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**Tees Valley Combined Authority  
Audit and Governance Committee**

**Date:** 6 March 2024 at 13:00

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

**Membership:**

Councillor Mandy Porter (Chair)	Darlington Borough Council
Councillor Nicky Walker	Middlesbrough Council
Councillor Curt Pugh	Redcar and Cleveland Borough Council
Councillor Rachael Creevy	Hartlepool Borough Council
Councillor David Reynard	Stockton Borough Council
Angus Kidd	Independent Member
Jonny Munby	Independent Member
Iain Robson	Independent Member
Andrew Evans	Independent Member
Lee Webb	Independent Member

**AGENDA**

**1. Apologies for Absence**

To receive any apologies for absence.

**2. Declarations of Interest**

To receive any declarations of interest.

**3. Minutes of Previous Meeting and Action Tracker**

To approve as a correct record the minutes of the meeting held on 17 January 2024.

The Committee is also invited to review progress made against previously identified actions.

**4. Independent Review Report Progress Update**

To receive and consider a report from the Group Director of Finance and Resources presenting an update and next steps on the Tees Valley Review: South Tees Development Corporation and Teesworks Joint Venture.

**5. Transport Team Update to Members**

To receive a report from the Director of Infrastructure setting out the proposed transport programme to be delivered with the second round of City Region Sustainable Transport Settlement (CRSTS2).

## **6. Internal Audit Report**

To receive an update report from Natalie Robinson, Head of Performance, Risk and Assurance presenting an update on internal audit actions.

## **7. Summary Internal Controls Assurance Update and Internal Audit Reports**

To receive an update from Andrew McCulloch, Director of Audit and TIAA, on the emerging Governance, Risk and Internal Control related issues and progress of work as at 20 February 2024.

## **8. External Audit Actions Update**

To receive a verbal update from a representative of Mazars, TVCA Independent Auditors. The Committee is to be provided with a briefing on the status of the TVCA audits and an update on the launch of a consultation exercise on 8 February 2024 in relation to measures being undertaken to clear the local audit backlog in England.

## **9. External Audit Report**

To receive a verbal update from a representative of Mazars, TVCA Independent External Auditors. Mazars to update on timescales for the finalisation of the financial statements opinion for 2021/22 and 2022/23 and the VFM commentary for 2021/22 and 2022/23.

## **10. Forward Plan**

To receive and consider the Committee's forward programme up to June 2024.

## **BREAK (10 Minutes)**

## **11. Review of Complaints Policy and Whistleblowing Policy**

To receive and review the TVCA Complaint Policy and Whistleblowing Policy.

## **12. Final update on Effectiveness Review and Implementation of Action Plan and Next Steps**

To receive and consider a report from the Interim Group Chief Legal Officer (Monitoring Officer) presenting a final update in respect of the Effectiveness Review 2022.

*(This report is exempt from publication under the terms of paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12a to the Local Government Act 1972)*

## **13. Risk Management Update**

To receive and consider a report from the Head of Performance, Risk and Assurance presenting the TVCA's Risk Portfolio as of February 2024.



*(This report is exempt from publication under the terms of paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12a to the Local Government Act 1972)*

**For Information Items:**

**14. Group Update**

To receive **for information only** a report from the TVCA Chief Executive providing an update on key matters in relation TVCA since the last Committee meeting.

**15. Governance Structure**

To receive **for information only**.

**16. Summarised Terms of Reference**

To receive **for information only**.

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

Tuesday, 26 March 2024 at 10:30 (Provisional)

## Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the [Combined Authority's Constitution](#) under the "Code of Conduct for Members" (Appendix 8).

### Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority 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 Combined Authority 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 Combined Authority;
    - 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. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict

Anything is possible

of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering 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 Combined Authority. 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.
7. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority'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**

8. The Combined Authority will include a standing item at the start of each 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.
9. 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.
10. 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**

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



**TVCA Audit & Governance Committee**  
**TVCA Offices, Teesside Airport Business Suite, Teesside International Airport,**  
**Darlington DL2 1NJ**  
**17 January 2024 at 14:00**

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

<b><u>Attendees</u></b>
<b>Members</b>
Cllr Mandy Porter (Darlington Borough Council) - Chair
Cllr Curt Pugh (Redcar & Cleveland Borough Council)
Cllr David Reynard (Stockton Council)
Cllr Rachel Creevy (Hartlepool Borough Council)
Jonny Munby (Independent Member)
Iain Robson (Independent Member)
Lee Webb (Independent Member)
Angus Kidd (Independent Member)
<b>Apologies for Absence</b>
Cllr Nicky Walker (Middlesbrough Council)
Andrew Evans (Independent Member)
Claire Mellons (Ernst Young LLP)
Cameron Waddell (Mazars) – External Auditors
Emma Simson (TVCA – Acting Chief Legal Officer (Monitoring Officer))
Guy Close (TVCA – Governance & Scrutiny Manager)
<b>Officers</b>
Gary Macdonald (TVCA - Group Director of Finance & Resources)
Natalie Robinson (TVCA – Head of Risk, Performance & Assurance)
Victoria Smith (TVCA - Group Financial Controller)
Elaine Braham (TVCA – Governance Officer)
<b>Auditors</b>
Cath Andrew (Mazars) – External Auditors (via Teams)
Andrew McCulloch (TIAA) – Internal Auditors





<p>AGC 001/24</p>	<p><b>WELCOME &amp; APOLOGIES FOR ABSENCE</b></p> <p>Members were welcomed to the meeting with apologies submitted as noted above.</p>
<p>AGC 002/24</p>	<p><b>DECLARATION OF INTERESTS</b></p> <p>No declarations of interest were raised.</p>
<p>AGC 003/24</p>	<p><b>MINUTES OF PREVIOUS MEETING AND ACTION TRACKER</b></p> <p>The minutes of the meeting held on 23 November 2023 were agreed as a true and accurate record, and the following updates to the action tracker were provided:</p> <ul style="list-style-type: none"> <li>• Cllr Creevy (RC), Elected Member for Hartlepool asked for an update in respect of the Internal Review. Gary Macdonald (GM), Group Director of Finance &amp; Resources, reported that all TVCA tasks had been completed and TVCA are awaiting the final report.</li> <li>• Cllr Porter (MP), Elected Member for Darlington, asked if TVCA had had sight of the draft report from Government. GM advised that TVCA had fact checked content but had not had sight of the final report. RC asked if TVCA had had sight of the outcomes. GM advised that changes can be made following the fact checking exercise and therefore TVCA are awaiting the final report.</li> <li>• Cllr Pugh (CP), Elected Member for Redcar &amp; Cleveland, asked if TVCA had any hint of when it might be received. Victoria Smith (VS), Group Financial Controller, stated that it wouldn't be appropriate to put a date on an external independent review process.</li> <li>• Jonathan Mumby (JM), Independent Member, asked if it were still a case that any delay could affect the audit process. Cath Andrew (CA), Mazars stated that Mazars cannot say how much work will be involved until they see the report. Natalie Robinson (NR), Head of Risk, Performance &amp; Assurance advised that it will be the same for internal audit.</li> </ul> <p><b>Action Tracker Update</b></p> <ul style="list-style-type: none"> <li>• GM reported that officers will continue to work with internal and external auditors in relation to any outcomes from the review.</li> <li>• One members professional details/experience remains outstanding this is being followed.</li> <li>• Members inductions have been completed; GM advised that any feedback in respect of the content of these would be helpful.</li> <li>• Draft Terms of Reference, comments to be returned to NR, with the intention of finalising the paper at the meeting on 6 March 2024.</li> <li>• NR provided the following guidance in respect how far in advance of a meeting a question should be posed by a member. All questions should be</li> </ul>



	<p>raised with the Chair whose role it is, if they feel it is appropriate, to discuss the question with the relevant officers at TVCA re the potential of adding to the forthcoming agenda. Questions should be posed two weeks in advance of the meeting thus allowing ample time to meet statutory publication dates. This guidance is to be added to the Terms of Reference.</p> <p>CLlr Porter advised members that questions had been received from a member of the public requesting that they be addressed at the Committee meeting. After careful consideration it was concluded that they were not appropriate for this committee and did not relate to its remit or the agenda. The member of the public had been advised that they could, if they so choose, redirect their questions to the next available STDC Audit &amp; Governance Committee, but should relate to those items on the agenda or submit a Freedom of Information request.</p>
<p><b>AGC 004/24</b></p>	<p><b>INTERNAL AUDIT ACTIONS UPDATE</b></p> <p>Committee members had received an update report detailing the position of the current internal audit action plan progress as of December 2023.</p> <p>It was recommended that the Audit and Governance Committee:</p> <ul style="list-style-type: none"> <li>i. Consider the analysis and audit progress set out in this paper;</li> <li>ii. Acknowledge the annual audit schedule.</li> </ul> <p>NR noted the detailed update on page 20 of the report pack, highlighting that there are currently no high-level actions. GM advised members that TVCA tracks all actions regardless of whether they are high-level.</p> <p>Committee Members were invited to ask questions, and these are summarised as follows:</p> <p>Lee Webb (LW), Independent Member, asked if item 8, Boho Report had been discussed. It was confirmed that members had received a verbal update in respect of this and that lessons learnt from the audit had been embedded in to TVCA processes, e.g., performance monitoring in terms of escalation.</p> <p>Angus Kidd (AK), Independent Member asked how long actions are normally open, NR advised that they are on a rolling basis with TVCA endeavouring to have realistic deadlines.</p> <p>MP asked about the ongoing actions pertaining to Covid 19 Response 21/22 and Partnership Arrangements 21/22, and whether these are coming to an end. NR confirmed that they are. MP felt it would be beneficial to understand why these actions had taken so long. It was agreed to add a date column to the table.</p> <p>AK noted the 73 actions detailed in the report and asked how many owners there are of those actions. NR explained that each action will have a high-level</p>



	<p>management owner, who might then delegate that task to someone within their team. AK queried whether if half the actions are assigned to one group should the committee not then be looking at that group. It was agreed that a summary of owners would be included.</p> <p>MP asked how they determine whether a risk is high-level. NR explained that the rating is determined by the auditors. GM advised that TVCA prioritise high risks aiming to address them timely and effectively.</p> <p>MP asked how members would know if a medium level risk had escalated to become a high-level risk because it had not been dealt with timely. Report to be amended to address this.</p> <p><b>RESOLVED THAT:</b> Committee members considered the analysis and audit progress set out in the paper and acknowledged the annual audit schedule.</p>
<p>AGC 005/24</p>	<p><b>SUMMARY INTERNAL CONTROLS ASSURANCE UPDATE</b></p> <p>Committee Members had received a Summary Internal Controls Assurance (SICA) Report 2023/24, January 2024.</p> <p>Andrew McCulloch (AM), TIAA, highlighted section 2 of their report relating to the increase of opportunistic fraud against organisations, explaining that a level of fraud prevention is considered in the audits they undertake.</p> <p>He advised that the Governance Strategic Control Audit scheduled to commence on 16 January 2024 had been placed on hold pending completion of the independent review, to negate doing something that does not add value. It is now scheduled to commence in March 2024, and will:</p> <ul style="list-style-type: none"> <li>• review risks management have closed and seek evidence to support this;</li> <li>• consider progress against outstanding risks, identifying any ongoing actions being taken against these; and</li> <li>• look at risk levels and give a clear picture of where management is at.</li> </ul> <p>Agreement of the 24/25 Annual Plan will not be finalised until after publication of the Independent Review. If, however this has not been published by March 2024 then the strategic plan from last year will be used and kept fluid to ensure it incorporates the review.</p> <p>Committee Members were invited to ask questions, and these are summarised as follows:</p> <p>Iain Robinson (IR), Independent Member asked how fraud prevention training would be delivered. AM advised that this can be done in several ways, either in person, webinar or teams. AM to pass details to management and GM will liaise with him outside of the meeting to progress this.</p>



	<p>NR reported that she receives the links to the webinars and will share these with members going forward.</p> <p>It was agreed that training would be available across the group and completion would be documented.</p> <p>In light of the audits being placed on hold MP asked if TIAA had enough work to be progressing until the Independent Review is received and AM confirmed that they had.</p> <p><b>RESOLVED THAT:</b> Committee Members noted the Report.</p>
<p>AGC 006/24</p>	<p><b>EXTERNAL AUDIT ACTIONS UPDATE</b></p> <p>Committee Members received a verbal update from Victoria Smith and Cath Andrew.</p> <p>VS reported that the detailed testing for 21/22 had been completed. CA reported that the assurances from the Teesside Pension Fund auditor had now been received and the only item that remains outstanding is the Independent Review report. If this is received timely the aim is to conclude 21/22 and 22/23 accounts by the end of March.</p> <p>GM asked if anything further was known about the proposed backstop position. CA advised that nothing further has been made public, but should they receive the outstanding information they should be in a position to complete the 2 years audits and the backstop process would then not affect TVCA.</p> <p>MP asked if the backstop position would be guidance and if so, could we conclude anyway. VS stated that a decision had yet to be made in respect of this, however this would likely not alleviate the bottleneck problem. GM noted that if we finalised by the end of March, it would negate the situation.</p> <p>VS reported that Teesside International Airport (TIA) had received a clean audit opinion, concluding a strong control environment. MP asked if this was something that could have been reported to the Committee sooner, providing oversight of the report. VS noted that Mazars had fed back to the Committee prior to sign off, the accounts are in the public domain, however the highlights memorandum is commercially sensitive and could not be shared. RC asked if this could be considered under closed session. GM explained that TIA have their own structure for dealing with these things, however Azets could be asked to provide an assurance in the public session on the highlights memorandum.</p> <p>CP asked if there is a threshold after which something should be brought to this Committee. GM noted that the remit of the Committee is to consider governance, risk and assurance items, and TIA and Goosepool accounts are</p>



	<p>consolidated in to the TVCA accounts. MP felt for transparency it would be good to have oversight at this Committee.</p> <p><b>RESOLVED THAT:</b> Committee Members noted the update.</p>
AGC 007/24	<p><b>FORWARD PLAN</b></p> <p>MP noted that a recent O&amp;S meeting was not quorate and asked what the process would be if this committee were not quorate. GM advised that the committee would be unable to make any decisions or recommendations, however if all of the documents were 'to note' only then the meeting could if members agreed go ahead but they would not be able to agree or sign off items and it would not constitute a formal meeting. If there were documents requiring sign off, then TVCA would look to arrange another meeting. Members asked that reports clearly identify where decisions are required. It was agreed that this would be done using a bold font, NR to add guidance to the Terms to Reference.</p> <p>JM asked when committee members could expect to see the final accounts. GM advised that the 2021/22 accounts are dependent upon receipt of the Independent Review report, and the next available meeting to consider this would be on the 6 March 2024. It was also hoped that the 22/23 accounts could also be shared at this meeting, however if this is not possible then a further meeting would be convened towards the end of March to sign these off.</p> <p>Governance to liaise with members to secure a provisional date for this meeting. It was noted that this would be during the purdah period, GM to review guidance to ascertain if a decision can be agreed during this period.</p> <p><b>RESOLVED THAT:</b> The Forward Plan was noted.</p>
008/24	<p><b>EFFECTIVENESS</b></p> <p>Confirmation of content for one member's professional details/experiences is outstanding, once received these will be circulated to members.</p> <p>A full update will be brought to a later committee.</p>
<p><b><i>A MOTION WAS PROPOSED AND AGREED TO EXCLUDE THE PRESS &amp; PUBLIC FROM THE FOLLOWING CONFIDENTIAL ITEMS UNDER THE TERMS OF PARAGRAPH 3 OF SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972</i></b></p>	
AGC 009/24	<p><b>REVIEW OF RISK MANAGEMENT POLICY &amp; FRAMEWORK</b></p> <p>Committee Members received a copy of the Risk Management Framework Ref: TVCA-RMF-001.</p>



	<p><b>RESOLVED THAT:</b> Committee Members noted the report.</p>
<p><b>AGC 010/24</b></p>	<p><b>RISK MANAGEMENT REPORT</b></p> <p>The report provided Committee Members with an overview of Risk Management Activity since the last meeting.</p> <p><b>RESOLVED THAT:</b> Committee Members noted the risk analysis as set out in the risk report.</p>
<p><b>AGC 011/24</b></p>	<p><b>GROUP UPDATE</b></p> <p>This item was provided as a for information item.</p> <p><b>RESOLVED THAT:</b> Committee members noted the update.</p>
<p><b>AGC 012/24</b></p>	<p><b>GOVERNANCE STRUCTURE</b></p> <p>Committee Members had received a copy of the updated Governance Structure</p> <p>This item was provided as a for information item.</p> <p><b>RESOLVED THAT:</b> Committee members noted the update.</p>
<p><b>AGC 013/24</b></p>	<p><b>SUMMARISED TERMS OF REFERENCE</b></p> <p>This item was provided as a for information item.</p>
<p><b>AGC 014/24</b></p>	<p><b>DATE OF NEXT MEETING</b></p> <p>6 March 2024, 13:00 at TVCA Offices.</p>

Meeting	Item	Action	Owner	Target Date	Update
9 February 2023	Forward Plan	Final Accounts may require an additional meeting - TBC	TVCA	TBC	Provisionally 26/3/24 - Date held
	Committee Effectiveness Results & Analysis	Provide brief summary of Member' professional details/experience	TVCA	October 2023	Complete
23 November 2023	Terms of Reference Annual Review	Terms of Reference to be recirculated to members with comments to be provided to NR.	A&G Members	Ongoing	Responses requested by
	Internal Controls Assurance Update	2024/2025 planning document to be shared with members in advance of the meeting on 17 January 2024.	AM		
		Clarity to be provided to Committee Members in respect of how far in advance of a meeting they should pose a question they would like an answer to.	TVCA - NR		Clarity provided 17/1/24. Agreed addition of guidance to the ToR
	Progress of Committee Effectiveness Plan	GM to provide members with a brief in respect of Combined Authority Accounts prior to the meeting on the 17 January 2024.	TVCA - GM		
17 January 2024	Internal Audit Action Update	Date column to be added to the Action Portfolio table.	TVCA - NR	Complete	

Meeting	Item	Action	Owner	Target Date	Update
		A table providing a summary of action owners to be added to the report going forward.	TVCA - NR	Complete	
		Report to identify escalation of risk level due to none timely progression of actions.	TVCA - NR	Complete	
	Summary Internal Controls Assurance	GM to liaise with AM at TIAA re Faud Prevention training.	TVCA - GM		
		NR to share links to webinars with members.	TVCA - NR		
		Completion of training to be documented.	TVCA		
	Forward Plan	Recommendations requiring a decision to be clearly identified on reports using a bold font.	TVCA		
		Governance to identify a date during the last week of March for the committee to meet.	TVCA - Governance		Provisionally 26/3/24 - Date held
		GM to review guidance to ascertain if a decision in relation to the sign off of the accounts can be taken during purdah.	TVCA - GM		
	Risk Management Report	Risk of reputational damage to be added to the risk management report	TVCA - NR	Complete	
		A&G committee to draft a letter to the chair of the Independent Review Panel to request an update on timings.	Chair of A&G - MP	Report released no longer required	
		Dates and action plans to be added to future reports	TVCA - NR	Complete	
	Group Update	Transport Team to be asked to give a presentation at the meeting on 6 March 2024 in relation to the proposals for the spending of the 1 billion pounds from Government for transport projects.		Complete	



Meeting	Item	Action	Owner	Target Date	Update
		Skills Team to be asked to give a presentation at a forthcoming committee meeting.			Confirmed for June 2024
		GM to liaise with TVCA CEO re RC's concerns pertaining to HDC A&G and the offer from HBC A&G to act on their behalf.			

**Note**

Actions pre 2022/23 have been archived and all actions were completed.

Rolling Actions and those completed actions have been archived.

**Key**

- High Priority Action
- Medium Priority Action
- Low Priority Action
- Complete

REPORT TO THE TEES VALLEY COMBINED AUTHORITY  
AUDIT & GOVERNANCE COMMITTEE

6 MARCH 2024

REPORT OF THE GROUP DIRECTOR OF  
FINANCE AND RESOURCES

## INDEPENDENT REVIEW REPORT – TEESWORKS

### SUMMARY

The purpose of this report is to provide Members with an update on the Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture (Teesworks Limited).

The Tees Valley Review was commissioned by the Secretary of State for the Department for Levelling up Housing and Communities on 7 June 2023 and the Terms of Reference are attached at **Appendix 1**. The Tees Valley Review report on conclusion of the review is provided at **Appendix 2**. A letter from the Secretary of State to the Tees Valley Mayor requesting a response to the report recommendations is also provided at **Appendix 3**.

### RECOMMENDATIONS

It is recommended that Audit and Governance Committee: -

1. Notes this report and notes the work TVCA is coordinating to respond to the Secretary of State and the timescales within which TVCA is working;
2. Notes the recommendations for His Majesty's Government within the report;
3. Notes the TVCA Audit and Governance Committee role in considering the Tees Valley Review report and providing its feedback in respect of the same, as detailed in paragraph 7 of this Report; and
4. Approves the proposed process to respond to the recommendations from the Tees Valley Review report, detailed in Paragraphs 5 and 6 of this Report, including the submission of recommended actions to Tees Valley Combined Authority (TVCA) Cabinet AGM in 2024.

### DETAIL

#### BACKGROUND

1. On 24 May 2023, the Secretary of State for Levelling Up, Housing and Communities wrote to Ben Houchen, Tees Valley Mayor, to:

*"...confirm that he had taken the exceptional decision to support the commissioning of an independent review of the South Tees Development Corporation (STDC) and Teesworks Joint Venture. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks and a letter from Mayor Houchen to the Secretary of State on 16 May seeking an independent review of the matter by a 'relevant body'."*

2. The Secretary of State set out the scope for the review in the Terms of Reference (**Appendix 1**). A Review Panel was convened consisting of experienced public sector officials:

- Angie Ridgwell, Chief Executive at Lancashire County Council
- Richard Paver, Former Treasurer, Greater Manchester Combined Authority
- Quentin Baker, Director of Law and Governance at Hertfordshire County Council.

3. The Tees Valley Review panel has now concluded its work and has reported its findings to the Secretary of State on 29 January 2024. A full copy of the review and associated recommendations is attached at **Appendix 2**.

4. The Secretary of State has also written to the Tees Valley Mayor (**Appendix 3**) requesting a response to the report and the recommendations:

*"...I ask that you now engage with the panel's recommendations, working with the Combined Authority and partners as appropriate, and provide me with an initial report by 8 March on how you intend to respond to the Panel's recommendations..."*

5. TVCA has set out a plan for responding to the Secretary of State, to detail its proposed response to the Tees Valley Review panel's recommendations. This incorporates extensive work with local authority representatives. The key stages are set out below:

- Establish a cross-authority working group, including representation from all five constituent authorities (Chief Executives, Monitoring Officers and a S151 Officer) to consider and approve the response to report recommendations.
- Appoint a STDC Board sponsor for the working group
- Provide a formal response to Secretary of State letter by 8 March 2024 to confirm the initial approach to recommendations
- Undertake a comprehensive review of the recommendations
- Submit recommended actions to TVCA Cabinet Annual General Meeting (AGM) 2024
- Submit recommended actions to STDC and TVCA A&G committees as well as TVCA Overview and Scrutiny committee for consideration.

6. On 12 February 2024, the STDC Audit and Governance Committee received an update following the publication on 29 January 2024, of the Tees Valley Review into the Teesworks Joint Venture. The Committee feedback has been summarised below:

- Noted the proposed approach as set out in paragraph 5 above

- Noted and agreed on the requirement for recommended actions to be submitted to Audit and Governance Committee
- Agreed that Audit and Governance Committee would play its role in the review of proposed actions and seeking assurance that key actions have been implemented

7. The TVCA Audit and Governance Committee Terms of Reference encompass: -

*“..To review:*

- *The Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.*
- *the Annual Governance Statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances.*
- *the assessment of fraud risks and potential harm to the Authority from fraud/corruption and to monitor counter-fraud strategy, actions and resources.*

*To consider:*

- *the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.*
- *the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.*
- *To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions..”*

The findings of the Independent Review Panel makes clear that the panel found no evidence of corruption or illegality.

The response to the Secretary of State letter will provide the approach TVCA have agreed with the Cross-Authority Working Group to the Review recommendations that will include the areas within the TVCA AGC Terms of Reference set out above as applicable.

The follow up work that TVCA will undertake to the Recommendations includes working with External Auditors to enable them to conclude on their Value for Money work. The outcome of the Cross Authority Working Group activity will be reported to the TVCA Annual General Meeting (AGM).

8. The Cross Authority Working Group, which membership includes Statutory Officers from all 5 Constituent Authorities has now been established and met for the first time on 13 February 2024.
9. At its meeting on 13 February 2024, the Cross Authority Working Group:
  - Discussed Terms of Reference and agreed that they would be taken to the next Tees Valley Chief Executive's meeting for agreement.

- Agreed an approach to each of the recommendations, and where within the group's membership responsibility lies for addressing them to bring back to the group's next meeting.
  - Noted that some of the recommendations were directly for government.
10. It should be noted that some of the recommendations in the Tees Valley Review report have identified potential deficiencies in legislation which requires clarification from HM Government. It is therefore proposed that these recommendations fall outside of the remit of the working group referred to in paragraph 7 above.
11. The Tees Valley Review report is publicly available and is also currently being reviewed by External Auditors to inform their Audit Completion work for the 2021-22 financial year.

## FINANCIAL IMPLICATIONS

12. There are no financial implications associated with the recommendations set out in this report.

## LEGAL IMPLICATIONS

13. There are no legal implications associated with the recommendations set out in this report however there is an imperative from a legal and governance perspective to ensure that the recommendations are considered very carefully, and appropriate action is taken in respect of them.

## RISK ASSESSMENT

14. A risk assessment of the recommendations contained within the Tees Valley Review Report will be formulated alongside the development of any responses to the report.

## CONSULTATION

15. The Tees Valley Review Terms of Reference and Report are all published on the Governments website and copies of the report are available to all local stakeholders. The content of the report will be discussed with Local Authority representatives as part of the normal TVCA processes.

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

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> [Independent review: Teesworks Joint Venture - reviewer appointment letters and terms of reference](#)

[Department for  
Levelling Up,  
Housing &  
Communities](#)

Correspondence

# Terms of reference

Published 7 June 2023

**Applies to England**



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## **Terms of reference: Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture**

On 24 May 2023, the Secretary of State for Levelling Up, Housing and Communities wrote to Ben Houchen, Tees Valley Mayor, to confirm that he had taken the exceptional decision to support the commissioning of an independent review of the South Tees Development Corporation (STDC) and Teesworks Joint Venture. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks and a letter from Mayor Houchen to the Secretary of State on 16 May seeking an independent review of the matter by a 'relevant body', reflecting the Mayor's concern that continued allegations would undermine confidence in the site.

The department has seen no evidence of corruption, wrongdoing, or illegality, but recognises that the continued allegations pose a risk to the government's and the combined authority's shared ambitions to deliver jobs and economic growth in Teesside. The review will include consideration of these specific allegations made in relation to the Joint Venture, and ascertaining the facts is the primary basis for the Secretary of State seeking this independent review.

As part of that process, the review will focus on the following themes, reflecting the government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency and effectiveness:

- Governance - e.g. sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement.
- Finance - e.g. quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.

In view of the serious allegations of corruption, wrongdoing and illegality that have been made in relation to the Teesworks Joint Venture, the government has asked the review to specifically to respond on that issue. The following specific questions/issues have been identified for the review to explore:

1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.
2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of the STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between the STDC and its partners).



3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture.

4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.

5. An assessment of the level of confidence by which the government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence-based and taken appropriate consideration of value for money.

6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:

- The sale of the site now occupied by SeAH Wind.
- The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private.
- The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly-owned land or assets.
- The sale of land at the site to private sector partners.
- Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site.
- The evidence of investment from private sector partners in the context of significant public investment in remediation of the site.
- The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with and reporting to His Majesty's Government (HMG).

7. An assessment of the effectiveness of arrangements for external scrutiny of the STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from that process.

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# Tees Valley Review

23<sup>rd</sup> January 2024

Panel Members: Angie Ridgwell (Chair)  
Quentin Baker  
Richard Paver

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# 1. Executive Summary

- 1.1. Teesworks is the local brand that represents the project to remediate and redevelop the former Redcar steelworks following the liquidation of the then steelworks owner SSI (Sahaviriya Steel Industries UK Ltd) in 2015. The Tees Valley Combined Authority (TVCA) requested that the Secretary of State create the South Tees Development Corporation (STDC) for the purposes of managing and keeping safe the site and, if possible, its redevelopment. This was granted on 1<sup>st</sup> August 2017.
- 1.2. Teesworks is one of, if not the largest, brownfield remediation projects in Europe. To date £560m of resources, including £246m in government grants and £257m prudential borrowing. This is planned for investment in the site by end of 2024/25 and has delivered<sup>1</sup>:
  - 17% of the land under contract with a further 40% at Heads of Terms
  - 940 construction jobs plus a further 1,950 recently announced
  - 2,295 direct and 3,890 indirect jobs created once sites operational
  - 450 acres of land remediated or in remediation
  - £1.3bn business rate income potential over the next 40 years with a further £1.4bn at Heads of Terms
  - A new 450m Quay

A further £238m investment including £40m for Net Zero Teeside, is potentially to be incurred by STDC utilising prudential borrowing. Prudential borrowings are due to be repaid over the next 50 years from a combination of retained business rates, Teesworks Limited (TWL) profits from operating the Quay, and contractual commitments from TWL.

- 1.3. Delivery has been supported by a Joint Venture Company, Teesworks Limited (TWL), between STDC and two local businessmen: Chris Musgrave and Martin Corney.
- 1.4. There are many voices which articulate a positive view of the project, highlighting the work that has been done and the clear evidence of the achievements which have been made in regenerating an historic part of the UK's industrial heritage, the final demise of which, in 2015/16 had devastating results for a community that had been badly affected by the changing global patterns of industrial production. A significant amount of regeneration of the area has occurred and new businesses are moving in bringing jobs and other collateral benefits for the local area.
- 1.5. Consequently, there is good support for the redevelopment of the site. However, there has also been growing concern about the operations and delivery of the Teesworks project with allegations of corruption, wrongdoing, and illegality, which is impacting confidence in the project and putting future private sector investment at risk.
- 1.6. The Secretary of State of the Department for Levelling Up, Homes and Communities (DLUHC) commissioned a review into these allegations. The terms of reference for the review are attached at Appendix 1. They can also be found on the government website at <https://www.gov.uk/government/collections/independent-review-teesworks-joint-venture>.
- 1.7. The review Panel has now completed its work within the scope of the terms of reference. Based on the information shared with the Panel, we have found no evidence to support allegations of corruption or illegality. However, there are issues of governance and transparency that need to be addressed and a number of decisions taken by the bodies

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<sup>1</sup> Quarterly BEIS/MHCLG report April-June 2023 and management evidence received 13/11/23

involved do not meet the standards expected when managing public funds. The Panel have therefore concluded that the systems of governance and finance in place within TVCA and STDC at present do not include the expected sufficiency of transparency and oversight across the system to evidence value for money.

- 1.8. It is important that local leaders work together to secure the much needed regeneration of the site. Securing permanent local jobs, economic growth and opportunity, as well as increased tax income for the local area that can be reinvested in local services and continued growth is a priority and shared endeavour. To this end we have made a number of recommendations for the Secretary of State, TVCA and STDC to consider.

## 2. Recommendations

**Recommendation 1** – TVCA and STDC should develop a full understanding of the liabilities of both STDC and TVCA in relation to the activities of STDC and TWL and ensure appropriate management arrangements are in place to manage and mitigate the consequential financial risks to both organisations and the constituent authorities.

**Recommendation 2** – TVCA and STDC should jointly agree the use of retained business rates over the 25 year period in support of both TVCA and STDC risks and liabilities and consider the funding strategy for liabilities that will exist thereafter. Such agreement to be agreed by TVCA Cabinet and STDC Board.

**Recommendation 3** – STDC update and maintain its financial model to reflect its current business model including identified retained liabilities and business rates forecasts in line with recommendations 1 and 2 above.

**Recommendation 4** - Government should clarify its proposals for landfill tax in terms of public sector land remediation, including timescales for legislation, as currently eligibility for the scheme and STDC's liability for tax are an ongoing, and increasing risk.

**Recommendation 5** – DLUHC to clarify the regulations in respect of TVCA and STDC (and if necessary other combined authorities and development corporations) including oversight, reserve matters and consents as well as stranded liabilities.

**Recommendation 6** –TVCA Cabinet review its current delegations and directions to STDC to ensure it meets its statutory obligations, including appropriate oversight by Overview and Scrutiny Committees, to enable value for money to be delivered and evidenced through effective scrutiny of significant decisions.

**Recommendation 7** – TVCA and STDC invite the Centre for Governance & Scrutiny to undertake a review of the O&S function and produce recommendations as to improving it in line with the statutory guidance and new English Devolution and Accountability Framework 2023.

**Recommendation 8** –TVCA and STDC should modify their constitutions to reflect any changes in delegations and directions that may arise from recommendations.

**Recommendation 9** –TVCA should amend its constitution to give effect to TVCA's duty to keep STDC's existence under review, to provide guidance to STDC, and to assess its own financial risks relating to STDC. We would recommend this be at least annually.

**Recommendation 10** – TVCA and STDC agree a protocol and code of conduct for shared statutory officers to ensure the boundaries between the two organisations are maintained, that advice is given in the best interests of the specific organisation, and that any and all communication is clear in terms of the organisation being represented.

**Recommendation 11** – TVCA review the group statutory officer roles and consider, where allowable in law, whether having different officers, perhaps drawn from the Constituent Authorities, would provide a greater degree of checks and balance.

**Recommendation 12** – TVCA and STDC review their Financial Regulations and schemes of delegation to satisfy themselves that control is enacted at the appropriate level to facilitate the value for money test and ensure the STDC Board and TVCA's duty of oversight, is met as well as provide appropriate protections for officers. This should include the recording and reporting to STDC Board/TVCA Cabinet of key decisions taken under delegation.

**Recommendation 13** – TVCA should, in consultation with monitoring officers of Constituent Authorities, review and revise the local governance framework to ensure that greater degree of oversight over STDC and TWL is afforded to TVCA cabinet members and the Constituent Authority statutory officers.

**Recommendation 14** – Constituent members should ensure they seek advice and guidance from their own statutory officers ahead of TVCA Cabinet meetings to ensure they get an independent view to inform their strategic decision making.

**Recommendation 15** – Statutory officers of constituent members should ensure they inform themselves of the statutory context of STDC/TVCA and maintain an active and inquisitive engagement with both organisations to ensure they can effectively provide independent advice to their own organisations and fulfil their statutory obligations to them.

**Recommendation 16** – Review the makeup of the Board, including the Chair and role of associate members, to ensure relevant expertise and knowledge is in place to support the Mayor in setting and delivering his strategic ambitions, under the current phase of delivery.

**Recommendation 17** – Ensure the Board are provided with comprehensive and accurate reports, supported by appropriate advice in a timely fashion so they can properly consider and debate the decisions to be made.

**Recommendation 18** – Any oral advice and supporting presentations should be made publicly available (where possible) to support the decision record.

**Recommendation 19** – The monitoring officer should ensure training for all STDC /TVCA members and officers takes place on conflicts of interest and ensure proper declarations are made and individuals recuse themselves appropriately in meetings.

**Recommendation 20** – A robust and comprehensive briefing arrangement be put in place between statutory officers of TVCA/STDC and the constituent members to ensure there is a collective and considered understanding of the opportunities and implications of proposed decisions.

**Recommendation 21** – STDC should articulate and document the agreed arrangements with the JV partners in a single document.

**Recommendation 22** - STDC should explore opportunities to influence when and how land is drawn down and developed and if possible, renegotiate a better settlement for taxpayers under the JV agreement.

**Recommendation 23** – Once a final position is agreed with the JV Partners this should be formally shared with the STDC Board and TVCA Cabinet for approval.

**Recommendation 24** – All STDC recruitment be subject to fair, open, and transparent processes.

**Recommendation 25** – The STDC executive regularly review operations on site to ensure JV Partner activity is not incurring risks and liabilities for STDC.

**Recommendation 26** – Monitoring Officer to review the approach to confidentiality and the handling of FoI to ensure that the public interest test is properly understood and applied. Devise a local protocol to clarify what information will be deemed confidential and on what basis and provide training for staff. This should include guidance on the disclosure of confidential information to TVCA Cabinet, Overview & Scrutiny and TVCA/STDC Audit Members who should have enhanced rights of access.

**Recommendation 27** – Director of Finance and Resources review internal audit arrangements and provide advice to both TVCA and STDC Audit Committees as to how these can be strengthened. Consideration should be given to securing CIPFA or other external support to provide independent assessment of proposed changes.

**Recommendations 28** – Director of Finance and Resources work with the external auditor to support the completion of their value for money arrangements work for 2021/22, including any additional risk-based work that may arise in light of the Panel's findings. The progress of this work should be reported to TVCA and STDC Audit Committees

### 3. Background

- 3.1. The **Tees Valley Combined Authority (TVCA)** was established on 1<sup>st</sup> April 2016 as a combined authority covering the geographical boundaries of the 5 local authorities in the area:
  - Darlington Borough Council
  - Hartlepool Borough Council
  - Middlesbrough Council
  - Redcar and Cleveland Borough Council (R&C)
  - Stockton on Tees Borough Council
- 3.2. The liquidation of the SSI steelworks in 2015 left a hazard that presented a real danger to human and environmental health and gave rise to around 3,000 redundancies as well as wider supply chain impacts. The Official Receiver took on responsibility for the orderly wind down, safety and security of the site on top of his normal duties of releasing any value for creditors. A Government funded task force supported impacted workers, supply chain company diversification and private sector stimulus.



- 3.3. An independent review by Lord Heseltine was commissioned in Autumn 2015 and his report '[Tees Valley: Opportunity Unlimited](#)' was published in June 2016. His key recommendation for the future of the site development is in 4.6.10:

*“Recommendation. That the South Tees Development Corporation is established as quickly as possible, and that Government and local partners put the relevant resource in place in order to realise this goal. Also, that Government begins engagement with the Combined Authority on how and when ownership and management of the SSI site can be moved to the South Tees Development Corporation, including with relevant Her Majesty’s Treasury funding agreements, and the agreement of the Combined Authority.”*

- 3.4. A shadow Mayoral Development Corporation (MDC) was set up by the Government pending mayoral elections in May 2017. The Board was made up of a number of professionals with relevant experience and chaired by the Leader of Redcar and Cleveland Borough Council (R&C).
- 3.5. The first Tees Valley Mayor, Ben Houchen, was elected in May 2017. He formally proposed the creation of the MDC and STDC was established in August 2017. The Mayor established a new board, with himself as chair, largely taking on the arrangements put in place for the shadow board.
- 3.6. In parallel government formed the South Tees Site Company (STSC) as an ‘intermediate body’. Its role was to continue to manage the safety and security of the site, bringing the costs down to around £18m per year, by removing the most unsafe and dangerous structures.
- 3.7. The key initial priorities for STDC were to:
- Develop a masterplan for the site.
  - Secure ownership of the site.
  - Ensure sufficient funding to manage the safety and security of the site, and
  - develop the site potential to create new jobs.
- 3.8. Very little of the site was in public ownership. The ex-SSI holdings had a charge by three Thai banks, and most of the rest of the land was owned by Tata Steel. The preference was to secure land through negotiation and the Tata land was acquired for a payment of £12m. However, the Thai banks refused to agree the sale of their interests and a Compulsory Purchase Order (CPO) was considered necessary.
- 3.9. The CPO process was not without risk, and an option secured on 70 acres of Redcar Bulk Terminal (RBT) land by local developers Chris Musgrave and Martin Corney was used as leverage to remove objections to the CPO raised by the three Thai banks. Following a Public Inquiry the CPO was approved by the Public Inspector without modification in April 2020.
- 3.10. The creation of the 50/50 joint venture partnership between STDC and Musgrave and Corney (the JV Partners) was part of the CPO negotiations and was agreed by the STDC Board in February 2020, with the TVCA Cabinet delegating powers to STDC to enable them to complete the transaction in March 2020.
- 3.11. Government funding was limited to the safety and security of the site (keepsafe functions), the establishment of STDC and limited land regeneration. There were no funded plans in place to remove all the redundant assets or start the regeneration programme. TVCA

developed a business case for this, which was signed off by the Government (the Department for Business, Energy, and Industrial Strategy – BEIS) in July 2020.

