



Item 5

Appendix 3

## **Tees Valley Combined Authority**

### **Annual Governance Statement 2022/2023**

#### **1. Introduction**

Good governance continues to be key to the delivery of our organisational objectives.

Last year saw an expansion in the Combined Authority Group Governance responsibilities as it commenced support of the Teesside Freeport Board and workstreams, Teesside International Airport and South Tees Development Corporation. This year will see a further expansion of governance responsibilities, as the Group governance function will support both the Middlesbrough Development Corporation and Hartlepool Development Corporation Boards, and their relevant Audit & Governance Committees.

The effective and transparent oversight of our growing responsibilities are reliant upon maintaining robust governance arrangements which ensure the effective delivery of our activities, good decision making, transparency and the active identification and management of risk.

Our ambition remains to make the Tees Valley the best place to live in the UK by driving rapid and sustainable economic growth, delivering better life chances and a better quality of living for our communities. But these are not the limits of our ambition or our responsibilities.

Our goal is that the Tees Valley Combined Authority Group continues to be perceived to be at the forefront of the devolution revolution and recognised by its peers as the exemplar region for delivery and innovation in local government and economic development.

As part of the first wave of Mayoral Combined Authorities we are aware that we have a responsibility to prove that the best answers for local people come from local people and that devolution is the most effective way of driving regional economic development and creating vibrant, inclusive and prosperous communities throughout the United Kingdom. We have seen recent additional recognition from Government, most notably in being named the UK's first and largest Freeport as well as being home to the new Northern Economic Campus for HM Government.

These public investments and accolades are driving private sector development too with SeAH having already commenced construction of its £450m monopile factory at former steelworks site in Redcar. Work is ongoing on other projects set to be based on the site, including the bp-led £1.5bn Net Zero Teesside project and Circular Fuels' £150million renewable energy plant. Elsewhere, the likes of BP, Sabic and Alfanar are set to make billion-pound investments in our region. All these things are only possible because Government, our constituent Authorities and wider stakeholders trust our governance, decision making and ability to deliver. Recent government decisions and the evolving Anything is possible



devolution agenda places further duties on us to ensure that our governance framework continues to be a model of best practice and has the flexibility to adapt to any new responsibilities and new challenges the coming period presents.

It is also our ambition that our Governance Framework continues to add genuine value to the decision and policymaking of the Combined Authority Group.

## 2. The Scope of Responsibility

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

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

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

This Annual Governance Statement details how we have complied with this framework and also 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 Strategic Economic Plan and Investment Plan, are:

- Driving **business growth** to increase job numbers and business density.
- Enhancing the **productivity** in key industrial sectors through the commercialisation of knowledge.
- Establishing a local labour market with the **skills** to meet local business needs.
- **Attracting and retaining innovative local, national and international businesses and individuals**, with an emphasis on vibrant town centres.
- **Changing perceptions** of the Tees Valley through its cultural and leisure offer, and making our area an attractive place to work, visit and live.

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- Facilitating local, regional, national and international **connectivity** through investment in road, rail, air and broadband infrastructure.

A 10-year Investment Plan was agreed in January 2019 setting out how we will allocate resources to deliver these objectives. This plan is reviewed annually at Cabinet level, most recently in July 2022.

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.

### **Risk Management Framework**

The Combined Authority 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 & Governance Committee.

## **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 Combined Authority employees and members is clearly laid out in the Authority's Constitution. This document – subject to annual review – explicitly documents how the Authority operates, responsibilities for specific functions, schemes of delegation and how decisions are made. A new Scheme of Delegation was introduced in the Autumn of 2020 to deliver greater transparency and efficiency of the Combined Authority's day-to-day decision-making process and the constitution, including constitutional delegations was reviewed and updated in the 2022 Municipal year.

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

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

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

The Combined Authority Constitution details a number of Statutory Committees.

