, Engineering and Programme Director

**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 UK 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 UK 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 UK 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.



# SOUTH TEES DEVELOPMENT CORPORATION

Annual internal audit report 2021/22

FINAL

Presented at the Audit and Risk Committee Meeting of 1 August 2022

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK 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



# THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

## The opinion

For the 12 months ended 31 March 2022, the Head of Internal Audit opinion for South Tees Development Corporation is as follows:



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

---


*It remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be a substitute for management responsibility around the design and effective operation of these systems.*

---

## Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit and Risk Committee, our opinion is subject to inherent limitations, as detailed below:

- Internal audit has not reviewed all risks and assurances relating to the organisation.

- 
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. The assurance framework is one component that the board takes into account in making its annual governance statement (AGS).
  - the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management / lead individual(s).
  - where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance.
  - due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention.
  - our internal audit work for 2020/21 has been undertaken through the substantial operational disruptions caused by the Covid-19 pandemic. In undertaking our audit work, we recognise that there has been a significant impact on both the operations of the organisation and its risk profile, and our annual opinion should be read in this context.

# FACTORS AND FINDINGS WHICH HAVE INFORMED OUR OPINION

Based on the work we have undertaken on the systems of governance, risk management and internal control across the organisation, our opinion on governance, risk management and control have been informed by the following:

## Governance

We did not perform a specific governance review at the organisation in 2021/22, however we have covered elements of the governance frameworks in place for the following reviews and have used this work to support our governance opinion: Group Structure, Effectiveness of Partnership Arrangements and Projects: Demolition Programme and South Bank Quay Project.

Each of the above reviews received a positive assurance opinion (both **substantial**). We therefore concluded that the governance arrangements in place, for the organisation, were adequate and effective.

## Risk

We did not perform a specific risk management review at the organisations in 2021/22, however, our risk management opinion was informed by the assessment of the risk mitigation controls and compliance with those controls in our risk-based reviews as follows:

- Scrap and Disposal of Assets (Risk: *GSR-R036: Fraud – management of scrap metals*) – **substantial assurance**.
- Projects: Demolition Programme and South Bank Quay Project (Risk: *GSR-R023: Failure to meet objectives*) – **substantial assurance**.
- Effectiveness of Partnership Arrangements (Risk: *GSR-R010: Lack of alignment of priorities and accountable/responsible persons*) – **substantial assurance**.

We have also attended all Audit and Risk Committee meetings throughout the year and confirmed the organisation's risk management arrangements continued to operate effectively and were adequately reported and scrutinised by committee members; with regular updates provided and the risk register shared and reviewed, with appropriate oversight.

## Control

We undertook four audits (including the three risk driven reviews mentioned above) of the control environment that resulted in formal assurance opinions. All four of these reviews concluded that **substantial** (positive) assurance opinions could be taken by the Board. We identified that the organisation required further implementation and embedding of a control framework, or to improve the application of the established control framework, for those areas reviewed.

Furthermore, the implementation of agreed management actions agreed during the course of the year are an important contributing factor when assessing the overall opinion on control. We have performed a Follow Up review during the year which concluded that **reasonable progress** had been made towards the implementation of those actions agreed.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

# THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines previously discussed, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

## Acceptance of internal audit management actions

Management have agreed actions to address all of the findings reported by the internal audit service during the year.

## Implementation of internal audit management actions

We have performed a follow up review to determine the organisation's implementation of internal audit findings and we have reported that **reasonable progress** had been made in implementing the agreed actions.

### Follow Up of Previous Internal Audit Management Actions

Our audit focused on those actions raised as part of the below reviews, and considered if appropriate evidence was in place to demonstrate the actions had been fully implemented as reported to the Audit and Risk Committee or the organisation's management team:

- Follow Up of Previous Internal Audit Recommendations: Controls and Governance Review (2. 2018/19);
- Budget Setting and Control (3. 2019/20);
- Follow Up of Previous Internal Audit Management Actions (5. 2019/20);
- STSC: Actions Follow Up (2. 2020/21) and
- Key Financial Controls (5.2020/21).

A total of nine actions had been marked as closed and we reviewed these during the audit. These were comprised of **one high** priority, **four medium** priority and **four low** priority actions.

We were supplied with satisfactory evidence for eight out of the nine actions declared as complete by the respective action owner. Of the eight actions we received evidence for, one action had been superseded and the remaining seven had been marked as complete. For the remaining action which we did not receive evidence for, we marked this as incomplete. This action related to the creation of an action plan with implementation dates to help implement the actions listed in the Key Financial Controls audit and, as such, was regarded as being one overall action. This was noted as a high priority action.

Of the five reports above, only the Follow Up of Previous Internal Audit Management Actions (5. 2019/20) and Key Financial Controls (5.2020/21) had actions remaining at the time of our audit fieldwork. The one remaining action for the Key Financial Controls was also the action reviewed during this audit.

## Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.



# OUR PERFORMANCE

## Conflicts of interest

RSM has not undertaken any work or activity during 2021/2022 that would lead us to declare any conflict of interest.

## 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 the Standards, internal audit services are required to have an external quality assessment (EQA) every five years. The RSM UK Risk Assurance service line commissioned an external independent review of our internal audit services in 2021, to provide assurance as to whether our approach continues to meet the requirements.