- 3.12. The business case was based on removing the potential long-term liability by transferring the site and STSC to local control and ownership. It also proposed limited redevelopment on part of the site, with receipts from partial sales/leases funding future remediation over a 35-year time scale. It was expected that this would generate up to 20,000 new jobs by 2035. The business case was clear that the public sector funding would not be sufficient to complete the remediation of the site and that a private sector partner would be required, referencing the then recently established Joint Venture Partnership Teesworks Limited (TWL).
- 3.13. After the announcement by Government in March 2021 of the Teesside Freeport, including 2 tax sites within the STDC area, and following his re-election in May, the Mayor made clear his intention to accelerate development on the site to maximise the time limited tax incentives available. The proposal indicated that an injection of new private sector capital and transfer of risk from the public to the private sector would be required to achieve this. Consequently, the JV Partnership was renegotiated and in August 2021 the STDC Board agreed to a 90/10 split in favour of the JV Partners.
- 3.14. In March 2023 in response to expected legislation to enable public sector bodies to secure landfill tax grants for remediation schemes that would not otherwise be viable, STDC Board agreed a new operating model whereby STDC will undertake the work funded by prudential borrowing and subsequently be reimbursed by TWL. The legislation remains outstanding and as such, STDC hold the risk for any landfill tax costs not met through grant.

## 4. Review methodology and constraints

- 4.1. Through this report we set out the findings from our review. These cover:
  - The structure and culture of the relationships between TVCA, the constituent members (the 5 local authorities), STDC, the statutory officers and the JV partnership
  - The decision-making processes in respect of the initial JV, and subsequent amendments
  - The funds flow between TVCA, STDC and the JV, including some of the individual land transactions
  - Some specific allegations around procurement and recruitment
- 4.2. The Panel undertook a desktop review of information provided by TVCA and STDC before calling for written submissions and following up with face-to-face interviews where appropriate. The Panel understand the complexities involved in the project; however, our experience has been that securing the information in a way that could be easily navigated was challenging. Initially, the Panel were overwhelmed with documents presented in an unstructured way and lacking a cohesive narrative. Subsequently, responses were limited to the specifics of the question posed. This has caused drift and delay in the process and reduced our confidence that we have been given access to all relevant materials. We have, however, confirmed to the Mayor and TVCA/STDC that we have received answers to all our questions and in turn received assurances from them that everything asked for has been provided if available.

- 4.3. In the time available to the Panel, we have not been able to pursue all lines of evidence or examine all transactions. We therefore chose to look at a number of significant decisions that have shaped the current arrangements. These being:
- Arrangements for the CPO
  - Establishment of the JV 50/50
  - Change to JV 90/10
  - Operations, including scrap and site management
  - Land transactions – specifically 3 transactions GE, which subsequently became the SeAH transaction, South Bank Quay and NTZ
  - Governance and structures, including how public money is controlled and how cash/benefits flow between organisations
- 4.4. A number of issues have been raised by third parties which are outside the scope of our review. We have not investigated issues raised in respect of wildlife die off (previously covered by Defra), Teesside Airport, or health and safety. We have also excluded the dispute with PD ports as this is a matter currently with the courts and will be a public record once determined.
- 4.5. As the report was being concluded we were made aware by a third party<sup>2</sup> that STDC were in the process of establishing a new JV company - Steel River Energy Company - with the same JV Partners. We have not reviewed this further development, but the findings of this report will be pertinent to that process.
- 4.6. The Panel had no means to compel anyone to engage with the review and while we were not overwhelmed with responses to our requests for evidence, we were able to get sufficient depth and breadth of knowledge and experience to reach our conclusions. A list of individuals who submitted written evidence and/or attended interviews is attached at Appendix 2.
- 4.7. A former TVCA/STDC Monitoring Officer whose tenure covered September 2020 – December 2022 and who advised TVCA and STDC in respect of some significant decisions including the move to the JV 90/10 and TVCA oversight of STDC, was invited to interview but declined because they felt their professional duties barred them from participating in the review. TVCA confirmed to the Panel that they had informed the individual that they had no objection to their participating.
- 4.8. Through the work we have done, we have reviewed over 1400 documents and held some 45 interviews. Notwithstanding the constraints, we have sufficient evidence and consistency of views to form our conclusions as set out in the report.
- 4.9. We would like to thank everyone who has supported us in the review. It is hugely complex, and we have sought much information and looked at issues from a number of angles in order to understand them and triangulate our evidence. This has required patience on occasion, both for the Panel and those being engaged.

## 5. Financial Overview

- 5.1. Planned public sector investment in Teesworks up to the end of 2024/25 is in excess of £560m, including keepsafe obligations but excluding any additional spend linked to the

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<sup>2</sup> Evidence received 11/11/23

new operating model. This is funded as set out below, noting that TWL has obligations in respect of £113m of borrowing, linked to Quay profitability and throughput, and Business Rates income is anticipated to support the balance.

	<b>£m</b>	
Government/TVCA Grants	246	
Borrowing	257	Including £206m from TVCA as at 31.03.23
Commercial income	57	Scrap and repayments due from TWL
	<u><b>560</b></u>	

5.2. As of 31<sup>st</sup> July 2023 TWL had generated some £196m in income and retained £63m at bank against future liabilities. Of the £45m paid to STDC, £40m represents an advance on future dividends. TWL has future commitments to STDC in respect of tonnage fees, subject to profitability, estimated at £113m and potential site development agreements of £217m.

	<b>£m</b>	
<b>Income</b>	<u><b>197</b></u>	scrap, land deals and interest
<b>Expenditure</b>		
Tax and overheads	34	
Land transaction	10	TVCA SeAH land transaction
STDC	45	
JV Partners	45	
	<u><b>134</b></u>	
<b>Cash at Bank</b>	<u><b>63</b></u>	

5.3. The business model for the site is complex and fluid, evolving at pace. It was always assumed that private sector investment would be necessary. However the original financial model considered by TVCA for the CPO was based on a number of benefits aligned to the public sector such as borrowing rates, tax efficiencies and its covenant strength for possible income strips. This has fundamentally changed over time with the JV arrangements and subsequent amendments. These changes have not been reflected in the underpinning financial model, including the financial proposition in the BEIS business case. The Panel has sought to test how risk has transferred to the private sector through these arrangements and note STDC has a number of retained liabilities, as does TVCA. The Panel has been unable to quantify all risks but note they include:

- Ongoing liabilities in respect of the site and land bank until such time as TWL exercises its options to drawdown and develop individual plots.
- Land fill tax risk on remediation work which is not recoverable from TWL.
- Borrower risk of £247m (of which £206m is long term borrowing by TVCA) in part if TWL does not meet its payments in respect of South Bank Quay. Further borrowings to be incurred post 31 March 2023.
- Infrastructure, park and ride and undevelopable sites.

- 5.4. TVCA and R&C will receive additional business rates income generated by the development which needs to be re invested for the benefit of the site. These business rates are assumed to be available to STDC to support the original business case and financial model and may be used to offset some of these liabilities, however it is unclear if this decision has been explicitly made by TVCA.
- 5.5. The whole Tees Valley area will also benefit from the jobs and growth that are already being delivered and the ongoing growth expected.
- 5.6. The financial arrangements in place are complex and are explored in more detail in chapter 19 of the report.

## 6. Company Structures

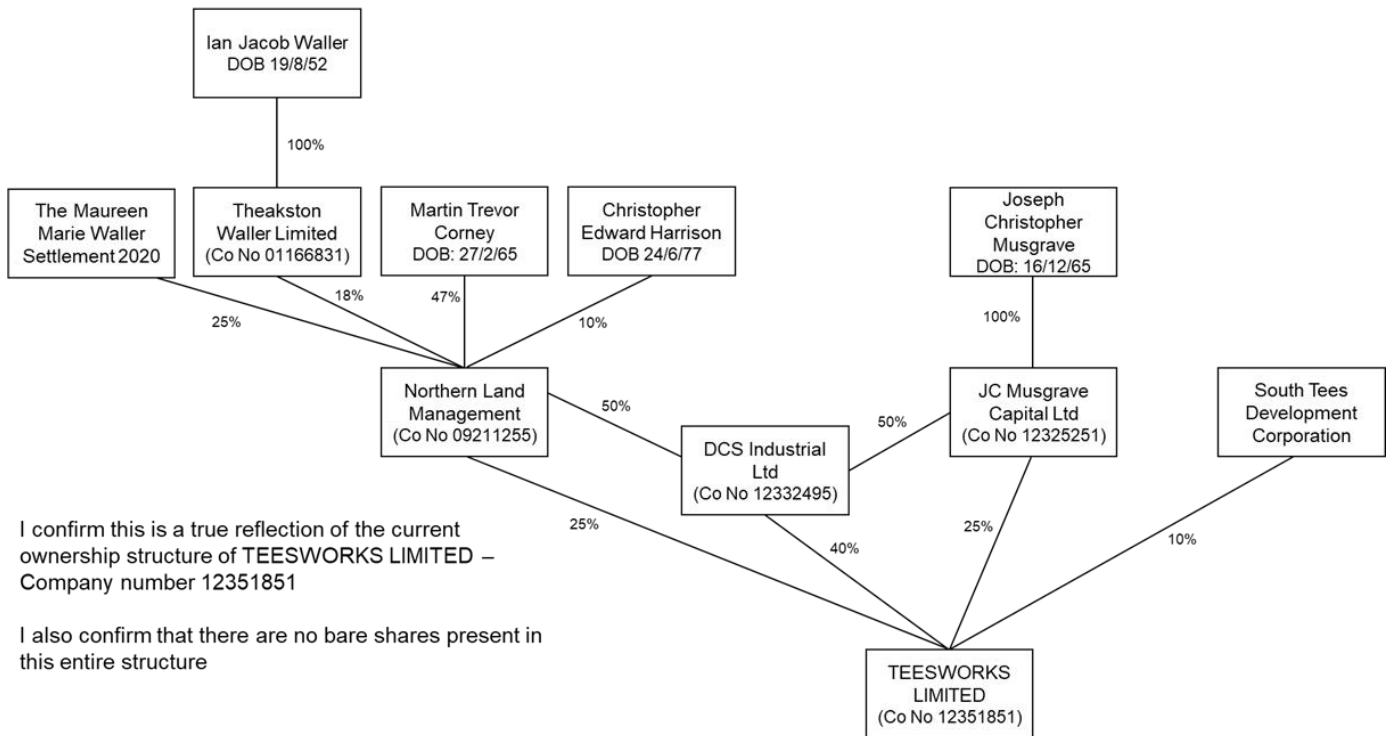
6.1. The Tees Valley Combined Authority Group is defined as set out in the structure below provided to the Panel by STDC/TVCA officers:

### Tees Valley Combined Authority Group



6.2. Behind Teesworks Limited (TWL) there is a further structure as provided by STDC/TVCA officers and sets out the entirety of the JV partnership. For the purposes of this report, the term JV partners is generally limited to Chris Musgrave and Martin Corney.

Teeswork Structure 26.11.2021



- 6.3. The group consists of three companies, TVCA; The Mayoral Development Corporation, STDC, which is responsible for the master plan, decontamination, and redevelopment of the former SSI site; and TWL the Joint Venture Partnership, set up by STDC "to enable the comprehensive regeneration of the South Tees Development Area"<sup>3</sup>.
- 6.4. STDC has two wholly owned companies. South Tees Developments Limited which holds the land secured through the CPO or negotiation and subject to the comprehensive regeneration, as well as South Tees Site Company which is responsible for discharging the site "keepsafe" requirements.
- 6.5. Following a decision of STDC Board on 10 February 2020 to create the 50/50 JV, subsequently amended to 90/10 in August 2021, TWL was recognised in July 2020 through amendments to the company formally known as South Teesworks Enterprise Limited (STEL or STE), incorporated and owned by the JV Partners in December 2019.
- 6.6. As an MDC, STDC brings the opportunity to secure private sector management, give confidence to investors and drive delivery through a commercial approach to the complex project that is the remediation and redevelopment of Teesworks. It has the added benefits of working outside some of the local government statutory framework, enabling a different appetite for risk and reward.
- 6.7. Notwithstanding the relative freedoms afforded to STDC as a development corporation, it is still a public authority and has the same audit requirements and value for money tests as a local authority. This requires a higher level of openness and transparency than may be present in a private sector company. Governance therefore needs to be pitched at an

<sup>3</sup> Report to TVCA Cabinet 13 March 2020

appropriate level to not compromise the pace of delivery or commercial consideration, whilst ensuring fundamental strategic decisions that impact on the risk and liabilities held by the public sector are balanced with the benefits secured. Decisions should also be subject to appropriate scrutiny.

6.8. In chapters 12 to 18 of the report we explore in some detail the legal structures that define the relationship between STDC and TVCA set alongside how they operate in practice. The legislation is a modification of the Localism Act 2011 and the mechanism by which it is applied to TVCA and the Mayor may have resulted in some confusion as to its interpretation.

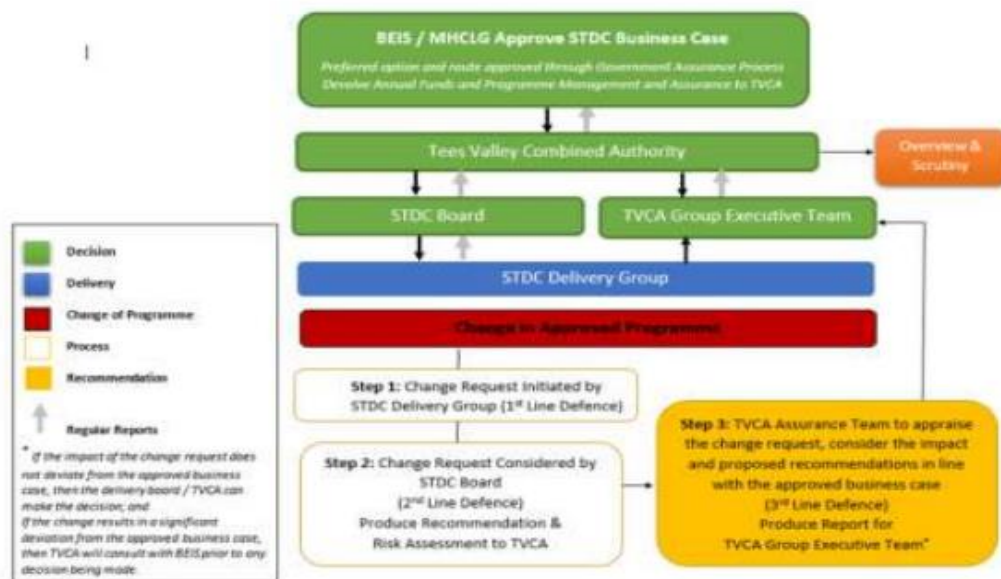
6.9. The legislation is clear however in its intent for TVCA to have an oversight/supervising function of STDC either directly or through the Mayor. It provides for TVCA to issue directions to STDC and sets out reserved matters requiring a Mayoral decision being:

- the disposal of land for less than best consideration,
- the formation of businesses and subsidiaries and the financing of them,
- the provision of financial assistance.

Where oversight is exercised by the Mayor this is complicated by the fact that he is also Chair of STDC and therefore this is not an independent function.

6.10. The final business case signed off by Government in July 2020 reinforces the need for TVCA oversight of STDC stating that "TVCA will effectively play the role of Government...." and latterly "The funding will flow from Government to TVCA as the lead accountable body for this programme." The business case also sets out the proposed assurance framework on decision making as follows:

**Figure 6.2: Extract from STDC Assurance Framework on Decision Making**



6.11. In practice, the current control exercised by TVCA over STDC is limited to a direction which requires the STDC Board to identify and refer "decisions or issues which results or may result in a significant risk of a financial liability, a statutory liability or an environmental or criminal liability"<sup>4</sup> for approval by TVCA Cabinet prior to implementation.

<sup>4</sup> TVCA constitution December 2022

- 6.12. The Panel have seen no evidence that any of the monitoring officers have advised TVCA that they can review their delegations and directions to STDC at any time. Nor have they reminded TVCA of their duty of oversight of STDC. Furthermore, a former monitoring officer advised TVCA Overview and Scrutiny Committee on 15<sup>th</sup> September 2021 that they had no jurisdiction to review STDC decisions.
- 6.13. The Group Executive have adopted a very narrow interpretation of the definition of a referral decision, which alongside the very clear steers from the former monitoring officer, means that TVCA have very little oversight of the actions and decisions of STDC. It is the view of the Panel that STDC should have referred more decisions to TVCA Cabinet and that TVCA Overview and Scrutiny Committee had a legitimate right to scrutinise STDC decisions. This is in relation to a relatively small number of significant decisions that have been taken which have fundamentally changed the delivery model proposed for STDC as signed off by TVCA. These referral decisions would have aligned with the supervision duty of TVCA and addressed the value for money test. STDC executive do not agree with the Panel's view.
- 6.14. While there is clarity in the legislation about TVCA duty of oversight of STDC, albeit directly or through the Mayor, there remains an issue of stranded (net) liabilities within STDC on which the legislation is silent. The Teesworks site is highly complex and, for some plots, there is no obvious viable commercial solution. It is accepted that this may change over time; however, the current construct of the JV, which allows the JV partners to choose which plots they develop and when, leaves a plausible scenario whereby STDC is left with stranded liabilities in addition to a number of ongoing site liabilities and debt servicing costs. While the STDC executive assure that these liabilities will only crystallise when the land is developed, the body or bodies that ultimately sit behind those liabilities would reasonably expect some influence and assurance on this point. In any case, it is the Panel's view that in the event of STDC being unable to service loans made by TVCA the debt servicing costs will automatically fall back on TVCA and be a charge on its revenues. In the 25 years during which TVCA will receive retained business rates it has a source of income to offset liabilities although STDC may also be dependent on some of the same monies. After 2046, TVCA and STDC will not have access to retained business rates.

## 7. Statutory Officers and the Scheme of Delegation

- 7.1. As public bodies, both TVCA and STDC are required to appoint three statutory officers. Since September 2020, these statutory officers have fulfilled their functions across the group of companies. For clarity, in this regard, the "group" does not include TWL which has its own arrangements. The three posts and postholders and the dates they took up their role jointly at STDCTVCA is set out below. Both the CEO and Acting Monitoring Officer were internal promotions so had longer experience with the organisations:
- Chief Executive (Head of Paid Service), Julie Gilhespie - appointed August 2019
  - Director of Finance and Resources (s 73 Finance Officer), Gary MacDonald - appointed September 2019
  - Acting Group Chief Legal Officer and Monitoring Officer, Emma Simson - appointed December 2022
- 7.2. In simple terms, the three officers between them have responsibility for ensuring the organisations are properly staffed to deliver their objectives and ambitions, that legal budgets are set and value for money obtained, that statutory obligations are fulfilled, and that appropriate codes of conduct are followed.



- 7.3. The group arrangement has the benefits of reducing costs and creates a clear line of sight across the group. However, we found evidence that it can lead to confusion outside of formal reporting arrangements whereby it is not always clear which body the officers are representing. Furthermore, conflicts of interest are not routinely recorded or articulated, particularly in the case of the Chief Executive and her role as a Director of TWL.
- 7.4. STDC Board members and constituent authority chief executives were relatively consistent in their confidence in the Group Chief Executive and the executive team who they felt were engaging, open and available. There is evidence however that the creation of group statutory officers is blurring boundaries and there is an opportunity to reconsider this practice for those statutory officer roles that are not in law required to be shared across TVCA and STDC. In any case consideration should be given to introducing strict protocols governing the conduct of these officers and bringing clarity to how they discharge their functions within, between and externally to both organisations.
- 7.5. The role and responsibilities of officers is determined by the scheme of delegation and financial regulations. These documents are designed to enable delivery by placing decision making at the right point in the organisation empowering officers to deliver at pace whilst giving senior executive, Board or political cover for those decisions that are significant, novel, or contentious.
- 7.6. The scheme of delegation is permissive. The Group Chief Executive has a very broad delegation<sup>5</sup>

*"To take all action which is necessary or required in relation to the exercise of any of the Combined Authority's functions or the functions of the Mayor....."*
- 7.7. The same delegation applies to her role within STDC and in both cases she can further delegate to other officers.
- 7.8. The scheme of delegation also includes the financial limits within which officers can operate. These appear, however, to be limited to procurement rules. Other than having regard to the budget there appears to be no constraint on legal and contractual matters that officers can determine.
- 7.9. Clearly it is important that officers are empowered to take decisions and deliver at pace. However, given the lack of oversight enacted by TVCA, the permissive scheme of delegation further dilutes the potential transparency of decision making and the protections afforded to officers.

## 8. Constituent Members

- 8.1. The 5 local authorities who make up the constituent members of TVCA are critically aware of the importance of the redevelopment opportunities of the site and the "halo effect" of the development. Jobs and income streams through increased tax base to support local services are welcomed and there are good examples of how the development, alongside the broader work within the TVCA ambit, is encouraging this. Local authority leaders clearly want these benefits to come forward as quickly as possible and at the same time

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<sup>5</sup> TVCA constitution 2023 v11

ensure the local impact is maximised, particularly to secure permanent, local jobs for local people.

- 8.2. The Leader of each constituent authority sits on TVCA Cabinet and will lead a portfolio on behalf of the Mayor. Furthermore, the Leader of R&C, and until recently Middlesbrough, also sit on the STDC Board. Information is shared by way of formal committee structures and the aligned reporting arrangements as set out in the constitution. There are formal and informal briefing arrangements led by TVCA executive team. It is understood that Leaders and Chief Executives of the constituent authorities attend these meetings. We also understand that there are informal political meetings immediately ahead of Cabinet without officers present.
- 8.3. Between the constituent authorities, there is a mechanism to drive and shape the strategic and operational agenda for TVCA. This consists of monthly "management group" meetings of the 5 Development Directors together with TVCA, and the JV partners to discuss strategic development and regeneration including any recommendations for TVCA.
- 8.4. The 5 Chief Executives meet weekly for a telephone catch up and hold formal meetings monthly. The Chief Executive of TVCA/STDC attends these meetings and briefs Chief Executives on issues.
- 8.5. Evidence from the constituent authorities is that their Chief Executives, Finance Directors, and monitoring officers hold the view that they have a "firewall"<sup>6</sup> between them and STDC/TVCA. Even those that acknowledge they may ultimately bear any liabilities which fall back on TVCA believe that the risks have been "covered off"<sup>7</sup>. This sentiment was echoed by the Leaders that we spoke to.
- 8.6. In the absence of any real or perceived liabilities transferring from STDC to TVCA and TVCA to the constituent members, the Leaders and statutory officers within the constituent authorities appear to have a limited understanding of what is going on within STDC and little curiosity to explore and understand the decisions being made. Given the strategic opportunities for the TVCA area, the constituent authorities should take an active interest in shaping the agenda and decisions in the best interests of the TVCA area and its residents. They should approach this with an independent mind, seeking advice from their own officers, and offering a constructive check and challenge into the system. In conversation between the Panel and Authorities' Chief Finance Officers they were unaware of both the long-term loans advanced by TVCA to STDC and the detail of specific deals that involve TVCA.

## 9. Decisions and the STDC Board

- 9.1. A fundamental part of the governance and assurance frameworks is the advice given to decision makers. These are captured in the published reports and ideally should be available 5 clear working days ahead of the decision. We found the quality of reporting to be variable and in some instances, reports were late, sometimes published on the day, and decisions rushed. A clear example of this would be the decision to proceed with the CPO and form the JV 50/50 partnership. We also found evidence of reports containing

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<sup>6</sup> Interviews 24/08/23

<sup>7</sup> Interviews 23/08/23

incorrect and incomplete information, for example in respect of the landfill tax, and the SeAH income strip.

- 9.2. While the Panel accepts there may on occasion be good reason for lateness, the impact when these circumstances arise, is to impede a healthy check and challenge in the system as follows:
- The Board do not have access to good quality, considered advice.
  - The Board, who bring expertise and knowledge to the table, are unable to provide the Mayor with advice and guidance and help him to shape his decisions in the best interests of the residents of Tees Valley. Nor are they able to provide sufficient challenge and due diligence.
  - Local Authority Leaders who sit on the Board are unable to secure advice from their professional officers and discuss with them the strategic and local implications of proposals or provide a different perspective on the benefit and risk exposure.
  - The public are unable to see a clear rationale for the decisions taken.
- 9.3. STDC Board members, which include the Leader of R&C and until recently the Leader of Middlesbrough, bring expertise and knowledge to the table. They help to shape strategy, provide constructive challenge to the executive, and support the Mayor in achieving his ambitions. Over time, the make up the board has reduced in number and moved away from industry experts to more local interest reflecting the shift from master planning and CPO preparations into delivery. It is entirely appropriate to change the Board to reflect the varying cycles within the Teesworks project and this intention was clearly set out in the final business case agreed by BEIS in June 2020.
- 9.4. A commercial Board is expected to support the Mayor and executive in their decision making including acting as a critical friend. This includes pertinent due diligence in terms of opportunity and risk of individual land transactions, as well as compatibility with strategy and delivery of outcomes. It is their responsibility to ensure they have sufficient and accurate advice and information to make the decisions being asked of the Board in support of the Mayor and STDC's objectives.
- 9.5. As STDC is a public authority, the Board, including associate members, also has a responsibility to ensure it is giving proper oversight to the management of the public assets and investments. They need to understand the risk and opportunities they are taking on behalf of taxpayers and how public resources are expected to flow through the system as a result of the decisions they take. The nature of reports to the Board are such that they do not always make this clear and while it may not have changed the decisions made, this is a key requirement to satisfy the value for money obligation.
- 9.6. As set out previously, the scheme of delegation may be an impediment to the Board being able to fulfil their functions and undertake appropriate due diligence. Examples of this include the two supplemental deeds to the JV 50/50 agreed under delegations by the executive in June and July 2020 which enabled TWL to remove minerals aggregates etc. for their "own benefit" and agreed the £15m compensation to SSI for the CPO.
- 9.7. In practice, given the degree of delegation and the reporting arrangements, information and oversight of the project sits with a small number of individuals, primarily the statutory officers and the Mayor. STDC Board members, TVCA Cabinet, both Audit committees as well as TVCA Scrutiny committee, together with the constituent authorities, are heavily reliant on those individuals to provide them with a full and accurate picture to enable decisions to be taken in the best interests of the public. This tight control of information

enhances the risk of misinformation and when aligned to late reports, a lack of detail and overt reliance on verbal reporting, this can undermine appropriate decision making.

- 9.8. Feedback from STDC Board members on the level of detail they receive ahead of decision making is understandably mixed; some believing it to be sufficient, others taking a contrary view. It is also clear to the Panel that for those Board members interviewed much of the information we shared around the sequence of the JV decisions and some land transactions was obviously new to them. In all cases in terms of the key decisions taken by the STDC Board, it is important to note that they were agreed unanimously; although some Board Members did caveat that they were sometimes rushed and they didn't have sufficient information or understanding.
- 9.9. The Panel is also aware<sup>8</sup>, that representatives of the JV Partners participate in STDC governance meetings on occasion to ensure that work is "joined up and effectively and efficiently delivered". We understand from Board member interviews<sup>9</sup> that this includes confidential STDC Board discussions. Of course partnership working requires the JV Partners or their representatives to be involved appropriately in operational discussions. The Panel believes it is wholly inappropriate for the JV Partners or their representatives to be included in any confidential Board discussions. In all meetings it is important that conflicts of interest are managed, declared and observed.
- 9.10. The Panel are united in their view that we have not seen sufficient evidence that decision makers were properly informed. We fully appreciate that this is a fast moving situation underpinned by many complex arrangements, but in terms of managing public assets all information around key decisions should be fully documented, including advice from internal professionals and external experts as appropriate. Failure to do this could compromise the decisions and where an expert Board has been convened, as in the case of STDC, this prevents them from providing good advice and guidance to the Mayor.

## 10. Joint Venture Partnership

- 10.1. The 50/50 JV partnership was agreed by STDC Board on 10 February 2020 following a private agenda item "Compulsory Purchase Order (CPO) update". At this juncture, the only substantive objection to the CPO, which would enable the outstanding plots of land to be acquired, was from SSI/the Thai Banks. The objection was deemed by external advisers to be a credible risk to the CPO as there was development potential. The 50/50 JV was critical to being able to reach agreement with the Thai Banks to remove their objections.
- 10.2. On 29<sup>th</sup> November 2019, the JV partners acquired an option on 70 acres of Redcar Bulk Terminal (RBT) land. The JV partners<sup>10</sup> advise that they approached the Managing Director of RBT to secure an option on the understanding RBT needed cash for the business which was "on the brink of collapse". Ultimately the sale of the option to the JV partners was a decision which British Steel signed off.
- 10.3. Having acquired the option, the JV partners were able to lever their position both with SSI and STDC, ultimately using this to secure SSI's agreement to withdraw their objection to the CPO in exchange for the 50/50 JV with STDC. These negotiations occurred between

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<sup>8</sup> evidence submitted by TVCA/STDC executive on 19 June 2023

<sup>9</sup> 11 & 12 September 2023

<sup>10</sup> Interview 03/10/23

December 2019 and February 2020. In the circumstances, removing the objection to the CPO was a clear rationale for STDC to enter into the JV agreement which can be summarised as follows:

- a 30-year option on all STDC owned land to the JV to draw down once remediated by STDC.
- JV to develop and market the site once remediated.
- a 50/50 share in the uplift on market value between the JV partners and STDC, and
- a deadlock company requiring shareholder approval on all material asset decisions.

10.4. The Group Chief Executive was STDC's nominated Director to the Board of the JV Company representing the shareholder. Directors have a legal duty to promote good governance of company affairs and act in the company's best interest.

10.5. The Panel understand that one of the risks explored by the Board in entering this agreement was the fact that there was no obligation on the JV partners to develop the land. The executive's advice was that this was mitigated by the commercial opportunity offered to the JV to proceed. In reality, under the JV, the JV partners bear no risk or liability if the site is not progressed, whilst STDC have a stated intent to secure the regeneration of the area and a local expectation that this will be delivered as soon as possible. Consequently, when the Freeport opportunity arose and there was a desire on behalf of the Mayor to accelerate delivery, there was very little leverage available to STDC in the subsequent negotiation. The land was already effectively under the control of the JV by virtue of the option and the deadlock arrangements which meant development could only progress with the partners' consent.

10.6. The Panel asked the JV Partners about the basis of the 50/50 JV negotiated<sup>8</sup> and reference was made to the 50/50 partnership at the airport. The Panel asked the group Chief Executive for sight of the process used to select and agree the airport partners and any due diligence undertaken. We were given to understand<sup>11</sup> that TVCA were not involved in this process and did not rely on it to develop the Teesworks JV.

10.7. However, the Panel are aware through an external stakeholder<sup>12</sup>, of a private agenda item "**Tees Valley International Airport Southside Business Park**" considered by TVCA Cabinet at its meeting of 20 December 2019 approving a commercial loan of £23.6m to Teesside International Airport and endorsing their plan to enter into a JV which involved the same JV Partners.

10.8. The 90/10 JV partnership was agreed by the STDC Board on 18 August 2021 following a private agenda item ""**Proposals for the delivery of site in light of Freeport Objectives**". This was a lengthy report setting out the implications and opportunities of Freeport status, the success of the existing JV arrangements, and proposals to amend the JV arrangements. The proposal was to:

*"transfer significant risk and rewards to incentivise the required pace of delivery to maximise the Freeport tax and customs benefits within a five year time period."*

And advised that

*"STDC has therefore negotiated an increase of 40% share capital in Teesworks to the private sector partners in exchange for Teesworks taking on the future development of*

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<sup>11</sup> Evidence provided by chief executive 6 October 2023

<sup>12</sup> Evidence received 17/10/23

*the site together with the estimated c£172m of net future liabilities in preparing the site for tenants."*

- 10.9. The report delegated to the group Chief Executive and Director of Finance and Resources, in consultation with the Mayor, the authority to execute the decision in line with the independent reports and advice.
- 10.10. The negotiation for the 90/10 JV was always going to be constrained by virtue of the existing arrangements where the balance of power sat with the JV partners. The potential to apply for Freeport status was public knowledge in January 2020, STDC submitted its bid in February 2021 and was advised of success in March 2021. It is unclear how these constraints were considered before applying for Freeport status which received formal designation by Government on 31<sup>st</sup> October 2021.
- 10.11. The JV agreement has evolved overtime with successive "supplemental deeds". The form of decision making, and the financial implications are set out later in the report. However, the incremental approach means that the impact on the obligations of each party is less clear, and these could be rationalised into a single agreement to bring clarity to the situation and explore any opportunity to renegotiate the deal.
- 10.12. The JV partners are clearly astute, commercial businessmen. They have a clear business model whereby they support distressed businesses and do not accept liabilities until they are satisfied they can hedge investment against secure income streams. They have put themselves in a position where they were able to negotiate favourable terms and progress that through the ongoing developments. While the Panel would argue that any commercial venture with the public sector should reflect the Nolan principles in terms of openness and transparency as well as value for money and public returns, essentially it is the responsibility of the public authority - STDC and TVCA - to ensure the appropriate checks and balances are in place.
- 10.13. At this juncture, the JV partners have put no direct cash into the project and have received nearly £45m in dividends and payments, and hold £63m of cash from the SeAH income strip in TWL accounts. They have contributed their intellectual capacity and human resource from their own companies at no cost to the JV and there is little doubt they have bought pace to delivery that would not have been achievable by STDC alone. The JV partners see no prospect of renegotiating a deal that rebalances their relative advantage over STDC.
- 10.14. To the best of our knowledge, there is no formal partnership agreement that sets out the obligations of the JV partners, although it is clear that the JV Partners are heavily influential within the operations of the Teesworks site. Martin Corney has an office on site and describes<sup>13</sup> that he "practically lives" there. The STDC executive describe the arrangements as follows<sup>14</sup>

*"The role of Teesworks in the day-to-day STDC operational governance is through the STDC Delivery Group which includes senior members of all workstreams [both] public and private sectors".*

- 10.15. This influence has clearly extended to recommendations in respect of a number of appointments and decisions that STDC made and which are set out later in this report

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<sup>13</sup> Interview 03/10/23

<sup>14</sup> Evidence submitted 19/06/23

under chapter 21. Whilst using known contacts may be acceptable practice within parts of the private sector, and can have its role within the public sector, for short term resourcing, this does not accord with the principles of openness and transparency. In the circumstances this represents poor judgement on behalf of the STDC executive team.

- 10.16. With such close integration and engagement within STDC operations the executive has considered operational risks including health and safety should there be an issue on site. They are comfortable that they are not exposed to any tenant, contractor or sub-contractor taking instructions from the JV Partners that may latterly give rise to STDC liabilities. The Panel strongly recommend they keep this situation under close review.
- 10.17. The transactions and decision making in respect of the JV arrangements are covered in more detail later in this report.

## 11. Information and Transparency

- 11.1. Consistently throughout the review the Panel received concerns about openness and transparency. This extended to external stakeholders and FOI requests. The Panel themselves experienced some of the challenges in terms of securing the necessary information in an accessible way that contextualised the story of Teesworks, much of which is a positive story.
- 11.2. The need for commercial confidentiality is a valid reason for non-disclosure however that must be balanced with the public interest test. The limited access to information is a key factor in driving the concerns about the decision making process.
- 11.3. Internal and external audit also have a role to play in providing assurance and challenge into the system including to taxpayers. The Panel noted the largely positive assurances provided by internal audit. We also noted that external audit had not signed off the accounts in respect of value for money, pending this report. It is the Panel's view that internal audit could be more alert to assessing the risk factors held within STDC and TVCA. In line with their responsibilities outlined in the Code of Audit Practice, External Audit will need to take account of the Panel's findings when reaching a view on each bodies' value for money arrangements . The Panel note that following a procurement exercise the internal audit provider has recently changed.

## 12. Decision making and governance

- 12.1. This section of the review is intended to focus on the theme of 'Governance' and in particular the manner in which the project was and is being managed, how decisions were made and how the interests of the taxpayer were protected. The Teesworks project has to date been funded from the public purse and the organisations at the heart of the project are properly characterised as exercising functions of a public nature, albeit that the ultimate objective is the enablement of private enterprise to develop new forms of industry and wealth creation for this strategically important part of the UK's industrial landscape.
- 12.2. There are several decision making entities associated with the Teesworks project and the primary focus of this review has been on the following:
- The Mayor of Teesside
  - Tees Valley Combined Authority (TVCA) (Combined Authority)

- South Tees Development Corporation (STDC) (Mayoral Development Corporation)
- Teeswork Ltd. (TWL) a company limited by shares and owned by public and private entities.

## The Mayor and Combined Authority

12.3. TVCA and the Office of Teesside Mayor were established in 2016 as a result of a devolution deal and the first mayoral election was held in May 2017. The Mayor is the Chair of TVCA Cabinet and the Mayor's role is described in the TVCA Constitution<sup>15</sup> as:

*“....The Constitution therefore provides for the Mayor's role to be embedded in the Combined Authority's collective decision-making arrangements. The Mayor chairs a Cabinet made up of the Leaders of the five authorities, who together form the Combined Authority's collective decision-making forum.”*

## The Teesworks Project

- 12.4. The core aims of the Teesworks project are set out in 'Tees Valley Unlimited', the report authored by Lord Heseltine in 2016 which was the catalyst for the establishment of TVCA and the regeneration of the former Redcar Steelworks site and which was subsequently refined into a master plan for the Teesworks Project.
- 12.5. The project evolved over a number of years from 2017 through to the present day and during that time its structure evolved with the emergence of a Mayoral Development Corporation, STDC, designed to oversee the Teesworks project and subsequently the establishment of a public/private Joint Venture through TWL.
- 12.6. A key aspect of the review is the role played by STDC in the Compulsory Purchase of the land and the subsequent deployment of public money to remediate parts of the Teesworks site to enable its development into a major hub for modern industries such as wind power. Key events during the period from late 2019 to the present day include the grant of the CPO on the relevant land, the establishment of TWL between STDC and the JV Partners, the evolution of TWL and the associated underlying financial model.
- 12.7. The project is described as the largest regeneration project undertaken in the UK covering thousands of acres of land. The project is complex and the JV between the public and private sectors brings the inevitable cultural tensions between the desire to move at pace unencumbered by bureaucracy as opposed to the expectations of accountability and transparency due to the fact that it is the recipient of considerable amounts of public funding.
- 12.8. The project under consideration in this review is a hugely complex one. This is magnified by the dynamic nature of the evolving business relationship between STDC and the JV Partners which has repeatedly and significantly changed during the period from late 2019 through the present day. The detailed arrangements are captured in a range of legal documents and involving a number of legal entities. The arrangements were described by one of the lawyers involved as the most complex they'd seen in this type of arrangement. Appendix 3 contains a schedule of legal documents which were considered during the review, but it isn't an exhaustive list.