- A statutory **Overview and Scrutiny Committee** of members appointed by each of the Constituent Authorities, reviews the policies and operations of the Combined Authority and ensures effective democratic scrutiny of decisions. With powers derived from legislation, this committee has the authority to 'call in' for review

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Authority decisions which have yet to be implemented and the power to prevent their implementation whilst under review. The committee has utilised this power on one occasion to date. The committee continues to conduct strong scrutiny of the Combined Authority's activities, including establishing a Task and Finish Group to conduct an in-depth investigation into the draft Combined Authority Budget for 2021/22, as part of the consultation process. The committee also receives reports detailing decisions taken under delegated powers for scrutiny and review.

- A statutory **Audit and Governance Committee**, assuring sound governance and financial management of the Combined Authority, with members appointed from each Constituent Authority working in tandem with appropriately qualified and experienced independent members. This committee oversees the operation of the Authority's risk management arrangements, considers and reviews its Internal Audit arrangements and reviews its Financial Statements.
- A statutory **Transport Committee**, reviewing transport strategy and policies and making recommendations to Cabinet. Members are drawn from the executive member with transport responsibilities from each Constituent Authorities and private sector representation.
- The statutory **Teesside Freeport Board** exists to review the Freeport Strategy, Freeport services operating within the Tees Valley and overseeing the Combined Authority's representation on external bodies with Freeport responsibilities. The Freeport Board also makes recommendations to Cabinet on Freeport strategy and policies to review Freeport services, ensure compliance with Freeport legislation and to co-ordinate the interests of landowners and other key stakeholders.
- The **Tees Valley Business Board (TVBB)** (formerly the Tees Valley Local Enterprise Partnership (TVLEP)). Following the Government's Levelling up White Paper, in October 2022 TVCA Cabinet approved the proposed 'LEP Integration Plan' which rebranded the TVLEP to the TVBB, and repositioned it within the Governance structure of the Tees Valley Combined Authority. The TVBB provides for a greater emphasis on private sector representation and strategic leadership. It includes provision for the development of current advisory groups and creation of new advisory groups to allow greater strategic leadership from the local private sector. The position of the TVBB is strengthened by its clear governance integration and strong partnership working – both evidenced by the LEP Chair holding the role of Associate Member of the Combined Authority Cabinet.

Although not Committees of the Combined Authority, the Group Governance structure also includes the following:

- **South Tees Development Corporation Board** is responsible for identifying any decision or issue which results or may result in a significant risk of a financial liability, a statutory liability or an environmental or criminal liability - a referral decision
- **Hartlepool Development Corporation Board** must not make any decision which imposes financial or other liability on the Tees Valley Combined Authority. The



Statutory Officers of the Hartlepool Development Corporation are required to advise the Corporation Board where a decision is likely to breach this restriction, and representations will be sought from the Tees Valley Combined Authority before any decision is made.

- **Middlesbrough Development Corporation Board** must not make any decision which imposes financial or other liability on the Tees Valley Combined Authority. The Statutory Officers of the Middlesbrough Development Corporation are required to advise the Corporation Board where a decision is likely to breach this restriction, and representations will be sought from the Tees Valley Combined Authority before any decision is made.

The work of these Committees and Boards and the wider Combined Authority is given strategic support and oversight by a series of non-statutory and advisory groups, made up of experts from the private, public and third sectors and designed to create channels of communication with stakeholders and to add value to the Combined Authority's wider community consultation and engagement efforts, including but not limited to the:

- Education, Employment and Skills Advisory Group – beneath which sit several specialised workstreams addressing specific areas of operation.
- Creative Place Advisory Group
- Transport Advisory Group
- UKSPF Local Partnership Group

### **Monitoring Officer**

We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Combined Authority has appointed a suitably qualified Group Chief Legal Officer, who is the Authority's Monitoring Officer. They have a protocol in place with all directors that clear systems are operating to ensure the legality of all Authority activities. All Cabinet reports are considered for legal issues before submission to members. The Group Chief Legal Officer, is also the Monitoring Officer for the South Tees, Hartlepool and Middlesbrough Development Corporations which ensures transparency on group legal, governance and probity matters

### **Internal Audit**

The Combined Authority'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 Authority's internal control systems and delivers an annual report on the quality of our processes.