The external review concluded that RSM 'generally conforms\*' to the requirements of the IIA Standards' and that 'RSM IA also generally conforms with the other Professional Standards and the IIA Code of Ethics. There were no instances of non-conformance with any of the Professional Standards'.

\* The rating of 'generally conforms' is the highest rating that can be achieved, in line with the IIA's EQA assessment model.

## Quality assurance and continual improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams. 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.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

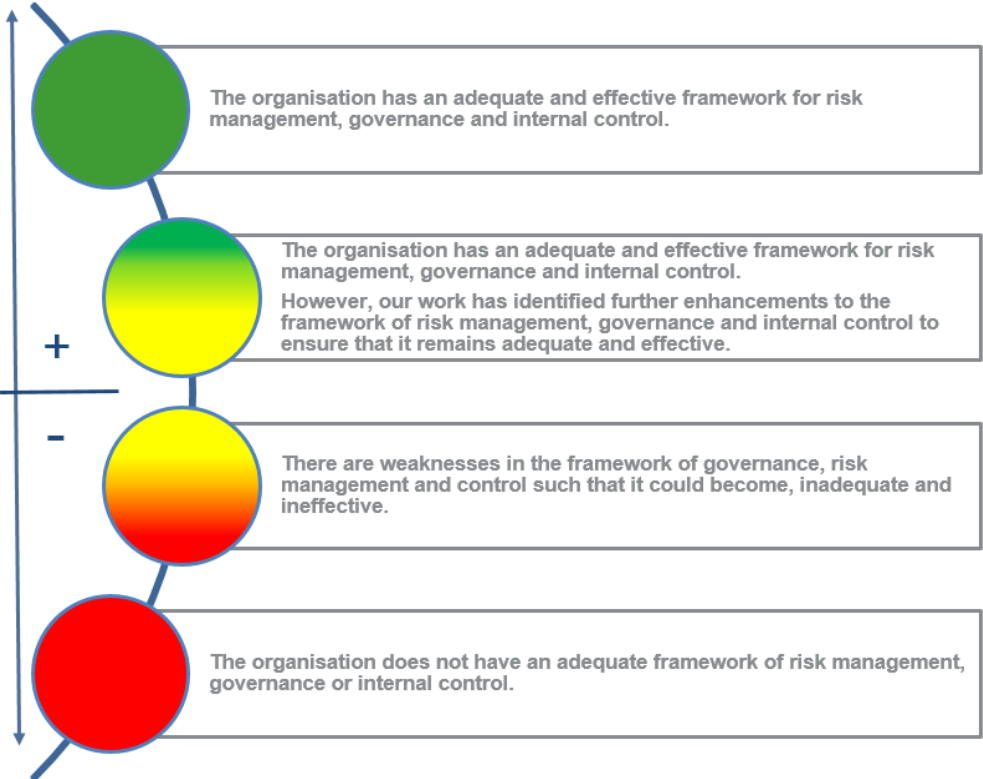
## Performance indicators

### Delivery

	Target	Actual		Target	Actual
Draft reports issued within 10 days of debrief meeting	10 days	6 days (average)	Conformance with IIA Standards	Yes	Yes
			Liaison with external audit to allow, where appropriate and required, the external auditor to place reliance on the work of internal audit	Yes	As and when required
Final report issued within 3 days of management response	3 days	1 day (average)	Response time for all general enquiries for assistance	2 working days	2 working days (average)
			Response for emergencies and potential fraud	1 working day	-





# APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
 <p>The organisation has an adequate and effective framework for risk management, governance and internal control.</p> <p>The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.</p> <p>There are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective.</p> <p>The organisation does not have an adequate framework of risk management, governance or internal control.</p>	<p>The factors which are considered when influencing our opinion are:</p> <ul style="list-style-type: none"> <li>• inherent risk in the area being audited;</li> <li>• limitations in the individual audit assignments;</li> <li>• the adequacy and effectiveness of the risk management and / or governance control framework;</li> <li>• the impact of weakness identified;</li> <li>• the level of risk exposure; and</li> <li>• the response to management actions raised and timeliness of actions taken.</li> </ul>

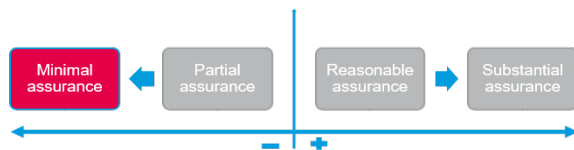
## APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual assignment report.

Assignment	Assurance level	Actions agreed		
		L	M	H
Scrap and Disposal of Assets		4	0	0
Follow Up of Previous Internal Audit Management Actions	Reasonable Progress	0	0	1
Group Structure		0	0	0
Effectiveness of Partnership Arrangements		0	0	0
Projects: Demolition Programme and South Bank Quay Project		1	0	0

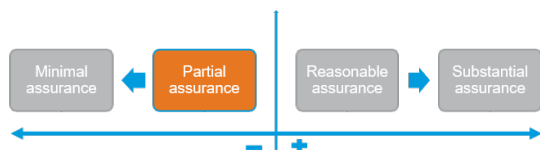
## APPENDIX C: OPINION CLASSIFICATION

We use the following levels of opinion classification within our internal audit reports, reflecting the level of assurance the Board can take:



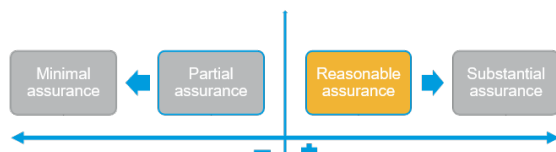
Taking account of the issues identified, the Board can take **minimal assurance** that the controls upon which the Group relies to manage this risk are suitably designed, consistently applied or effective.