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<sup>15</sup> TVCA Constitution – P.3



- 12.9. It is noted that much of the detail was and continues to be treated as confidential on the basis of commercial sensitivity, and the absence of information appears to have fuelled the media speculation and generated adverse public comment.
- 12.10. Given the complexity of the project and the number of legal agreements etc, the absence of a detailed Joint Venture agreement, which clearly sets out the obligations of the parties to the JV, is significant and has given rise to some ambiguity from the external perspective as to the precise roles and responsibilities of TCVA, STDC and the JV Partners against which performance can be measured aligned to the rewards being provided.
- 12.11. The Localism Act 2011 provides a range of tools for TVCA to exercise oversight, influence, and control over STDC. TVCA and STDC also have in place comprehensive Constitutions which set out the governance requirements and processes. These are augmented by the Accountability Framework. On the face of it the combined effect of these controls would, if diligently followed, ensure appropriate accountability, scrutiny, and transparency.
- 12.12. However, discussions between the Panel members and TVCA/STDC officials revealed differing viewpoints on the interpretation of the provisions regarding the threshold at which the referral of decisions for TVCA approval was required. There were also differences of opinion regarding aspects of the legislative safeguards such as the extent of control/scrutiny TVCA was able to exert over STDC.
- 12.13. There was a lack of clarity as to whether and to what extent TVCA and the constituent local authorities were liable for the activities of the MDC which is the vehicle via which the Mayor is orchestrating the Teesworks project. A key question was whether, in the event that financial or other liabilities arose from STDC, the constituent authorities or ultimately HM Government would meet such losses. In any event TVCA has direct exposure to STDC and TWL through long term loans and SeAH income strip. At the STDC audit and governance committee in August 2022 the committee discussed the importance of the Going Concern assumption. The minute of the discussion incorrectly records that TVCA had provided a letter of support to STDC guaranteeing continued funding, in fact the letter related to STSC. It is not clear whether the Committee understood the accurate position regarding the Going Concern assumption.
- 12.14. In view of the mechanisms available for TVCA and the Mayor to exercise oversight and given the numerous significant decisions made during the years from 2020 to the present day, the almost complete absence of any referral decisions or evidence of any consents being sought is noteworthy. The underlying legislation is convoluted, and it may have been the case that there was a lack of awareness amongst TVCA members of the levers available to them and the range of STDC decisions which were subject to the requirement for TVCA/Mayoral consent.
- 12.15. As regards the quality and content of reports which were submitted to TCVA and to some extent STDC Board, the Panel noted the paucity of detail in some reports, the absence of the source of legal and other professional advice and the absence of full and clear explanations of the consequences arising from decisions. In addition, some of the more significant decisions were taken at short notice leaving little time for decision makers to fully digest matters. Although it isn't possible to conclude that any decisions would have been decided differently, it is appropriate to recognise the risk and highlight these areas of weak governance for future improvement.

- 12.16. The Panel members concluded that the level and nature of the transparency and accountability associated with this project hasn't always met the standard which they would consider appropriate for a publicly funded project of this scale and nature.

## **Relationship of STDC to TVCA and Role of Monitoring Officer**

- 12.17. The Panel members and STDC Senior Officers also differed regarding the nature of the requirement, set out in the Tees Valley Combined Authority (Functions) Order 2017<sup>16</sup>, that the TVCA Monitoring Officer should also fulfil the role of Monitoring Officer for STDC as if it were a committee of TVCA.
- 12.18. Whilst it is clear that STDC isn't a 'committee' of TVCA in the legal sense and is a separate legal entity, the provision requires the type of legal scrutiny and oversight in respect of STDC as would be the case in respect of TVCA or one of its committees. When combined with the other measures of control and influence available to the TVCA it is clearly not intended to be an entirely autonomous entity. Advice commissioned by the Chief Executive of STDC confirms this as follows<sup>17</sup>:

*"24. In summary a Mayoral development corporation is an independent legal body; it is not a committee of the Combined Authority. As a public authority it has a relationship with the Combined Authority that created it and exercises its functions within its aims and objects. Like other public bodies a corporation is reviewed and monitored by the Combined Authority and its monitoring officers. Despite having broad powers certain decisions are subject to consent (in effect supervision) by the Combined Authority. The corporation must also have regard to any guidance issued by the Combined Authority and must comply with any directions made by it."*

- 12.19. It was a matter of some concern that one of the former Monitoring Officers described their involvement as 'peripheral'. According to the legislation and TVCA/STDC constitutions the Monitoring Officer and other Statutory Officers had a key role to play in advising both TVCA and STDC members of the relevant legal and governance provisions.

## **Decision Makers and Potential for Conflict of Interest**

- 12.20. On the basis of interviews with key persons involved, including TVCA Officers and members of the STDC Board, the Panel gained the impression that there was a relatively small group of people who had full accessibility/awareness of information regarding the key business decisions being made in relation to the project. The core group of officers and the Mayor held senior appointments in a number of relevant corporate bodies which in some cases gave rise to potential conflicts of interest, in particular those between TVCA, The Office of Mayor, STDC/STDL and TWL. The restructuring of the joint venture, with the effect of dramatically reducing the STDC ownership and role, increased the potential for conflicts because the STDC Chief Executive remained a Director of TWL, (and shareholder representative for STDC) and continued to participate in decision making. When questioned about potential conflicts, the Chief Executive didn't acknowledge the potential and confirmed that they hadn't registered any interests in the accordance with the TVCA/STDC officer conflicts requirements.

## **Teesworks Ltd (TWL) – Governance**

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<sup>16</sup> Tees Valley Combined Authority (Functions) Order 2017 art. 6(7)

<sup>17</sup> Leo Charalambides 9<sup>th</sup> October 2023.

12.21. TWL, originally named South Tees Enterprise (STEL), is the company which was used as the vehicle for the 50/50 Joint Venture between STDC and the JV Partners and which continued as the 90/10 JV following changes in share ownership in 2021. It was acknowledged by senior TVCA officers that there is limited formal governance and decision making within TWL, which given the large sums of money arising from public investment which flow through and are controlled by TWL, much of which is necessary to meet obligations to STDC, is a concern. The Chief Executive for TVCA and STDC, has been a director of TWL since 2020. The interests of TWL haven't always been aligned with those of either TVCA or STDC, particularly after the re-distribution of share ownership and this gives rise to potential/perceived conflicts of interest which could be avoided by another TVCA, or an officer from a constituent authority, undertaking the TWL director role in place of the chief executive. The Panel was only made aware of two records of TWL meetings that were formal in the sense of being minuted.

## **Transparency vs Confidentiality**

12.22. The key officers and the Mayor hold the view that much of the information relating to the Teesworks project is commercially sensitive and warrants a relatively high level of confidentiality. Significant amounts of information remain confidential. Freedom of Information requests have regularly been refused by TVCA on the basis of commercial confidentiality and in some cases with weak public interest justification. FoI requests in respect of information concerning TWL have been refused on the basis that it is not wholly owned by a public authority. It is understood that recent changes to the FoI processes have been implemented by TVCA which may have brought the process into compliance but the Panel have not had the opportunity to assess that.

12.23. Members of TVCA Overview & Scrutiny Committee expressed frustration at the lack of information provided which they felt undermined their ability to scrutinise the activity of STDC and TWL. The Panel feel that this information vacuum serves to encourage the speculation and may create a distraction from the positive outcomes arising from the project. Members of the TVCA Audit Committee expressed similar concerns.

12.24. In the context of public private joint ventures, finding the right balance between the prevailing cultural norms relating to matters such as transparency, public accountability and governance is often a challenge and the Teesworks project isn't immune from that.

## **Significant Decisions**

12.25. The review has considered a large amount of information covering the period from the inception of TVCA in 2017 up to the present day. In reviewing the decision-making process, the following decision points have been of primary focus for the Panel because they have had a particular level of importance or impact upon the project:

- The decision of the Mayor and STDC in Feb 2020 to enter into a public/private 50/50 JV partnership between STDC and the JV Partners, which included granting options to the JV Partners over land comprising the entire Teeswork site as held by STDC/STDL.
- The Decision of the Mayor and STDC in March 2020 to agree a settlement with SSI and the Thai Banks regarding land subject to the CPO process whereby they would withdraw objections to the CPO in return for some of the CPO land being transferred and demolition works provided by TVCA/STDC.

- The subsequent decision of the Mayor/STDC officials in June 2020 to withdraw from the first settlement and enter a second settlement agreement (SA2) with the Thai banks regarding the CPO land which involved incurring costs of £16m for land purchase.
- The decision of the Mayor and STDC in Aug 2021 to alter the ownership and control of the JV Co from 50/50 to 90/10 in favour of the JV Partners and associated changes including amendment of the land options with the effect of reducing the cost of exercising the options.
- The decisions of the Mayor, STDC, TVCA and TWL relating to the GE/SeAH Wind Turbine Production Facility including the receipt by TWL of the proceeds of an 'income strip' valued at £93m.
- Decision of the Mayor and STDC regarding the funding and construction of and subsequent sale on deferred terms of the South Bank Quay Development including TVCA taking on a £106m loan from the UK Investment Bank. Whilst TVCA agreed the original business case there has been no further reference back regarding TVCA undertaking the borrowing or subsequent "sale".
- Decisions of STDC regarding the changed operating arrangements as a result of potential changes to landfill tax.

## 13. TVCA and STDC – Governance Architecture

### Tees Valley Combined Authority (TVCA)

- 13.1. Part 6 of the Local Democracy, Economic Development and Construction Act 2009 ("the 2009 Act") provides for the establishment of Combined Authorities. As a result of a Devolution Deal in 2015, Tees Valley Combined Authority (TVCA) was established by Order on 1<sup>st</sup> April 2016<sup>18</sup> (the TVCA Order). The role of Teesside Mayor was established by Order on 19 July 2016<sup>19</sup>.
- 13.2. Article 5 of the TVCA Order provides that the constituent councils, Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland, and Stockton-on-Tees, shall be responsible for meeting the costs of TVCA reasonably attributable to TVCA's exercise of its functions as set out in the Order. The order stipulates a scheme of apportionment of the costs which shall be followed in the absence of any agreement between the constituent councils.
- 13.3. On the 3<sup>rd</sup> March 2017 a further order came into force which made detailed provisions as to the specific functions conferred on TVCA<sup>20</sup>. It also contained a variety of other provisions including the following 'Incidental Provisions' which had the effect of imposing elements of the Local Authority regulatory framework in the context of Mayoral Development Corporations, for example:

*7. Section 5(25) of the 1989 Act (designation and reports of monitoring officer) shall apply in relation to the Combined Authority as if a Corporation were a committee of the Authority.*

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<sup>18</sup> The Tees Valley Combined Authority Order 2016 SI2016 No. 449

<sup>19</sup> The Tees Valley Combined Authority (Election of Mayor) Order 2016 No. 783

<sup>20</sup> The Tees Valley Combined Authority (Functions) Order 2017 SI 2017 No. 250

- 13.4. The second Order also provides that the constituent councils must meet the costs of the expenditure reasonably incurred by the Mayor in connection with the exercise of his functions. (Art 10(2)).
- 13.5. The underlying legislative architecture of TVCA and the Mayor is based upon the Greater London Assembly Mayoral model with a directly elected Mayor. The Order operates to transpose that legislation into the TVCA context with appropriate textual changes regarding references to the London Mayor and Greater London Assembly etc. The Governance arrangements for TVCA are contained in its Constitution and supplemented by the Tees Valley Assurance Framework 2019-29.
- 13.6. The Mayor is the Chairman of TVCA Cabinet which is comprised of the Council Leaders of each Constituent Authority. The Cabinet is a part of the democratic TVCA decision making mechanism and operates collectively with the Mayor although it should be noted that the Mayor is directly elected and has decision making powers in his own right.

## **Status of TVCA**

- 13.7. The legal status of TVCA is that of a principal local authority in most circumstances and consequently it must operate within the legal and regulatory regimes and guidance applicable in that context. Of particular relevance to this review are the obligations on transparency of decision making and accountability for ensuring best value is achieved as regards the expenditure of public funds. The Nolan principles of conduct in public office apply and are contained as a preamble to the TVCA Councillors Code of Conduct at Appendix VII of the TVCA Constitution.
- 13.8. The Order confers a range of functions on TVCA<sup>21</sup> many of which are deemed to be general functions ‘exercisable only by the Mayor’<sup>22</sup>
- 13.9. S.73 of the Local Government Act 1985 provides the requirement that an officer be designated to make arrangements for the proper administration of TVCA financial affairs. TVCA must also designate a Scrutiny Officer, Monitoring Officer and Head of Paid service and these roles carry the relevant statutory obligations.
- 13.10. All meetings of TVCA are subject to the access to information rules under Schedule 12A of the Local Government Act 1972.

## **Overview & Scrutiny Committee**

- 13.11. TVCA is obliged to establish an Overview and Scrutiny Committee<sup>23</sup> whose members must be empowered to review and scrutinise decisions and or actions of TVCA or the Mayor.
- 13.12. The TVCA Overview and Scrutiny (O&S) Committee is composed of 15 councillors (3 from each of the Constituent Authorities), reflecting the political balance across all 5 Constituent Authorities. The purpose of the O&S Committee is set out in the TVCA Constitution (Appendix II para 2.1) as follows:

*“...in order to scrutinise and support the decision-making of the Combined Authority Cabinet (“the Cabinet”) and the Tees Valley Mayor (“the Mayor”).”*

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<sup>21</sup> Article 3(1) Tees Valley Combined Authority (Functions) Order 2017

<sup>22</sup> Article 5(1) Tees Valley Combined Authority (Functions) Order 2017

<sup>23</sup> Local Democracy, Economic Development & Construction Act 2009 Schedule 5A

13.13. This is generally acknowledged to include the right to access documents in the possession or control of the Mayor or TVCA and which relates to any decision of TVCA or the Mayor.

13.14. The Panel aren't aware of any of the significant decisions under review having been shared with the TVCA O&S Committee for review or potential Call-in. In fact the former Monitoring Officer had, in a report dated 15<sup>th</sup> September 2021, provided written advice to the O&S Committee to the effect that the Committee's reach didn't extend to bodies such as the STDC.

13.15. The following is an extract from Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009

9.

*"1. (1) A combined authority must arrange for the appointment by the authority of one or more committees of the authority (referred to in this Schedule as overview and scrutiny committees).*

*(2) The arrangements must ensure that the combined authority's overview and scrutiny committee has power (or its overview and scrutiny committees have power between them)—*

*(a) to review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the authority;*

*(b) to make reports or recommendations to the authority with respect to the discharge of any functions that are the responsibility of the authority;*

*(c) to make reports or recommendations to the authority on matters that affect the authority's area or the inhabitants of the area.*

*(3) If the combined authority is a mayoral combined authority, the arrangements must also ensure that the combined authority's overview and scrutiny committee has power (or its overview and scrutiny committees have power between them)—*

*(a) to review or scrutinise decisions made, or other action taken, in connection with the discharge by the mayor of any general functions;*

*(b) to make reports or recommendations to the mayor with respect to the discharge of any general functions;*

*(c) to make reports or recommendations to the mayor on matters that affect the authority's area or the inhabitants of the area.*

.....

*(8) Any reference in this schedule to the discharges of any functions includes a reference to the doing of anything which is calculated to facilitate, or is conducive or incidental to, the discharge of those functions."*

13.16. Subsequent regulations made in 2017 have reiterated the role of the Overview and scrutiny functions within the context of a combined authority<sup>24</sup>.

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<sup>24</sup> The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017

13.17. STDC is a public authority created and wholly owned by TVCA, albeit a separate legal entity, and which has been established as a vehicle for delivering the objectives of TVCA i.e. STDC operates in connection with the discharge of TVCA functions and or its existence/role is calculated to facilitate, or is conducive or incidental to, the discharge of TVCA functions. As such, the activities of STDC would fall within the remit of the TVCA Overview and Scrutiny Committee.

13.18. However, the approach adopted by TVCA on advice from its Monitoring Officer, limited the remit of the O&S Committee by excluding the activity of STDC and TWL. The following is an extract from a report authored by the TVCA Monitoring Officer dated 15<sup>th</sup> September 2021. It was submitted to the TVCA O&S Committee to provide guidance on the extent of the committee's remit.

*5. It is also important to consider the scope of the remit of the O&SC in the context of the role, in relation to the decision making of the Combined Authority. Whilst the remit extends to the decisions of the Combined Authority including the decisions in relation to funding given by the Combined Authority and its role the Combined Authority takes in monitoring those investments, the O&SC's reach ends with the Combined Authority's decisions and does not extend inside some of the principal funding recipients such as the South Tees Development Corporation and Teesside International Airport.*

*15. Whilst the remit of the Committee is not constrained to Key Decisions, it is constrained to examining only the decisions of the Combined Authority. The role of the Committee does not extend to the decisions of other bodies, even when they are significantly funded or closely related to the Authority. As such, it is legitimate for the Committee to examine TVCA's decisions in relation to its funding and the monitoring of its funding of those organisations. However, these organisations have their own organisation and governance, and the remit of the Committee does not extend beyond the decisions of the Combined Authority.*

13.19. It is noteworthy that TVCA has provided over £200m of long-term loans to STDC including from UKIB for the construction of the Quay, together with access to business rates income. As such the finances of STDC are fully reliant on continued financial support from TVCA and these arrangements alone should merit review by both TVCA overview and scrutiny and audit and governance committees.

13.20. This advice is at odds with the provisions of the TVCA Constitution and legislation as set out above which describes the remit as extending to any action or decisions made in connection with the discharge of any functions that are the responsibility of the authority.

13.21. STDC is itself directly undertaking functions of TVCA, and TWL is also a key element in delivering against those functions and at the time the advice was provided, was 50% owned by STDC. Attempts were made to explore the basis for the advice, but the former Monitoring Officer refused to have any contact with the Panel or contribute to the review stating that their professional duties barred them from this despite receiving assurances from TVCA that they had no objection.

13.22. Another important mechanism for overview and scrutiny is Call-In under paragraph (4).  
*(4) The power of an overview and scrutiny committee under sub-paragraph (2)(a) and(3)(a) to review or scrutinise a decision made but not implemented includes—*

- (a) power to direct that a decision is not to be implemented while it is under review or scrutiny by the overview and scrutiny committee, and
- (b) power to recommend that the decision be reconsidered.

13.23. These provisions are reflected in Paragraph 72 of the TVCA constitution and in Appendix II of the procedure rules.

13.24. The following is the definition of 'Key Decisions' which are required to be included in the TVCA's Forward Plan copies of which are required to be circulated to the Members of O&S in order that they are enabled to 'Call-In' decisions.

13.25. Paragraph 18.2 TVCA Constitution

*18.2 (b) For the purposes of the Forward Plan, a "key decision" means a decision of a decision maker, which in the view of the Combined Authority's Overview and Scrutiny Committee, is likely to:*

- *result in the Combined Authority or the Mayor incurring significant expenditure, or making significant savings, having regard to the Combined Authority's budget for the service or function to which the decision relates; or to be*

- *significant in terms of its effects on persons living or working in an area comprising two or more electoral wards or divisions in the Combined Authority's area.*

13.26. However, it is understood that many of the decisions which have been taken by STDC or TVCA haven't been recorded as Key Decisions because they were deemed to fall outside of the definition or were considered to be confidential due to commercial sensitivity. This combined with the Monitoring Officer's overly restrictive interpretation of the O&S remit has fundamentally undermined the ability of the O&S committee to exercise its functions in respect of decisions relating to the Teesworks Project. The Panel would also question whether confidentiality is a valid reason for decisions not to be seen as Key as they should still be open to scrutiny albeit confidentially.

## **Audit & Governance Committee**

13.27. Paragraph 84 of the TVCA Constitution provides for an Audit and Governance Committee:

*"..for the purposes of assuring sound governance, effective internal control and financial management of the CA, and that the CA observes high standards of conduct in public office."*

13.28. The Panel noted that the TVCA Audit and Governance Committee had, on a number of occasions, requested regular assurance reports be brought relating to STDC but the reports seen on agendas were more information giving rather than assurance. It was also noted that the Committee meetings do not follow a regular cycle with sometimes lengthy gaps of 6 months or more between meetings. At its July 2023 meeting the Committee recognised that it needed an additional meeting each year and to adopt a regular cycle.

## **Office of Tees Valley Mayor**

13.29. TVCA held its first mayoral election in May 2017 at which Ben Houchen was elected as its first Tees Valley Mayor. He was subsequently re-elected Mayor on 6<sup>th</sup> May 6, 2021, for a further 3-year term. The mayoral model is based on that of the Mayor of London Mayor and Greater London Assembly but with some fundamental differences.



## South Tees Development Corporation (STDC)

- 13.30. The legislation establishing Mayoral Development Corporations is found in Chapter 2 of the Localism Act 2011<sup>25</sup> (as amended/modified the Tees Valley Combined Authority (Functions) Order 2017) and was originally drafted for application to the Mayor of London. The adaption of the legislation is achieved in a convoluted way which requires that the original text is, in places, read so as to substitute different text. For example, 'TVCA' is substituted for 'Mayor of London' and 'Development Corporations' (DC's), are read as 'Mayoral Development Corporations'<sup>26</sup>.
- 13.31. This approach isn't user friendly and includes an additional convolution in Article 5 of the 2017 Order which lists functions of TVCA which are '**exercisable only by the Mayor**'.
- 13.32. Development Corporations are established under S.198 Localism Act 2011 (LA 2011) which requires that the Secretary of State must establish a DC if they receive notification of designation from a Combined Authority Mayor under S.197(1) (LA). The STDC (Establishment) Order came into force on 1<sup>st</sup> August 2017.
- 13.33. The object and powers of a DC are found in S.201 LA 2011 and include:
- 1) The object of a DC is to secure the regeneration of its area.
  - 2) The DC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes.
- 13.34. DCs are used by CAs as vehicles to deliver projects initiated by the Mayor and CA associated with specific geographical areas. DLUHC officials advise that it was never the intention of the legislation that the Mayor would Chair the MDC but acknowledge that the legislation does not preclude this.
- 13.35. Amongst other things, DCs may:
- Acquire, develop, or regenerate land. S.206 LA 2011
  - Provide infrastructure or buildings. S.205 LA 2011
  - Take on the role of the planning authority for the area that it covers. S.202 LA 2011 (The function is that of the CA but reserved to the Mayor)
  - Adopt private roads
  - Make compulsory purchase orders. S.207 LA 2011 (with consent from the Secretary of State and the CA)
  - Carry on any business or acquire interests in bodies corporate. S.212 LA 2011 (with consent of CA)
  - Provide financial assistance to any person. S.213 LA 2011 (with consent of the CA)

## STDC Governance Provisions Including Relationship with TVCA

- 13.36. The governance arrangements of STDC are derived from a number of sources including statute, regulations and in both TVCA and STDC Constitutions; there is some duplication of references. Collectively, they provide a comprehensive framework but in places it lacks clarity and is subject to different interpretations. The STDC is a corporation but doesn't

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<sup>25</sup> Localism Act 2011 S.198.

<sup>26</sup> See Article 4 and Schedule - Tees Valley Combined Authority (Functions) Order 2017

fall within the category of bodies to which the TVCA may delegate its functions under S.101 Local Government Act 1972

## Statutory Officers

- 13.37. According to Addleshaw Goddard advice<sup>27</sup>, it is the requirement that STDC appoint a Group Chief Executive and the TVCA Director of Finance shall fulfil the role of STDC Director of Finance and Resources, although the Panel note this is not common practice in all CAs. The designation of Monitoring Officer for the TVCA shall apply as if STDC were a Committee of TVCA<sup>28</sup>. It is noteworthy that although STDC isn't a 'committee' of TVCA the statutory provision requires that the TVCA's Monitoring Officer shall act as though the STDC was a committee of TVCA and accordingly have the same powers and obligations as would be applicable in the context of a Local Authority, i.e., oversight of decision making to ensure legality and the promotion of ethical conduct.

## STDC Board Membership

- 13.38. The Chair, Vice Chair and Board of STDC shall be appointed by TVCA following a proposal by the Mayor. (STDC Constitution para 10)
- 13.39. Board members shall be appointed following an open and transparent process in accordance with best practice in public appointments. (STDC Constitution Para 12).
- 13.40. Paragraph 97 of the TVCA Constitution provides that the Mayor shall make proposals to TVCA Cabinet to appoint the Chair and Members of DCs. Amendments to the STDC Constitution must be approved by TVCA Cabinet. (para 98 TVCA Constitution).

## Statutory Powers of Oversight

- 13.41. S.202-221 LA 2011 and Schedule 21 of the LA 2011 set out various powers/functions which STDC may potentially exercise, some of which are subject to the requirement for '**consent**'. The legislation was originally drafted for application in the context of the Mayor of London but it is 'modified' by the TVCA (Functions) Order 2017 for application in the context of the TVCA, its Mayor and the STDC. There has been some confusion as to whether the 'consents' required under S.209, 212 and 213, should be granted by the TVCA or the Mayor and this may have arisen from the mechanism by which the original legislation is modified by the Order to apply to TVCA and Mayor.

In 2018 STDC received advice from Addleshaw Goddard on the nature of these powers and the requisite 'consents' confirming that the TVCA was the relevant 'consenting' body. (N.B. In Oct 2023 STDC sought counsel's advice on the extent to which STDC's autonomy was limited by the oversight of the TVCA and amongst other things this advice reiterated the view of Addleshaw Goddard i.e. the power of 'consent' in this context lay with the TVCA).

However, at different points during the passage of decision-making it appears that TVCA/STDC have adopted different interpretations of the 'consent' provisions. For example, in respect of the JV 50/50 decision, the following extract from the report to the TVCA Cabinet states that the TVCA is the body which is empowered to grant consent.

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<sup>27</sup> Project Herrington – Addleshaw Goddard Advice 24 August 2018 Michael O'Connor Partner

<sup>28</sup> STDC Constitution Para 24-26 and s.7 of the Tees Valley Combined Authority (Functions) Order 2017.

*“The Schedule to the Tees Valley Combined Authority (Functions) Order 2017 modified the provisions of the Localism Act for STDC, as the Act was originally drafted to provide powers to the London Mayor. Paragraph 1(3) of the Schedule provides that whenever the Localism Act states “the Mayor”, for STDC it should read “the Combined Authority.*

*These provisions mean that when, for example, STDC wants to form a body corporate or grant financial assistance “..with the consent of the Mayor..”, for STDC it means consent of the Combined Authority to do so.”*

## **Report to TVCA Cabinet 13<sup>th</sup> March 2020**

Whereas in contrast, the decision in 2021 to restructure the JV into a 90/10 configuration appears to adopt the alternative interpretation that the Mayor is the relevant body empowered to give ‘consent’. The following extract from the decision notice dated 30-11-21 confirms the alternative interpretation.

### ***Decision 2: Mayoral decision to dispose of CPO land***

*Localism Act 2011 prescribes certain restrictions in the disposal of land by a Mayoral Development Corporation. Specifically, Section 209(3) may not dispose of compulsorily purchased land without the express consent of the Mayor. Accordingly, the Mayor’s consent is specifically requested to allow the transaction to proceed.*

### ***Decision 3: Mayoral decision to dispose of land at an undervalue (if applicable)***

*Localism Act 2011 prescribes certain restrictions in the disposal of land by a Mayoral Development Corporation. Specifically, Section 209(1) may not dispose of land for less than best consideration which can reasonably be obtained unless the Mayor consents. The Mayor will note the valuation set out at Annex A.*

## **Delegated decision No. STDC04-2021 30-11-21**

The Panel note that there have been different interpretations of this important legislation and whilst the Panel does not purport to provide legal advice, it has formed the view that the Mayor and TVCA should reassure themselves that their interpretation in this regard is legally sound and consistently applied. The Panel also concluded there would be a benefit from the issue by DLUHC of guidance as to its interpretation.

- 13.42. The following are the key provisions relating to "Relevant Consents" for specific types of decisions:
- S.219(1) LA 2011, imposes a requirement of ‘consent’ for disposing of land at less than best consideration.
  - S.212(2)(b) LA 2011, requires consent to acquire interests in a company.
  - S.213(1) LA 2011, requires consent to give financial assistance to any person.
- 13.43. A TVCA Officer with delegated authority via the scheme of delegation would in appropriate circumstances be able to give ‘consent’ on behalf of the Mayor.
- 13.44. The purpose of the consent provisions is to provide some oversight on the actions of STDC. However, in the context of TVCA, due to the fact that the same officers occupy the

senior roles in both TVCA and STDC and the Mayor is the Chair of the TVCA and STDC Board, the Mayor may find themselves in the position of providing consent for their own proposals.

13.45. The Panel have found only limited evidence of formal adherence to the consent requirements, as there is generally no audit trail of consents having been given.

13.46. The view of the Statutory Officers is that STDC had a high degree of autonomy from TVCA and for the large part there was no requirement to seek approval from the TVCA. There were also concerns expressed about the wider dissemination of information which was regarded as commercially sensitive.

## **Provision for the Oversight of STDC by TVCA**

13.47. The following is an extract from advice received by STDC/TVCA from Addleshaw Goddard solicitors in August 2018<sup>29</sup> which advises on powers available to the Mayor and STDC but also the extent by which the powers are intended to be 'curtailed' by the oversight of TVCA and the provisions in TVCA and STDC Constitutions.

*4.6 All of STDC's powers are subject to:*

*a) the provisions of its constitution, including the overriding objectives contained therein, which are:*

*(i) to further the economic development and regeneration of the South Tees area, so that it becomes a major contributor to the Tees Valley economy and the delivery of the Tees Valley's Strategic Economic Plan;*

*(ii) to attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;*

*(iii) to transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community; and*

*(iv) 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; and*

*(b) any directions to STDC as to the exercise of its functions issued by TVCA (see section 220 of the Amended Localism Act). STDC must comply with any such directions for the time being in force. We understand that there are no such directions currently in force.*

*4.7 Under section 219 of the Amended Localism Act, TVCA may also issue guidance to STDC on the exercise of its functions. STDC must, in exercising its functions, have regard to any such guidance for the time being in force. We understand that there is no such guidance currently in force.*

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*4.19 The Finance Director of TVCA must also fulfil the role of Finance Director of STDC (as such, see provisions relating to the Finance Director as set out above).*

*4.20 The responsibilities of the Finance Director include:*

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<sup>29</sup> Project Herrington – Addleshaw Goddard Advice 24 August 2018 Michael O'Connor Partner

(a) overseeing the interface between the financial responsibilities of TVCA and STDC, to ensure the financial integrity of both organisations;

## **8 Discussion**

8.1 The governance regime and framework relating to TVCA and STDC is comprehensive and highly regulated. The powers of TVCA, the Mayor and STDC are wide ranging and, in the case of STDC, contain specific powers designed to support STDC's key objective of securing the regeneration of the South Tees area.

However, the exercise of STDC's powers, are curtailed by the requirement for referrals to TVCA in respect of any matter which:

(a) involves a CPO;

(b) involves acquiring an interest in or forming a body corporate (this would include the acquisition of the Shares); or

(c) may result in a significant risk of:

(i) a financial liability;

(ii) a statutory liability; or

(iii) an environmental or criminal liability to TVCA or its constituent authorities.

Most of the options referred to in this Report would involve some element which would require TVCA consent and/or referral before STDC could make a final decision.

13.48. The advice confirms that the consent requirements also apply to a number of other actions including the provision of 'financial assistance' and the disposal of land at less than best consideration.

13.49. The advice confirms that, although STDC is a distinct legal entity, the legislative framework within which it operates provides that it should be subject to close oversight by TVCA through a variety of controls.

## **Annual Reporting**

13.50. Legislation<sup>30</sup> also imposes a requirement on STDC to produce an annual report on how it has exercised its functions during the year including an audited statement of accounts, to be provided to TVCA. In order that TVCA can properly undertake its oversight function this report should include all the key decisions undertaken in order that TVCA members are fully and formally informed about the detailed activities of STDC. However, the reports as reviewed by Panel members give only general information as to progress and do not identify key decisions.

### **TVCA Constitution -**

#### **Matters to be Referred Back to TVCA Cabinet<sup>31</sup>**

The TVCA Constitution includes specific requirements relating to financial implications for the TVCA arising from an STDC proposal:-

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<sup>30</sup> Localism Act 2011 Schedule 21 S.10(1)

<sup>31</sup> Para 93 TVCA Constitution December 2020/para 85 TVCA Constitution September 2023

*“Any financial implications for the TVCA arising from a DC decision shall require Cabinet agreement through the arrangements for financial decision-making set out in the TVCA constitution.”*

In addition<sup>32</sup>, it further provides:-

*“Referral Decisions by the Development Corporation (defined as any decision or issue at the Development Corporation which may result in a significant risk of a financial, statutory, environmental or criminal liability to the Combined Authority or to any or all of its Constituent Authorities) shall require approval by the Cabinet prior to the implementation of any such decision by the Development Corporation.”*

### **STDC Constitution<sup>33</sup>**

#### **Paragraph 34**

The STDC Constitution provides as follows:-

*“The Combined Authority may give the Corporation general or specific directions or guidance in relation to the exercise of any of the Corporations functions. The Corporation must comply with any directions given by the Combined Authority that are in force (s220 Localism Act 2011) and must have regard to any guidance issued (s219 Localism Act 2011).”*

There is no evidence that TVCA members were informed of or otherwise aware of this provision which could, in theory, enable TVCA to require more detailed information about the activities of STDC.

#### **Paragraphs 30-38 – Referral Decisions**

The following extract from the STDC Constitution reflects the TVCA Constitution by implementing a requirement that any proposed decision of STDC which gives rise to potential liability for TVCA or any of its constituent authorities must be referred to TVCA for consideration.

*“30. The STDC Board shall be responsible for identifying 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 or to any or all of its Constituent Authorities (“a Referral Decision”) and shall refer such decisions or issues to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision.”*

The decision to refer is one for STDC Board members but the statutory officers are obliged to advise STDC Board as to when a Referral Decision may be required. From discussions with the Chief Executive and the Monitoring Officer it was apparent that there was a difference of opinion between Panel Members and TVCA Officers as to the circumstances which would warrant referral to TVCA for approval. The decision to change the 50/50 JV to 90/10 provides an example. The Decision Notice records that the “Statutory Officers” advised that it didn’t meet the threshold for Referral. The Panel reached a different conclusion. N.B. The decision notice wasn’t signed off by the

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<sup>32</sup> Para 99 TVCA Constitution December 2020/para 91 TVCA Constitution September 2023

<sup>33</sup> V9 September 2023

Monitoring Officer and instead the letters “N/A” were printed in the relevant signature box.

## **Tees Valley Assurance Framework (TVAF)**

- 13.51. The TVAF is an overarching document produced by TVCA which provides additional detail about the governance arrangements for TVCA and amongst other provisions, includes the following:

*“The Constitution therefore provides for the Mayor’s role to be embedded in the Combined Authority collective decision-making arrangements.” (TVAF Para 3.10)*

*“The Processes and procedures will:-*

- Ensure an appropriate separation between project development and project appraisal.

- ..... “

(TVAF Para 4.1)

- 13.52. The TVAF sets out a rigorous and disciplined approach to the assessment of proposals by requiring business cases to be provided for each proposal and in a set format. (See TVAF Paras 4.14 – 4.23).

*“4.29 The key objective of the TVAF is to support the Combined Authority to make judgements about the VFM of potential investments and to accept or reject investments accordingly.” (TVAF para 4.29)*

- 13.53. The Tees Valley Management Group comprises the TVCA Senior Leadership Team (Chief Executive and Directors) and the Directors of Economic Growth/Regeneration of the Constituent Authorities. The group meets twice a month and has an oversight role of the work of TVCA. It is unclear whether the initial JV or subsequent 90/10 proposal was shared with this group.

## **English Devolution and Accountability Framework 16 Mar 2023**

- 13.54. The Devolution and Accountability Framework was published by DLUHC in March 2023 sets out how mayoral combined authorities will be scrutinised and held to account by the UK Government, local politicians, business leaders and by the residents of their area. It provides a clear steer on the importance of openness and transparency in the context of Mayoral Combined Authorities and reiterates the requirement for effective Overview and Scrutiny Committees. It is a benchmark against which TVCA, The Mayor and STDC should assess themselves. The following extracts provide an indication of the aspirations contained within.

### ***“Foreword***

*The accountability system described in this framework acts as a safeguard against unethical behaviour, inadequate performance and poor value for money for the local taxpayer by placing a focus on transparency and scrutiny. It will ensure that local councillors are empowered to provide effective scrutiny through a new Scrutiny Protocol. And that local media and residents are able to hold leaders and institutions to account with accessible information about their role and performance of the leaders through plain English guidance and published outcomes showing the progress areas have made. It will improve the decision-making process and allow greater progress in delivering levelling up to all areas that have agreed devolution deals.”*

*"The English Devolution Accountability Framework is structured around the 3 key forms of accountability:*

- *local scrutiny and checks and balances*
- *accountability to the public*
- *accountability to the UK government"*

#### ***"Providing Appropriate Scrutiny***

*"2.20. The Scrutiny Protocol will focus on ensuring that each institution has a sustained culture of scrutiny. Membership on committees should be prized and competed for. Retention of members for several years should be common. Members should be able to devote the time to the role. And the committees should have the profile and cachet to ensure that their findings are brought to the attention of the public wherever necessary.*

*2.21. Committees should have easy access to relevant data to support their role. They should be supported by a well-resourced team of clerks, regular training opportunities and access to research and analysis capability."*

## **Confidentiality**

- 13.55. An extract from the Local Government Transparency Code 2015 which is cited in the Tees Valley Assurance Framework.

#### ***"Commercial confidentiality***

*20. The Government has not seen any evidence that publishing details about contracts entered into by local authorities would prejudice procurement exercises or the interests of commercial organisations, or breach commercial confidentiality unless specific confidentiality clauses are included in contracts. Local authorities should expect to publish details of contracts newly entered into – commercial confidentiality should not, in itself, be a reason for local authorities to not follow the provisions of this Code. Therefore, local authorities should consider inserting clauses in new contracts allowing for the disclosure of data in compliance with this Code."*

## **TVCA Scheme of Delegation to Officers**

- 13.56. As with other organisations it is essential for local authorities to provide for the exercise by its officers of decisions on behalf of the authority and schemes of delegation are the instrument through which this is recorded. They form a key part of the governance architecture and usually provide broad delegations to the most senior officers but set limits by way of reservations, requirements to consult and/or financial thresholds. Due to the nature of local authority functions it is also common to find reservations on the basis of potential impact upon local communities or likelihood of political controversy.
- 13.57. TVCA's scheme of delegation for officers is found at Appendix iii of the TVCA Constitution and contains much that is familiar in this context including broad delegations to senior such as the following to the CEO:

*"HPS4: To take all action which is necessary or required in relation to the exercise of any of the Combined Authority's functions or the functions of the Mayor (other than those functions which by law can be exercised only by the Combined Authority or by the Mayor), having regard to the Combined Authority's or Mayor's approved plans, policies or strategies and the Combined Authority's budget, and all enabling legislation."*



13.58. However, there is an absence of financial thresholds or reservations for politically sensitive or controversial matters. Although this may facilitate agility/ease of decision-making it risks undermining the necessary and appropriate political oversight/accountability for decisions. There is a risk that officers will, for reasons of expediency, be tempted to use the permissive delegations to the full extent whereby scrutiny of decisions would be significantly reduced. When combined with a culture of unwarranted levels of confidentiality, transparency and therefore accountability, will be impaired.