### **External Audit**

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

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

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In accordance with the requirements of Section 73 of the 1985 Local Government Act, the Combined Authority has appointed a suitably qualified Chief Finance Officer - the Group Director of Finance and Resources. The Group Director of Finance and Resources also fulfils a similar role for the South Tees, Middlesbrough and Hartlepool Development Corporations, ensuring transparency on group finance and resources issues.

This Chief Finance Officer 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 Combined Authority'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).

### **Assurance Framework**

As part of the Devolution Deal signed with HM Government, a significant proportion of central government regional investment funding has been consolidated into a Single Pot, over which the Combined Authority has significant autonomy over allocation.

An Assurance Framework has been developed setting out how the Tees Valley will ensure accountable and transparent decision making with regards to this fund, appraise projects and monitor and evaluate schemes to achieve value for money and ensure that funds are spent lawfully.

The Assurance Framework is reviewed annually, most recently in July 2022.

### **Mayoral Development Corporations (MDCs)**

The Tees Valley Combined Authority has, through the powers granted to the Tees Valley Mayor pursuant to the provisions of the Localism Act 2011 created three Mayoral Development Corporations – the South Tees Development Corporation, the Middlesbrough Development Corporation and the Hartlepool Development Corporation. Each MDC has in place its own governance arrangements, constitution and relevant statutory committees. The

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Tees Valley Mayor is chair of each MDC Board and TVCA and the MDCs share a Chief Executive Officer, Director of Finance & Resources and Monitoring Officer.

#### South Tees Development Corporation

Although a separate statutory body, so far as it required, regular updates are provided to TVCA Cabinet, Tees Valley Business Board and Overview & Scrutiny Committee on the progress of STDC activities, and any significant decisions which are likely to impose any risk or obligation on TVCA are brought to the TVCA Cabinet for decision through a referral mechanism.

The TVCA Group Governance Team assumed responsibility for the management of STDC's group governance arrangements in the Autumn of 2019, in order to strengthen the integration of decision-making across different aspects of the Combined Authority Group and to strengthen the governance arrangements of the Development Corporation.

The South Tees Development Corporation currently operates the following, as required by statute: :

- 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 & Governance Committee** with oversight responsibilities in matters concerning risk, financial affairs and probity, overseeing STDC's internal audit and external audit arrangements.

The land at STDC (now operating under the brand name of **Teesworks**) was formerly managed by the South Tees Site Company Ltd (**STSC**), an interim government body established in December 2016 to ensure the safe, secure and cost-effective management of the former steelworks site. STSC was transitioned into the control of STDC in the autumn of 2020 and STDC and its subsidiaries continue to discharge STDC's responsibilities on the Teesworks site to achieve the public sector objectives.

STDC is a 10% shareholder in Teesworks Ltd which has the responsibility for developing and marketing the site to future tenants. The STDC Chief Executive Officer sits on the Board of Teesworks Ltd.

#### Middlesbrough and Hartlepool Development Corporations

Both Middlesbrough and Hartlepool Development Corporations are separate statutory bodies. Their individual Constitutions provide that neither can make a decision which will impose a financial or other liability on the Tees Valley Combined Authority. It is incumbent on the Statutory Officers of those Development Corporations to advise the Board where this may be likely as a result of a proposed decision and to prevent such a liability being imposed or where relevant, manage the decision appropriately through the Tees Valley Combined Authority Cabinet.

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Both the Middlesbrough and Hartlepool Development Corporations each operate a **Board**, the ultimate decision-making body of each of the Development Corporations with a constitutional responsibility to guide and oversee delivery of the key objectives of the Corporations.