Urgent action is needed to strengthen the control framework to manage the identified risk.



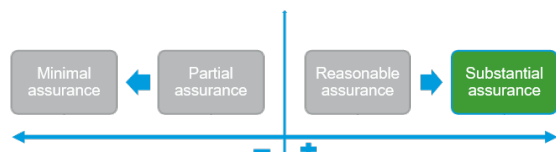
Taking account of the issues identified, the Board can take **partial assurance** that the controls upon which the Group relies to manage this risk are suitably designed, consistently applied or effective.

Action is needed to strengthen the control framework to manage the identified risk.



Taking account of the issues identified, the Board can take **reasonable assurance** that the controls upon which the Group relies to manage this risk are suitably designed, consistently applied and effective.

However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified risk.



Taking account of the issues identified, the Board can take **substantial assurance** that the controls upon which the Group relies to manage this risk are suitably designed, consistently applied and effective.

# YOUR INTERNAL AUDIT TEAM

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RSM UK 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.



# SOUTH TEES DEVELOPMENT CORPORATION

Internal Audit Strategy 2022/2023 - 2024/2025 (including the 2022/2023 Internal Audit Plan)

Presented at the Audit and Risk Committee meeting of: 1 August 2022

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.



## EXECUTIVE SUMMARY

In preparing our Internal Audit Plan for 2022/2023 we have worked closely with management to produce an audit programme which remains mindful of the continuing developments and challenges around Covid-19. Whilst this plan is presented for consideration by the Audit and Risk Committee, we will continue to hold regular meetings with management, during the year, to deliver an internal audit programme which remains flexible and 'agile' to ensure it meets your needs in these ever changing circumstances.

The key points to note from our plan are:



**2022/2023 internal audit priorities:** internal audit activity for 2022/2023 is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting you in the year ahead. Our detailed plan for 2022/2023 is included at section two of this report.

The internal audit priorities have been discussed and agreed with the Group Director of Finance and Resources who has coordinated views from the TVCA Executive team to inform the 2022/23 internal audit plan.



**Level of resource:** the level of resource required to deliver the plan is in section two of this report. Our daily rate has been increased in line with our tender submission by 4%.



**TVCA and STDC:** A number of reviews, as noted below, have been planned within the internal audit activity for 2022/23 to be performed over both TVCA and STDC. Where this is the case, separate reports will be produced for TVCA and STDC. The respective entity reports will be presented to management and Risk and Audit Committee of that entity only.



**Group reviews:** during the delivery of the 2022/23 internal audit plan we will conduct internal audits which cover systems and processes across the whole of the Tees Valley Combined Authority Group. Where this is the case, we will report, in our Progress Paper to the Audit and Risk Committee, an extract of our findings insofar as they are relevant to the South Tees Development Corporation. In the 2022/2023 annual audit plan for Tees Valley Combined Authority the following audits are anticipated to have relevance to the South Tees Development Corporation:

- Key Financial Controls: Payroll. This will be a single review as the Payroll team sits within TVCA, but including activities in respect of STDC employees, so separate reports will not be produced.
- Procurement To Pay.
- Logic Models.



**Core assurance:** the key priorities and changes within the organisation during the period have been reflected within the proposed audit coverage for 2022/2023 and beyond. During the development of the internal audit plan the following key areas/documents were discussed/reviewed:

- Strategic Risk Register.
- Update reports from the Group Director of Finance and Resources.



**'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 on-going Covid-19 restrictions, employing remote audit technologies through the use of secure Huddle folders 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 ..... 5
- 2. INTERNAL AUDIT PLAN 2022/2023 ..... 6
- APPENDIX A: YOUR INTERNAL AUDIT SERVICE..... 9
- APPENDIX B: INTERNAL AUDIT STRATEGY 2022/2025..... 10
- APPENDIX C: INTERNAL AUDIT CHARTER ..... 14
- FOR FURTHER INFORMATION CONTACT..... 19