### **Consideration whether the governance provisions met in reality**

13.59. As confirmed by Addleshaw Goddard and Counsel, the combination of the legislative requirements and the provisions arising from TVCA and STDC Constitutions makes it clear that the intention is for TVCA and the Mayor to have close oversight of STDC and its activities with the ability to issue mandatory guidance and/or directions to STDC and requirements that STDC shall seek the Mayor's (or TVCA's) consent before acting.

13.60. The expectation of such levels of governance and accountability is understandable given the large sums of public money being put at the disposal of STDC and the risk profile of its activities. Any liability arising from STDC is, in default, likely to sit with TVCA which is another reason why access to information for TVCA members is an important democratic safeguard and this is certainly the case if STDC is unable to repay the long term loans advanced by TVCA.

13.61. At the time of the 50/50 JV and 90/10 JV decisions the legal advice under which STDC was operating identified the requirement for TVCA consent for specified actions by STDC. In the event TVCA consent wasn't specifically sought for the 50/50 JV nor for the move to 90/10. The need to enable wider democratic scrutiny of the actions it was proposing to take. This is particularly important given the small group of senior officers and the Mayor, who were required to wear several hats due to their multiple appointments. This gives rise to a risk of 'group think' due to the absence of challenge. The Panel members formed the opinion that the practice of decision-making around the significant decisions fell short of what was envisaged in the governance framework and what would be considered best practice in the context of this project.

13.62. TVCA/STDC Officials commissioned legal advice in respect of the above matters and the related issue of where ultimate liability rests. The following are some extracts from that advice<sup>34</sup>.

*15. A Mayoral development corporation is a public authority.*

*16. A corporation is given a very broad power to do anything it considers appropriate for the purposes of its object (the regeneration of its area) or for purposes incidental to these purposes (s 201). Specific powers of a corporation are in ss 206 – 210 of the 2011 Act. The specific powers are also to be exercised for the purposes of its object and for purposes incidental to its purposes. Some specific powers are qualified and need in certain circumstances, the consent of the Combined Authority. For example, disposal of land for less than best consideration (s 209(1)), formation of business and subsidiaries and the financing thereof (s 212) and the provision of financial assistance (s 213). Consent by the Combined Authority may be given unconditionally or subject*

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<sup>34</sup> **Leo Charalambides** Counsel - 9<sup>th</sup> Oct 2023

to conditions and may be given generally or specifically (s 221(1)) and may be varied or revoked (s 221(2)).

18. ....I am of the view that the effect of these amendments is to support and enhance the review and guidance of the Corporation by the Combined Authority and assist in the reporting of the actions of the Corporation to the Combined Authority. (The statutory monitoring is bolstered by the Constitutional arrangements for a Referral Decision (see below)).

23. In summary a Combined Authority creates a Mayoral development corporation; it keeps the existence of the corporation under review and ensures that the corporation is assigned a monitoring officer who reports thereon. The Combined Authority has a supervisory function in that certain functions of the corporation need the consent of the Combined Authority. The Combined Authority gives guidance and may issue directions which must be followed. The Corporation is monitored by the Monitoring Officer of the Combined Authority.

24. In summary a Mayoral development corporation is an independent legal body; it is not a committee of the Combined Authority. As a public authority it has a relationship with the Combined Authority that created it and exercises its functions within its aims and objects. Like other public bodies a corporation is reviewed and monitored by the Combined Authority and its monitoring officers. Despite having broad powers certain decisions are subject to consent (in effect supervision) by the Combined Authority. The corporation must also have regard to any guidance issued by the Combined Authority and must comply with any directions made by it.

36. There is significant overlap between the members of the TVCA and the board of the STDC; the STDC constitution requires collaboration and co-operation between it, the TVCA and its constituent members. There is evidently scope for a blurring of boundaries where persons and bodies overlap. It is, therefore, essential, that the clear legal independence of the STDC is clearly understood and observed.

- 13.63. During the evidence gathering the Panel members have sought to compare the governance framework as envisaged with the reality of what happens in practice. There is little evidence of STDC referring to or seeking consent from TVCA Cabinet on matters that would appear to fall within the relevant categories or due to their nature might reasonably be regarded as of legitimate interest to TVCA members.
- 13.64. This was reflected in concerns raised by some interviewees as to what they perceived as the lack of information made available to them regarding the detailed activities of STDC and TWL. There was no evidence of advice having been provided to TVCA members regarding the extensive powers available to TVCA to compel STDC to share information. In contrast the evidence indicates a lack of information being shared with TVCA and a collective view that STDC may act largely independently of TVCA and without public accountability. There was a view amongst officers and Councillors of the constituent authorities that there was no risk of liability to them and as such the level of scrutiny afforded was aligned with the perceived risk.
- 13.65. An example of what appears to be a persisting theme or culture of excessive confidentiality/lack of transparency is highlighted by the stances adopted with the Overview and Scrutiny Committee which was advised by the Monitoring Officer in 2021 that the committee's remit didn't extend to STDC. The examples of declined Fol requests has also provided further evidence of a tendency towards unwarranted levels of

confidentiality. We also understand that scrutiny members do not have access to confidential cabinet reports so are unaware of when cabinet is taking decisions relating either to TVCA itself or STDC.

## 14. Decision making in respect of the JV

### Summary of the initial proposed JV Deal between STDC and the JV Partners

- 14.1. The JV Partners proposed a deal with the Mayor whereby in return for STDC entering into a 50/50 JV agreement with the JV Partners (involving a 50% stake in the value to be derived from the subsequent re-generation/development of the Teesworks site and the grant to JV Partners of options over the land), the JV Partners would use their RBT Option as leverage to negotiate a Settlement Agreement with SSI whereby it would withdraw its objection to the Compulsory Purchase Order in return for 300 acres of its land and surrender of the RBT Option.
- 14.2. Although not specifically obliged to do so, the JV Partners also offered their knowledge and expertise in support of the project.
- 14.3. The potential benefit/value for the JV Partners was to be derived from the following sources:-

- i) The increase in the value of the land resulting from demolition and remediation and identifying potential tenants – i.e. the difference in the cost of STDC acquiring the land and the sale price/income stream of the land when sold/leased. Under the Option Agreement TWL were granted options to purchase covering all the land within the site.

N.B. The mechanism for distributing this value to the Partners initially involved a Commission Agreement which provided for the payment of a fee to the partners via a separate company amounting to 50% of the uplift in land value from the 'Base Value' to the 'Market Value' at point of exercise of their option. TWL would then realise its profit through onward sale of the land the payment for which would constitute a profit. As part of the change to the JV 90/10 arrangement, (August 2021), this mechanism was changed in that the Commission Fee Agreement was removed but the land was transferred to the Partners at Nominal value, i.e. £1, thereby enabling the transfer of the uplift but at a minimal transaction value. Counsel had advised that the Commission fee payment as drafted was a breach of Subsidy Control requirements because part of the uplift arose from public sector investment in remediation and demolition and this should be discounted in any Commission fee calculation.

- ii) The value of recyclable materials on the land, (e.g. steel, aggregates estimated at £120m)

N.B. It should be noted that the establishment of new industrial premises on the regenerated land would also give rise to Business Rate income to the public purse.

14.4. TWL, (originally named South Tees Enterprise Ltd STEL) was the corporate vehicle to be used to encapsulate the JV between STDC and the JV partners. Initially, the risk/reward mechanism was a 50/50 division of shares.

14.5. The functional purpose of TWL is described as follows:-

*“The role of STEL/Teesworks is to direct the deliverability of the land, to accelerate the process whereby the land becomes development and market ready rather than unsaleable as at present and to drive up the realisable value of the land from what are low or nominal base values.”*

*(Para 1.7 Lytollis)*

## **Establishment of Joint Venture between STDC and the JV Partners**

### **JV Arrangement**

14.6. As regards the JV Partners engagement on the Teesworks project, there was no formal procurement process, the rationale being that the JV Partners were in a unique position due to their having an option over the RBT Land. Both the Mayor and the Chief Executive explained that there was no negotiation as the JV Partners proposal was ‘take it or leave it’.

14.7. The JV partners were already parties to an existing joint venture with TVCA which related to the development of the land surrounding the Teesside Airport. It is understood that the process of selection and appointment as JV partner for the Airport project was similar in that it didn’t utilise a public procurement methodology or process.

14.8. The structure of the Teesworks JV arrangement was straightforward in that it involved the use of a company owned by the JV Partners, South Tees Enterprise Ltd (STEL), which issued and transferred shares to STDC in order to create a 50/50 shareholding between STDC and the JV Partners. A shareholder agreement between the JV Partners and STDC was entered into which amongst other things noted that the business of the JV Company was<sup>35</sup>:-

*2.1 The business of the JVC is the development and commercial exploitation of land south of the River Tees broadly contiguous with the South Tees Development Corporation boundary.*

*2.2 Each party shall use its reasonable endeavours to promote and develop the business to the best advantage of the JVC.*

14.9. For completeness, it is noted that in 2019 the Mayor/STDC had been approached by another developer with a joint venture proposal, Able Ports Limited - a large land-owner with interests in ports along the North Coast. The offer was considered by the STDC board on several occasions on one of which KPMG presented a summary of Able Ports financial robustness as part of the STDC process of due diligence. However, ultimately, the STDC board rejected the proposal because they weren’t convinced that Able Ports had access to sufficient finance to deliver a project of this nature. The Panel is not aware that TVCA

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<sup>35</sup> Extract from Shareholder Agreement 2020-03-13

were at any stage made aware of this alternative proposal or advised of the decision not to pursue.

- 14.10. The Mayor considered the proposal and weighed up the options of pursuing the CPO or negotiated settlement with SSI, facilitated by the leverage of the JV Partners' Option. The Mayor took account of the following factors:-
- The risk that CPO would be unsuccessful in whole or part.
  - If the CPO was successful the valuations may prove unaffordable for TVCA.
  - The CPO process might take too long to enable maximum exploitation of the available public funds or concessions.
- 14.11. Against that there were the following factors arising with the JV:-
- Loss of control by TVCA/STDC.
  - Reduction in financial reward for TVCA/STDC which would offset the significant amount of public money spent to make the site viable and attractive.
  - Loss of potential long term income stream from tenants.
- 14.12. In light of the above, the Mayor concluded that the balance of risk fell in favour of the 50/50 JV and related Settlement Agreement approach. The proposal was considered by the STDC Board at a meeting on 10<sup>th</sup> February 2020 which gave approval for the Chief Executive to conclude both the JV and the Settlement arrangement. These were separate agreements signed off at different times during February and March 2020.

## 15. Settlement Agreement between STDC and SSI/Thai Banks SA1 & SA2

- 15.1. As a result of negotiations in late 2019 and early 2020 between the Mayor, STDC Officers, JV Partners and SSI, the basis of a settlement was formulated whereby SSI would withdraw its objections to the CPO in return for STDC transferring to it 330 acres of the CPO land and the JV Partners RBT Option land to enable it to pursue development of the Redcar Bulk Terminal. The agreement, referred to as SA1 was prepared and signed on 20<sup>th</sup> February 2020.
- 15.2. SA1 didn't come to fruition because the Thai Banks, SSI's creditors, didn't agree to the deal. In its place a second agreement (SA2), was hastily negotiated and completed on 14<sup>th</sup> July 2020. This was a more straightforward settlement which didn't involve the JV Partners RBT Option and provided for the transfer of all of SSI's land to STDC at the cost of £15m.
- 15.3. The key differences between SA1 and SA2 were as follows<sup>36</sup>:-

"(1) The consideration for the SSI land under the SA1 is a nominal amount whereas STDC pays to the Thai Banks £15m under SA2.

(2) Under the SA1, SSI PCL has options to purchase the Plot 1b and Lackenby land each for the sum of £1. There are no such option agreements under the SA2. This means that under the SA2, STDC receives 100% of the uplift in the Market Value of Plot 1b and the

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<sup>36</sup> (Lytollis para 3.50)

Lackenby land which together aggregate to 177 hectares (437.8 acres). DCS is paid the 50% commission.

(3) Under the SA1, STDC undertakes to complete the ground remediation and restoration works of Plot 1b at a cost to STDC of £24m. There is no such obligation under the SA2 and whilst it will still fall upon STDC to remediate Plot 1b the Corporation will receive 50% of the uplift in the Market Value of 133.5 hectares (330 acres) of land for which it would otherwise have received a nominal £1 under the SA."

## **Decision Making – Joint Venture Arrangement and Settlement Agreement 1 (SA1)**

- 15.4. The proposed CPO of Tata and SSI land and its regeneration for development had emerged in 2017 and on the 25<sup>th</sup> July 2018 the STDC Board had resolved to make one or more CPO for this purpose.
- 15.5. On 24<sup>th</sup> January 2019 the TVCA Cabinet approved £56m funding for land acquisition and investment plan support for STDC.
- 15.6. On 29 January 2020 the Chief Executive verbally reported that an alternative approach had emerged which might mitigate some of the risks identified in respect of the CPO process such as the potential for delay and objections such as that raised by SSI/Thai Banks.
- 15.7. The new approach had arisen following a proposal from Chris Musgrave and Martin Corney to the Mayor and the Chief Executive, suggesting that they may have commercial leverage over SSI which would enable a mutually agreeable settlement to be reached.

## **16. STDC Board Decision Regarding JV Agreement and First Settlement (Agreement SA1)**

- 16.1. On 10<sup>th</sup> February 2020 the STDC Board considered a written report and purported to grant its approval to the following recommendations:-
  - Approves the CPO Compromise Agreement proposed with Sahaviriya Steel Industries UK Limited (in liquidation) and Sahaviriya Steel Industries Public Company Limited and DCS Industrial Limited and DCS Industrial (South) Limited and [Redcar Bulk Terminal Limited]
  - Approves the Shareholder and Subscription Agreement for South Tees Enterprise Limited ("the Joint venture" or "STE") and the associated purchase by South Tees Development Corporation of 50% equity stake in STE and approves all necessary related documents that give effect to the operation of the Joint Venture;
  - Approves the Shareholder and Subscription Agreement for DCS industrial (South) Limited (DCSIS) and the associated purchase by South Tees Development Corporation of 100% equity (this entity will hold the former SSI land/assets) and approve all necessary related documents that give effect to the operation of this acquisition;
  - Approves the option agreements in respect of all STDC owned land in favour of STE;

- Approves the land transfer of all freehold land interest currently within South Tees Developments Limited (former Tata Steel Land) to STE;
- Approves the move towards transition and local ownership of the STSC once the financial details of the relevant business cases are finalised and subject to the confirmation from the Secretary of State that BEIS will retain responsibility for funding the decontamination project that removes the Top Tier COMAH status from the site;
- Approves the entering into the Management Agreement with STSC in substantially the same form at the current Agreement;
- Approves the initial development costs up to £2.3m in respect of South Bank Wharf to conduct the preparatory work to support obtaining the necessary consents, permissions and approvals from external parties to develop quay facilities and associated land requirements. Any further proposals on the financing of the Quay and associated Business Case would be brought back to Board for consideration and approval; and
- Delegates authority to the Chief Executive Officer, Director of Finance and Resources and the Chair of the Board to complete all the necessary approvals to give effect to the transactions set out in this report.

16.2. In this context there are a number of concerns regarding the content of the report and the nature of the proposed approach to the decision-making process. The approvals being sought from STDC concern the settlement agreement SA1 and the Joint Venture arrangements which between them have significant implications for STDC, its future revenue streams and land it holds as a public authority for public benefit. These agreements require the transfer of ownership of CPO land and the acquisition by STDC of company shares.

16.3. The report itself, which is comprised of 14 pages including appendices, didn't include any specific legal advice regarding the proposed arrangement and in particular the potential for State Aid and the implication of the Public Contract Regulations which were binding on STDC as a public body. The potential for these issues had been raised by the then current legal advisors to STDC. The report noted that legal agreements were in the process of being drafted and would be made available to STDC Board Members if requested.

16.4. As the extract from minutes of the meeting record show, the STDC Board purported to have 'Approved' both of these transactions.

*"RESOLVED that: The Board agreed unanimously to the Compromise Agreement, Joint Venture and related documents and delegated authority to the Chief Executive, Director of Finance and Resources and Chair of the Board to finalise negotiations of these agreements and enact them as required."*

16.5. In 2018 Addleshaw Goddard advised STDC that, in respect of certain types of decision, including acquiring an interest in a company, its powers were conditional on obtaining the consent of the TVCA. (See para 13.46 above). This view was reiterated by Leo Charalambides, counsel who advised STDC in October 2023. The relevant part of his advice is found at paragraph 16, (09-10-23), as follows

*"Some specific powers are qualified and need in certain circumstances, the consent of the Combined Authority. For example, disposal of land for less than best consideration*

*(s 209(1)), formation of business and subsidiaries and the financing thereof (s 212) and the provision of financial assistance (s 213). Consent by the Combined Authority may be given unconditionally or subject to conditions and may be given generally or specifically (s 221(1)) and may be varied or revoked (s 221(2)).”*

- 16.6. The effect of the advice is that, without the consent of the TVCA, the STDC Board itself, doesn't have the power/authority to agree the SA1 settlement agreement or the Shareholder Agreement and associated documents. As such the Board's purported decision on the 10<sup>th</sup> February 2020 was only provisional in nature.
- 16.7. As explored more fully below, at its meeting on 13<sup>th</sup> March the TVCA Cabinet was asked to consider a report relating to the issues mentioned above. The Officer recommendation was for the TVCA to relinquish its power of 'consent' by delegating it to the STDC in respect of the acquisition of shares by STDC.
- 16.8. However, there is a further development in this aspect of the review which arose late in the day due to clarification being sought by the Panel from DLUHC as to its interpretation of the relevant 'consent' provisions arising from the 'modified' Localism Act 2011. On 7<sup>th</sup> December 2023 DLUHC officials confirmed the department's view that it was in fact the Mayor who held the power of 'consent' and not TVCA. There was agreement that the method by which the legislative framework for this Mayor and Combined Authority is created by 'modifying' legislation on which the Mayor of London is founded, is convoluted and prone to differing interpretations, as to which the present circumstances attest. It is far from user friendly and would benefit from revision to improve its clarity.
- 16.9. As regards the content of the report to STDC Board there is no mention of the alternative offer from Able Ports although discussions with them had been ongoing for some months. Nor does it contain any analysis of the estimated value that will be transferred to the JV Partners as a result of the establishment of the JV. There is no reference to the potential value of scrap and other recyclables on the land which have subsequently yielded over £100m of value to date. There was no reworking of the financial model to recognise the impact of the JV.
- 16.10. The explanation of the JV omits to cover important details such as the absence of any obligation on the part of the JV partners to input any funding or deliver any outcomes. There is no Partnership Agreement setting out the obligations of the partners.
- 16.11. There is no explanation of the land options to be granted to the JV Company (TWL) as part of the Joint Venture arrangement. These are of fundamental importance for the deal because they grant an exclusive right for the JV partners to acquire all or parts of the site over a 30 year period. The Options were granted at nominal cost and as originally drafted were exercisable at market value. These options are significant in their extent and effect. The intended outcome was that any uplift in value of the land would be shared 50/50 between STDC and the JV Partners.
- 16.12. Entering a Joint Venture Deal of this nature and potential value was a very significant step for STDC which would have long term financial implications due to the fact that 50% of any value to arise from the project would be diverted from STDC to the JV and/or the JV Partners separately. Remediation work would still be funded by STDC and as such TWL would benefit from the substantial amounts of publicly funded assistance which would be deployed to clear and remediate the site and make it more developable and therefore more valuable.



- 16.13. This is not to say that there weren't credible reasons for taking such a course of action but in a situation where there is such a significant change in plan at a relatively short notice it would have been appropriate to provide a more detailed explanation/analysis of the impacts and assurance in the form of clear and full legal and financial advice as to the risks and safeguards. The report notes that the legal documents were being prepared and copies could be made available in due course if requested.

## **TVCA Cabinet**

- 16.14. On 13<sup>th</sup> March 2020, the Director of Finance and Resources, submitted a report to the TVCA Cabinet described as a 'Compulsory Purchase Order and Joint Venture Partnership for South Tees Development Corporation'. In contrast to the report on a similar subject submitted to the STDC Board on 10<sup>th</sup> February, the report to the TVCA Cabinet occupies just two sides of A4 and states that it has been produced to 'update' the TVCA Cabinet notwithstanding that this was the first time the TVCA had formally been made aware of this proposal.
- 16.15. The recommendations on page 2 of the TVCA report as set out below seek approval for STDC to enter the JV by subscribing to shares of the JV Company and secondly recommends that TVCA delegate to STDC, its 'consent' powers under the Localism Act 2011, in respect of STDC. As noted above the accepted interpretation at that time was that TVCA held the power to consent. As such this was a counterintuitive approach because if agreed, STDC would have the power of consenting to its own proposals and this would have had the effect of limiting TVCA oversight of STDC. However, under the recently shared DLUHC interpretation the power of consent sits with the Mayor and as such it is the Mayor who should have formally consented to the STDC's acquisition of shares and other aspects of the JV 50/50 arrangements such as disposal of CPO land via grant of options and granting financial assistance to TWL via sale of scrap.
- 16.16. The recommendations were that Cabinet approves as follows:-
- i. Cabinet hereby grants approval to STDC to subscribe to shares to give effect to the Joint Venture arrangements designed to enable the comprehensive regeneration of the South Tees Development Area. This shall include consent to exercise the relevant necessary powers within Part 8, Chapter 2 of the Localism Act 2011, including but not limited to the power to provide financial assistance under s213 of the Localism Act 2011, and any other associated necessary actions under s201(2) general powers.*
  - ii. Cabinet is requested to note that there are no financial implications to TVCA as a result of this deal.*

Paragraphs 2 and 3 state:

*"An agreement has been reached involving multiple parties that sees some of the land being purchased through a pre-agreed value at CPO and other parts through direct agreement. This will allow acquisition of the land to come forward much more quickly than through a standard CPO process, reduce the risk of challenge and ensure the acquisition price at a level well within the budget allocated to STDC.*

*Consequently, this is not a referral decision by STDC and there are no financial implications to TVCA in the deal."*

- 16.17. Due to the nature of the joint venture arrangements, it is hard to see how the conclusion that these decisions didn't fall within the referral criteria was arrived at. Entering into the 50/50 JV arrangements had a number of significant implications not least of which was the fact that future financial returns to STDC from the site would be reduced by 50% with the other 50% going to the JV and JV Partners and partly paid as tax. In addition, options to purchase all or any of the land comprised in the site were granted to TWL and the JV Partners were entitled to 50% of any land value uplift.
- 16.18. Under the 'Consultation & Communication' section of the report it states that;  
*"7. This report provides the consultation and communication with TVCA to support the delivery vehicle aspects of the CPO decision."*
- 16.19. The overall tenor of the report implies that the shift to a JV/settlement model, as opposed to CPO/Settlement, isn't significant but merely part and parcel of the envisaged regeneration project. Given the significant and material impacts arising from the move to a JV/Settlement approach, including that of financial impact due to the sharing of value with external partners, the Panel members were surprised that the report contains so little detailed explanation and implies that there aren't any material implications directly arising from this change in approach.
- 16.20. The report contains no reference to legal or financial advice and no detailed explanation as to the mechanism by which the JV arrangement/vehicle would operate or how this will affect governance of the project and the distribution of value between the JV Partners.
- 16.21. A key practical result of entering into the JV is that two or three privately owned companies would likely receive significant financial returns arising from uplift in land value and income from the sale of recyclable materials both of which are directly enabled by publicly funded remediation works. The report would have been more useful in governance terms if it had set out the basis on which the 50/50 surplus share was deemed to constitute value for money and provided a clear statement of the obligations being undertaken by the JV partners in return for their likely financial rewards. It would also have been appropriate to include consideration of any potential State Aid/subsidy control implications.
- 16.22. The Mayor and senior officers argue that it was a commercially advantageous and astute arrangement which ultimately benefited the public but, in terms of openness, transparency and informed decision-making the process fell short of what would reasonably be expected in the context of local authority decision making and significant public expenditure. The lack of transparency and scrutiny of this nature may have a corrosive effect on public trust which lead to less robust decision making.
- 16.23. The recommendation as recorded in the minutes and the decision notice is different to that in the report. It purports to provide an extensive delegation of powers to STDC which effectively removes the checks and balances which were understood to be provided by the legislative framework. It isn't clear from the minutes if the changes arose from an amendment but there is a note confirming that the Monitoring Officer proposed an amendment which appears to be seeking to narrow the extent of delegation from TVCA. The result is an ambiguous record which lacks clarity as to the precise extent of the delegation. Additionally, there is doubt as to whether the TVCA was lawfully able to 'delegate' powers to STDC as set out in the minute of the TVCA meeting.
- 16.24. Approving a recommendation of such significance without any written legal, governance and financial advice isn't good practice because it isn't clear that the decision-makers were properly informed of the consequences of their decision. The Monitoring Officer and

other statutory officers should have intervened with a view to ensuring that the decision was clarified and the decision makers properly informed.

- 16.25. Turning to the TVCA's other checks and balances which included the Overview and Scrutiny Committee, there is no evidence of any scrutiny of this material change in approach by the Overview and Scrutiny Committee. This is at odds with what would be expected for a decision of this nature and scale.

## **Decision Making – Second Settlement Agreement SA2**

- 16.26. It transpired that the Thai Banks didn't conclude the first settlement agreement SA1 and on 15<sup>th</sup> May 2020 STDC served a notice of termination.
- 16.27. In its place a second settlement agreement (SA2) was prepared which was simpler in that it involved a single payment of £15m to SSI/Thai banks to transfer their remaining land holding. The option over RBT land held by the JV Partners became obsolete at this point because SSI/Thai banks no longer had any plan to develop the RBT land and the CPO had been granted.
- 16.28. The SA2 deal which involved new expenditure of £15m was agreed by written resolution on the basis of a 3-page report circulated to STDC Board Members on 14 July 2020. The second settlement agreement was signed the same day. During interviews, it was apparent that there was a lack of awareness of the second agreement and at least one STDC Board member confirmed they were unaware of a second settlement agreement.
- 16.29. The Chief Executive's report to the STDC Board held on the 3<sup>rd</sup> June 2020 makes no mention of the default and termination of SA1 nor the negotiation of and signing of SA2 which had a number of key differences to SA1 including the £15m cost of land purchase.
- 16.30. The Chief Executive and the Mayor were asked whether any consideration was given to reviewing the 50/50 JV at that point, but they indicated there was no appetite to review. There is no evidence of any discussion or review either formal or otherwise amongst the wider STDC Board Members or TVCA members.

## **Supplemental Deed V3**

- 16.31. On the 11<sup>th</sup> June 2020 a Deed entitled 'Supplemental Deed' was signed by the STDC Chief Executive and the JV Partners. The innocuous title and diminutive page count contrasts with the practical impact of this legal document which amends the three option agreements signed in March 2020 which granted options to the TWL over the entire Teesworks site.
- 16.32. The amendments added wording which provided express permission for the TWL to enter any of the option land and to remove all minerals, aggregates, metals and, equipment and structures and that title to such items passes to TWL on removal from the Property. The effect of this was to transfer to the JV Partners 50% of the value of the recyclable materials.
- 16.33. The significance of this change isn't fully apparent until the full value of the recyclable materials is known. The indications from the cash flows moving through the TWL which it is understood arise from the sales of the recyclable materials, show the value is in excess of £100m. This is considered to be a conservative estimate of the full value but precise figures haven't been available. Estimates within STDC documents have indicated the full

value to be £150m, which means that the Deed had the effect of transferring £75m to the JV Partners.

- 16.34. In addition, amendments provide that the 'Owner' (STDC) shall not remove from the property or dispose of any of the recyclable materials without the prior consent of the TWL or as directed by the TWL. This is a notable provision because it has the effect of preventing the land-owner (STDC), from removing their own recyclable material from their land without first obtaining the consent of the TWL. On the face of it such a clause is at odds with the spirit of a 50/50 Joint Venture.
- 16.35. The impact is magnified by the changes to the beneficial ownership of TWL which were set in train in August 2021 and which resulted in STDC transferring 80% of its shares to the JV Partners leaving the ownership as follows STDC: 10% - JV Partners: 90%.
- 16.36. There is no evidence of any formal decision-making process regarding the signing of the Supplemental Deed and given its financial impact alone (£75m) it should have been taken to the STDC Board for consideration and decision. It is arguable that a referral back to TVCA under the referral mechanism or for consent as Financial Assistance pursuant to S.213(1) LA 2011, was appropriate.

## 17. Decision-Making re JV 2

- 17.1. During the summer of 2021, the Chief Executive brought forward a proposal to the STDC board initially by a presentation followed by a report shortly after. In summary, it was proposed to change the ownership of the TWL from 50/50 deadlock company to a 90/10 division of shares in favour of the private sector partners. This proposal, if implemented, would result in a significant change in the JV arrangement to such an extent that it must be characterised as a new arrangement.
- 17.2. The 50/50 joint venture status was fundamentally altered with STDC relinquishing 80% of its stake in TWL with corresponding reduction in the financial benefits both in terms of revenue and asset value. STDC lost all meaningful control over the running of TWL as it could be outvoted by the JV Partners on all decisions within TWL. The proposed 90/10 model cannot reasonably be characterised as a JV Company in the same sense as the initial JV arrangement.
- 17.3. Conversely, the proposal resulted in a significant improvement in the financial outcome for the JV partners and they also achieved effectively absolute control of the company to the extent that the JV partners would be able to take almost any decision without the necessity of obtaining the agreement of STDC.
- 17.4. In addition to the change in ownership and control, the revised model included a change to the valuation of land in the land options granted to TWL in 2020. As originally drafted and agreed, the options provided for a land value based on market value formula. The amended options substituted the market value for a fixed value of £1. On the face of it this has the potential to significantly increase the financial returns available to TWL and the JV Partners and conversely reduce the proceeds realised by STDC on sale of the land to the JV Partners.
- 17.5. Due to the variations in the value of parts of the Teesworks sites this fixed valuation is likely to result in sales at less than best consideration. This is acknowledged in the STDC Decision notice dated 26<sup>th</sup> November 2021 which records that the Mayor provided

approval pursuant to S.209(1) LA 2011, for disposal at less than best consideration. However, the legal advice previously received by STDC<sup>37</sup> advised that the TVCA was the consenting body for such transactions for such disposals. As mentioned above, on 7<sup>th</sup> December 2023 DLUHC confirmed their view that the power of consent for such transactions rests with the Mayor. The question remains as to whether the proposed decision was entered on the TVCA forward plan and whether a decision notice was issued to enable the Overview and Scrutiny Committee to review and potentially exercise Call-In.

- 17.6. Other related changes include the Commercial Deed re Land Value dated 26<sup>th</sup> November 2021 which amongst other things provides for the payment to DCS (a JV Partners company), of a fee for unspecified 'marketing services' of up to 50% of the net land value of the GE site. This is to be paid within 7 days of the receipt of the net land value.
- 17.7. The Commercial Deed re Land Value also provides that in the event TWL undertakes, prior to disposal, any works to make the GE site Development Ready, the Disposal payment shall be reduced by the amount which TWL incurred. This would have the effect of reducing the value paid to STDC for the sale of remediated land to TWL.
- 17.8. Taken as a whole, the combined changes which comprise what we refer to as JV2 were wide ranging and significantly improved the position of the JV Partners to the detriment of STDC. Because of the obvious potential for this to become a controversial decision it is the Panel's view that in the interests of good governance, transparency and accountability TVCA should have been involved to a greater extent in scrutinising this decision to assess whether it constituted value for money.
- 17.9. The proposal had been brought to the STDC Board as a presentation on 12<sup>th</sup> August 2021 and as a report for approval at an extraordinary meeting of the STDC Board on 18<sup>th</sup> August 2021. The key reason given as the driver for JV2 was the stated need to accelerate the remediation process in order to more fully exploit the tax concessions associated with the Freeport status which had been announced in March 2021. In turn the consequence of acceleration would be a faster depletion of the available public funds for regeneration and, due to the finite nature of public funding, the only source of further funding would be from the private sector.
- 17.10. The report<sup>38</sup> is based on the assumption that continuing with the existing approach isn't an option and focuses solely on the need to accelerate and transfer to private sector partners option as the following extract demonstrates.

*"25. It is clear, therefore that to move the site forward, equity rather than debt capital is required and consequently discussions have been had with the JV partners as to their appetite to either bring in new equity partners or move the site on themselves. Any such decision can only be made with their agreement and their preference is to take the site forward themselves as they believe that they have the skills to do so, and our experience with them to date supports that view."*

- 17.11. There is little by way of substantive evidence to support the necessity for changing the structure or for the extent to which it is amended. The result of the changes significantly benefits the JV Partners and there is little in the way of contractual obligations impacting

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<sup>37</sup> Addleshaw Goddard LLP 2018

<sup>38</sup> Report to STDC Board dated 18<sup>th</sup> Aug 2021 para 25

on the JV Partners in consideration of the additional shareholding and future revenue stream.

- 17.12. The counsel's opinion attached to the report is based on the 50/50 JV which is materially different from the 90/10 JV particularly in the context of applying the "market economy investor" principle. A further opinion was subsequently obtained in October 2021 which, subject to the caveat that Counsel hadn't been provided with any financial modelling, advised that a court would be more likely than not to find that the arrangements didn't constitute unlawful state aid<sup>39</sup>. Counsel's opinion was also based on the premise that the whole site was to be transferred to the JV whereas, the reality TWL is able to drawdown individual plots (minimum 1 acre) and under no obligation to draw down any particular plot. This enables TWL to "cherry pick" the sites which impacts on the valuation of the land and may, depending upon site drawdown, give rise to a positive valuation.
- 17.13. In terms of wider scrutiny of the decision to re-negotiate the TWL JV from 50/50 to 90/10, it appears that, notwithstanding the significant financial implications arising to both TVCA and STDC from this decision, it wasn't regarded as warranting any referral back to TVCA either for consent, referral or for their information. There is no evidence of any formal referral to Overview & Scrutiny or Audit & Governance committee.

*N.B. Para 93 of the TVCA Constitution states;*

*"Any financial implications for the Combined Authority arising from a Mayoral Development Corporation shall require Cabinet Agreement through the arrangements for financial decision-making set out in this Constitution."*

- 17.14. The Panel felt that when other key details of the change are considered A decision of such magnitude warranted wider scrutiny. For instance, one of the related changes was to re-value the option land at £1. This was explained to be in return for the commitment of TWL to undertake future remediation and development activity. However, the legal documentation doesn't impose any such obligation on TWL to undertake remediation and there is no evidence that TWL has yet done so.
- 17.15. It is noteworthy that at the point when the JV 90/10 was enacted and up to the present day, it is understood that the JV Partners have yet to introduce any equity or loan funding into TWL. They have received at least £45m from the sale of recyclables. TWL has received £93m from the sale of an Income Strip investment relating to the SeAH wind farm facility. TWL has made payments to TVCA and STDC as well as HMRC for tax due. £63m is retained to fund development works and future commercial obligations.
- 17.16. The Monitoring Officer has a key role to play in advising as to the legal/constitutional requirements for proposed decisions and whether they should be regarded as 'Referral Decisions'. The decision notice contains a box for the signature of the Monitoring Officer but there is no signature and in its place are the letters 'N/A'. Given the significance and complexity of this decision it would have been appropriate for the Monitoring Officer to sign this off.
- 17.17. A significant amount of remediation work had already been undertaken funded by the public purse and this had undoubtedly improved the value of the site and more particularly some individual plots within the whole. The absence of any contractual requirement for TWL to undertake further remediation/development on any particular plot gives rise to the

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<sup>39</sup> Opinion of Hugh Mercer QC - Essex Court Chambers – 26<sup>th</sup> October 2021 -

risk that they might cherry pick the readily developable sites and neglect the others. This risk isn't mentioned in the report.

N.B. Para 3.8 of TVCA Financial Regulations App III of the TVCA Constitution;

*“3.8 The Director of Finance and Resources shall also be responsible for overseeing and identifying any risks to the Combined Authorities finances which may arise from the creation or operation of Mayoral Development Corporations. This responsibility shall be reflected in the constitution and financial arrangements of any Mayoral Development Corporation.”*

- 17.18. Throughout the period during which this proposal was being considered, its existence and nature was confidential and there was apparently no formal consultation within TVCA Cabinet. This level of confidentiality regarding a decision with such significant consequences both in terms of public finances and wider control of the Teesworks project, appears at odds with the Constitution, legislation and guidance and with the benefit of hindsight may be seen as an omission which has exacerbated the extent of public scepticism about the value for money of the project.
- 17.19. As a final point on the JV2 decision making it is noted that the Delegated Decision Notice contains a section headed 'Actual or Perceived Conflict of Interest by any of the Decision Makers'. The decision makers were:
- Julie Gilhespie – Chief Executive of STDC and TVCA and Director of TWL
  - Gary Macdonald – Finance Director and resources of STDC and TVCA
  - Mayor Ben Houchen – Chair of TVCA and Chair of STDC.
- 17.20. In the case of the Chief Executive, their Directorships of TVCA and STDC and TWL give rise to a perception of conflict due to the fact that the decision involves the significant benefit to TWL to the detriment of STDC and by extension TVCA. This should at least be recorded to demonstrate awareness of that potential conflict. However, when asked about this, the Chief Executive confirmed that she hadn't recorded any potential conflict because she didn't recognise there was any. The Panel were of the opinion that amongst other things, the Nolan Principles would require the acknowledgement of such potential conflicts.

## 18. Proposed Amendments to the Relationship Between STDC and TWL

- 18.1. Following requests for legal advice provided to STDC regarding the Teesworks Project an opinion of Hugh Mercer KC emerged. The advice is dated 20th October 23 and concerns proposed new contractual arrangements or amendments which may have a significant financial impact on STDC and indirectly on TVCA.
- 18.2. The proposals relate to the following:
- i) Remediation Amendment**  
An amendment to the process by which land remediation is carried out in respect of parcels over which TWL enjoys an option to purchase. In simple terms, the parties wish to take the benefit of new legislation (not yet in force) that will provide certain tax incentives for public authorities to remediate contaminated land (“**the Remediation Amendment**”).

**ii) The Infrastructure Amendment**

TWL has stated that it will not exercise its option to call off the trunk roads, bridges and other major access infrastructure within the Site. It wishes to amend the agreements between the parties to provide that responsibility for maintaining that infrastructure will lie with STDC and to make provision for how STDC will fund the necessary works (“**the Infrastructure Amendment**”).

**iii) The Quay Operating Facility Amendment**

TWL and STDC have already entered into an agreement relating to a quay at the Site. That agreement omitted to make express provision for the construction of a Quay Operating Facility. The parties now wish to amend the terms of their agreement to include the construction and delivery of a Quay Operating Facility before transfer to TWL is completed (“**the Quay Operating Facility Amendment**”).

**iv) The ongoing Contamination Amendment**

TWL have proposed that STDC take responsibility in the future for the economic (and other) consequences of any contamination on plots of land that after they have been called off and purchased by TWL (“**the Ongoing Contamination Amendment**”).