As required by Statute, during the latter part of 2023, each Corporation will set up and recruit to an **Audit & Governance Committee** which will have oversight responsibilities in matters concerning risk, financial affairs and probity, overseeing the relevant Corporation's internal audit and external audit arrangements.

The TVCA Governance team assumed responsibility for both the Middlesbrough and Hartlepool Development Corporations on their inception in early 2023.

### **Goosepool 2019 Limited**

TVCA is a 75% shareholder in Goosepool 2019 Ltd which in turn owns 89% of the shares in Teesside International Airport.

Goosepool has its own Governance arrangements in place. Two senior officials of TVCA make up the board in addition to one official from its minority shareholder. The TVCA Governance team assumed responsibility for governance arrangements of the Goosepool Board in Spring 2020, in order to strengthen the integration of decision-making and governance across different aspects of the Combined Authority Group. The Governance team is also providing some oversight and support to the TIAL Board to ensure good governance, and company secretarial standards.

Regular updates on the progress against the Airport Business Plan are given to TVCA Cabinet and relevant committees.

### **Adult Education Budget Governance**

Responsibility for post-19 education funding was devolved to Tees Valley Combined Authority in August 2019. An appropriate governance framework was developed alongside this process to ensure effective and appropriate decision-making, oversight and value-for-money assurance and this process has been incorporated into the wider Combined Authority Assurance Framework.

### **Corporate Risk Register**

The Combined Authority operates a comprehensive and proactive Risk Management Framework outlining its approach to Risk Management. Central to this framework 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 regularly presented to the Senior Leadership Team and scrutinised on a quarterly basis by the TVCA Audit and Governance Committee.

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

All Combined Authority employees and members are subject to a formal Code of Conduct – forming part of the Authority’s Constitution - and must complete, at least annually, a formal Declaration of Interest.

- An annual review of members’ Declarations of Interest was completed in July 2021 and the 2022 review began in July 2022. The 2023 review has begun.
- An annual review of officers’ Declarations of Interest was completed in December 2020.

In the interests of transparency, the member declarations are reviewed by both the Chief Executive and Monitoring Officer and published on the Authority’s website. The Chief Executive’s Employee Declaration of Interest is also published on the Authority’s website.

## **Gifts and Hospitality**

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

## **Governance Arrangements**

A dedicated Governance team is in place to ensure that the Combined Authority Group 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, whistleblowing and Freedom of Information request handling.

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

The Combined Authority is subject to the Freedom of information Act 2000 and the Environmental Information Regulations 2004. The Group Governance team processes such requests. A full time Governance Officer is employed as a dedicated Freedom of Information Officer to handle all Freedom of Information requests across the TVCA Group. Over the last financial year, on behalf of the TVCA Group, the Combined Authority has seen a significant increase in the number of requests received. During the financial year 2021/2022, the Authority received 86 such requests for information. In the financial year 2022/23, 153 requests were received, with 22 of those seeking an internal review – 175 total requests over this period.

## **5. Review of Effectiveness**

The Combined Authority is responsible for conducting, at least annually, a review of the effectiveness of its governance arrangements. Any areas for review are overseen and co-Anything is possible



ordinated by the Group Chief Executive, Group Director of Finance & Resources and Monitoring Officer and any findings reported to the Audit and Governance Committee, as appropriate.

During 2022/23, the TVCA Audit and Governance Committee carried out a review of its own effectiveness, with the findings being incorporated into an Action Plan – progress toward which will be reviewed periodically by the Committee over the coming year.

### **Internal Audit**

A Draft Annual Internal Audit Report was received 18<sup>th</sup> May 2023 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 have not performed a specific review of the organisation’s governance arrangements during 2022/23 (a specific review of this area was carried out in 2019/20). However, we have performed the following reviews which have looked at differing aspects of the organisation’s governance arrangements:

- Transport Programme.
- Procurement To Pay Process.
- BoHo Project Governance.
- Freeport Programme.
- Grants Management.