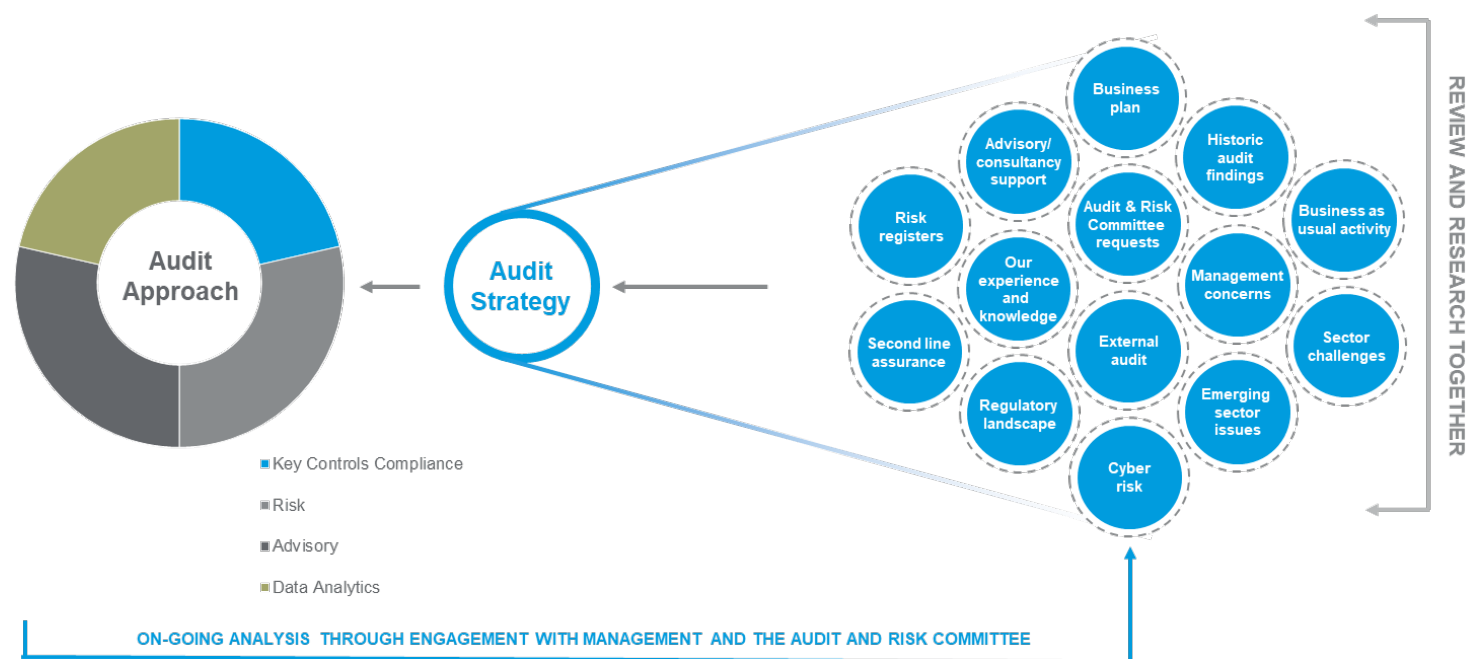
# 1. YOUR INTERNAL AUDIT PLAN

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

## Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your Strategic Risk Register / 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. We reviewed STDC's risk management arrangements as part of our 2019/20 plan (report 1.19.20 issued 15 October 2019, partial assurance).

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 two and Appendix B for full details).

## 2. INTERNAL AUDIT PLAN 2022/2023

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2022/2023. The table details the strategic risks 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
<b>Strategic Risk</b>			
<p><i>GSR-R023: Failure to meet objectives.</i></p> <p><b><u>GE Programme / South Bank Quay</u></b></p> <p>The Group's plans to redevelop the old Teesworks site, bring jobs and investment to the region and deliver on its environmental aims rely on the delivery of a number of significant projects. Our review will look at how these projects are performing against their planned delivery targets and how the anticipated risks are being mitigated.</p>	10 days / £5,180	Week commencing 5 September 2022	November 2022
<p><i>GSR-R036: Fraud – management of scrap metals.</i></p> <p><b><u>Scrap and Disposal of Assets</u></b></p> <p>A considerable amount of value is locked up in the assets to be disposed of from the old SSI Steelworks site. We conducted a review of processes in place to ensure that the disposal of assets is well-controlled to avoid loss and / or theft and to ensure that best value is obtained as part of our 2021/22 internal audit plan. The demolition programme is expected to continue until December 2022, with clearance of scrap to continue beyond this. Our review will follow-up on the actions from our previous review as well as considering the effectiveness of current systems and processes.</p>	6 days / £3,108	Week commencing 15 August 2022	November 2022
<p><i>GSR-R001: Inability to remove COMAH status.</i></p> <p><b><u>COMAH Declassification</u></b></p> <p>Redevelopment of the old Teesworks site requires removal of the Control of Major Accident Hazards (COMAH) status applied across each parcel of land in order that it can transition towards its goal of being a managed service site. Our review will consider whether the systems and processes are in place to ensure the removal of COMAH status to time and specification.</p>	10 days / £5,180	Week commencing 17 October 2022	March 2023

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## Core Assurance

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### Procurement to Pay Process

As a public body, the Authority has an obligation to comply with the UK government's Prompt Pay and Value for Money requirements as well as ensuring that it has adequate governance over expenditure. Our review will look at the full end to end procurement to payment process over both TVCA and STDC.

10 days /  
£5,180

Week  
commencing 8  
August 2022

November 2022

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### Logic Models

Each project must have a "Logic Model" which defines required inputs and expected outcomes. Our review will consider how:

6 days /  
£3,108

Week  
commencing 5  
December 2022

March 2023

- Projects are appraised prior to approval.
- Monitored throughout its lifecycle.
- Reported.

This review will cover both TVCA and STDC.