- 18.3. Due to the likely financial liabilities and the proposed risk transfer, these proposals are likely to trigger consent requirements and/or the referral requirement and it is recommended that STDC officials seek guidance from appropriately qualified/experienced advisors as to the appropriate mechanisms to use to ensure engagement of the TVCA Cabinet in the decision-making process.
- 18.4. The advice itself indicates that some of the proposed amendments may constitute a breach of the Subsidy Control provisions and other comments suggest that they may not represent Best Value for the taxpayer due to the risk distribution as between STDC and the JV Partners.
- 18.5. The Panel are advised by the executive that these were exploratory conversations and are not now being pursued. This is positive, however we were surprised to learn that the Board or Mayor had not been made aware of these discussions. It may have been helpful to get a steer from the Board before pursuing the matter in detail.

## 19. Financial transaction and cash flows

### JV 50/50

- 19.1. At the time the JV was considered a degree of due diligence was done regarding the JV partners’ other companies, but it has been confirmed that none of the standard checks relating to proof and source of funds, credit rating and money laundering were carried out. The lack of proof of funds for investment contrasts with the Board having previously had in depth discussions as to the ability of Able Ports to fund a development on the site, ultimately not being persuaded as to their ability to do this.
- 19.2. The report to STDC Board in February 2020 proposing the CPO and the JV arrangement as a new delivery model had an inadequate description of the financial consequences, particularly in relation to the need for separate financial modeling for STDC itself and the JV company, subsequently established as TWL.



- 19.3. So far as STDC was concerned, in addition to public sector funding, they would receive capital sums from the sale of land at market value and this would be their main source of 'commercial income' together with any dividends from TWL which were not known or secure. In turn they would be required to pay 'commission payments' to a third party (DCS Ltd. – a company jointly owned by the JV partners) and it isn't clear whether advice had been taken as to whether this would have been a revenue or capital payment. If the former, STDC would not have had resources available to make such payments until any dividends had been received.
- 19.4. The removal of 300 acres of land to be retained by SSI would equally have an impact on future income and whilst there would be avoided costs of remediation, the agreement committed STDC to £24m to demolish the Redcar Coke ovens.
- 19.5. The arrangement required TWL to fund the purchase of land from STDC post remediation and then fund development prior to receiving any income from leases. The STDC board report assumed TWL could lever the rental streams to fund development. However, this was unlikely to be available as a source of initial funding at least in the early stages, given TWL would have no credit history. This proved to be the case as subsequent investors required public sector covenants for lease wraps as evidenced with GE/SeAH developments.
- 19.6. The Panel has seen legal advice from STDC external lawyers suggesting that TWL would likely need to fund the land acquisitions by borrowing from STDC itself. Income received by TWL would be subject to taxation thereby further reducing any retained revenues and payments of any dividends would likewise lead to 'leakage' of monies available to TWL to fund developments.
- 19.7. Whilst the Panel has questions about the subsequent 'scrap agreement', we understand that at this early-stage scrap income on an annual basis was assumed to be low and wouldn't have significantly impacted either STDC or TWL financial models at that time.
- 19.8. It is the Panel's view that remodeling of the finances of both STDC and TWL at this stage would have shown the increased financial risk to the redevelopment of the site plus the need for either capital injections by the JV partners which they were not committed to (alongside equivalent contributions from STDC) or effective funding of TWL activities through loans from STDC itself which would have represented additional public sector borrowing at risk. Whilst the Panel acknowledges that there was limited time to undertake sophisticated modeling in the run up to the Board decision, it is clear that a full description of the significant change in the financial structure and increased risks should have been given. At least one STDC Board member reflected that inadequate financial information had been made available to the Board at the time the 50/50 JV was agreed.
- 19.9. The Panel understand that at no stage has there been any financial modeling of TWL nor any updated model for STDC in the JV scenario.
- 19.10. The Shareholder agreement signed on 13<sup>th</sup> March 2020 provided that TWL should be financed, as far as practicable, from external funding sources with any security provided, as far as possible by TWL. It provided that there was no obligation on the parties to provide extra funding, but it referenced that the first approach for external funding should be to TVCA.
- 19.11. The scrap and aggregates agreement was not reported to STDC Board at the time it was entered into, and some Board members only became aware of the significance of scrap

income at the time of the 90/10 JV. In the subsequent counsel's advice sought by STDC on the ownership of scrap and aggregates by the JV, the instruction did not identify that the existence of scrap largely flowed from estimated spend of £142m on demolition and an unquantified spend on initial remediation entirely funded by the public sector. Whilst the Panel have received an explanation that ownership of scrap and aggregates was vested in the TWL, by virtue of their option, we have seen no legal advice on this. The advice subsequently received only dealt with it being reasonable in Subsidy Control terms.

- 19.12. Despite the scrap agreement being in place the Panel understand that the subsequent tender for demolition contractors asked them to consider how scrap should be dealt with.
- 19.13. In March 2020 when the Commission Agreement with the JV Partners was entered into, it reflected a 50/50 share of the uplifted market value compared to the baseline valuation being £1 per acre apart from the ex-Tata Steel land at £7536 per acre. The subsequent legal opinion obtained by STDC referenced that, to avoid Subsidy Control concerns, the uplifted value should exclude the uplift arising from public sector funded remediation and demolition. This latter also became a condition required by BEIS as part of signing off the Final Business case for additional Government Funding and was restated in subsequent MoUs agreed between Government and STDC, including the 2022/23 agreement signed in November 2022. A subsequent Counsel's opinion referenced that STDC was intending to disregard the BEIS requirement and indicated that they should notify BEIS. The Panel is not aware that this was ever drawn to the attention of BEIS.
- 19.14. The initial proposal for the GE investment land transaction identified a market value of £30m and proposed a commission payment to the JV Partners of £15m. This was outside of the advice and BEIS requirement, and we are given to understand that the JV Partners would not accept either the Subsidy Control requirement or the base value adjustment (ex-Tata land) although we do not know whether they were aware of the detailed Subsidy Control /BEIS position. Whilst the GE proposal fell away, the 50/50 split of the GE site value was reflected in the 90/10 JV agreement and the subsequent SeAH land transaction.
- 19.15. At the STDC Board on 29<sup>th</sup> July 2020, a transition update was presented including STDC's business case to take STSC land into local control and secure £71m of Government funding. The BEIS full business case incorporated financial models which continued to reflect the same basis as in the original CPO model although including different scenarios based on different levels of Government funding. In particular it ignored that Commission payments would be made to the JV partners (outside of TWL), JV taxation and potential JV dividends were not referenced as 'leakages' from the model, nor the fact that the overall finances needed to be restated to cover STDC and TWL separately. The narrative continued to describe the position where STDC would receive lease income and borrow against these income streams which was clearly incorrect as lease income would accrue to TWL.
- 19.16. At the TVCA meeting on 11<sup>th</sup> September 2020, the proposal to take STSC land to local control and receive £71m of new Government funding was accompanied by a very detailed report including financial and operational due diligence by KPMG. However, the narrative of the report continued to promote the CPO financial model unamended with STDC as remediating the site and securing leasehold income with strong covenants. The report said "STDC will obtain value through income strips or accessing secured borrowing". It also assumed that all non-Government/non-TVCA funding would be obtained through borrowing and referenced that TVCA borrowing limits as set out in a private appendix included sufficient headroom.

- 19.17. Under the risks section of the report, the role of TWL in commercialising regeneration sites and negotiating lease finance arrangements is included, but it didn't explain the TWL finance arrangements which introduced a new risk. The report did recognise that there would be private sector investment, but it isn't explicit whether this is the JV partners or other investors linked to commercial developments.
- 19.18. The report also refers to the original business case utilising the TVCA 50% split of business rates, and this has been taken by STDC as sufficient approval to proceed to utilise those monies without further reference back regarding individual proposals as to how the flow of funds would be deployed. There has been no specific TVCA Cabinet resolution to give effect to this substantial future flow of funds from TVCA to STDC. TVCA and STDC should agree, and keep under review, the future split of Business rates which each might use for the benefit of the Red Line area including retained risks both pre and post the ending of the Business Rates retention period.

## **JV 90/10**

- 19.19. The move to the JV 90/10 had significant financial implications. In the interviews with some STDC Board members about the move, there were concerns about the speed with which decisions had been required and the lack of understanding of both the structure and the consequences. These latter points are exemplified by the following examples about the treatment of specific projects in flight at the time of the transfer to the JV90/10.

The GE transaction was to be 'novated' into the 90/10 JV. Under these arrangements, STDC were now due to receive £15m for the land rather than the JV partners. In turn, STDC now had obligations to remediate the land for the GE inward investment and in one part of the report it extends this obligation to providing enabling infrastructure. The figure quoted for GE and the Energy Recovery Facility (ERF) remediation including infrastructure was over £40m and formed part of the overall public sector funding committed in the 90/10 JV model. The model also included an ongoing obligation for TVCA to provide a "lease wrap<sup>40</sup>" agreement to enable TWL to provide the headlease to GE. The detail of the various transactions is unclear, not least how TWL would obtain value from the transaction given the lease wrap covered the GE funders development costs rather than provide a payment (ongoing or capital) to TWL. The Supplemental deed signed to give effect to the potential GE deal under the 90/10 JV had TVCA as a party although there was no referral decision to TVCA at that time to authorise this.

- 19.20. The Quay – the report detailed ongoing obligations on STDC including the appointment of the Quay operator, to maintain the Quay. It is suggested that all revenue flows from the £450m Quay are to flow to STDC. There is no clear approval to enter into any form of deferred purchase of the Quay to TWL or to give them access to the full operating profits (subject to there being sufficient operating profits paying to STDC the tonnage amounts linked to the costs of borrowings taken out for its construction) although that is now what has occurred. In the briefing provided to Board members in the previous week it referenced that the Quay would remain in 100% public ownership although it did reference that TWL would have an option to purchase at market value providing the debt could be repaid.

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<sup>40</sup> A lease wrap is a contract whereby a third party (TVCA) buys the asset to be leased and then leases it back to the leasing company (TWL) who then leases it on to the user (GE).

- 19.21. Future liabilities - the land valuation included in the report quotes £172m of net future liabilities in preparing the site for tenants and is explicitly based on the full site passing to TWL, including responsibility for infrastructure and service charge incurred until plots were let. A 50% discount had also been reflected in the valuation by virtue of the transfer being of such a significant scale that the market would demand such a discount. This was the basis of the Board report although it was clear it was never the intention for the whole site to be drawn down by TWL in that way.
- 19.22. A separate valuation report based on the ability to draw down individual plots and not taking responsibility for infrastructure gave a positive valuation of £23m.
- 19.23. Counsel's opinion sought at the time regarding the land disposal was based on transfer of the whole site and was silent on benefit obtained by TWL from GE or Southbank Quay.
- 19.24. Scrap - the arrangements for sharing scrap income continued to mirror the 50/50 JV with the payment to STDC of up to £60m (their expected income under the 50/50 JV) in the form of a service fee rather than dividend. This is effectively a cash flow process, enabling STDC to benefit from the expected cash flows under JV50/50 and has been treated as an advance of their 10% dividend in term of future profit shares.
- 19.25. The Panel are aware that a question was asked by the BEIS representative at Board as to whether value for money and appropriate risk transfer were being achieved. The Panel have not been provided with any written notes which underpin the S73 officer's assurance and given that there continued to be no obligation on the JV partners to draw down land and invest their own funds (which was clear to the Board), the degree to which risk transfer and value for money could be achieved could only be justified by future developments being progressed at risk by the JV.

## **GE Deal**

- 19.26. As part of the Teesworks Offshore Manufacturing Centre (TOMC) development the STDC Board on 29<sup>th</sup> July 2021 approved a long leasehold interest to GE (BDL) as anchor tenant. The report provided a detailed explanation of the proposal including:
- The site in question covered initial 65 acres option for further 47 acres and preemption of 55 acres*
- 19.27. There were obligations on STDC to provide site capabilities. At this stage it was a public sector transaction with a £15m commission payment to JV partners under the JV50/50 arrangement. As referenced previously, it is evident that the calculation of the Commission payment ignored the baseline price of the (ex-Tata) land and the Subsidy Control/BEIS requirement that part of the uplift arising from public sector spend should not be part of the Commission calculation. The land valuation of £30.7m was in respect of the initial 65 acre area and the option agreements were to be the subject to independent report. The enabling infrastructure was estimated at this stage to be £26m.
- 19.28. Apart from payment of the Commission to DCS, the scheme was a wholly public sector scheme.
- 19.29. A full report to the TVCA Cabinet on 2<sup>nd</sup> July 2021 set out the 'requirement for TVCA to enter into headlease'. It fully exposes the risks of GE break clauses and addresses the value for money in quantifying the retained rental monies. It also considers whether PWLB might be a viable funding route. Whilst the report records that TWL have an option to draw

down the site there is no other mention as to how TWL's interest affects the transaction. The reported margin to TVCA is 15% of the gross lease payment, namely £1.1m pa over a 35-year period and it was proposed to set this aside to manage future void risk. The report makes it clear that the involvement of TVCA in providing the headlease was essential to securing the anchor tenant as the funder required a public sector covenant given GE's lease allowed several break points.

- 19.30. The resolution of TVCA specifically covers taking the headlease from STDL. It is the Panel's view that the recommendations were specific to the GE transaction and were not a general delegation to officers to enter further lease wraps. The report makes it clear that this is a wholly public sector undertaking with ownership of the site reverting to TVCA at the end of the lease.
- 19.31. The Executive have confirmed that the TVCA Cabinet received a briefing on the transaction a week ahead of the meeting which would have given cabinet members the opportunity to seek advice from their own and/or STDC officers had they had any questions.

### **SeAH deal**

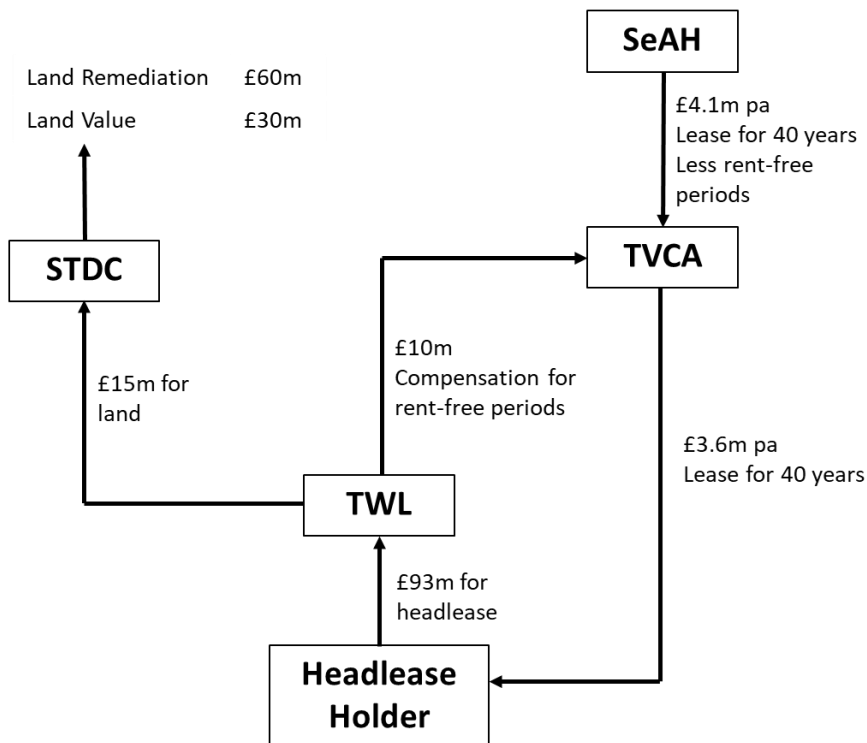
- 19.32. At the STDC Board on 7<sup>th</sup> July 2022, under the JV 90/10, information on a proposed transaction with SeAH Wind Investments was considered. The GE deal had not progressed as planned and the site had been offered to other prospective tenants.
- 19.33. The arrangements for the SeAH transaction were that there would be a sale by STDC of the freehold to TWL for £15m "as per previous valuation and commercial agreement". The appropriateness of this description of the disposal is unclear given the site had a valuation of £30m excluding the added value of the enabling infrastructure.
- 19.34. It was reported that STDC obligations were largely the same as the proposed GE transaction, including site remediation and provision of utilities. However, the total bill had increased from £26m to over £60m including £15m of additional costs specifically associated with SeAH. There was no suggested revision to the land value or other recompense to STDC for the substantial increase in costs falling on the public sector. It has been explained that the £60m cost was an obligation on STDC in preparing the anchor site and whilst this may be a reasonable interpretation of the JV 90/10 obligations for the 60 acres for GE it isn't clear why that logic would extend to the SeAH increased site acreage or specific cost increases linked to SeAH specific requirements. The Panel is not aware that legal advice covering subsidy control has been sought on the overall transaction.
- 19.35. The report didn't reference what the commercial arrangements were with SeAH, the return TWL would make from the transaction nor suggest that TVCA would be involved in a subsequent lease wrap. The minutes record that the SeAH deal was to be signed immediately after the meeting.
- 19.36. At the TVCA Cabinet on 28 October 2022, the Treasury Management mid-year update report sought approval for the change from GE to SeAH as anchor tenants at Teesworks.
- 19.37. The text of the report gave no details but stated that borrowing limits in January 2022 included amounts to provide a headlease for an offshore wind anchor tenant. It also reported that other headleases may be required within the total cap agreed by Cabinet and within the risk profile agree. It is unclear why this approval was sought as the STDC

report in July 2022 didn't reference any TVCA involvement, and the Teesworks/SeAH deal had assumedly been signed in July. There was insufficient detail of the changed structure between GE and SeAH and no explanation why TVCA involvement was necessary to warrant the decision. The March 23 report (see below) concerning SeAH included reference to Cabinet at the October meeting approving further leases subject to the financial envelope and risk allocation agreed for GE but there was no such authority minuted and the body of the report itself only referenced that other headleases may be required.

- 19.38. In January 2022, the TVCA Cabinet received a report on the Treasury Strategy. The Strategy states "PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans."
- 19.39. It wasn't possible to identify in the report what allowance had been made for entering headleases as the detailed Treasury indicators were not broken down into that level of detail.
- 19.40. On 17<sup>th</sup> March 2023, an urgent report was presented to the TVCA Cabinet on the SeAH Headlease, and it is not clear whether the report was presented at or very shortly before the meeting. It has been confirmed that Cabinet received no prior briefings.
- 19.41. The stated reason for the urgency was that a Third Party was investing in the SeAH income stream and had requested specific approval for the SeAH headlease. This suggests that officers might otherwise have relied on perceived delegations from earlier report rather than seeking specific Cabinet approval. The report leads on from the previous approval to provide the GE headlease on 2<sup>nd</sup> July 2021 and "incorporated a 'headlease' wrap by TVCA for the GE lease to support the anchor tenancy coming to Teesworks". It recommended "Approves granting of SeAH Headlease".
- 19.42. The report advised that the STDC board had received detailed proposals on 7<sup>th</sup> July 2022 and that TVCA had approved the switch to SeAH in the October 2022 Treasury Management report. However as set out above, there was no adequate explanation given to either meeting as to the need for TVCA involvement.
- 19.43. There is some indication in the report that the nature of the SeAH lease wrap is different and would generate a capital receipt for TWL and notes that they are not obliged to invest it. The scale of the capital receipt to TWL, in excess of £90m is not explicitly reported but could be seen in the attached Colliers report which is a technical valuation paper and Cabinet members would not easily have seen the detail. The report states that there are no financial implications outside of those agreed in previous cabinet decisions, but this is incorrect. The scale of retained income from the lease wrap is reduced by over £0.5m pa as the overall size of lease payments are roughly 50% of GE and the lease from TVCA to SeAH provides for rent free periods which, on enquiry, are covered by a 'reverse premium' from TWL to TVCA of over £10m but are not referenced or explained in the report or the attached Colliers technical paper.
- 19.44. The legal implications are also stated as no different, but the rationale for the headlease had changed from being crucial to delivering the anchor tenant where the funders required a public sector wrap to a purely funding transaction taking place several months after the agreement had been signed. The proposed headlease was designed to give TVCA an income stream in return for accepting the SeAH covenant risk and, more significantly, a substantial capital sum to TWL.

- 19.45. The report states that previous cabinet decisions delegated authority to officers to progress with SeAH but it is hard to conclude that such a delegation existed and relying on the October 2022 Treasury Management report, in which no relevant information was provided, is unsound.
- 19.46. The legal justification for entering the headlease is unclear in the Cabinet report and arguably could be read as an investment solely or mainly for profit which is contrary to CIPFAs Prudential guidelines and TVCA’s own Treasury Strategy. The fact that the Investor had required £50m of the proceeds received by TWL to be set aside for future investment in TWL was not referenced in the report despite the fact that it might have provided a legal basis for TVCA entering into the arrangements. However, when the Panel discussed with the JV Partners why TVCA needed to provide its covenant strength, they felt that the JV would have been in a place to undertake such a transaction once construction of the SeAH facility had been completed and that TVCA’s early provision of the facility was to generate income for itself to replace that assumed under the GE lease wrap.
- 19.47. The transaction is complex and the flow of funding is represented below alongside the overall financial dimensions of the transaction from a public and private sector perspective, as the Panel understands it.:

### SeAH Transaction



	£m	Comment
<b>Investment by public sector</b>		
Land Valuation	30	
Site remediation and provision of enabling works & Utilities	<u>60</u>	
<b>Total Expenditure</b>	<b><u>90</u></b>	
Net receipt by TVCA of lease wrap margin/TWL compensation	-24	Annual net receipt of £0.6m pa for 40 years (indexed)
Receipt by STDC re land	<u>-15</u>	
<b>Total Income</b>	<b><u>-39</u></b>	
<b>Net Contribution/(receipt)</b>	<b><u>51</u></b>	
<b>Investment by TWL</b>		
Land payment to STDC	15	
Compensation to TVCA for rent free periods on lease	<u>10</u>	
<b>Total Expenditure</b>	<b><u>25</u></b>	
Sale of Lease wrap to Investor	<u>-93</u>	
<b>Total Income</b>	<b><u>-93</u></b>	
<b>Net Contribution/(receipt)</b>	<b><u>-68</u></b>	

## South Bank Quay

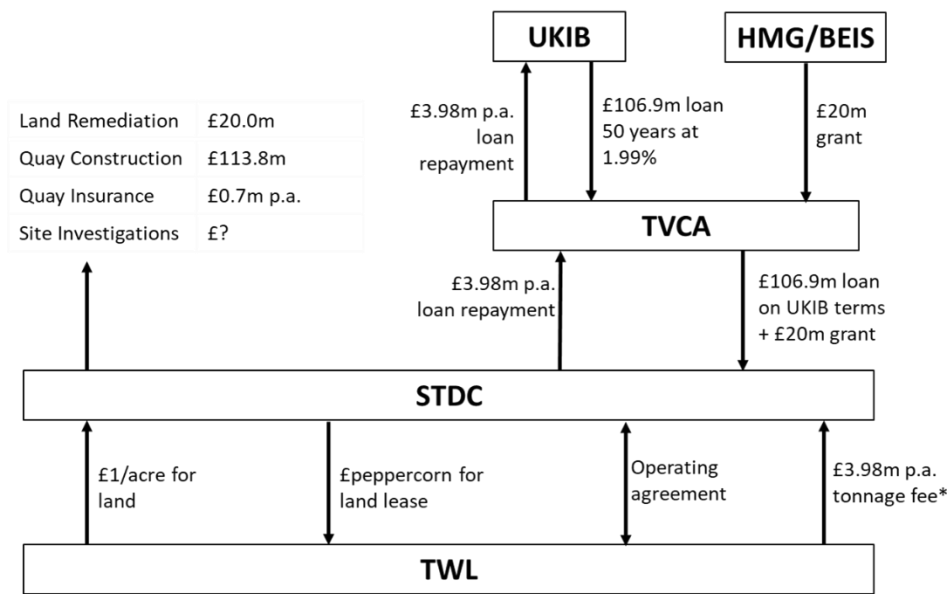
- 19.48. The business case seeking £20m of Government funding for South Bank Quay was approved by TVCA Cabinet on 2 July 2021. It was based on public sector funding and operation, with the revenues, after operating costs, being used to repay the debt. Likewise the initial report to STDC to progress the scheme was a solely public sector proposal. Initial borrowing by TVCA for £106m was undertaken from PWLB on or about 1<sup>st</sup> November 2021 but this was subsequently novated to UK Infrastructure Bank (UKIB). TVCA then entered into an equivalent loan agreement with STDC to allow the latter to fund the construction of the Quay. The terms of the loan from TVCA to STDC signed 1<sup>st</sup> November 2021 recognised that the repayment profile may be modified due to operational performance and the repayment period may be extended. There is provision for premature repayment, and STDC indemnifies TVCA for any costs arising.
- 19.49. After the 90/10 JV approval by STDC Board, an agreement was entered into with TWL to sell the Quay on deferred purchase terms with payments on an annual and cumulative basis capped at the capital cost plus interest calculated as per the UKIB loan. On an interim basis, STDC are bearing the capital financing costs estimated as £2m in STDC's 2023/24 budget. The payments from TWL are linked to the tonnage throughput at fixed rates and if this is lower than the specified level then the balance rolls forward to be paid in subsequent years.
- 19.50. A supplementary agreement dated 16 December 2022 included a possible deduction from the tonnage payments in respect of operating profits not being sufficient. All operating profits, after the tonnage linked payments, accrue to TWL. Documentation suggests that STDC retain responsibility for insuring the Quay and this could amount to £700k pa initially but will change as replacement value varies and insurance rates fluctuate. Likewise, the position as to who bears the annual service charge isn't clear. In the event that any



insurance and service charge costs fall on STDC it would represent a subsidy to TWL as would the benefit of public sector borrowing rate. This would need to be considered as part of the Subsidy Control position as well as reflected in ongoing liabilities of STDC. It is apparent that £20m of Government grant has been received to support the development of the Quay and associated facilities, and there is an obligation linked to the grant that it should not benefit any particular private sector body. The precise use and beneficiaries of the grant are not clear to the Panel but given TWL are to receive all operating income from the Quay and all value leases on adjoining land it is likely that they are the direct beneficiaries.

- 19.51. The agreement between STDC and TWL provides that TWL may make earlier repayment of the debt but doesn't provide that they would meet any breakage costs. As the UKIB loan can only be used for the purposes of the Quay and requires TVCA to notify UKIB of any disposal or potential disposal it would likely trigger a premature repayment to UKIB with any breakage costs falling on STDC. In the event that premature repayment was not required by UKIB, TVCA might be left with monies it couldn't utilise elsewhere.
- 19.52. The UKIB loan to STDC via TVCA has a predetermined repayment schedule and interest is at a fixed rate over its life. This matches the tonnage-based payments from TWL to STDC, but this is dependent on the utilisation of the Quay reaching specified levels and a possible reduction linked to sufficient profitability in accordance with the supplementary agreement. As a result of the supplementary agreement there has been no financial risk transfer to the JV and TWL will accrue operating profits which exceed the financing payments to STDC whilst STDC are providing direct financial benefits to TWL through meeting insurance costs and site maintenance obligations. The Panel recognise that TWL has commercial obligations and incentives to make the operation of the Quay a success.
- 19.53. Access to public sector borrowings is fixed at 1.99% for 50 years. Both the 50-year loan life and fixed interest rate represent terms that would not have been available to TWL. Indeed it is clear that TWL would have been unable to obtain any finance for the project given the uncertainties surrounding its commercial success.
- 19.54. The Panel is aware that recent Counsel's advice questions whether the deferred purchase by TWL on the terms agreed represent a commercial decision. This situation is exacerbated as counsel was apparently unaware of the short-term financing costs and ongoing insurances falling on STDC.
- 19.55. Given that TVCA approved the business plan representing public sector ownership and full operational income flowing to STDC, the deferred sale and transfer of all operating profits after financing costs to TWL should have been recognised as a Referral Decision. Whilst Cabinet agreed the business plan, it isn't clear that they appreciated TVCA would be undertaking the borrowing in the first instance and the District Chief Finance Officers the Panel spoke to were not aware of the situation.

19.56. This is an incredibly complex deal and we set out below a funds flow diagram of the deal as we understand it.



\*tonnage fee of £3.98m p.a. is a maximum, subject to volume change and available profit.

## Landfill Tax and NZT

19.57. Whilst discussions have taken place with Government about the landfill tax trap and whether a solution will be forthcoming, the March 2023 budget did not provide this nor any timescale within which proposals would be brought forward but did record that it was under consideration.

19.58. The March 2023 STDC board was scheduled for the day after the Budget and considered a report to review the implications of the tax and the need for a different delivery model for NZT and other future deals. The report presented advised that there was a proposal in the Finance Bill, which turned out not to be the case. It is clear from the minutes that the Board were made aware that the detailed proposals and legislation were still outstanding.

19.59. The proposal regarding changed operating methodology was based on the understanding that a remediation scheme undertaken by the public sector would be eligible to access the landfill tax grant if the scheme was not viable without it. From discussions, given the environmental license available to STDC for the NZT scheme, landfill tax was not a material factor in its viability although the need for TWL to acquire its own environmental license if undertaking the works directly would be an additional risk. However, the STDC Board report relied on the landfill tax rationale to explain the change in operating approach both for NZT and future schemes and there was no reference to the favorable environmental license which the NZT scheme held.

19.60. The essence of the change in methodology whereby STDC would undertake the work and be reimbursed by TWL leads to a number of costs and risks which should have been addressed. The effective lending of monies to TWL carries with it a high level of credit risk as the rating given by STDC's Treasury advisers was equivalent to Moody's Ba3 which is not investment grade, considered speculative and are therefore subject to high credit risk. It sits one grade above junk bond status. This rating was assessed based on full security being maintained on the land. Whilst this was reflected in the margin being applied to the

loan it was a material factor that should have been reported to the Board in making any decision.

- 19.61. The contracted interest rate is to be applied on a 'simple interest' basis and tied to a margin over a 10-year gilt as of March 23 which was 3.5%. Gilt yields increased thereafter and as at the date of signature had increased to 3.76%. Likewise accruing interest on a simple interest basis is not consistent with referencing a margin over gilts as the latter have twice annual interest dates. To mirror a normal commercial agreement interest should be compounded on a semiannual basis. The NZT agreement also applies a shorter longstop date which is unlikely to be 10 years from signature date which makes reference to a 10-year gilt rate questionable. Linking the appropriate margin to a loan rate at the time of each drawdown would seem more appropriate given the volatility in rates at the current time and the length of time over which monies would be advanced.
- 19.62. It is also noted that the NZT agreement leaves STDC responsible for the service charge on the land until drawdown by TWL and this should have been included in the costs to be recovered as this represents a direct cost to STDC in undertaking the work which they should be recovering alongside the agreement to recover incidental costs. Likewise, the agreement leaves STDC responsible for any landfill costs incurred.
- 19.63. The report to STDC Board includes no commercial detail including the possible up-front funding by BP and the extent to which the scheme might qualify for landfill tax support (which it is understood is not likely given the environmental permit in place) and hence any likely landfill costs to be met by STDC, the scale of the investment and assessment of TWL's credit worthiness. It was also noted that STDC was committed to carrying out Phase 2 if required by TWL.
- 19.64. The provision of a Park and Ride facility is a contractual requirement for NZT to be delivered by STDC at a cost of £20m. At that stage funding via TVCA Transport funding hadn't been agreed and the obligation wasn't referenced in the STDC Board paper nor to TVCA as a referral decision.
- 19.65. A substantive consideration to any commercial lending agreement is understanding the means by which the lender will repay the loan, and this wasn't addressed in the Board report. Clearly if the NZT lease had been finalised and the JV able to securitise the lease payments, this would have provided a route but in the absence of this, STDC would need to rely on the £50m income received from the Investor retained by TWL, assuming this had been achieved and not committed to other projects. It was noted that the TVCA decision to enter into the transaction was after STDC decision on NZT and hence that source of income couldn't be relied upon at the time of agreeing the revised operational approach for NZT.

## **Summary financial position of STDC and TWL**

- 19.66. Planned public sector investment in Teesworks up to end 2024/5 (excluding keepsafe) will have amounted to circa £500m. As at 31/3/23 substantial financial liabilities exist for STDC (£257m of prudential borrowing undertaken of which £206m has been borrowed long term

from TVCA). This latter is held as loans by TVCA from external lenders along with liability assessed in the accounts as £103m under the SeAH lease agreement.

£m	Pre 20/21	20/21	21/2	21/3	21/4	21/5	Total
Operating costs		3.2	4.3	10.7	0.9	0	19.1
Demolition		2.1	41	83.5	17.4	0	144
Site preparation and infrastructure		30.5	58.7	34.7	52.1	6.3	182.3
Enabling studies			7.9	1.9	2.7		12.5
South Bank Quay			23.2	65.7	22.9	1	112.8
PROJECT EXPENDITURE		32.6	130.9	185.8	95	7.3	451.6
LAND ACQUISITION COSTS	11.2	15.9	1.3	0.2			28.6
KEEPSAFE ex SSI		14.9	28.3	17.1	1.8		62.1
<b>TOTAL EXPENDITURE</b>	<b>11.2</b>	65.6	164.7	213.8	97.7	7.3	560.3
<b>FUNDED BY</b>							
Beis RDEL		11.4	34.2	16.8			62.4
Beis CDEL		5.4	11.7	5			22.1
MHCLG CDEL		4.2	36.8				41
MHCLG Prairie		10					10
TVCA Investment Plan		30.8					30.8
Beis WiIND			20				20
Quay Borrowing			33	64.3	9.5		106.8
Other	11.2	3.9	29.1	127.7	88.2	7.3	267.4
							560.5
Other will include balance of £56.6m Investment Fund, Scrap circa £60m, GE land sale £15m							
Prudential borrowing included in "other" derived from CFR statement	11.2	25	44	70.7			

19.67. From the above analysis it is apparent that STDC has substantial treasury transactions, including borrowing £206m from TVCA as at 31/3/23. The STDC constitution requires that the Board receive an annual Treasury Management Strategy (which would include Minimum Revenue Provision (MRP) policy) together with mid-year review and Annual Report. To date the Panel have been unable to identify any such reports over the period from 2020. Such reports would have highlighted that STDC has undertaken £247m of prudential borrowings of which £96m relates to the Quay development. Whilst the Quay borrowing might arguably be seen as approved by TVCA, when it approved the Quay business case to Government there is no evidence that the remainder has been approved by TVCA and it appears to be merged within 'other funding' in the periodic financial updates provided to STDC Board such they are unlikely to be aware of the scale. Whilst it is reported in the draft Annual accounts for 2022/23, these have not yet been reported to the STDC Audit and Governance Committee nor to the Board although they are published on the TVCA web site. Studying the draft accounts would also identify that there are unexplained differences in the cumulative funding statement presented to the STDC Board in July 2023 (table at above) and the draft annual accounts.

19.68. TVCA receives the required Treasury Strategy reports which identify loans to subsidiaries in total but does not give further detail. Apart from the possible agreement to lend monies to STDC for the construction of the Quay, it is not apparent that any other specific approval

for on-lending has been agreed by Cabinet nor that Districts are aware of the overall exposure to STDC. The Panel note that the constituent authorities receive copies of the various Treasury Management reports and that they are publicly available, however there does not seem to be any recognition of such Treasury activity. The TVCA Audit Committee do not receive the various Treasury Management reports, although they are publicly available, and do not provide any scrutiny of TVCA lending to STDC. Whilst an astute reader of the accounts would identify such lending activity it seems unlikely that most Committee members would scrutinise in that level of detail.

19.69. To date the JV partners have received circa £45m through TWL with a further £63m held as cash in TWL. There has been no direct financial investment by the JV partners in TWL and nonapparent in the near future given the new operating model agreed.

	31/07/23 £m	Comment
<b>Income</b>		
Scrap	98.3	
Land deals	97.5	
Interest	1.0	
	<u>196.8</u>	
<b>Expenditure</b>		
TVCA reverse premium (SeAH)	10.0	Reverse premium payment re SeAH transaction
Overheads	4.7	
Tax	29.3	
STDC	44.8	Includes £5m for GE land Transaction + £39.8m scrap
JV Partners	44.6	
	<u>133.4</u>	
<b>Cash at Bank</b>	<u>63.4</u>	
Liabilities	10.0	Due to STDC re GE land Transaction
Assets	39.8	Due from STDC through dividend deferral as part of the £60m advance on scrap

## 20. STDC Retained Liabilities

20.1. The Panel has sought to identify the liabilities currently sitting with STDC through review of the financial plans and other documents provided to it. It will, inevitably, not be a comprehensive list and some of the values allocated to individual items will be 'best estimates' which STDC may be able provide more accurate assessments for. The Panel are aware of the report to the April STDC Board covering some aspects of ongoing site liabilities, but this did not cover the full range of liabilities for STDC over the short, medium and longer term.

### Outstanding Debt

20.2. As at 31<sup>st</sup> March 2023 STDC had utilised Prudential borrowings to the tune of £247m, which included £206m of long-term external borrowing from TVCA. The remainder may be funded from shorter term loans from TVCA or STDC's own cash flows.

- 20.3. The STDC financial plans for 2023/4 to 2024/5 show further funding required to complete the capital programs. This amounts to £105m and will undoubtedly include further borrowings as scrap income has been fully utilised.
- 20.4. Capital financing costs budgeted in 2023/24 amount to £7m and this figure will increase as more borrowings are undertaken and MRP starts to be charged on later years capital spend. Income from the South Bank Quay agreement with TWL will be planned to cover the Quay financing costs but financing costs of £135 to 200m of borrowings will fall to be met from other income sources. In the absence of STDC Treasury Management annual policies including MRP, it is not possible to determine the periods over which MRP is to be applied.

### **Estate Management costs**

- 20.5. The 2023/24 budget includes net costs of £4.9m and whilst this would be expected to diminish as TWL draw down individual plots there will be a remaining profile of unrecovered costs. Under the proposed new operating methodology STDC would continue to bear site costs for plots being developed under direction from TWL until such plots are drawn down.

### **Quay residual costs**

- 20.6. The Quay agreement provides that STDC is responsible for insuring the Quay and, based on figures included in STDC documents this could initially amount to £0.7m pa. It is unclear whether STDC continues to bear related estate management costs.

### **High Tip and SLEMS**

- 20.7. These sites are unlikely to be developed in the short term and ongoing site maintenance and estate management costs will continue. Should the areas be brought forward for remediation, costs of up to £50m might be incurred and it is unlikely these would represent commercial propositions at the present time.

### **Proposed Infrastructure Amendment**

- 20.8. Panel are aware that Counsel's advice has been sought on a proposal for STDC to take responsibility for Roads, Electricity apparatus associated with roads, foul water mains, gas appliances and amenity areas. Under the amendment TWL would serve notice on STDC to construct, upgrade, repair and maintain these to specified standards and to solely use business rates income from the site for this purpose. Panel have seen no estimate of the capital costs of such investment by STDC nor the ongoing cost of meeting ongoing obligations. Counsel's initial opinion is that this could be a breach of Subsidy Control regime.

### **Business Rates**

- 20.9. The Regulations provide for TVCA to receive 50% of the business rates uplift from the designated areas to support TVCA medium term financial strategy and the Business Plan as approved by BEIS in 2020. The Regulations specify the time period being 25 years from 1 April 2021. Both the Regulations and the signed MoU with R&C are with TVCA as the accountable body. Although STDC have assumed they have sufficient approval to access the full amount of business rates, TVCA should review the liabilities which would

potentially fall to them. Subsequently TVCA should explicitly agree the amount and usage of Business Rate income to pass to STDC and receive assurance from STDC as to their application in line with the Business plan.

## **Park and Ride**

- 20.10. Under the NZT agreement STDC are required to provide a Park and Ride facility at a capital cost of £20m and to maintain thereafter at its own cost. It is understood that the capital cost will be met by TVCA Transport allocation, although in theory it could be met from retained business rates.