*We concluded that, in respect of three of these reviews (Transport Programme, Freeport Programme and Grants Management), the Cabinet can take substantial assurance (positive) on these areas.*

*In respect of the Procurement To Pay Process review, the Cabinet can take reasonable assurance (positive) on this area.*

*However, in respect of the BoHo Project Governance review, we were only able to conclude that the Cabinet can take partial assurance (negative) on this area. We agreed a total of six medium priority and eight low priority management actions across these five reviews.*

*We found that controls and processes in respect of the four reviews with a positive opinion were robust, with the actions agreed being primarily focused on clarifying or enhancing those controls. In respect of the BoHo Project Governance review, we found that, whilst the organisation did have in place a control framework, it was not operating effectively in practice and a number of areas were found where the control framework could be improved.*

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## **Risk**

*At the request of management, we have performed a specific review of the organisation's risk management arrangements during 2022/23 (a specific review of this area was previously carried out in 2019/20). This review replaced the following reviews in the annual plan:*

- Key Financial Controls: Payroll.*
- Net Zero Teesside.*

*We concluded that the Cabinet can take reasonable assurance (positive) on this area and a total of one medium priority and four low priority management actions were agreed as a result of this review.*

*We have also attended all Audit and Governance Committee meetings throughout the year and confirmed the Group's risk management arrangements continued to operate 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 seven audits (including the Risk Management review mentioned above) of the control environment that resulted in formal assurance opinions.*

*These seven reviews concluded that three substantial (positive), three reasonable (positive) and one partial (negative) assurance outcome could be taken by the Cabinet.*

*We identified the organisation had established control frameworks in place for a number of the audits undertaken, however improvements in their application were required in a number of areas.*

*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 22/23 which concluded:

| Assignment  | Assurance level   | Actions agreed        |          |          |
|---|---|-----------------------|----------|----------|
|   |   | L                     | M        | H        |
| Business Continuity Planning                            | Advisory review   | 5                     | 6        | 0        |
| Transport Programme                                     |    | 1                     | 0        | 0        |
| Procurement To Pay Process                              |    | 2                     | 1        | 0        |
| BoHo Project Governance                                 |    | 3                     | 5        | 0        |
| Freeport Programme                                      |    | 0                     | 0        | 0        |
| Management Information                                  | Advisory review   | 0                     | 9        | 0        |
| <b>Assignment</b>                                       | <b>Assurance level</b>  | <b>Actions agreed</b> |          |          |
|   |   | <b>L</b>              | <b>M</b> | <b>H</b> |
| HR: Resourcing  |    | 1                     | 1        | 0        |
| Grants Management                                       |  | 2                     | 0        | 0        |
| Follow Up of Previous Internal Audit Management Actions | Good progress   | 0                     | 0        | 0        |
| Risk Management   |  | 4                     | 1        | 0        |

## External Audit

Our most recent auditor's report, issued on September 28<sup>th</sup> 2022, concluded that:

In our opinion, the financial statements:

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

VFM conclusions are no longer issued, instead VFM commentary is issued as part of the Auditor's Annual Report. Mazars issued their Auditor's Annual Report in October 2022 and concluded the following in relation to value for money:

***'Our work did not identify any evidence to indicate a significant weakness in the Corporation's arrangements in relation to the improving economy, efficiency and effectiveness reporting criteria.'***

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We expect to receive our 2021/22 auditor's report in September 2023, we expect the conclusion to be in line with the 2020/21 report.

## **6. Conclusion**

It is our conclusion – validated by external opinion – that the Combined Authority Group operates suitable, effective and robust governance framework which supports the achievement of its policies, aims and objectives and meets all statutory requirements.

### **Ben Houchen**

Mayor of the Tees Valley

### **Julie Gilhespie**

Group Chief Executive,  
Tees Valley Combined  
Authority

### **Siobhan McArdle**

Chair of the Tees Valley  
Business Board and  
Associate Member of the  
Tees Valley Combined  
Authority Cabinet