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### Effectiveness of the Audit and Risk Committee

Our review will consider the Terms of Reference and membership of the STDC Audit and Risk Committee to determine whether the committee has been constituted appropriately in order to meet its requirements to provide oversight over the governance of STDC and is operating effectively in practice.

4 days /  
£2,072

Week  
commencing 24  
October 2022

March 2023

---

## Other Internal Audit Activity

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### 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 /  
£2,590

Week  
commencing 16  
January 2023

March 2023

---

### Management

This will include:

6 / days  
£3,108

As and when required throughout  
the year

- Annual planning;
  - 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.
- 

<b><u>Total</u></b>	57 days
	£29,526

---

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 UK Risk Assurance Services LLP. The team will be led by Rob Barnett as your Head of Internal Audit, supported by Philip Church as your Senior Manager and Mike Gibson as your Client Manager.

## Core team

The delivery of the 2022/2023 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.

Our most recent external review has been conducted during 2021 and we will inform the Audit and Risk Committee of its findings.

## 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 2022/2025

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. The risks detailed below are taken from the organisation's Strategic Risk Register as presented to the Audit and Risk Committee meeting.

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)

2020/21

2021/22

2022/23

2023/24

2024/25

### Audit Area

### Strategic risks

GSR-R001: Inability to remove COMAH status

✓

(COMAH  
Declassification)

GSR-R010 Lack of alignment of priorities and accountable/responsible persons

✓

(Effectiveness  
of Partnership  
Arrangements)

GSR-R013 Management of underdeveloped estate

✓

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)

2020/21

2021/22

2022/23

2023/24

2024/25

**Audit Area**

GSR-R018 Continuity/Disaster planning

✓

GSR-R020 Process and System

✓

✓

(Project Assurance)

GSR-R023 Failure to meet objectives

✓

✓

✓

(Project  
Management  
Office)

(GE Programme  
/ South Bank  
Quay)

GSR-R025 Revenue overestimation

✓

GSR-R032 Investor Due Diligence

✓

GSR-R036 Fraud - Management of scrap metals

✓

✓

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)

2020/21

2021/22

2022/23

2023/24

2024/25

**Audit Area**

(Scrap and Disposal of Assets)

(Scrap and Disposal of Assets)

**Core Assurance**

Key Financial Controls

✓

✓

✓

Governance

✓

✓

(STSC Actions)

(Logic Models)

Procurement

✓

(Procurement To Pay)

**Other Internal Audit Activity**

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)

2020/21

2021/22

2022/23

2023/24

2024/25

**Audit Area**

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 the South Tessa 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 committee.

The internal audit service is provided by RSM UK 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.

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

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## 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 the 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 the 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 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:** who are 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 six weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee six weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 15 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 / Huddle.
- 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 UK 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 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 UK Risk Assurance Services LLP**

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**T:** +44 (0)191 255 7000 | **M:** +44 (0) 7809 560103 | **W:** [www.rsmuk.com](http://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 the **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 UK 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 UK 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 UK 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 13

### REPORT TO THE AUDIT AND RISK COMMITTEE

1<sup>st</sup> AUGUST 2022

### REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

## INTERNAL AUDIT REPORT

### SUMMARY

This report presents the position of current Internal Audit action plan progress as of June 2022.

### RECOMMENDATIONS

It is recommended that the STDC Audit and Risk Committee:

1. Consider the analysis and audit progress set out in this paper.
2. Acknowledge the annual audit schedule.

### DETAIL

3. This report presents South Tees Development Corporation audit actions and their progress as of June 2022.

### Process

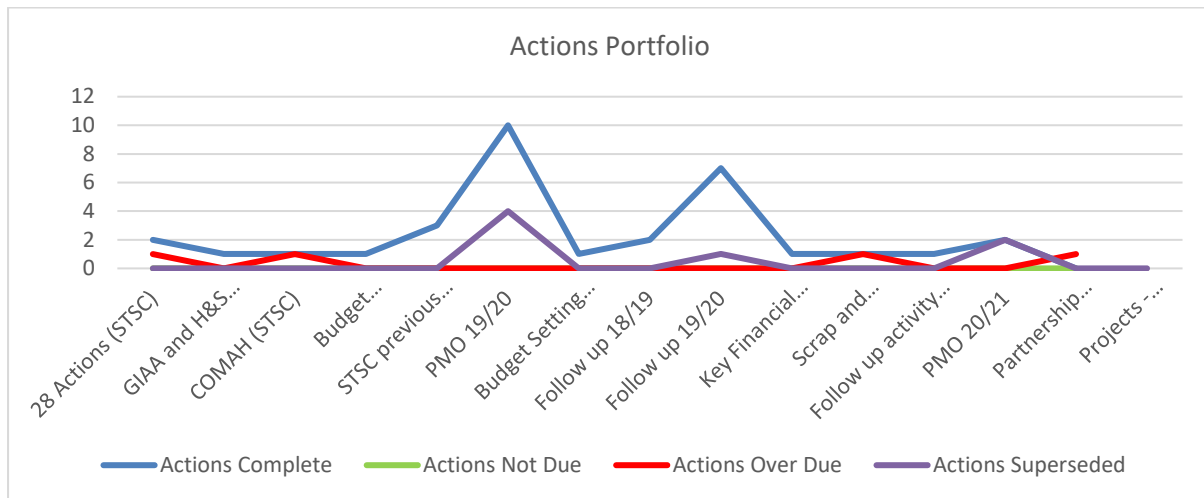
Using a risk based approach, the internal audit schedule is agreed with the Senior Leadership Team and the Audit and Governance Committee, this ensures the TVCA Group are assessing the effectiveness and efficiency of controls mitigating key risks.