## **Conclusion**

- 20.11. STDC retain substantial liabilities on the site which are largely unquantified. Whilst it is no doubt the intention to utilise business rates income to cover these costs, that income source has a finite life whilst many of the obligations extend beyond that period. Should the Infrastructure Amendment, in its suggested form, be agreed it would remove from STDC any flexibility to meet costs other than those specified in the Agreement from business rates income. STDC should model financial flows which should extend beyond the life of the Business Rates Regulations to better understand its net liabilities.

## **21. Specific issues**

- 21.1. There have been a number of specific allegations that have been in the media. These have been put to the Statutory officers and they advise as follows:

### **The appointment of Teesworks Operations Manager**

- 21.2. The Teesworks Operations Manager is employed by STDC and commenced work on 1<sup>st</sup> September 2020.
- 21.3. The post holder was approached directly by the Chief Executive for the role, following discussions between her, the Director of Finance and Resources, and the JV partners.
- 21.4. The post holder was approached due to his "very unique experience with both ports and Teeside" as he was known to be available and an expert in ports.
- 21.5. The post holder was formerly the Managing Director of Redcar Bulk Terminal and involved in selling the land option to the JV Partners which was pivotal to the 50/50 JV arrangements.

### **The appointment of Teesworks Site Development Manager**

- 21.6. The Teesworks Site Development Manager is employed by STDC and commenced work on 7<sup>th</sup> December 2020
- 21.7. The post holder was recommended by the JV Partners and interviewed by The Director of Finance and Resources and the Teesworks Operations Manager. There was no advert or competition for the role as the detail required "a known and trusted person".
- 21.8. The post holder is the son in law of one of the JV Partners.

## **The resignation of Former Group Chief Legal Officer**

- 21.9. The post holder was employed as Group Chief Legal Officer from 3<sup>rd</sup> September 2020 to 25<sup>th</sup> November 2022.
- 21.10. The post holder resigned to take up a new position and served his contractual notice period.

## **The procurement of NE Security Limited**

- 21.11. NE Security Limited were appointed through an open OJEU process to deliver Teesworks core security. The contract commenced on 13<sup>th</sup> December 2021.
- 21.12. There were 7 bids received of which 2 were compliant. The evaluation was scored by the Head of Security and his deputy and overseen by the Procurement Manager. It included a pass/fail question requiring bids to be within the financial envelope set by STDC.
- 21.13. CRB checks whilst a standard term in STDC procurement were not taken up as the individuals involved in the contract have to be SIA (Security Industry Association) licensed and the bidders made the appropriate disclosures in this regard<sup>41</sup>.
- 21.14. No interviews took place, in line with standard practice, and no references were taken. There was no assessment of the credibility of costings where the financial envelope appeared to be met despite a fully detailed pricing schedule being a requirement.
- 21.15. NE Security Limited provide services to one of the JV Partners.

## **The role of TCC Plant Limited**

- 21.16. STDC have no contracts with TCC. TCC have not tendered for any STDC opportunities.
- 21.17. TCC may have a presence on site through sub-contracts with STDC direct contractors. TCC hire plant to SeAH.
- 21.18. TCC is owned by the son of one of the JV Partners.

## **Withholding monies from Redcar & Cleveland BC**

- 21.19. There has been significant coverage and speculation about the withholding of monies from R&C pending the movement of the South Road roundabout which it is said encroaches on preserved rights over land held by PD Ports and subject to current court proceedings.
- 21.20. Early in the review, third parties shared copy correspondence, with redactions, on this matter. The main e-mails are sequenced and summarised below. The final document, a text, was not made available until 3<sup>rd</sup> October 2023:

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<sup>41</sup> JG e-mail 30/10/23



Date/time	From	To	Commentary
06/03/23	Julie Gilhespie	John Sampson	<b>Roundabout</b> Referenced conversation Friday (3/3/23) Asked if R&C can subcontract the roundabout project. Reference sub-contractor already on site who can do it quickly and easily Offer to fund if a constraint
06/03/23	John Sampson	R&C staff	<b>TVCA Funding - Redcar Town Deal</b> Referenced conversation with JG Friday (3/3/23) JG has confirmed Mayor has "...put hold on a range of funds coming to us – the TVCA contribution is one such sum" Discussed unlocking log jam Asked if funding delayed until May, would cause a problem
06/03/23	R&C staff	John Sampson	<b>TVCA Funding - Redcar Town Deal (RTD)</b> Confirms funding delay will have a big impact on a few projects Need RTD money by 20 March or £100k cost exposure Other project funding at risk as listed
09/03/23	John Sampson	Julie Gilhespie	<b>Roundabout</b> Hold on funding – RTD assurance statement to Government due 20 March. Need position by then so scheme not derailed.
16/03/23	Julie Gilhespie	John Sampson	"Ben will release town deal Money as soon as he has confirmation that you have instructed the contractor on the roundabout"

21.21. John Sampson, Managing Director, Redcar and Cleveland BC (R&C) was interviewed on 23<sup>rd</sup> August 2023. He was asked about TVCA or STDC putting the council under pressure to undertake highways works or make planning applications; the so called "blackmail e-mail". John confirmed there was no such e-mail. There was discussion about the South Bank roundabout progress and reluctance on the part of developers (STDC) to progress planning permission considering the land dispute. R&C used their highways development rights to change the location.

21.22. At the same time, R&C were "chasing some funding" from TVCA in respect of a coastal scheme. This was a separate issue and they required confirmation of funding. The confirmation was not received, and the council placed orders at risk. They have subsequently received permission for some £600,000 from TVCA. John advised that the two issues had "entangled themselves" with some internal e-mails putting the two issues together. They were not blackmailed, he felt people had "put two and two together and come up with three...".

- 21.23. On 12<sup>th</sup> September 2023 the Panel received two e-mails. The first from the Leader of R&C advising that John Sampson had "... disclosed to me that he would be sharing with your investigation a WhatsApp message from Julie Gillespie directly to him stating that Ben had indeed threatened to withhold funds until the roundabout issue had been resolved.". The second was from The Chair of the Regulatory Committee of R&C stating, "You have been sent evidence of Houchen using Gillespie to blackmail Redcar and Cleveland Council."
- 21.24. John Sampson was interviewed again on the 2<sup>nd</sup> November 2023, where it was put to him that there was evidence that monies had been withheld from R&C. John confirmed that he did believe this to be the case, although this was not included in any email. The genesis was conversations with Julie Gilhespie and the Mayor. John advised that there was a text that linked the two and arranged for a copy to be shared with the Panel. He had not previously shared it as the Panel had asked about e-mails and he had treated the request in the same way as an FoI, which in his view entitled him to exclude the text.
- 21.25. We met with the Mayor on 3<sup>rd</sup> November 2023 and asked him about the allegations of withholding funds. He set out a position whereby STDC had agreed to assist and even pay for the roundabout, whilst separately R&C had sought additional funds from TVCA for the Town Fund project. The two items had been misrepresented. In any case the roundabout was, in the end, never delivered.
- 21.26. In conversation with Julie Gilhespie on 10<sup>th</sup> October 2023, she was advised that we had seen her text and asked if the Mayor was aware. She had a different perspective that R&C Leader had told officers not to proceed with the roundabout, on the back of a view that R&C were receiving less than their fair share. This arose from the "deal" in July 2022 to secure 2 further Development Corporations (DC) in Hartlepool and Middlesborough. Each new DC was to receive £10m from TVCA and in order to secure agreement from the TVCA Cabinet a further £10m was set aside for non-DC areas, being split £6m for Stockton and £4m for Darlington.
- 21.27. The former leader of R&C, Mary Lanigan, was interviewed on 3<sup>rd</sup> November 2023. She too referred to the deal with Stockton and Darlington, in the context of TVCA cabinet being asked to agree to borrow £20m for the Airport at short notice and with no supporting paperwork.
- 21.28. There are clearly different perspectives on this issue and equally some consistencies. What is clear is that based on the text from Julie Gilhespie of 16<sup>th</sup> March 2023 R&C would have good reason to conclude that the release of monies by TVCA for the Town Deal was dependent on them contracting the works on the roundabout. Ultimately though, the monies were released, and the roundabout did not progress.
- 21.29. This is an example of how unhelpful relationships across the region are impeding the delivery of significant regeneration in Tees Valley that go beyond the boundaries of the Teeswork site.

## 22. Conclusions

- 22.1. Teesworks and the regeneration of the former Redcar Steelworks is a vast and complex project. The area desperately needs, and welcomes, the opportunities the site can offer and much has been achieved in a relatively short space of time. We do not underestimate the challenges posed by the site and the circumstances within which much of the current

work has taken place. These include a worldwide pandemic, a number of geopolitical shocks and economic instability.

22.2. The Panel have not been able to follow every single lead provided or answer every question posed by stakeholders and interested parties. We have however secured sufficient, consistent evidence to support our conclusions. We have found no evidence of corruption or illegality. We have identified a need to strengthen governance and increase transparency which can be done with limited impact on pace of delivery.

22.3. In terms of the specific questions set out in the terms of reference our summary responses are set out below:

**1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.**

STDC Board members and constituent authority chief executives expressed confidence in the current group executives. The Board largely feel engaged and make unanimous decisions. The quality and timing of reports is mixed and often supplemented by informal briefings, although the Panel has not always seen the content of these. Much of the detail is delegated to the executive and we found evidence of inaccuracies and omissions in reports which undermines decisions. The high degree of confidential reporting and opacity in report titles compromise transparency. We did not see sufficient information provided to Board to allow them to provide effective challenge and undertake the level of due diligence expected of a commercial Board.

**2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between STDC and its partners).**

TVCA effectively has no oversight of STDC Board or TWL. The Cabinet receive routine updates from the Chief Executive, however they are not sighted on or engaged in significant decisions. The former monitoring officer advised TVCA oversight and Scrutiny Committee they had no remit to scrutinise STDC decisions. Since then, despite concerns being raised, there has been no advice to TVCA that they can issue or revoke directions, including referral decisions, that STDC must follow. They can also amend delegations issued. The executive has been robust in applying a narrow definition to referrals.

TVCA seems unaware of the direct liabilities it faces as a result of its interface with STDC and it is questionable whether there has been substantive approval to the degree of long-term lending to STDC or their access to business rates income.

There is no oversight of TWL, despite requests from various TVCA members and Committees. It is the responsibility of STDC as the public authority to ensure that appropriate conditions and oversight of TWL is in place.

**3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture?**

Operations of TWL are not visible beyond the published accounts at Companies House. While TWL is a private sector company, albeit one where STDC had a controlling influence at one time, it would have been the Panel's expectation that STDC would have set some conditions aligned to managing public funds on how the public assets and resources were defrayed once drawn down.

Whilst the JV Partners have undoubtedly brought their skills and experience to bear on the project and have been critical to progressing at pace, there has been no private finance invested to date whilst over £560m of public funds have been spent or committed. The JV Partners and TWL have received substantial income as a result of the public sector investment.

A further £238m investment including £40m for Net Zero Teeside, is potentially to be incurred by STDC utilising prudential borrowing, to be repaid over the next 50 years from a combination of retained business rates, Teesworks Limited (TWL) profits from operating the Quay, and contractual commitments from TWL.

Outcomes are reported quarterly to Government (BEIS/BAT) in line with the agreed criteria. However, these do not record the cumulative position on either costs or benefits, nor do they compare the current overall position in respect of costs and benefits with those set out in the approved business case.

- 4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.**

The risk and reward between the public and private sector was set out in principle to the STDC Board at the agreement of the JV 50/50. Detail was left to statutory officers and developed over time, including 2 supplemental agreements that were not notified to the Board. The JV 90/10 equally was discussed at the principal level. Each land transaction shifts the balance of risks and rewards, and these have never been discussed holistically.

TVCA has no sight of these decisions other than specific deals where they may act to provide financial covenants or instruments.

The quality and timing of reports are variable. In many instances the reports omit much of the detail and on occasion have been incorrect e.g., advising that Government had agreed a solution to the Landfill tax legislation. While external specialist advice is sought, often the advice is narrow e.g., subsidy control advice was limited to the commission payments with the JV partners, not the overall deal, and instructions are often limited and on occasion incorrect. The lack of challenge from the Board and wider professional officers within TVCA constituent authorities mean that there is ineffective check and challenge in the system.

The absence of detailed commercial financial advice on all but one transaction (transfer of STDC to local control) is notable and undoubtedly would have led to a fuller understanding of financial consequences to inform major decisions.

**5. An assessment of the level of confidence by which the Government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence based and taken appropriate consideration of value for money.**

The lack of transparency in the decision making and the very permissive scheme of delegation undermines the confidence Government can place on the evidence base and systems to secure value for money. The evidence base is constrained with risks not being fully understood and value for money cannot be assured without the checks and balances in the system. There appears to be significant verbal briefing of decision makers but the detail of this is not available as evidence. Given the tight control of information, the relatively small number of officers involved and breadth of experience of decision makers, this limits the added value Board members are able to bring to the decisions in respect of the JV arrangements.

The confidence in statutory officers is good but conversely reduces the curiosity of those in positions of influence, who take reports and briefings at face value without providing an independent check and challenge.

**6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:**

- a. **The sale of the site now occupied by SeAH Wind**
- b. **The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private**
- c. **The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly owned land or assets**
- d. **The sale of land at the site to private sector partners**
- e. **Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site**
- f. **The evidence of investment from private sector partners in the context of significant public investment in remediation of the site**
- g. **The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with, and reporting to HMG.**

While there is much that does follow due process, the ceding of control by TVCA, under the oversight of successive former monitoring officers and the permissive scheme of delegations within STDC and TVCA mean that most decisions are vested in a small number of individuals. This together with the limited reporting means that there is not a robustness within the system. Inappropriate decisions and a lack of transparency which fail to guard against allegations of wrongdoing are occurring, and the principles of spending public money are not being consistently observed. Examples of this would be the appointments of officers without an open and transparent process, and the agreement of transactions that may breach subsidy control requirements.

Conflicts of interest are not observed. The appointment of group statutory officers, some of which is a legal requirement, causes confusion and many stakeholders do not know in what capacity the statutory officers are advising. While there is an implicit role in formal meetings, beyond this it can be unclear.

We are pleased to see that the group Chief Executive has updated her register of interests to record her role as a Director of TWL and other bodies. Better control needs to be enacted to ensure representatives of the JV partners do not attend private meetings of the STDC Board.

**7. An assessment of the effectiveness of arrangements for external scrutiny of STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from the process**

There is no independent scrutiny of TWL by STDC or TVCA. Internal audit do however talk in positive terms about their audit findings in relation to STDC. External audits are awaiting the outcome of this report before comment. The Panel's view is that independent scrutiny through the audit process could have been stronger in identifying governance weaknesses in support of the Mayor and executive team in meeting their statutory duties.

It is the Panel's view that audit could have raised some of the issues identified in the report. External audit now need to finalise their audits for 2021/22 onwards, including their work on value for money arrangements, making any necessary adjustments to their risk assessments and work programmes moving forward.

**As part of that process, the review will focus on the following themes, reflecting the Government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency, and effectiveness:**

- **Governance - e.g., sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement**
- **Finance - e.g., quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.**

Based on the evidence from the review the governance and financial management arrangements are not of themselves sufficiently robust or transparent to evidence value for money.

## 23. Glossary

**Able** – Port operator. Potential development partner, not being pursued.

**BEIS** – Department for Business, Energy and Industrial Strategy

**CA** - Combined Authority. TVCA is a combined authority.

**CEO/Chief Executive/Head of Paid Service** – statutory responsible for proper coordination of all functions as well as organising staff and appointing appropriate management.

**Constituent authorities** – the 5 local authorities that make up the Tees Valley geographical area of the combined authority.

**Constituent members** – the Leaders of the 5 local authorities that make up the Tees Valley geographical area of the combined authority.

**CPO** – Compulsory Purchase Order

**DC** – Development Corporation

**DCS/DCS Ltd.** – DCS Industrial Ltd. a company jointly owned by the JV Partners. Holds 40% shares in TWL

**DLUHC** – Department for Levelling Up, Homes and Communities

**ERF** – Energy Recovery Facility

**FoI** – Freedom of Information

**GE** – General Electric. A potential leaseholder, no longer in active discussion.

**JV** – Joint Venture

**LA 2011** – Localism Act 2011

**MDA** – Mayoral Development Areas

**MDC** – Mayoral Development Corporation. STDC is an MDC

**Monitoring Officer** – statutory officer responsible for the operation of the

constitution, matters of legality and the conduct of councillors and officers

**MoU** – Memorandum of Understanding

**MRP** – Minimum Revenue Provision. Monies set aside to repay debt.

**NES** – North East Securities. a service provider.

**NLM** – Northern Land Management Limited. Company owned in part by one of the JV Partners and holds 25% shares in TWL.

**NZT** – Net Zero Teesside Power. Leaseholder - proposed combined cycle gas turbine electricity generating station.

**O&S** - Overview and Scrutiny

**RBT** – Redcar Bulk Terminal – owner of land and operator within the Teesworks site. Subject to CPO.

**R&C** – Redcar and Cleveland Borough Council

**RTD** – Redcar Town Deal

**SA1** – Basis of a settlement between the Mayor, STDC Officers, JV Partners and SSI whereby SSI would withdraw its objections to the CPO in return for STDC transferring to it 330 acres of the CPO land and the JV Partners RBT Option land to enable it to pursue development of the Redcar Bulk Terminal. The agreement, referred to as SA1 was prepared and signed on 20th February 2020.

**SA2** - The subsequent decision of the Mayor/STDC officials in June 2020 to withdraw from the first settlement and enter a second settlement agreement with the Thai banks regarding the CPO land which involved incurring costs of £16m for land purchase.

**SeAH** – SeAH Steel Holdings. A leaseholder on the Teesworks site.

**SIA** – Security Industry Association

**South Bank Quay** - a plot of land on the Teesworks site to be developed and operated as a port

**SSI** – Sahaviriya Steel Industries. Landholder on Teesworks site, subject to CPO.

**Statutory Officers** - the officers a local authority/public body is required to have in law

**STDC** – South Tees Development Corporation

**STEL/STE** – South Teesworks Enterprise Limited. The company owned by the JV Partners that later became TWL.

**STSC** – South Tees Site Company. The company now owned by STDC and responsible for the keeppsafe of the Teesworks site.

**S73 Officer/Finance Officer** – statutory officer responsible for the arrangements for the proper administration of financial affairs.

**TCC** – TCC Plant Limited. A provider of services.

**Teesworks** – the generic term that represents the project to remediate and redevelop the former Redcar steelworks following the liquidation of the then steelworks owner SSI (Sahaviriya Steel Industries UK Ltd)

**The Executive** – refers to the three statutory officers.

**The JV Partnership** – refers to structure of individuals and companies that sit behind TWL.

**The JV Partners** – Joint venture partners Chris Musgrave and Martin Corney

**TVAF** – Tees Valley Assurance Framework

**TVCA** – Tees Valley Combined Authority

**TWL** – Teesworks Limited. The JV Partnership between STDC and the JV Partners.

**VFM** - Value for Money

**UKIB** – UK Infrastructure Bank. Has loaned monies to TVCA.



## 24. Appendix

### Appendix 1

#### **Terms of reference: Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture**

On 24 May 2023, the Secretary of State for Levelling Up, Housing and Communities wrote to Ben Houchen, Tees Valley Mayor, to confirm that he had taken the exceptional decision to support the commissioning of an independent review of the South Tees Development Corporation (STDC) and Teesworks Joint Venture. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks and a letter from Mayor Houchen to the Secretary of State on 16 May seeking an independent review of the matter by a 'relevant body', reflecting the Mayor's concern that continued allegations would undermine confidence in the site.

The department has seen no evidence of corruption, wrongdoing, or illegality, but recognises that the continued allegations pose a risk to the governments and the combined authority's shared ambitions to deliver jobs and economic growth in Teesside. The review will include consideration of these specific allegations made in relation to the Joint Venture, and ascertaining the facts is the primary basis for the Secretary of State seeking this independent review.

As part of that process, the review will focus on the following themes, reflecting the government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency and effectiveness:

- Governance - e.g. sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement.
- Finance - e.g. quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.

In view of the serious allegations of corruption, wrongdoing and illegality that have been made in relation to the Teesworks Joint Venture, the government has asked the review to specifically to respond on that issue. The following specific questions/issues have been identified for the review to explore:

1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.
2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of the STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between the STDC and its partners).
3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture.

4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.

5. An assessment of the level of confidence by which the government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence-based and taken appropriate consideration of value for money.

6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:

- The sale of the site now occupied by SeAH Wind.
- The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private.
- The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly owned land or assets.
- The sale of land at the site to private sector partners.
- Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site.
- The evidence of investment from private sector partners in the context of significant public investment in remediation of the site.
- The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with and reporting to His Majesty's Government (HMG).

7. An assessment of the effectiveness of arrangements for external scrutiny of the STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from that process.

## Appendix 2

A list of individuals who submitted written evidence and/or attended interviews is below:

Name	Role	Organisation	Submitted Evidence – E Interviewed - I
Julie Gilhespie	Group Chief Executive	TVCA	E + I
Gary MacDonald	Group Director of Finance and Resources	TVCA	E + I
Emma Simson	Acting Group Legal Officer and Monitoring Officer	TVCA	E + I
Ben Houchen	Mayor	TVCA	E + I
Neil Schneider	Board Member Former Chief Executive	STDC Stockton on Tees Council	E + I
John Sampson	Managing Director  Board Member (associate)	Redcar & Cleveland Council STDC	E + I
Sue Jeffrey	Board Member Cabinet Member Overview & Scrutiny Audit Committee Leader	STDC TVCA TVCA STDC Redcar & Cleveland Council	E + I
Simon Clarke MP	Member of Parliament	Middlesbrough & South East Cleveland	E + I
Andy McDonald MP	Member of Parliament	Middlesbrough	E + I
Graham Robb	Board Member	STDC	E + I
Margaret O'Donoghue	Overview & Scrutiny Councillor	TVCA Redcar & Cleveland Council	E + I
Jonathan Munby	Audit Committee	TVCA	E + I
Chris Cooke	Cabinet	TVCA	E + I
David Smith	Board Member	STDC	E + I
Paul Booth	Board Member Audit Committee Former Acting Chief Executive	STDC STDC STDC	E + I
Cllr Bob Cook	Cabinet Leader	TVCA Stockton on Tees Council	I
Chris Musgrave	Joint Venture Partner		E + I
Martin Corney	Joint Venture Partner		E + I
Steve Gibson	Board Member Audit Committee	STDC STDC	I

<b>Name</b>	<b>Role</b>	<b>Organisation</b>	<b>Submitted Evidence – E Interviewed - I</b>
Mary Lanigan	Board Member Cabinet Former Leader	STDC TVCA Redcar & Cleveland	I
Vicky Davis		National Audit Office	I
Cath Andrews	External Audit	Mazars	I
Cameron Waddell	External Audit	Mazars	I
Tim Cares	Partner	Ward Hadaway Solicitors	I
Victoria Pescod	Lawyer (Observer)	TVCA	I
Dr Tom Smyth	Board (associate) Deputy Head, Yorkshire, Humber & Northeast Areas Directorate	STDC BEIS	E + I
Ian Williams	Chief Executive	Darlington Council	I
Mike Greene	Chief Executive	Stockton on Tees Council	I
Paul Rowsell	Head of Governance Reform and Democracy Unit	DLUHC	I
Matthew Storey	Audit Committee Overview & Scrutiny Deputy Leader	TVCA TVCA Middlesbrough Council	I
Lord Heseltine			I
Elizabeth Davison	S151 Officer	Darlington Council	I
John Baker	Board Member Audit Committee	STDC STDC	E + I
Phil Winstanley	S151 Officer	Redcar & Cleveland Council	I
Richard Brooks	Reporter	Private Eye	E + I
Garry Cummings	S151 Officer	Stockton on Tees Council	I
Denise McGuckin	Managing Director	Hartlepool Borough Council	I
Andrew Nixon	Monitoring Officer	TCVA & STDC 2017 – Sep 2020 Redcar & Cleveland Council	I
Charlotte Benjamin	Monitoring Officer	Middlesborough Council	I
Robert Cuffe	Board Member	STDC	E
Jacob Young MP	Board Member Member of Parliament	STDC Redcar	E
Councillor Tony Riordan	Councillor	Stockton on Tees Council	E
Iain Robson	Group Finance Director	ADL Developments Ltd	E

Dave Budd	Mayor of Middlesbrough Board member	TVCA and STDC	E
Reverend Paul Cawthorne	Specialist Researcher		E
Sally Bunce	Councillor	Loftus Town Council	E
Leigh Jones	Investigative Reporter	Yorkshire Post	E
Scott Hunter	Reporter	Tees Valley Monitor Ltd	E
Tristan Learoyd	Councillor & Chair of R&D Regulatory Committee	Redcar and Cleveland Council	E

## Appendix 3

### Timeline of Key Events

<b>Date</b>	<b>Activity</b>
September 2015	The Sahaviriya Steel Industries (SSI) Steelworks in Redcar closed with the loss of more than 3,100 jobs.
April & June 2016	Devolution Deal agreed to establish TCVA and Mayor
June 2016	Lord Heseltine's report Tees Valley: Opportunity Unlimited is published
October 2016	STSC established to manage and keep safe the SSI land
February 2017	Discussions commence with major landowners
March 2017	Tees Valley Combined Authority (Functions) Order comes into effect
April 2017	Formal Without Prejudice offer of 'gain share' delivery proposal made to Thai Banks
May 2017	Ben Houchen Is elected as the first Mayor of the Tees Valley Combined Authority (TVCA).
May 2017	Thai Banks reject gain share proposal due to timing uncertainties
August 2017	STDC formally established
September 2017	STDC Board resolved to begin preparations for the making of a CPO pursuant to sections 201 and 207 of the Localism Act 2011 and the Acquisition of Land Act 1981
November 2017	STDC Board updated on progress with private treaty negotiations and preparations for making a CPO and resolved to appoint land referencing agents to confirm land interests
February 2018	STDC proposed an in-principal resolution to make a CPO
May 2018	STDC Supplementary Planning Document approved with R&C
July 2018	STDC resolved to proceed to make one or more CPOs and to refer the consent to TVCA to submit the CPO(s), once made, to the Secretary of State for confirmation
September 2018	STDC endorsed the land area required for development
January 2019	TVCA Cabinet approved the funding for the land acquisition and Investment Plan support STDC (£56.5m);

March 2019	TVCA Cabinet and STDC Board consented to the submission of the CPO
Late 2019	Three Thai Banks (Siam Commercial Banks, TISCO and Krung Thai), who were SSI UK's main creditors, object to the Government's plans for the compulsory purchase of the Steelworks in Redcar.
November 2019	JV Partners acquire option on 70 acres of Redcar Bulk Terminal Land
December 2019	TVCA approves commercial loan to Tees Valley International Airport and endorses their plan to enter into a JV with the JV Partners.
December 2019 – February 2020	Negotiations between JV Partners, SSI, STDC and Mayor on leverage of RBT land option.
February 2020	STDC agree settlement with SSI and the Thai Banks ("SA1"), to proceed with the CPO, and establish to 50/50 JV with the JV Partners. Delegated authority to CEO to conclude the JV and SA1.
March 2020	TVCA agree to proceed with CPO and delegates its reserve powers to STDC for the purposes of forming the JV.
March 2020	STDC establishes the joint venture company (initially known as South Tees Enterprise Ltd) with a 50/50 split between STDC and the JV Partners.
April 2020	Inspector Philip Ware, acting under powers delegated to him by the then Secretary of State confirmed the CPO without modification.
June 2020	STDC Chief Executive and JV partners agreed "Supplemental Deed" effectively transferring 50% of value of recyclable materials to JV partners
June 2020	Government approves STDC business case for remediation and development of Teesworks site
July 2020	STDC withdraw from first settlement agreement and enter into second settlement agreement ("SA2")
July 2020	Teesworks Limited established by amendment of the company formerly named as South Tees Enterprise Limited.
Summer 2020	Government agreed funding of £125.75m to TVCA between 2020 and the end of 2022/23 financial year.

January – March 2021	An additional £20m provided by BEIS to support the development of an offshore wind manufacturing centre.
March 2021	Government announcement of Teesside Freeport
July 2021	TVCA agrees Headlease for GE for Teesworks site
August 2021	STDC Board agreed 90:10 JV Partnership in favour of the JV partners
November 2021	Mayor's decision to approve disposal of parts of Teesworks site at less than best consideration
November 2021	TVCA agrees borrowing of £106m for development of South Bank Quay
July 2022	STDC Board agree proposed transaction with SeAH Wind Investments
October 2022	TVCA Cabinet agree change from GE to SeAH as anchor tenants
March 2023	TVCA Cabinet approved granting of SeAH headlease
March 2023	STDC agreed delivery model for NZT



## Appendix 4

### Teesworks Project - Schedule of Key Legal Documents

<b>2020</b>	
2020-02-20	<p><b>First Settlement Agreement (SA1)</b>  An agreement between STDC, Official Receiver (OR), SSI UK, SSI PCL, DCS Industrial Ltd, DCS Industrial (South) Limited.</p> <p>Title:- Settlement Agreement relating to the South Tees Development Corporation (Land at former Redcar Stee Works, Redcar) Compulsory Purchase Order 2019.</p> <p>This agreement was intended to reflect the negotiated settlement between the various parties which relied upon the RBT Option Land owned by the JV Partners which provided leverage over SSI/Thai Banks because the land was necessary to enable the SSI/Thai Banks proposal for a Bulk Terminal.</p> <p>The settlement also provides for a second piece of land to be allocated to SSI/Thai Banks for the purpose of an Electric Arc Furnace. (Lackenby Land)</p> <p>Provides for various transfers of land with a view to enabling the land assembly for Teeswork project and for the SSI/Thai bank proposals. In return, SSI/Thai banks agree to withdraw their objections to the CPO which will enable the bulk of the land assembly.</p> <p>A key condition is that Within 12 weeks of the signing of the SA1 agreement the Thai banks must submit to the OR a release of security on the Site 1a. The 'Condition'. The deadline for the Thai banks to comply was 5<sup>th</sup> May 2020. In the event they didn't submit the release and the SA1 agreement didn't crystallise.</p> <p>The agreement includes the surrender of the RBT option held by the JV partners to enable SSI PCL to develop their Bulk Terminal proposal.</p> <p>It also includes the obligations on STDC to release the Lackenbury land to SSI PCL in order that they can pursue an electric arc steel facility with Jangyre Ltd.</p> <p>N.b. there is a requirement for the Thai banks to submit a Deed.</p>
	<b>50/50 JV</b>
2020-03-13	<p><b>Shareholders Agreement (JV1)</b>  Between:- Northern Land Management (NLML); JC Musgrave Capital Ltd; STDC; STEL</p> <p>The Shareholder Agreement is the basis on which the Joint Venture is established. There is no separate JV agreement setting out in detail the basis and purposes of the JV.</p> <p>Relates to a newly formed company described as JVC with the shareholding:-</p>

	<p>STDC 2 shares NLML 1 JCM 1</p> <p>Para 2.1 and 2.2 describe the ‘Business of the JVC’ as follows:-</p> <p style="padding-left: 40px;"><i>2.1 The business of the JVC is the development and commercial exploitation of land south of the River Tees broadly contiguous with the South Tees Development Corporation boundary.</i></p> <p>3.3.3 Provides for the appointment of David Allison (Former CEO of TVCA &amp; STDC), M Corney and J Musgrave as Directors.</p> <p>Clause 5 refers to matters requiring the consent of shareholders – Reserved Matters – and these are listed in Sched 2 of the agreement.</p> <p>6.11 Provides that the Quorum at a meeting is all three Directors. A B &amp; C.</p>
2020-03-13	<p><b>Option Agreement</b> relating to land on the South Bank of the River Tees at Redcar. STDC – STEL <b>Option Agreement</b> Relating to Land on the South Bank of the River Tees at Redcar. DCS Industrial (South) Limited. – STEL <b>Option Agreement</b> Relating to Land on the South Bank of the River Tees at Redcar. STDL – STEL</p> <p>These three option agreements provide the mechanism by which Teeswork land assembled by various means, would be drawn down by TWL (Formerly STEL).</p> <p>The cost of the option (Option sum) is £1 The Purchase Price is the ‘Market Value’ as defined by the option agreement and if they can’t agree an expert will be appointed to determine. 30 year option period The costs of draw down (for Tata land £7,536 per acre within 6 months after which it’s) the market value.</p> <p>Para 3 The Option agreements specifically provides a licence for the Developer to enter the land and undertake demolition, remediation etc. within the option period.</p> <p>Para 3.3 provides for payments to be made to the Developer for undertaking particular types of work such as maintaining the site.</p>
2020-03-13	<p><b>Put and Call Option Agreement</b> in respect of the entire issued share capital of DCS Industrial (South) Limited.</p> <p>STDC; DCS Industrial Ltd, (DCS)</p> <p>Agreement for the option for STDC to buy 100% shares of DCS Ind (South) Limited which was intended to be the recipient of various parcels of land.</p>
2020-03-13	<b>Commission Fee Arrangement</b>

	<p>Between DCS Ind Limited; DCS Ind (South) Limited; STDL; STDC;</p> <p>This provides that when land is drawn down by TWL under the options, DCS shall be entitled for a Commission Fee on that sale. This was intended to align with the 50/50 JV p/ship which arose in March 2020.</p> <p>Para 2.1 provides that DCS will be paid 50% of the 'Uplift' which is defined as the difference between the 'Base Value' and the Market Value.</p> <p>Base Land Value is either £1 or (£7536 for Tata Land).</p> <p>Clause 3.2 imposed a restriction on the sale of any land without the express permission of DCS.</p>
2020-05-15	<p><b>Notice to Terminate the First Settlement Agreement (SA1).</b></p> <p>STDC served the above notice due to the default of the Thai Banks – they didn't submit consent by the deadline.</p>
2020-06-04	<p><b>STDC Published confirmation of the CPO</b></p>
2020-06-11	<p><b>Supplemental Deed v3</b> STD L; STDC; DCSIS; STEL (TWL); MLML; JCML</p> <p>Para 1 of The Deed variations adds provisions to the 3 option agreements (2020-03-20), which clarify that:-</p> <p>the Developer may remove scrap, minerals, aggregates etc. and the title to such materials shall pass to the Developer on removal from the property.</p> <p>Para 2 imposes a requirement that the Owner may only remove materials etc. with the permission of the Developer.</p> <p>It also makes changes to the Shareholder Agreement including the removal from the list of Matters Reserved for Shareholder Approval – 16. 'Declaring or Paying a dividend'</p>
2020-06-30	<p><b>STDC made the General Vesting Declaration in respect of the CPO land.</b></p>
2020-07-14	<p><b>Second Settlement Agreement relating to the South Tees Development Corporation (Land at Former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019</b></p> <p>Between:- STDC; SSI UK; Kenneth Beasley; SSI PCL;</p>

**Recital O:-**

*The intended outcome of this agreement is to enable the regeneration of the former Redcar Steelworks site and to compensate the Thai Banks for the loss of their interest in the CPO land in full and final settlement of all claims.*

2.1 SSI agrees not to challenge the CPO.

3.2 STDC will pay £15m to Thai Banks

3.2.2. SSI PCL relinquishes all claims against STDC arising for the CPO including the First Settlement Agreement

7.1 SA1 shall be set aside and have no further effect.

**2020  
-09-20**

**First MoU MHCLG; BEIS & TVCA**

MHCLG; Dept, for Business, Energy & Industrial Strategy (BEIS); TVCA

Sets out the terms principles and practices that will apply to the working relationship between MHCLG; BEIS and TVCA to redevelop the SSI Site. Covers FY 20-21 only.

Financial Year	Total (£m) BEIS	Total (£m) MHCLG	Total (£m)
20/21	16.827	4.242	21.069
21/22	46.1	10.006	56.106
22/23	21.819	25.662	47.481
Total 20/21-22/23	84.746	39.910	124.656

The MoU states that S.31 grant money will be paid to TVCA to enable STDC and STSC to progress the work on the SSI site.

3.4. **TVCA will ensure** that in using this funding all necessary legal requirements are complied with, including State aid. In particular, in relation to the Commission Agreement dated 13 March 2020 between STDC and STDC's Joint Venture (JV) Partners it will be ensured that any commission payments paid to the JV Partners under the Commission Agreement are not calculated on the basis of any increase in land values as a result of work done by STDC using this funding.

The above imposes obligations on TVCA to ensure that the grant funding is used in a lawful manner and the MoU specifically identifies the Commission Fee arrangement for particular scrutiny.