The process of internal audit (Appendix A) is monitored by the Risk Management team, to ensure effective tracking of actions is in place. All actions are tracked via a spreadsheet which is shared with action owners for updates.

The Risk Management team facilitate reporting of internal audit actions and provide support to Risk Owners to drive delivery performance.

### Overview of action portfolio

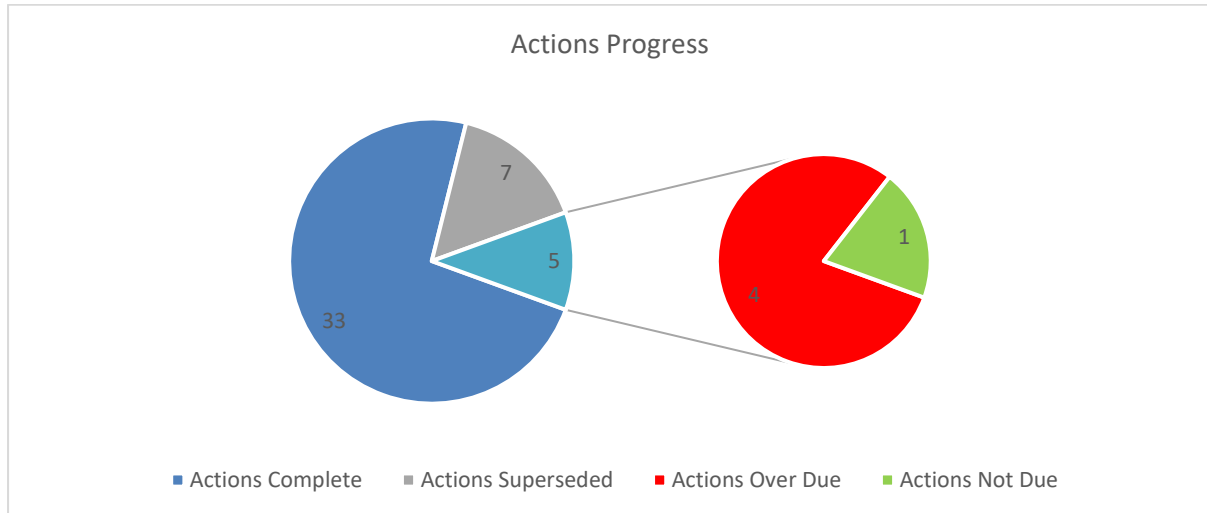
The current portfolio of actions includes those actions which are:  
Those audits where actions were allocated have been tracked and are as follows (as of next report, all those audits with completed action plans will be archived).



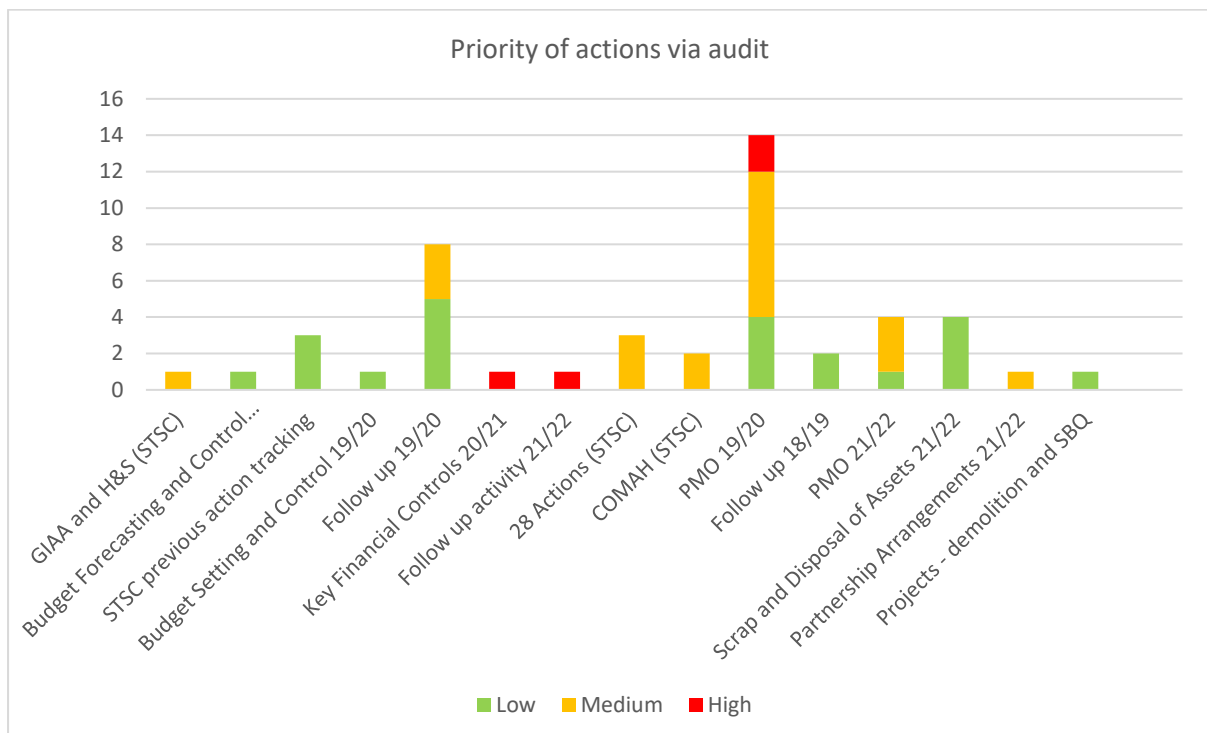
Audit Title	Action Plan Delivery
GIAA and H&S (STSC)	Complete
Budget Forecasting and Control (STSC)	Complete
STSC previous action tracking	Complete
Budget Setting and Control 19/20	Complete
Follow up 19/20	Complete
Key Financial Controls 20/21	Complete
Follow up activity 21/22	Complete
PMO 20/21	Complete
Follow up 18/19	Complete
PMO 21/22	Complete
28 Actions (STSC)	In progress
COMAH (STSC)	In progress
Scrap and Disposal of Assets 21/22	In progress
Partnership Arrangements 21/22	In progress

## Action progress

There are currently 4 action plans in progress and 10 which have had all actions implemented and plan completed.



As of June 2022, 88% of actions have been implemented/superseded, with 8% of actions now overdue and 1 action not due.



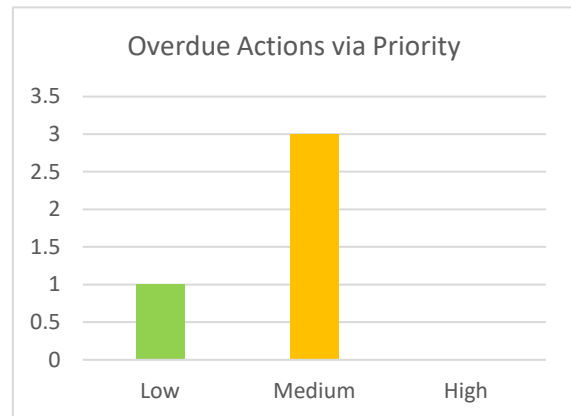
The above graph is an overview of all actions to date which have had action plans agreed.

As of next quarter, all those actions plans with completed action plans will be archived and only those audits with open action plans will be reported. This is to reduce the risk that current audit portfolio is inflated.

### Overdue actions

There are currently 0 high level actions which are open.

The process of reviewing audit actions and the systems used to do this, is currently being reviewed and improved, allowing for a much leaner approach and encouraging accountability of action owners to drive delivery.



# TEESWORKS

## Medium Priority overdue actions

Audit	Original Delivery Date	Revised Delivery Date	Status	Action	Update
28 Actions Audit Action 20		Aged action – due asap.	In progress	Discuss and agree with the Official Receiver a future strategy for the SLEMS	Transfer process for the CLE31 permit from Tata Steel has re-started. Application forms submitted to the EA. Action to be closed once confirmation received that application approved (update pending from action owner).
COMAH Audit Action 4.4		Aged action – due asap.	On hold	Audit arrangements for testing of the internal plan. Objective is to check incidents involving dangerous substances are adequately covered.	Action on hold as SMS documents are reviewed.
Effectiveness of Partnership Arrangements Action 1	30/06/2022	31/07/2022	In Progress	Management will ensure that specific reports are retained and readily available to support STDC to manage its key partners and ensure that performance is monitored by the Delivery Group and the Operational Groups	Governance regarding decisions made and how this information is shared with relevant committees is in discussion. A full review of information shared with AGC is in progress.

## Low Priority overdue actions

Audit	Original Delivery Date	Revised Delivery Date	Status	Action	Update
Scrap Audit Action 2	23/11/2021	31/07/2022	In Progress	The Delegations for Scrap document will be enhanced to include authority limits for the sale of scrap so that maximum value is achieved, subject to defined caveats such as value of sale, quantity of scrap being disposed etc. A framework for the reporting, to the TVCA Group Director of Finance and Resources, and authorisation of scrap and	Briefing note to be drafted and included in the framework.

				<p>other assets sold below the highest price offered will be devised, taking into account whether it is practical and desirable for this to be prior to the sale being agreed with the customer or afterwards as part of periodic reporting.</p>	
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## Audit Schedule

A number of audits have been rescheduled to accommodate staff at both STDC and RSM.

The audit schedule for 22/23:

Process/Procedure	Fieldwork start date
Logic Models	13/06/2022
Procurement to Pay process	08/08/2022
Scrap and disposal of assets	15/08/2022
GE Programme / SBQ	05/09/2022
COMAH declassification	17/10/2022
ARC effectiveness	21/11/2022
Follow up of previous audit actions	16/01/2023

## Automation

To support self service and accountability, the risk team are working with the TVCA business intelligence team to develop an automated platform to track audit actions and store evidence.

This will provide action owners and the Senior Leadership Team with real time reporting and the facility to review actions and progress at any point.