	<p><i>4.5.1. There is an expectation that TVCA will provide regular project, financial and risk reporting in an agreed format to MHCLG and BEIS, in such format as they reasonably require from time to time, demonstrating that the previous funding has been spent and outcomes are being met, in line with the agreed business case.</i></p> <p><i>7.1. MHCLG and BEIS will provide grant funding subject to TVCA hereby agreeing to full transparency, open book working and a duty of good faith in regard to all matters relating to the project, TVCA, and this MOU.</i></p>
<b>2021</b>	
	<b>90/10 JV</b>
2021-11-26	<p><b>Deed of Adherence and Variation – (90/10 JV)</b></p> <p>Between: TWL; DCSIL; NLML; JCMCL; STDC</p> <p>The Deed notes that STDC has transferred 40 of its 50 TWL shares to DCSIL.</p> <p>This is supplemental to the Shareholders Agreement of 2020-03-13 (SHA) which is amended as provided by Schedule 2 of the Deed.</p> <p>Clause 4. The revised SHA changes the Quorum requirement for Board meetings to enable a quorum of the 2 JV Partner Directors and doesn't provide for and STDC Director but instead under Cl 4.4 Provide that STDC may send a non-voting observer to Board meetings.</p> <p>Cl. 5.2 Provides that there is no obligation on the parties to provide any further finance to the JVC but if they do so, the parties shall each provide the same amount on the same terms unless they agree otherwise in writing.</p> <p>The reserved matters list was reduced to 11 matters</p>
2021-11-26	<p><b>Supplemental Commercial Deed</b></p> <p>TWL; STDC; DCS Ind Ltd (DCS); DCS Ind Devs Ltd. (DCSID)</p> <p>Concerns the GE Land development.</p> <p>Provides for a fee to be paid by TWL and DCSID to STDC for the provision of demolition and extraction of scrap services. The payment will be a sum of up to 50% of the Net Land Value. To be paid within 7 Days of receipt of money by TWL.</p> <p>Provides for a fee to be paid to DCS for Marketing Services in respect of the GE Land Disposal. Up to 50% of the Net Land Value</p>

	<p>If the above don't happen by 26-11-2022 they fall away and leave a obligation on TWL to pay £15m to STDC on disposal of the site. To be paid within 5 days of TWL receiving the disposal payment.</p> <p>Cl 15 obliges STDC to procure that the GE site is development ready within 18months of the date of the agreement.</p> <p>Cl 3 concerns Dividends and Other Payments and provides that STDC shall not be entitled to any dividends and/or distributions of of profits until such time that the amounts paid by TWL to STDC pursuant to the Scrap Agreement are equal to 10% of the cumulative distributable profits of TWL commencing from the Effective date. (01-08-21)</p>
2021-11-26	<p><b>Commercial Deed: Scrap</b> TWL; STDC; DCS</p> <p>Clause 2. Provides for the payment by TWL to STDC, from the effective date (1<sup>st</sup> August 2021), of up to 50% of the proceeds of the sale of scrap recovered from the site in consideration for the demolition and extraction works provided by STDC – up to a maximum of £60m. <b>Subject to the cashflow needs of TWL.</b></p> <p>Clause 3. Provides the same provision for payments from TWL to DCS of up to £60m from the proceeds of the sale of scrap in consideration for marketing services provided by DCS, <b>but without the 'subject to the cash flow needs' provision.</b></p>
2021-11-26	<p><b>Commercial Deed re PD Ports</b></p> <p>TWL; STDC; DCS;</p> <p>Relates to the dispute between PD Ports and STDC regarding access to PD land across the Teeswork land.</p> <p>Clause 2. In the event that PD Ports pay cash consideration for access rights TWL shall be entitled to 50% of any sum up to a limit of £54m (50% of the Remediation Sum), to assist within TWL business.</p> <p>2.2 TWL undertakes to use reasonable endeavours to expend that within 5 years.</p> <p>Clause 3. Provides that DCS shall be entitled to a fee for consultancy services in connection with the dispute up to £54m – to be paid within 7 days of the invoice.</p>
2021-11-26	<p><b>Commercial Deed re Land Value</b></p> <p>TWL; STDC; DCS; DCSID</p>

	<p>CI 2. Makes provision for the payment by TWL and DCSID of a fee to STDC of up to 50% of any Net Land Value in connection with the GE Site. (Presumed to be approx £15m at the time). In consideration of STDC managing and funding the demolition and remediation of the site.</p> <p>It is suggested that this was intended to compensate STDC for the fact that the GE project had been initiated during the 50/50 JV but would not complete until in the 90/10 and as such would have reduced the share going to STDC.</p> <p>CI 4. It also provides for a payment of a fee to DCS for the provision of Marketing Services in connection with the GE site, of up to 50% of the Net Land Value.</p> <p>CI 4.3 Provides that in the event TWL undertakes, prior to disposal, any works to make the site Development Ready. The Disposal Payment shall be reduced by the amount which TWL incurred.</p>
2021-11-26	<p><b>Option Agreement – Rights of Emergency Access for PD Ports</b></p> <p>STDL; TWL; STDC</p> <p>Grants an option to the Developer to require the Owner to grant access rights to the benefit of certain PD Ports land.</p>
	<p><b>Agreement/Lease with SeAH Wind</b> No Copy</p> <p>Agreement with SeAH wind for the Sub-lease of the land on which the Wind Turbine factory will be located.</p>
2021-11-26	<p><b>Deed of Release of Commission Fee Arrangement</b></p> <p>DCS; DCSIS; STDC; STDL.</p> <p>In consideration of the transfer by STDC to TWL, of 40 TWL shares DCS releases STDC; DCSIS; STDL from the obligation to pay the Commission Fee.</p>
2021-11-26	<p><b>Second Supplemental Deed relating to land on the South Bank of the River Tees</b></p> <p>STDL; STDC; TWL;</p> <p>Supplemental and collateral to the Option Agreements and varies the terms of those options. (N.b. the DCS option had become redundant because it didn't hold any land on the site).</p> <p>References a valuation by Knight Frank which assessed the notional land value of the Property as £1 on the basis of the inherent funding shortfall of approximately £109,466,500 associated with remediating and providing the necessary infrastructure of the Property.</p>

	<p>CI 6.1 In the event STDC creates an estate management co CI 6.1 Creates an option for TWL to acquire that company at market value upon serving written notice to STDC.</p> <p>CI 6.2 – In the event of service of a notice STDC shall transfer any rent charge and assign the benefit of any covenants.</p> <p>Amends the purchase price under the Option Agreements to £1 (Indexed) to reflect the agreement that the market value was effectively a negative amount.</p> <p>To provide that if TWL exercised its option over any part of the Quay Land it would immediately grant STDC a lease of that land. This was because STDC/TVCA were funding the construction of the Quay from a UKIB loan which would need to be funded from income generated by the operation of the Quay.</p> <p>A form of lease is appended and</p> <p>A form of Quay Operating Agreement which provides that once STDC completes the construction of the Quay, inconsideration of the fees in Clause 5, it will appoint Teeswork Quay Limited (TWQL) to operate the Quay.</p> <p>Clause 5 provides that any fee paid by TWQL shall not exceed the annual cap of £3,602,416 subject to a cumulative cap of £170m.</p> <p>N.b. Also appended is the NEC contract between STDC and John Graham Construction Ltd for the construction of the Quay. (N.b. Query whether there was a tender competition for this?).</p>
2022-10-11	<p><b>Transfer of Title – South Quay</b></p> <p>STDC; TWL</p> <p>HM Land Registry Document Recording Transfer of the title of the Quay land from STDC to TWL for the sum of £16.27.</p>
2022-10-11	<p><b>Lease of South Bank Quay</b></p> <p>TWL; STDC</p> <p>TWL grant a lease of the South Bank Quay Land to STDC with a term of 99 years.</p>
2022-10-11	<p><b>Quay Operating Agreement</b></p> <p>STDC; TWL; TWQL</p> <p>STDC appointed TWL as the operator of the new South Bank Quay</p>



2022-12-16	<p><b>Deed of Variation relating to South Bank Quay</b></p> <p>Payment to STDC to cover costs of additional works on the Quay.</p> <p>TWL; STDC; TWQL</p> <p>A deed which makes changes to the Quay Operating Agreement and to the Lease held by STDC over the South Quay.</p> <p>Increased the rate to be paid by TWQL to STDC (£3602416 - £3936884) in recognition of the additional £6.5m they had to spend on an additional aspect of the Quay.</p>
2022-12-16	<p><b>Supplemental Land Value Deed</b></p> <p>TWL; STDC; TVCA; DCS; JCML; NLML; DCSIDL.</p> <p>This replaced both the Commercial Deed re GE Transaction and the Commercial Deed re Land Value, because the original deal had fallen through and had been replaced by an arrangement with SeAH Wind.</p> <p>This new agreement required TWL to make a payment of £15m to STDC by no later than the 3<sup>rd</sup> anniversary of the agreement. (2025/12/16)</p> <p><i>CL2.1 TWL shall make a Disposal Payment (£15m) to SRDC by no later than the longstop date. (16-12-2025).</i></p> <p><i>CL2.2. Provides that STDC acknowledges the TWL's ability to pay the Disposal Payment may depend upon its ability to generate an appropriate level of cash or capital receipt which is anticipated will be realised if TVCA enters in to a TVCA Lease or Leases and accordingly TVCA shall enter into a TVCA Lease or other Commercial Arrangements promptly following written request by TWL.</i></p> <p>The Deed also imposes a requirement on TVCA to enter into up to 3 leases (Including the first SeAH lease), and TVCA must act 'promptly' following a written request to do so from TWL.</p> <p>The Schedule to the Supplemental Land Value Deed also varies the Scrap and Supplemental Commercial Deed.</p>
2023-03-23	<p><b>Draft Third Supplemental Deed</b></p> <p>Draft prepared by Ward Hadaway – no copy of final version provided.</p>
2023-04-23	<p><b>Deed of Variation</b> No copy provided.</p>



## Department for Levelling Up, Housing & Communities

**Rt Hon Michael Gove MP**

*Secretary of State for Levelling Up, Housing & Communities*

*Minister for Intergovernmental Relations*

2 Marsham Street

London

SW1P 4DF

Mayor of Tees Valley Combined Authority  
Teesside Airport Business Suite  
Teesside International Airport  
Darlington  
DL2 1NJ

29 January 2024

Dear Lord Houchen,

On 16 May 2023 you approached Government regarding an independent review of the South Tees Development Corporation (STDC) and Teesworks. You raised concerns regarding the allegations made in parliament by Andy McDonald MP of ‘dubious dealings’ and ‘industrial-scale corruption’. You were particularly concerned about the damaging effects that these allegations could have on investment and job creation across Teesside. I wrote to you on 24 May 2023, noting that the exceptional circumstances meant I would establish such a review. I appointed an independent Panel to report to me, with the Terms of Reference published on [gov.uk](https://www.gov.uk).

Today, I have published the independent panel’s report into the Tees Valley Combined Authority’s (TVCA) oversight of the STDC and Teesworks Joint Venture. My colleague, Lee Rowley, is also making a statement to Parliament setting out our assessment of the report and its recommendations. I am grateful to the Panel for their work and to you, your members and officers, and other partners, for your cooperation with the review, providing the Panel with information requested, and meeting with them to aid their investigation.

Their report makes clear that the panel found no evidence of corruption or illegality. I know you will strongly welcome this conclusion. They also note that the pace and scope of the regeneration has had wide-reaching positive impact on the local economy, which we all welcome. The panel report identifies a ‘need to strengthen governance and increase transparency which can be done with limited impact on pace of delivery’ and makes recommendations as to how to address these by strengthening scrutiny and improving public accountability to the residents of Teesside. There are some specific areas for improvement and lessons to be learned, which I know you will also welcome. I am grateful for your assurance that you stand ready to accept in principle the recommendations, while recognising that the panel also made recommendations to Government which will be carefully considered and to which I will respond in due course.

I ask that you now engage with the panel’s recommendations, working with the Combined Authority and partners as appropriate, and provide me with an initial report by 8 March on how you intend to respond to the Panel’s recommendations. I will not take decisions on further action until you have responded. My officials stand ready to support yours, with your response to these recommendations.

A copy of this letter will be placed in the House libraries.

With every good wish,

A handwritten signature in black ink that reads "Michael Gove". The signature is written in a cursive style with a large, prominent 'M' and 'G'.

**RT HON MICHAEL GOVE MP**  
Secretary of State for Levelling Up, Housing and Communities  
Minister for Intergovernmental Relations



AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY  
AUDIT & GOVERNANCE COMMITTEE

6 MARCH 2024

REPORT OF THE DIRECTOR OF INFRASTRUCTURE

TRANSPORT PORTFOLIO

TRANSPORT PROGRAMME

SUMMARY

This report sets out the proposed transport programme to be delivered with the second round City Region Sustainable Transport Settlement (CRSTS2) published indicative allocation of £978m. The funding is notionally allocated for the period 2027/28 to 2031/32, but the Government has said that there will be an opportunity for some of this funding to be brought forward into the last two years of CRSTS1 (2025/26 and 2026/27). The proposed CRSTS2 programme builds upon the current transport investment programme and will deliver on the ten-year Strategic Transport Plan (STP), which provides the framework for all transport investment by the Combined Authority, and was approved by Cabinet in 2020. The CRSTS2 programme has been developed to include interventions included in the STP, or to enable new strategic opportunities that have been identified since the publication of the STP. There has been engagement with, and input from, each of the Combined Authority's constituent local authorities in the development of the CRSTS2 programme.

It needs to be emphasised that the indicative CRSTS2 allocation is over three times bigger than the current CRSTS1 allocation. Approving the CRSTS2 proposed transport programme will demonstrate to Government that TVCA agrees on the strategic priorities. It will also enable officers to proceed to develop the programme in advance of delivery commencing in the coming years.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Approves the proposed transport programme totalling £1bn, as detailed in paragraph 12, to be delivered with the second round City Region Sustainable Transport Settlement (CRSTS2) indicative allocation of £978m.

- ii. Delegates authority to the Director of Infrastructure to take all decisions required to progress delivery of business cases for each project within the approved funding allocations. In accordance with the Tees Valley Assurance Framework, the approval of business cases is delegated to the Tees Valley Combined Authority Chief Executive, in consultation with the Tees Valley Management Group, and the Tees Valley Combined Authority Section 73 Officer and Monitoring Officer.
- iii. Notes that the outcome of all business case appraisals will be reported to Cabinet and there will be a twice-yearly update report to Cabinet and Transport Committee on the programme.
- iv. Notes that where an individual project cannot be delivered within the funding allocation set out in this report or the business case does not demonstrate value for money, then this will be reported back to Cabinet for a decision on how to proceed.

## DETAIL

### Background

1. On 31<sup>st</sup> January 2020, the ten-year Tees Valley [Strategic Transport Plan](#) (STP) was approved by Tees Valley Combined Authority (TVCA) Cabinet. The STP defines the vision, objectives and outcomes for transport, sets out the actions that will be delivered, and provides the framework for all transport investment. The STP sets out the transport investment priorities by the following themes:
  - National rail
  - Major roads
  - Connecting economic centres
  - Unlocking key sites
  - Local journeys
  - Social equality and environment
2. The primary factor that underpins transport need is the polycentric nature of the Tees Valley with multiple towns, key employment sites and residential areas. This results in a complex pattern of movement, which is very different to a city region with a dominant commercial centre. Addressing the transport need in the Tees Valley therefore requires a programme of interventions to ensure that:
  - Everyone, no matter where they live in the Tees Valley, is connected to opportunity; and
  - Existing business can grow and the Tees Valley is able to continue attracting new businesses and inward investment.
3. The £75m Transforming Cities Fund (TCF) allocation, £310m City Region Sustainable Transport Settlement (CRSTS1) and over £148m of competitively secured funding over the period 2018/19 – 2026/27 is enabling good progress to be made in delivering against the STP.

4. The evidence base on which the STP was developed is continually evolving, for example the Tees Valley traffic model has been updated to take account of new Local Plan sites and 2021 census data has been analysed. However, the fundamental evidence base on which the STP was developed has not changed. TVCA is of the firm view that the challenges, opportunities and outcomes in the STP remain sound and should continue to be the primary drivers for transport investment. Clearly there have been developments that now need to be considered, for example in relation to the STP 'Unlocking key sites' theme where new opportunities have come forward since the publication of the STP.
5. As with the continually evolving evidence base, TVCA has also been in regular dialogue with its constituent Local Authorities and other stakeholders to develop an investment pipeline. There is a wealth of analysis, feasibility studies and development work that underpins this pipeline, some of which started when TVCA was established back in 2016.

## Second round of City Region Sustainable Transport Settlement (CRSTS2) context

6. TVCA has an indicative allocation of £978m for CRSTS2 over the period 2027/28 to 2031/32. However, government has said that there will be an opportunity for some of this funding to be brought forward into the last two years of CRSTS1 (2025/26 and 2026/27). TVCA has been in discussions with the Department for Transport (DfT) around using the confirmed CRSTS1 funding to cash flow development work.
7. CRSTS1 also included the consolidated highways funding that is passported to local authorities. Furthermore, government recently announced an additional minimum £100.1m of highways maintenance funding for TVCA between 2023/24 – 2033/34.

## Developing a CRSTS2 programme

8. It needs to be emphasised that the indicative CRSTS2 allocation is over three times bigger than the current CRSTS1 allocation. There are several critical factors that need to be fully considered:
  - the lead time and level of work required to develop a programme of this scale that can start to deliver in the coming years is significant;
  - there is a need for an appropriate level of resource to ensure delivery; and
  - being able to demonstrate to government that TVCA agrees on the strategic priorities.
9. The STP contains high-level outcomes, summarised in the table below, and the CRSTS2 programme has been designed to deliver on them.

Strategic Transport Plan high-level outcomes	
Investment Theme	Outcome
National rail	Improve rail links between Tees Valley and the rest of the country
	Improve rail station infrastructure
	Ensure that the rail network can cater for future growth in both freight and passenger demands

Major roads	Deliver and maintain a safe, resilient and reliable Key Route Network <sup>1</sup> , facilitating future economic and housing growth
Connecting centres	Deliver and maintain a frequent, high quality, reliable and integrated public transport network
	Develop and improve transport interchanges, ticketing options and information – providing a seamless integrated experience for the travelling public
Unlocking key sites	Address specific constraints on the strategic and local transport networks – providing a transport system that facilitates future economic and housing growth
	Develop and maintain a transport system that facilitates efficient freight movements
Local journeys	Deliver and maintain safe walking and cycling routes and local bus services that link housing sites to key destinations and transport interchanges
Social equality and environment	Improve equality of opportunity for remote and deprived communities and enhance health and wellbeing
	Improve access for those with physical disabilities, mental health conditions, learning difficulties and those with sensory impairment
	Reduce carbon emissions and deliver measures to improve local air quality
	Protect Tees Valley's built and natural environment, and reduce noise and vibration from transport
	Ensure that the existing transport network and planned investment is resilient to climate change

10. As highlighted in paragraph 4, the CRSTS2 programme has been developed to include interventions identified in the STP, or to enable new strategic opportunities that have been identified since the publication of the STP.
11. There has been engagement with all local authorities throughout the process, including Chief Executives, Management Group, Transport Advisory Group and a dedicated workshop.

### CRSTS2 Programme

12. The following table outlines the proposed CRSTS2 programme by STP theme.

Strategic Transport Plan (STP) theme		
STP theme: National Rail		
Project	Description	Allocation

<sup>1</sup> The Key Route Network was agreed between TVCA and the Local Authorities and represents those roads that are most critical to connectivity across the Tees Valley.

<p>Develop business case for electrification of the rail network from Northallerton to Saltburn</p>	<p>The Transpennine Route Upgrade (TRU) will deliver major improvements to the line between Manchester and York, including full electrification for passenger and freight trains. The East Coast Main Line is already fully electrified, which includes the line between York and Northallerton. However, there are no current plans to electrify the network from Northallerton to Saltburn.</p> <p>This presents a risk to the Tees Valley as electric trains on the Transpennine Route will not be able to travel north of Northallerton towards Middlesbrough / Saltburn, as the diesel trains currently do. In addition this would also benefit the Middlesbrough &lt;-&gt; London services as they currently require bi-mode trains due to the same issue and there is a risk that this limits future opportunities.</p> <p>The proposal is to develop a business case for electrification of the network between Northallerton and Saltburn, with options for shorter sections to be considered. The benefit of electrifying this network is that electric trains on the East Coast Main Line and Transpennine Line would be able to extend to the Tees Valley. It will also enable electric freight trains to operate to/from the Tees Valley.</p> <p>Once the business case is complete, a funding strategy will need to be considered. The current thinking is that the business case is used to influence the DfT and seek a commitment to deliver the intervention from the national rail budget. This was the funding strategy successfully deployed by TVCA on the Darlington Station project, where significant funding was secured from the Rail Network Enhancements Pipeline (RNEP) budget.</p>	<p>£3m</p>
<p>Deliver Middlesbrough Station new platform 3 and associated infrastructure</p>	<p>Middlesbrough Station is one of the key rail hubs in the Tees Valley for both strategic and local connectivity. TVCA has already invested in improvements to the station, including the extension of platform 2 and the redevelopment of the station undercroft, which is nearing completion.</p> <p>However, to address capacity constraints at the station there is a need for a new platform 3. TVCA has been working with Network Rail to develop the intervention and the original intention had been to try and secure RNEP funding to complement TVCA funding to deliver the</p>	<p>£40m</p>



	<p>scheme. However, there is currently significant national pressure on RNEP funding and CRSTS2 now provides an opportunity to get on and deliver this intervention locally.</p> <p>The intervention will provide a new platform 3 and additional track and signalling to enable increased use of the carriage sidings, whilst also maintaining freight capacity. This will deliver performance and reliability benefits to the existing services at Middlesbrough Station and provide capacity for potential additional services including:</p> <ul style="list-style-type: none"> <li>• Additional LNER services to / from London (currently 1 train per day, but potential to increase to 1 train in alternate hours).</li> <li>• Additional Northern services to / from Newcastle via Hartlepool (currently additional 1 semi-fast train in alternate hours from December 2023, but potential to increase to 1 semi-fast train every hour, complementing the existing all stations stopping service).</li> <li>• Potential for a new service between Middlesbrough and Ferryhill (subject to a Restoring Your Railways Fund proposal from Durham County Council and identified in Network North as a potential new station)</li> <li>• Other potential local service enhancements.</li> </ul>	
<p><b>STP theme: Major Roads</b></p>		
<p>East-west connectivity – A66 and A689 Corridors</p>		
<p>Deliver Darlington Northern Link Road</p>	<p>The A66 provides critical east-west connectivity between the Tees Valley, the A19 and the A1(M). However, there is a missing strategic link for traffic travelling from the Tees Valley heading north on the A1(M), and vice versa for traffic travelling south on the A1(M) heading to the Tees Valley. This traffic is currently using the A1150 and A167 through the north of Darlington, but these routes are unsuitable for the volume and type of traffic using them.</p> <p>The project will therefore provide a new strategic link better connecting the A66 to the A1(M) to the north of Darlington. The intervention would provide the following strategic benefits:</p> <ul style="list-style-type: none"> <li>• better link the Tees Valley, including key assets such as the Teesside Freeport and Teesside International Airport, with the A1(M) and beyond;</li> </ul>	<p>£250m</p>

	<ul style="list-style-type: none"> <li>• better link Newton Aycliffe to the Teesside Freeport;</li> <li>• relieve the existing congestion problems on the A1150 and A167 routes to the north of Darlington;</li> <li>• reduce the severance effect currently experienced by those residents adjacent to the A1150 and A167; and</li> <li>• improve the resilience of the network, reduce journey times, improve journey time reliability and improve safety.</li> </ul> <p>TVCA has previously completed an Outline Business Case, which identified a preferred route alignment. However, this was several years ago, so the next phase of work will review the optimum route alignment and consider potential other complementary measures on the A1150 and A167 to ensure that the strategic benefits are maximised. There will then be a need to develop the detailed design and full business case. The cost estimate is based on the current route alignment, but this will be refined as the next phase of development work is progressed.</p> <p>It is possible that the intervention could be classified as a Nationally Significant Infrastructure Project (NSIP). These are projects of certain types, over a certain size, which are considered by the Government to be so big and nationally important that permission to build them needs to be given at a national level, by the responsible Government minister (the 'Secretary of State'). Instead of applying to the local authority for Planning Permission, the developer must apply to the Planning Inspectorate for a different permission called a Development Consent Order (DCO).</p>	
<p>Deliver A66 resilience package</p>	<p>The A66 provides critical east-west connectivity between the Tees Valley, the A19 and the A1(M). The road carries more than 70,000 vehicles daily on its busiest sections. On the section of the A66 managed by Middlesbrough Council, as the local highway authority, approximately 75% of the carriageway is well over the normal life expectancy. There are also critical issues with the safety barrier system, bridge structures and sign gantries. The condition of this section of the A66 presents a risk of weight restrictions, lane closures and in a worst-case scenario structural failure, which would result in the road</p>	<p>£20m</p>

	<p>being closed. The package of work will include carriageway resurfacing, remediation work on bridges and structures, and safety barrier replacement. It will ensure the future resilience of the road, with the interventions extending the lifespan of all assets to at least 15 years and in some cases many more.</p>	
<p>Deliver package of interventions to address A66 capacity constraints Middlesbrough – Teesport – Redcar</p>	<p>There are several roundabout junctions on the section of the A66 between Middlesbrough – Teesport – Redcar, where interventions are required to address identified capacity constraints:</p> <ul style="list-style-type: none"> <li>• A174 / A1053 Greystones Roundabout – lane widening, improvements to A174 eastbound exit, a new link through the roundabout i.e. a through-about, and other minor improvements.</li> <li>• A1085 Trunk Road roundabout – lane widening and other minor improvements.</li> <li>• Tees Dock Road / Lackenby Access roundabout – lane widening and other minor improvements.</li> </ul> <p>There is also a smaller package of works required on Cargo Fleet Lane/Longlands Road and the A66/A1032 Newport Interchange.</p> <p>Initial design work and road safety audits have already been undertaken. There will be a need to undertake detailed design work and refine the cost of each intervention as part of the next phase of work.</p>	£40m
<p>Deliver A689 corridor improvements</p>	<p>The A689 provides strategic connectivity within the Tees Valley, and a connection to the wider North East region. It is a key east-west link, connecting Hartlepool and Stockton to the A19 and A1(M). It also provides a key route between the A1(M) and the A19, and is used for many journeys to/from Middlesbrough, Stockton, Redcar and surrounding areas. There are key locations on the road where congestion is problematic. Furthermore, there is limited provision for active travel on the corridor, which is constraining opportunities for cycling and walking trips.</p> <p>TVCA has developed an Outline Business Case for a package of interventions on the corridor that will:</p> <ul style="list-style-type: none"> <li>• address the existing congestion pinch points, increase capacity, create a more resilient network</li> </ul>	£50m

	<p>and significantly improve east-west connectivity in the region;</p> <ul style="list-style-type: none"> <li>• improve journey time reliability and reduce journey times;</li> <li>• improve access to multiple strategic employment locations on the corridor; and</li> <li>• facilitate housing growth in the vicinity of the corridor.</li> </ul> <p>The package of interventions includes:</p> <ul style="list-style-type: none"> <li>• A19 / A689 Junction improvements – signalisation of the services roundabout, plus A19 cycle/pedestrian overbridge and carriageway widening of grade separated junction to three lanes on northern overbridge.</li> <li>• Park Road / Huckelhoven Way Junction – widen approaches and provide additional lanes.</li> <li>• Tesco / Burn Road Roundabout – widen eastbound approach to two lanes.</li> <li>• Brenda Road / Belle Vue Way Roundabout – left turn filter lane from the north-eastern A689 arm to the southern B1277 arm.</li> <li>• Stockton Road / Belle Vue Way – realignment of the A689 central reserve on the westbound approach and provision of dedicated right turn lane into Stockton Road.</li> <li>• Owton Manor Lane roundabout – replace roundabout with signalised junction.</li> <li>• Truro Drive Junction – provision of additional left turn lane on the A689 northbound approach.</li> <li>• Dalton Back Lane / Greatham Back Lane crossroads – removal of staggered junction and uncontrolled right turn arrangements and replacement with full signalisation (will also serve the Hartlepool South West Extension site).</li> <li>• A1185 (Wolviston) Roundabout – widen northern circulatory section to three lanes.</li> <li>• Wynyard Avenue / A689 – signalisation.</li> <li>• Hanzard Drive / The Wynd / A689 – cross road, signalisation and pedestrian crossing over the A689.</li> <li>• Package of improvements to cycleways and footways to connect existing infrastructure, providing a traffic-free shared use route on the corridor from Hartlepool to Wynyard.</li> </ul>	
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North-south connectivity A19 Corridor		
<p>A19 New Tees Crossing further development work</p>	<p>The A19 is a key north-south corridor through the Tees Valley. The current Tees Crossing carries more than 100,000 vehicles per day and is a pinch-point, with delays and queuing traffic common in peak periods. Analysis has demonstrated that the crossing is at capacity and there is a risk that it constrains growth without intervention.</p> <p>TVCA has been making the case to government for the A19 New Tees Crossing (NTC) for several years. TVCA first submitted an Outline Business Case (OBC) to government back in 2019 and has since submitted a multitude of additional information and evidence to support the case. In 2023, given the time that had elapsed since the first submission of the OBC, government asked National Highways, as the highway authority responsible for the Strategic Road Network (SRN), to update the OBC. TVCA inputted into this process and again stressed the importance of the project to the economic transformation of the region. Government is now in the process of developing their next Road Investment Strategy (RIS), which covers the period 2025-2030. The NTC is being considered as part of this process. However, there is limited funding available and many competing projects nationally, so the likelihood of securing any additional development funding is unknown.</p> <p>The current preferred option is to widen the existing Tees Viaduct structure to provide three southbound lanes throughout the length of the Viaduct, in addition to the provision of a new bridge crossing to carry local northbound traffic. However, in updating the OBC, National Highways has concluded that the current preferred option is too high risk for several reasons:</p> <ul style="list-style-type: none"> <li>• Further analysis of the current structure has led National Highways to conclude that widening the existing structure is not feasible.</li> <li>• Technical design guidance has changed and the current preferred option is not consistent with this new guidance.</li> </ul> <p>National Highways has therefore recommended that further work needs to be undertaken to consider alternative, lower risk options. Should a feasible, lower-</p>	<p>£15m</p>

	<p>risk option be identified, this has the potential to reduce the scheme cost and therefore the case for government investment to deliver the scheme should be stronger.</p> <p>Given the uncertainty around potentially securing additional government funding for further development work, the proposal is that TVCA get on and fund this work locally. Presuming a new preferred option could be agreed with National Highways, then the funding allocation would allow detailed design and a full business case to be developed. The development work would need to be undertaken in full collaboration with National Highways, given their responsibility for the SRN.</p>	
<p>Contribution to deliver the A19 / Elwick Road / North Lane Junction and Elwick Road / Hartlepool Western Link Project</p>	<p>This scheme will provide a new strategic route from Hartlepool to the A19, supporting growth ambitions in the Borough. The scheme will also relieve pressure on the existing A179 and A689 routes from Hartlepool to the A19.</p> <p>The project consists of the development of a by-pass for the village of Elwick and an overbridge and compact grade separation at the current Elwick North junction to the A19, which will improve the strategic and local road network. This will provide a third main route into Hartlepool, enabling the development of significant levels of new housing in the west of the Borough. It will also address capacity issues across the wider road network, and improve road safety through Elwick village and on the A19 in relation to the right turns across the expressway.</p> <p>TVCA has previously committed £4.2m to the project. The proposal is to make a further contribution of £5m, with the remainder of the cost to be funded by Hartlepool Borough Council, who is delivering the scheme.</p>	<p>£5m</p>
<p>Eastern Tees crossing feasibility work</p>	<p>Previous work has explored the concept of an additional crossing of the River Tees to the east of the existing structures, linking Hartlepool and Redcar. This work articulated the strategic case for an Eastern Tees Crossing (ETC), identified the potential economic benefits and explored the financial feasibility. A new ETC could join up industrial development land on either side of the River Tees, improving connectivity for key industrial sites and economic assets within the Tees Valley and supporting longer-term growth and regeneration plans.</p>	<p>£1m</p>

	<p>The ETC has the potential to significantly reduce north-south journey times and severance in the eastern area of the Tees Valley. It could support the productivity and expansion of priority industries in the region, such as advanced manufacturing and chemicals processing. An investment in the ETC could improve economic density and productivity in the eastern area of the Tees Valley, where these priority industries are expected to expand in future. This in turn could have wide spread impacts for residents through increased and higher-paid employment opportunities, and regeneration benefits for the local communities north and south of the Tees.</p> <p>However, the work to date acknowledges that an ETC is still at the concept stage. This next phase of feasibility work would culminate in a Strategic Outline Business Case (SOBC). The purpose of the SOBC is to set out the strategic context of the scheme; make an initial recommended way forward for options appraisal, including consideration of a potential tunnel and bridge; and assess the affordability of the scheme.</p>	
<b>STP theme: Connecting Centres</b>		
<p>Delivery of a transformational digital technology package</p>	<p>The ambition is to make the Tees Valley a leader in utilising digital technology to optimise the performance of the road network. The project will upgrade existing technology and deliver a step-change with the roll-out of new cutting-edge technology. It will represent a significant step towards the ambition set out in the Digital Strategy, previously agreed by Cabinet, for the Tees Valley to become the UK's first truly smart region by 2032.</p> <p>Middlesbrough Council currently act as the lead authority within the Tees Valley and provide a traffic signals service, including design, modelling, maintenance, installation/commissioning, and management and development of the Urban Traffic Management &amp; Control (UTMC) system. TVCA is now proposing that it takes on responsibility for this service, which will require separate agreement between TVCA and each of the local authorities, to allow full control and oversight. This will enable the local authorities to achieve savings and secure the future resilience of this function.</p>	<p>£60m</p>

	<p>The investment will effectively enable:</p> <ul style="list-style-type: none"> <li>• The UTMC system to be upgraded to the most cutting-edge technology currently available.</li> <li>• Deployment of a significant expansion of equipment across the road network, including traffic counters to classify vehicles, cyclists and pedestrians, Automatic Number Plate Recognition (ANPR) cameras, smart junction technology, Variable Message Signs, Artificial Intelligence (AI) CCTV cameras and air quality sensors. This will deliver a step-change in the amount of data captured. The new equipment will also communicate with the UTMC system in real-time, thereby reducing the current latency of data communication and identifying potential issues sooner.</li> <li>• Creation of a regional data platform to enable collaborative data sharing across multiple partners and facilitate joined-up strategic planning.</li> </ul> <p>To further enhance the UTMC system, TVCA will use the latest innovation and bring together predictive and adaptive control of traffic signals. The technology will create what is referred to as a 'digital twin', which is a virtual representation of the road network that is updated from real-time data. This in turn will use and create strategies, using simulation, machine learning and reasoning to optimise how the road network is managed. Enhancing the efficiency of movements on the network will benefit all road users and freight. It will reduce journey times, improve journey time reliability, deliver road safety benefits and alleviate air quality issues.</p> <p>Traffic Signal obsolescence will also be addressed to ensure failing assets on the network are replaced with more efficient and lower energy equipment.</p> <p>There will be multiple benefits to the customer, including improved real-time traffic information, the implementation of real-time bus information, contactless tap on/tap off payments on all buses, better incident management, and dynamic live wayfinding to parking and electric vehicle charging facilities.</p>	
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	<p>The investment will also support the creation of the landscape needed to facilitate the roll-out of autonomous vehicles.</p>	
<p>Delivery of autonomous public transport</p>	<p><u>Autonomous trackless trams in town centres</u></p> <p>The Digital Strategy identifies that a key component of a smart region is a smart transport system, which enables more people to move around, more quickly. This project will see the introduction of 15 autonomous trackless trams, three in each of the five town centres of Darlington, Hartlepool, Middlesbrough, Stockton and Redcar. There is also a need to implement associated digital infrastructure to enable the trams to operate. It is envisaged that the trackless trams will provide a circular hop on, hop off service to key destinations around each of the town centres. The exact routes will need to be determined as part of the project development. The project will deploy proven, electric, autonomous vehicles that can operate safely on the highway network. The vehicles are not fixed to set physical infrastructure and services can be adapted or temporarily relocated for events and seasonal tourism purposes if, and when required.</p> <p>Trialling any level of automated vehicle technology is possible on any UK road if carried out in line with UK law. As part of complying with the current law, trialling organisations will need to ensure that they have:</p> <ul style="list-style-type: none"> <li>• a driver or operator, in or out of the vehicle, who is ready, able, and willing to resume control of the vehicle</li> <li>• a roadworthy vehicle</li> <li>• appropriate insurance in place</li> </ul> <p>This project will align with the government's ambition to support and facilitate the safe development and introduction of these technologies to the UK's roads.</p> <p>The project will need to be developed in collaboration with the local authorities and the Centre for Connected and Autonomous Vehicles (CCAV), which TVCA already has a good working relationship with.</p>	<p>£20m</p>

	<p><u>Autonomous shuttle service for Teesworks and Teesside International Airport</u></p> <p>This project will utilise a similar concept to the autonomous trackless tram project. It will provide a shuttle service for staff and visitors to the Teesworks site. Smaller autonomous pods will be deployed to move people from the park and ride site and railway station to locations across the Teesworks site. Similarly pods will move people around the airport site, connecting the rail station to the airport terminal and other locations across the airport site.</p>	
Improved rail services through rail devolution		
Develop rail devolution proposition to government	<p>There is an opportunity to make better use of the existing Tees Valley rail network. The current TCF/CRSTS1 investment programme is creating more capacity in the network, improving station facilities and better connecting stations with communities. The next logical step is to enhance the service offer to communities so that rail travel becomes more attractive. There is a demonstrable latent demand with around 45% of households in the Tees Valley within walking distance of a rail station. Therefore it is felt that enhancing the service offer has the potential to achieve significant modal shift.</p> <p>There are multiple factors that need to be considered in terms of enhancing the service offer, for example rolling stock (type/quality of trains), service frequency, service stopping patterns, fare structure and parking provision at stations.</p> <p>The Government has set out plans to create Great British Railways. This will be a new public body that will run and plan the rail network, own the infrastructure, and receive the fare revenue. It will procure passenger services and set most fares and timetables. This will bring the whole system under single, national leadership.</p> <p>The Government also has ambitions for rail devolution, which TVCA believes provides an opportunity to radically transform rail services in a way that supports economic growth at the same time as improving the journey experience for passengers. In theory rail devolution should be simpler in the Tees Valley, as Northern, who provide local services in the Tees Valley, operate a</p>	£5m

	<p>relatively self-contained network across the Tees Valley and North East.</p> <p>It is felt that there is an opportunity for TVCA to pitch the Tees Valley as a frontrunner for rail devolution. However, this requires the development of a proposition, which articulates the case for change, sets out how rail devolution could work in the Tees Valley and provides a detailed financial assessment/commercial model. The proposal is therefore to allocate funding to complete this work, which can then be used to engage with Great British Railways and Government.</p>	
Local rail journeys		
<p>Deliver infrastructure to enable direct trains between Darlington and Hartlepool</p>	<p>Currently there are no regular direct rail services between Darlington and Hartlepool, which is a significant gap in connectivity between two key urban centres. It acts as a barrier to people seeking to access employment opportunities, including the Economic Campus, Central Park and other key sites in Darlington, and the Hartlepool Development Corporation, Tees Valley Investment Zone and other key sites in Hartlepool.</p> <p>Initial capacity work carried out by Network Rail as part of the development of the Darlington Station project identified the need for infrastructure upgrades to create the capacity for this service to be introduced. Further development work is needed to identify the specific infrastructure requirements to enable this service to be introduced. This will align with the improvements already committed at Darlington and Hartlepool Stations.</p> <p>The work will also need to demonstrate the viability of running the new service, which will require engagement with Northern and the DfT (potentially Great British Railways in the future). This will need to be developed alongside the rail devolution proposition.</p>	£40m
<p>Deliver the redevelopment of Teesside International Airport Station</p>	<p>The station at Teesside International Airport has been in poor condition for several years, due to the lack of investment by the previous owners. This has led to the downgrading of services to the current parliamentary 1 train per week, which has also had to be temporarily withdrawn due to safety concerns about the current condition of the platform. In response to the poor</p>	£20m

	<p>condition of the station, the unused platform and footbridge is being demolished to ensure the safety of passing trains. The remaining platform is to be repaired and the 1 train per week service reintroduced.</p> <p>The service frequency cannot be increased at Teesside International Airport Station until work to address the capacity constraints at Darlington and Middlesbrough stations is complete.</p> <p>Early-stage feasibility work has already been carried out and has identified a preferred option of redeveloping the station on the existing site. This work needs to be re-validated to ensure that it remains the preferred option and aligns with the Airport master plan.</p> <p>The project would deliver a new station, compliant with current standards, including step-free access to each platform. The project will also need to consider onwards access to the key trip generators on the site, including the Airport terminal and key employment locations (links to the delivery of the autonomous shuttle service project).</p>	
<p>Deliver South Bank Station Transport Hub</p>	<p>South Bank station is strategically important, located at the western edge of the Teesworks site. The station is served by trains between Saltburn &lt;-&gt; Bishop Auckland, providing 1 train per hour in each direction, and the current Saltburn &lt;-&gt; Darlington service passes through without stopping.</p> <p>There is a need to improve access for all users at South Bank Station. Currently access to the east-bound platform is via a footbridge and a flight of stairs, which acts as a barrier to potential station users. However, there are several constraints at this location resulting from the station platforms being situated in a narrow space in the middle of the passenger and freight lines.</p> <p>As well as serving the station, the footbridge also provides access over the railway line and will become an important strategic link between the residential community of South Bank and significant employment opportunities in the vicinity. The footbridge is currently in a poor state of repair and needs replacing.</p>	<p>£40m</p>