We are using lessons learned and best practice following the implementation of the TVCA Risk Management platform to ensure a smooth, successful roll out of the system and training.

## FINANCIAL IMPLICATIONS

4. There are no direct financial implications arising from this report.

## LEGAL IMPLICATIONS

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

## RISK ASSESSMENT

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

## CONSULTATION & COMMUNICATION

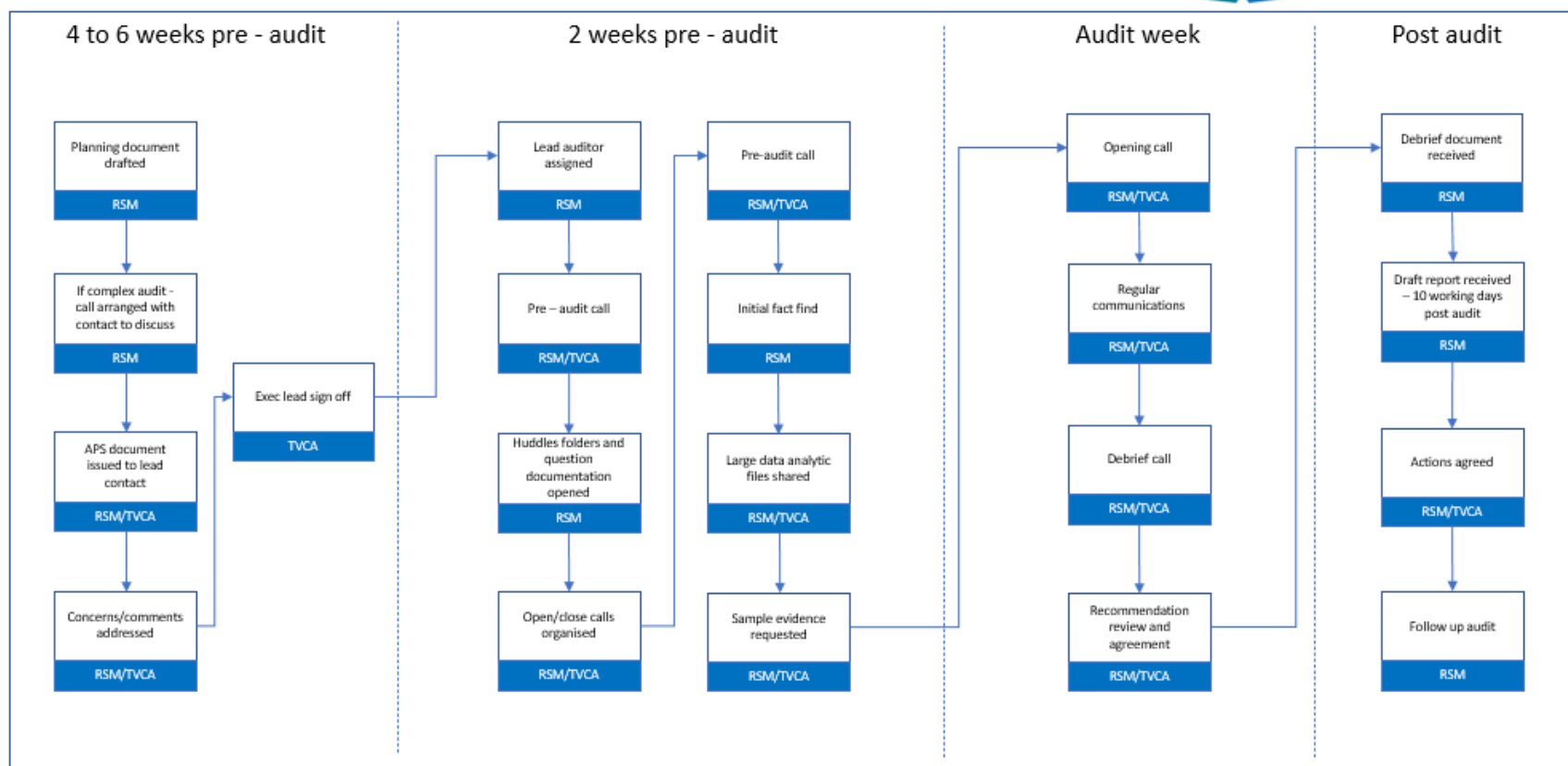
7. None required.

**EQUALITY & DIVERSITY**

8. No impacts.

**Name of Contact Officer: Gary Macdonald**  
**Post Title: Group Director of Finance and Resources**  
**Email: [gary.macdonald@teesvalley-ca.gov.uk](mailto:gary.macdonald@teesvalley-ca.gov.uk)**  
**Telephone Number: 01642 527707**

### Internal audit process



TEESWORKS

**South Tees Development Corporation - Audit & Risk Committee****Forward Programme****Standing Items**

Minutes from the Previous Meeting  
Group Chief Executive Update  
Risk Register  
Internal audit progress report  
Internal Audit Actions Update  
External audit progress report  
Forward Programme and Action register  
Date of the Next Meeting

<b>Audit &amp; Risk Committee</b>
<b>Proposed Items to be scheduled</b>
Draft Group Assurance Framework
Risk Management Framework Annual Review

**Contacts:**

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