	<p>Initial feasibility work has taken place and an outline scheme developed. The scheme requires track realignment and signalling adjustments to create a larger footprint for a new widened station platform. This will allow a new fully accessible footbridge with lifts or ramps to be built.</p> <p>As part of the station redevelopment, the project will create a transport hub, including a park and ride facility and highway improvements. This hub will serve the significant employment opportunities in the vicinity of the station.</p>	
Middlesbrough to Nunthorpe rail enhancements feasibility study	<p>Initial feasibility work for the development of a Nunthorpe Parkway Station is being carried out by Redcar and Cleveland Borough Council (RCBC) using money secured from the second round of the Levelling Up Fund. However, a constraint to the viability of this proposal is the potential service frequency which can operate to/from the station.</p> <p>This funding allocation will enable the initial feasibility work being carried out by RCBC to be further developed into an Outline Business Case for enhancements to the whole route. Currently, services are approximately hourly between Middlesbrough and Nunthorpe, with several of the services continuing to Whitby. The aspiration is for this to increase to 2 trains per hour, but as this is currently a single-line, used by trains in both directions, infrastructure upgrades will be needed to enable services to pass each other on the journey to / from Middlesbrough.</p> <p>The work will also need to demonstrate the viability of running a new service, which will require engagement with Northern and the DfT (potentially Great British Railways in the future). This will need to be developed alongside the rail devolution proposition.</p>	£1m
East Cleveland rail feasibility study	<p>There have been previous high-level feasibility studies on the potential to reinstate passenger train services on the Saltburn to Boulby freight line in East Cleveland. However, these studies have been desktop in nature and it needs to be recognised that reinstating passenger services on this line is still only at a concept stage.</p>	£1m

	<p>The rail line is currently only used by freight traffic servicing the British Steel Special Profiles Facility at Skinninggrove and the Cleveland Potash, Boulby Mine site. Between Saltburn and Skinninggrove the line is owned and maintained by Network Rail, but beyond this the line is owned by Cleveland Potash, who effectively act as the infrastructure manager. In order to develop this proposal TVCA is of the view that there are various issues/challenges that require much more detailed consideration:</p> <ul style="list-style-type: none"> <li>• Assessment of the existing infrastructure and the upgrades to this infrastructure that would be required to operate passenger services.</li> <li>• The feasibility of creating rail stations on the line.</li> <li>• The assumptions around cost are very high level and therefore come with a high degree of risk and uncertainty.</li> <li>• The need to balance existing and future freight requirements against potential passenger services.</li> <li>• Robust assessment of demand, both now and in the future, which is critical to the viability of running passenger services.</li> </ul> <p>This more detailed feasibility study would address these issues and focus on two key elements:</p> <ul style="list-style-type: none"> <li>• Review the strategic case for the project, including potential future demand, which is fundamental to the viability of extending rail services into East Cleveland.</li> <li>• Define the infrastructure requirements, including what interventions would be required to the track and signalling, identifying potential station locations, and providing a cost estimate for the project.</li> </ul> <p>The feasibility study would culminate in a Strategic Outline Business Case.</p>	
<p><b>STP theme: Unlocking Key Sites</b></p>		
<p>Deliver Stockton Care and Health Innovation Zone Package</p>	<p>Stockton-on-Tees Borough Council is working in partnership with TVCA, the NHS, Teesside University and other partners on proposals to develop a Care and Health Innovation Zone in Stockton. The vision sets out proposals to create a nationally significant cluster of social care and health provision at Teesdale Business Park and the nearby Tees Marshalling Yards. Part of the</p>	<p>£150m</p>

	<p>Tees Marshalling Yards remains in use as an operational railway asset and will continue to be needed into the future, but a large amount is under-utilised or disused, creating an opportunity to consolidate the operational requirements and redevelop the remaining brownfield site.</p> <p>The vision is to transform the Teesdale Business Park / Tees Marshalling Yards area, developing the 110-hectare brownfield site into a home for social care and health services, sector-specific businesses, research, teaching and learning facilities, and housing to meet local needs.</p> <p>A masterplan is currently being developed, but previous studies have identified the need for investment in the transport infrastructure to unlock the Tees Marshalling Yards and ensure that the site is well-connected by public transport and active travel. The masterplan work will define these requirements and further work will be needed to develop the package of interventions. At this stage of development it is envisaged that a new transport hub, including a rail station, will be created within the Tees Marshalling Yards that could serve both the Care and Health Innovation Zone and Teesside Park. There is a £140m allocation to this element of the package.</p> <p>There is also £10m within the funding allocation to deliver smaller-scale improvements to Thornaby Station, to create a multi-modal hub and better connect the station with the surrounding area. The development work will also need to consider how a new transport hub within the Tees Marshalling Yards works with Thornaby Station, particularly around rail service stopping patterns.</p>	
<p>Deliver Lackenby Transport Hub/Lorry Park</p>	<p>British Steel is proposing to make a significant investment to install an Electric Arc Furnace at its site in Lackenby, which will use greener technology to melt scrap and produce new steel. The scrap metal will be brought to the site in lorries.</p> <p>This funding will deliver a new Transport Hub/Lorry Park and associated highway works to provide a new access off the A66/Tees Dock Roundabout.</p> <p>The Transport Hub/Lorry Park will be utilised in several ways: as a holding area for British Steel's scrap delivery</p>	<p>£20m</p>

	lorries for the proposed Electric Arc Furnace; to serve other vehicle movements to/from the Freeport; and as a general stopover facility.	
Improving freight access to the rail network	<p>With the recent Government announcement of a target to grow rail freight by at least 75% by 2050, it is proposed to allocate funding to support this target given the importance of the transport and logistics sector to the Tees Valley economy.</p> <p>A funding contribution from CRSTS1 is committed to gauge clearance work on the Northallerton to Eaglescliffe line, which involves infrastructure improvements at four locations to either lower the track or rebuild the bridges and tunnels. This will enable the largest shipping containers to travel via the most direct and efficient route from Teesside towards the south and has a strong value for money case, recognising that modal shift is predicted. Additional government Rail Network Enhancements Pipeline (RNEP) funding will be sought to deliver the scheme.</p> <p>This funding allocation will enable further work to be commissioned to explore opportunities in and around the existing rail network to identify any improvements that are needed to support rail freight growth. This could include looking at:</p> <ul style="list-style-type: none"> <li>• Supporting further infrastructure upgrades on the network that will remove constraints and improve freight efficiency.</li> <li>• Opportunities to reinstate / introduce new infrastructure that removes barriers to the use of rail freight at key locations.</li> </ul> <p>The funding allocation will enable a package of improvements to be delivered, subject to the outcome of the further development work.</p>	£35m
<b>STP theme: Local Journeys</b>		
Bringing the Tees Transporter Bridge back into operation	The Tees Transporter Bridge is Grade II* listed with Historic England and was opened in 1911. It provides a link between Port Clarence in Stockton-on-Tees and Middlehaven in Middlesbrough and is the furthest downstream bridge crossing over the River Tees. However, it has been closed since 2019 due to safety	£30m



	<p>concerns. The bridge has three spans and supports a gondola, which is intended to carry vehicles and pedestrians connecting A178 Port Clarence Road to Ferry Road. A package of interventions will be required to bring the bridge back to full operational capacity.</p>	
<p>Redevelop Middlesbrough Bus Station</p>	<p>Opened in 1982, Middlesbrough bus station is a core interchange facility located in a central position for the town. It is the base for multiple core services that provide vital connectivity across the Tees Valley region and to wider areas of North Yorkshire and the North East.</p> <p>The bus station currently has 21 stands for local bus services, with additional stands located on the upper floor for regional and national coach services.</p> <p>Given the age of the facility, there is a need for redevelopment to complement other regeneration activity across the town centre. This project will deliver a modern, fit-for-purpose, bus station that provides an appropriate gateway to Middlesbrough, which meets the needs of bus operators and the expectations of passengers / customers. There will be a need to develop the bus station design and ensure it complements the wider regeneration of Middlesbrough.</p>	<p>£15m</p>
<p>Package to deliver improvements to local journeys to access employment, education and training</p>	<p>This package is focussed on improving local short journeys. It will build upon the current CRSTS1 investment programme, with a focus on key corridors, providing access to town centres, major investment/regeneration sites, major employment sites, and university, college and school sites, across the Tees Valley.</p> <p>The types of interventions that will be delivered through this package include:</p> <ul style="list-style-type: none"> <li>• Walking, wheeling and cycling improvements targeted at encouraging people to use active travel modes for shorter-trips.</li> <li>• Highway schemes to benefit all road users and address issues where buses are being delayed.</li> </ul> <p>The focus of this investment will be on accessibility to:</p> <ul style="list-style-type: none"> <li>• town centres to support other regeneration projects (Billingham, Darlington, Guisborough, Hartlepool, Middlesbrough, Redcar, Stockton, Thornaby and Yarm);</li> </ul>	<p>£45m</p>

	<ul style="list-style-type: none"> <li>• major investment / regeneration sites, including Darlington Economic Campus, Hartlepool Development Corporation (Queen’s Meadow / Oakesway Business Park), Teesside International Airport and Teesworks;</li> <li>• major employment locations; and</li> <li>• university, college and school sites.</li> </ul> <p>Significant development work has been undertaken as part of CRSTS1 to develop a long-term pipeline of projects that will need to be considered as part of the package development.</p>	
Feasibility study to investigate addressing level crossing issue on West Dyke Road, Redcar	<p>Although there are several access routes over the railway line into Redcar Town Centre, West Dyke Road forms the main access. With an increase in the number of rail services to or beyond Redcar, the level crossing adjacent to Redcar Central Station is becoming a key constraint. The increased amount of barrier down time is disrupting the traffic flow through the town for motorists and causing performance and reliability issues for bus services.</p> <p>This feasibility work will consider whether there is an alternative to the current level crossing, including exploring whether a bridge can be built at West Dyke Road or at any alternative locations along the line.</p>	£1m
Local Highway Authority Consolidated Funding	A five-year allocation of funding for each of the five local highway authorities at the same level as included in the CRSTS1 programme. However, when combined with the recently announced additional local highways maintenance funding of a minimum of £100.1m over the period 2023/24 – 2033/34, this represents a significant increase in the local highway authority consolidated funding allocation. The funding will be allocated using the formula set out in the TVCA constitution. All expenditure will need to comply with any requirements from the DfT.	£83m
<b>STP theme: Delivering Social Equity and Protecting the Environment</b>		
Implementing solutions to overcome barriers to employment	The current Wheels to Work scheme expires in 2023. The scheme provides a subsidised transport solution for people seeking to access employment or training, where transport is a barrier. The scheme has been successful and there have been many beneficiaries. However, two of	£10m

	<p>the barriers that have been identified as the scheme has evolved in terms of people accessing it are:</p> <ul style="list-style-type: none"> <li>• it only offers e-motorbikes or e-bikes and not cars; and</li> <li>• it is provided by a third party and isn't directly linked to employers.</li> </ul> <p>TVCA is therefore proposing to develop a new scheme that provides subsidised access to cars and is linked to employers. It is proposed that the scheme is developed alongside the Business Board to ensure it meets employers needs and becomes embedded in the business community. In developing the scheme, TVCA will need to consider the financial model, which may involve combining TVCA funding with contributions from the business community.</p> <p>Furthermore, TVCA is also exploring the potential to partner with a mobility provider to implement a personalised, on-demand, affordable mobility solution. It is envisaged that this solution is targeted at specific cohorts where transport is a barrier to accessing the labour market.</p> <p>The funding allocation will enable these proposed interventions to be developed and implemented.</p>	
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## FINANCIAL IMPLICATIONS

13. The government published CRSTS2 indicative allocation for TVCA is £978m. The funding is notionally allocated for the period 2027/28 to 2031/32, but government has said that there will be an opportunity for some of this funding to be brought forward into the last 2 years of CRSTS1 (2025/26 and 2026/27).
14. The proposed CRSTS2 programme is currently estimated at £1bn. The funding allocations for each project are based on the information currently available. A risk allowance has been included for each project, appropriate to the current stage of project development. As projects progress, further refinement of costs will be undertaken to ensure expenditure is managed within the overall £978m budget. At this stage the small level of over-programming (£22m or 2.2%) is considered reasonable. Should it transpire that a project is not affordable within the funding allocation, then this will be reported to Cabinet with options for consideration. This could comprise a range of options, including looking at alternative delivery options or re-allocating funding to other priorities.

15. The £978m includes a split of capital and revenue, with the exact split to be confirmed by Government. Most projects in the proposed CRSTS2 programme are capital, but there are some that will require revenue funding and some capital investments that will require on-going revenue support.
16. As the CRSTS2 programme progresses, there will be a need to develop project spend profiles. The spend profile will need to be managed at a programme level to ensure delivery within the funding period. Government has previously been flexible with spend between financial years, which will enable adjustments to be made should the spend profile change over the funding period.
17. One of the most significant risks is the lead time and level of work required to develop the £1bn programme, so that delivery can commence in the coming years. TVCA is therefore proposing to commit development funding to progress the programme. It is envisaged that this will ultimately be funded from the £978m CRSTS2 allocation, but in the meantime it is proposed to cash flow development work using the confirmed CRSTS1 funding, which has been discussed with the DfT. This will require a re-profiling of expenditure between now and March 2027, but will have no overall impact on the delivery of the schemes already identified in the CRSTS1 programme. There may also be a need to consider the re-profiling of project delivery across the two funding periods (2024/25 to 2031/32).
18. As part of the project business case development work, TVCA will consider if there are any further grant funding opportunities, the potential for developer contributions, or commercial opportunities that could leverage private sector investment. Should additional funding be leveraged on any project, then an element of the CRSTS2 capital could be freed up for other projects.

## LEGAL IMPLICATIONS

19. There are not considered to be any legal implications arising from the recommendations in this report. However, there are very likely to be legal implications for individual projects and appropriate legal advice will be sought as required.
20. TVCA is the statutory Local Transport Authority, but will need to work closely with partners to ensure delivery of the CRSTS2 programme, including:
  - The five Tees Valley local highway authorities, where a project relates to the local highway network.
  - National Highways where a project relates to the Strategic Road Network.
  - Network Rail (and in the future Great British Railways) where a project is rail related.
21. Appropriate project governance arrangements will be established involving the relevant local authorities and other stakeholders, building on the existing arrangements for major transport projects.

22. The CRSTS2 programme will be delivered in accordance with the Tees Valley Assurance Framework and projects will be subject to the established decision-making processes and governance arrangements.
23. All procurements will be undertaken in accordance with the Contract Procedure Rules and Public Contracts Regulations 2015. Officers will ensure that all procurement activity maximises social value benefits, including encouraging use of the local supply chain and creating local employment opportunities.

## RISK ASSESSMENT

24. The risks associated with the delivery of the CRSTS2 programme are significant for the reasons outlined in paragraph 8.
25. TVCA is already taking steps to mitigate these risks, including increasing the level of resource to ensure delivery. Approval of the programme will enable TVCA to demonstrate to government that it has agreement on the strategic priorities and a sound delivery plan. It will also enable development work to commence.
26. A risk allowance has been included in the funding allocation for each project, appropriate to the current stage of project development.
27. As each project develops, a detailed risk register will be produced, which will be used as a management tool to ensure risks are properly managed. This will be considered as part of the assurance process and managed as projects pass through investment gateways at key stages of project development, in accordance with the Assurance Framework.
28. At this stage and given the mitigations already being implemented, the proposed CRSTS2 programme is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk. However, this will need to be monitored very closely at a programme level to ensure effective delivery.

## CONSULTATION & COMMUNICATION

29. There has been engagement with all local authorities throughout the process, including Chief Executives, Management Group, Transport Advisory Group and a dedicated workshop.
30. There is a Transport Committee meeting on the 23<sup>rd</sup> January 2024 where the proposed CRSTS2 programme will be on the agenda.
31. There has been dialogue with the Business Board in developing the proposed CRSTS2 programme.



## EQUALITY & DIVERSITY

32. Two of the high level STP outcomes, which the CRSTS2 programme has been designed to deliver on, relate to equality and diversity:
  - Improve access for those with physical disabilities, mental health conditions, learning difficulties and those with sensory impairment.
  - Improve equality of opportunity for remote and deprived communities and enhance health and wellbeing.
33. As each project is developed, the equality impacts will be fully considered through Equality Impact Assessments and appropriate mitigations will be implemented.
34. TVCA is already effectively applying this approach in delivering the current transport programme, including engagement with local and national bodies representing the different protected characteristics.

**Name of Contact Officer:** Tom Bryant  
**Post Title:** Director of Infrastructure  
**Telephone Number:** 01325 792600  
**Email Address:** tom.bryant@teesvalley-ca.gov.uk

REPORT TO THE TEES VALLEY COMBINED AUTHORITY  
AUDIT AND GOVERNANCE COMMITTEE

6 March 2024

REPORT OF HEAD OF PERFORMANCE, RISK AND ASSURANCE

**INTERNAL AUDIT REPORT**

**SUMMARY**

This report presents the position of current Internal Audit action plan progress as of February 2024.

**RECOMMENDATIONS**

It is recommended that the Audit and Governance Committee

- i. Consider the analysis and audit progress set out in this paper.
- ii. Acknowledge the annual audit schedule.

**DETAIL**

- iii. This report presents TVCA audit actions and their progress as of February 2024.

**Process**

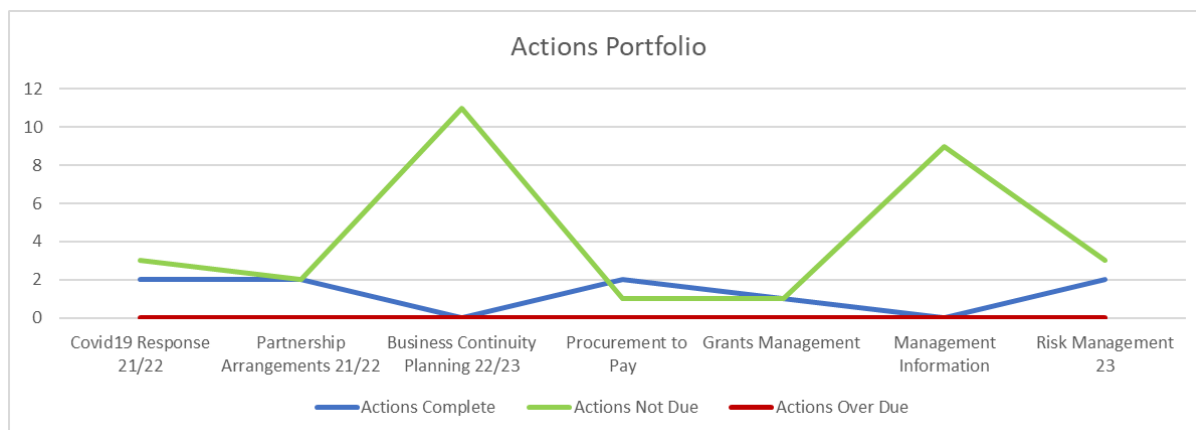
Using a risk-based approach, the internal audit schedule is agreed with the Senior Leadership Team and the Audit and Governance Committee, this ensures the TVCA Group are assessing the effectiveness and efficiency of controls mitigating key risks.

The process of internal audit 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).

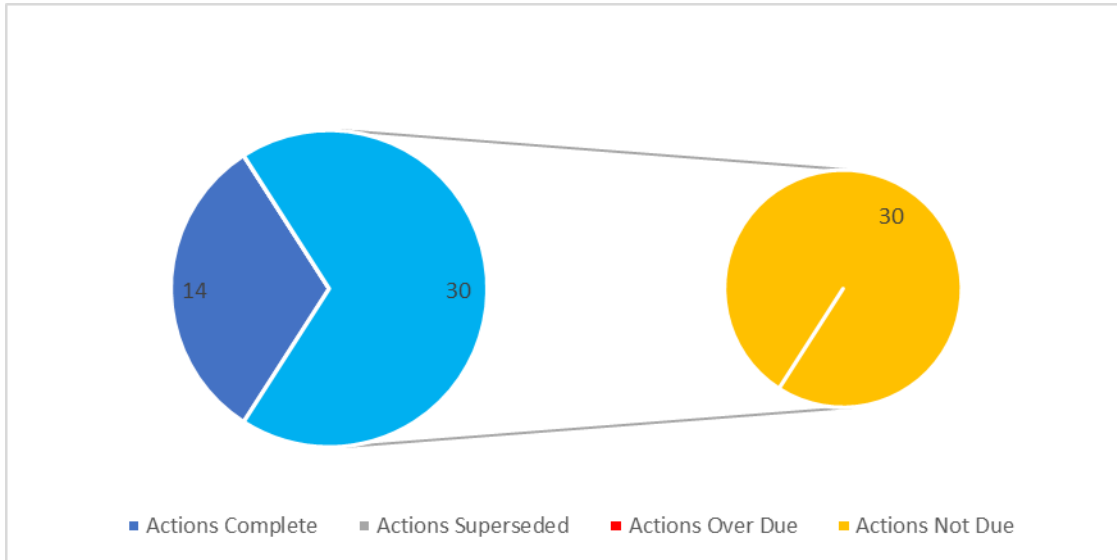


Audit Title	Action Plan Delivery	Action Plan Owner	Delivery Date
Covid19 Response 21/22	In Progress	Governance and Scrutiny Manager	01/03/2024
Partnership Arrangements 21/22	In Progress	Governance and Scrutiny Manager	31/03/2024
Business Continuity Planning 22/23	In Progress	Head of Performance, Risk and Assurance	30/04/2024
Procurement to Pay 22/23	In Progress	Group Procurement & Purchasing Manager	28/06/2024
Grants Management 22/23	In Progress	Head of Performance, Risk and Assurance	31/03/2024
Management Information 22/23	In Progress	Head of Performance, Risk and Assurance	30/04/2024
Risk Management 22/23	In Progress	Head of Performance, Risk and Assurance	31/03/2024

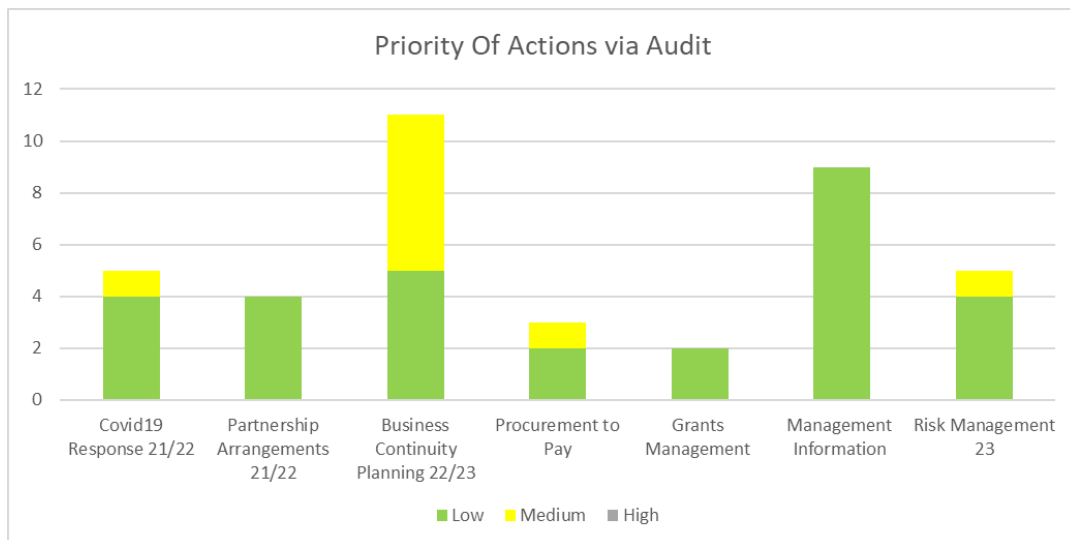


## Action progress

There are currently 7 action plans in progress.



As of February 2024, 32% of actions for open action plans have been implemented/ superseded with 68% of actions not due.



The above graph is an overview of all open action plans to date which have been agreed.

As of next quarter, all those action 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.

A review has been complete against all open action plans and revised delivery dates have been assigned through a risk-based approach.

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.

#### **Audit Schedule**

TIAA have been appointed as the internal audit partners. Audit schedule has been received for the upcoming year which will be focussed on the corporate risk register and core themes.

Risk Management Internal Audit is currently underway with evidence being provided.

#### **FINANCIAL IMPLICATIONS**

- iv. There are no direct financial implications arising from this report.

#### **LEGAL IMPLICATIONS**

- v. There are no direct legal implications arising from this report.

#### **RISK ASSESSMENT**

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

#### **CONSULTATION & COMMUNICATION**

- vii. None required.

#### **EQUALITY & DIVERSITY**

- viii. No impacts.

Name of Contact Officer: Natalie Robinson  
Post Title: Head of Performance, Risk and Assurance  
Email: [natalie.robinson@teesvalley-ca.gov.uk](mailto:natalie.robinson@teesvalley-ca.gov.uk)



## Tees Valley Combined Authority

### Summary Internal Controls Assurance (SICA) Report

**2023/24**

Internal Audit

FINAL

February 2024

# Summary Internal Controls Assurance

## Introduction

1. This summary controls assurance report provides the Audit and Governance Committee with an update on the emerging Governance, Risk and Internal Control related issues and the progress of our work at Tees Valley Combined Authority as at 20<sup>th</sup> February 2024.

## Tackling and Managing Fraud Risks

### 2. The Challenge

Everyone is under increasing financial pressure from the escalating costs of goods and services and increasing inflation leading to the current cost-of-living crisis. The knock-on effects of the pandemic, and the increase in remote working practices, linked with the escalating cost of living has increased the risk of opportunistic fraud against organisations. All organisations are at risk and will be targeted where weaknesses are identified. It is at times such as these where organisations have unfilled vacancies, positions filled by temporary employees, or where existing employees may be struggling with financial or emotional wellbeing that all organisations need to be more aware of the risks and take steps to keep their money, people and data safe.

Recently reported data shows that how some organisations in the UK have been affected by fraud over the last year and how they perceive their fraud risk.

**58% - think the risk of fraud is going to increase over the next 12 months.**      **55% - of reported frauds were perpetrated by staff or volunteers.**  
**40% - said hybrid working has increased the risk of fraud.**                      **69% - experienced financial loss due to fraud.**

**Recommended Actions:** To ensure your organisation is addressing this risk and putting in place measures to combat fraud risk, TIAA recommend that several key steps are taken to assess your organisation's exposure, ensure controls are effective and to safeguard should the worst happen.

- **Assign Responsibility:** to a suitably trained employee/Board Member to act as your organisation's Fraud Champion.
- **Train:** Line Managers and Board Members, on fraud risk awareness and managing concerns and, all employees on emerging fraud risk awareness.
- **Govern the risk:** by ensuring your organisation had developed a clearly written Anti-Fraud Policy and Response Plan.
- **Raise Awareness:** with all employees and Members of their responsibilities to protect your organisation's assets.
- **Identify and Record:** the specific types of fraud that are perceived to be a risk to your organisation and what steps are required to manage these.
- **Compliance Test:** at regular intervals, how well your recorded fraud prevention controls are working.
- **Undertake Checks:** on any individual or organisation with whom you have a financial relationship.

### TIAA's Proactive Fraud Risk Reviews

TIAA recognises that all sectors and all organisations are susceptible to fraud and is able to provide support in helping ensure your employees are aware of their responsibilities and specific risks facing your organisation. We have also developed a series of reviews that are designed to provide your organisation with external assistance in achieving compliance with our key recommended actions and to provide your Board with assurance over key fraud risk areas.

#### **Audits completed since the last SICA report to the Audit and Governance Committee**

3. There have been no audits finalised since the previous meeting of the Audit and Governance Committee.

#### **Progress against the 2023/24 Annual Plan**

4. Our progress against the Annual Plan for 2023/24 is set out in Appendix A.

#### **Changes to the Annual Plan 2023/24**

5. The review of Governance has been deferred following the publication of the Independent Review report. This will be considered as part of a more detailed review in the 2024/25 internal audit plan.

#### **Frauds/Irregularities**

6. We have not been advised of any frauds or irregularities in the period since the last SICA report was issued.

#### **Responsibility/Disclaimer**

7. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. The matters raised in this report not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

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## Progress against Annual Plan

System	Planned Quarter	Current Status	Comments
Governance – Strategic Control	3	Deferred	
Key Financial Controls	3	To commence 29 <sup>th</sup> February 2024	
ICT Disaster Recovery	4	Fieldwork commenced	
Data Protection - GDPR	4	Fieldwork commenced	
Risk Mitigating Controls	4	Fieldwork commenced	
Control Of Major Accident Hazard (COMAH)	4	To be booked for March 2024 following final scoping	
Follow-up	4	To commence 18 <sup>th</sup> March 2024	

**KEY:**

	To commence		Site work commenced		Draft report issued		Final report issued
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TEES VALLEY COMBINED AUTHORITY - Audit & Governance Committee Forward Programme  
2023/2024

Standing Items

- Declarations of Interest
- Minutes from the Previous Meeting & Action Tracker
- Internal Audit Actions Update
- Internal Audit Progress Report
- Internal Audit Reports
- External Audit Actions Update
- External Audit Progress Report
- Forward Programme
- Risk Management Update
- Governance Structure (For Information item)
- Summarised Terms of Reference (For Information item)
- Group Update (For Information item)
- Date and Time of the Next Meeting

Date	Items scheduled in year 2023/2024
14 <sup>th</sup> September 2023	<ul style="list-style-type: none"> <li>• Appointment of Chair and Vice Chair</li> <li>• Confirmation of Appointment of Representative to South Tees Development Corporation Audit &amp; Governance Committee</li> <li>• Appointment of Representative to Middlesbrough &amp; Hartlepool Development Corporation Audit &amp; Governance Committee</li> <li>• External Audit Completion Report 2021/22</li> <li>• Review &amp; Approval of Draft Annual Governance Statement</li> <li>• Interim update to Committee on Progress of Committee Effectiveness Action Plan</li> <li>• Teesworks Update</li> </ul>
23 <sup>rd</sup> November 2023	<ul style="list-style-type: none"> <li>• Terms of Reference Review</li> <li>• Draft Accounts Update</li> <li>• Annual Review of Independent Membership on the Committee &amp; Approval of Existing Membership</li> <li>• Full update report to Committee on Progress of Committee Effectiveness Action Plan (CONFIDENTIAL)</li> <li>• Boho Audit Feedback (CONFIDENTIAL)</li> <li>• Teesworks Update (CONFIDENTIAL)</li> </ul>

17 <sup>th</sup> January 2024	<ul style="list-style-type: none"> <li>• External Audit Strategy Memorandum 2022/23</li> <li>• External Audit Annual Letter 2021/22</li> <li>• Interim update to Committee on of Committee Progress Effectiveness Action Plan</li> <li>• Review of Risk Management Policy &amp; Framework</li> </ul>
6 <sup>th</sup> March 2024	<ul style="list-style-type: none"> <li>• Final update on effectiveness of implementation of Action Plan and next steps for Annual Review of Effectiveness</li> <li>• Independent Review Report Progress Update</li> <li>• Review of Whistleblowing Policy</li> <li>• External Audit Report</li> <li>• Transport Team Update to Members</li> </ul>
13 <sup>th</sup> June 2024	<ul style="list-style-type: none"> <li>• AGM</li> <li>• Review of Anti - Fraud Policy</li> <li>• Review of Governance Policy &amp; Framework</li> <li>• Oversight of Governance Toolkit</li> <li>• Review of Assurance Framework</li> <li>• Skills Team Update to Members</li> </ul>

## Q1 2024 – 2025:

Appointment of Chair and Vice Chair

Confirmation of Appointment of Representative to South Tees Development Corporation Audit & Governance Committee

Appointment of Representative to Hartlepool Development Corporation Audit & Governance Committee

Appointment of Representative to Middlesbrough Development Corporation Audit & Governance Committee

Committee Effectiveness & Skills Audit

## Contact:

Elaine Braham – Governance Officer  
[elaine.braham@teesvalley-ca.gov.uk](mailto:elaine.braham@teesvalley-ca.gov.uk)



REPORT TO THE TEES VALLEY COMBINED AUTHORITY  
AUDIT & GOVERNANCE COMMITTEE

6 MARCH 2024

REPORT OF THE ACTING CHIEF LEGAL OFFICER  
(MONITORING OFFICER)

REVIEW OF THE TVCA COMPLAINTS & WHISTLEBLOWING POLICIES

SUMMARY

The purpose of this report is to present the Tees Valley Combined Authority Complaints Policy and Whistleblowing Policy to the Committee for approval.

RECOMMENDATIONS

It is recommended that Audit and Governance Committee: -

- i. approves the updated Complaints Policy;
- ii. reaffirms the Whistleblowing Policy as drafted; and
- iii. for both of these policies to be brought back to this Committee for an annual review by this Committee in 2025.

DETAIL

1. The Combined Authority is required by law to have both a Complaints Policy and a Whistleblowing Policy.

**Complaints Policy**

2. The Combined Authority's current Complaints Policy can be found on its website. A copy of the current Complaints Policy can be found at **Annex 1** to this Report.
3. It is the role of the Audit and Governance Committee to carry out a review of the Combined Authority's Complaints Policy.
4. Following a review of the information presently provided to the public in respect of complaints, improvements were identified which would:
  - a. make the complaints process easier to navigate
  - b. make the complaints process easier to understand by the public
  - c. signpost complainants to the correct place if the Combined Authority is not the correct recipient for the complaint; and

- d. provide a framework to protect Combined Authority staff from abusive and threatening behaviour from the public, and to provide for a way to manage this that everyone understands.
5. It is proposed that an updated summary of the Complaints Process be detailed on the Combined Authority's website as detailed at **Annex 2** to this Report.
6. It is further proposed that the Complaints Process summary (referred to at 5 above) will contain a link to the full Complaints Process, the draft of which (pending this Committee's approval) is detailed at **Annex 3** to this Report.

## Whistleblowing Policy

7. 'Whistleblowing' is the act of an employee or other qualifying person which exposes
  - a. a criminal offence, for example fraud;
  - b. that someone's health and safety is in danger;
  - c. risk or actual damage to the environment;
  - d. a miscarriage of justice;
  - e. the organisation is breaking the law; or
  - f. that someone is covering up wrongdoing.
8. The Combined Authority has a Whistleblowing Policy which is currently embedded in its Constitution. **Annex 4** of this Report details the current Policy.
9. The responsibility for the Whistleblowing Policy sits with the Combined Authority's Monitoring Officer, and it approved by the Combined Authority's Audit & Governance Committee.
10. During the municipal year of 2023/2024 (to date) there has been no reports made under the Whistleblowing Policy.
11. ACAS provides guidance on Whistleblowing Policies. It advises that an employer should:
  - a. share the policy across the whole organisation
  - b. regularly review it
  - c. use it as the basis for any whistleblowing training for managers
  - d. show it to and discuss it with staff regularly
  - e. include it in any employee induction process
12. ACAS provides that the following should be included in any Whistleblowing Policy:
  - a. what whistleblowing is and how it differs from a grievance
  - b. how it can affect employees and managers
  - c. who the point of contact is in the organisation for whistleblowing queries
  - d. an employee should raise a whistleblowing disclosure
  - e. a statement making clear the organisation wants to encourage all staff to make disclosures to them when they have concerns
  - f. how the organisation will not tolerate whistleblowers experiencing detriment because they raised a concern

- g. how the organisation will investigate and respond to disclosures
  - h. what whistleblowing support is available to staff
  - i. how the organisation is open and trained to deal with whistleblowing
13. As there have been no reports under the Whistleblowing Policy in the last municipal year (to date) there are no learnings to incorporate into a revised Policy.
14. Following a review of the current Whistleblowing Policy, it accords with the guidance from ACAS.
15. Subject to a review of the Authority's approach to the Whistleblowing Policy to ensure that the ACAS guidance as detailed in 11 above is complied with and including the Policy as a separate document on the Authority's intranet, no amendments are proposed to the current Whistleblowing Policy.

#### **FINANCIAL IMPLICATIONS**

16. There are no financial implications arising from the subject matter of this report.

#### **LEGAL IMPLICATIONS**

17. The recommendations in this report serve to meet the Combined Authority's obligation to have in place a Complaints Policy and a Whistleblowing Policy.

#### **RISK ASSESSMENT**

18. This Update Report is categorised as low risk.

#### **CONSULTATION**

19. The Complaints Policy and The Whistleblowing Policy are to be published on the TVCA website and should be reviewed annually and be approved by the TVCA Audit & Governance Committee to ensure that they remain fit for purpose.

**Name of Contact Officer:** Emma Simson  
**Post Title:** Acting Chief Legal Officer (Monitoring Officer)  
**Email:** emma.simson@teesvalley-ca.gov.uk  
**Telephone Number:** 01325 792600

## Extract Copied from the TVCA Website ([Complaints Procedure - About \(teesvalley-ca.gov.uk\)](https://teesvalley-ca.gov.uk))



Tees Valley Combined Authority has a dedicated complaints procedure which is followed upon receipt of a complaint, an overview of which is given below.

### Complaints Procedure

#### How do I make a complaint?

Hide

You can make a complaint in a number of ways. You can contact us by telephone or in writing by email or letter. Please include your name, address and telephone number for correspondence and full details of the complaint.

Tees Valley Combined Authority  
Teesside Airport Business Suite,  
Teesside International Airport,  
Darlington,  
DL2 1NJ  
Email: [TVCAAdmin@teesvalley-ca.gov.uk](mailto:TVCAAdmin@teesvalley-ca.gov.uk)   
Tel No: (01642) 524400

If you wish to make a confidential complaint it will be treated in confidence and every effort will be made to protect your identity should you wish to remain anonymous. The complaint will be investigated in the same way as any other complaint. Anonymous complaints will also be investigated as far as is possible.

#### How will my complaint be dealt with?

Hide

When your complaint is received it will be sent to the relevant Officer to deal with. You will receive an acknowledgement to let you know that your complaint has been received and that we are dealing with it.

Your complaint will be investigated and fully responded to within ten working days of its receipt. If the complaint is particularly complicated however, it may take longer but you will be advised of this at the outset.

The complaint will then be considered and, if appropriate, we will assess how improvements can be made so the same complaint does not arise again.

#### What if I disagree with the response received?

Hide

If you are unhappy with the way your complaint was dealt with, please let us know. Your complaint will then be reviewed by a Senior Officer and you will receive a response from them within 20 working days. Again, if it is not possible to complete the review in this time you will be advised of this, and of when you may expect a response.

If you are still unhappy with our response and believe you have been treated unfairly you can put your complaint to the Local Government Ombudsman who will investigate further. The Ombudsman is an independent body and will therefore expect that your complaint has been through the Combined Authority complaints process before they will become involved.

**Contact Details:**  
Local Government Ombudsman  
PO Box 4771  
Coventry  
CV4 0EH  
Tel: 0300 061 0614

#### What do we do with your complaints?

Hide

Each complaint we receive is logged and the records of these are kept and reported to our Senior Management Team and Cabinet (personal/confidential data is not released). We use this information to allow us to track where we may be failing and to allow us to improve our services.

#### Whistleblowing

Hide

If you wish to voice a serious concern over alleged malpractice or alleged wrongdoing within the Combined Authority then you should follow the Whistleblowing procedure which can be found [here](#).

# Complaints Policy

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## COMPLAINTS POLICY

We are committed to providing high-quality services for all members of the public, businesses and organisations. We welcome our residents' views and will use them to improve our services. This page describes how we will deal with complaints and the role of the Local Government and Social Care Ombudsman.

### 1 How you can make a complaint to the Tees Valley Combined Authority

The Combined Authority has a two-stage policy:

#### **Stage One – Informal Complaint**

We always wish to deal with your complaint as quickly and as efficient as possible, so we will always try to deal with your complaint informally. This means that you should phone or take your complaint to the office or person who dealt with your enquiry.

Our staff will do their absolute best to settle your complaint without you needing to do anything else.

#### **Stage Two – Formal Complaint**

If you have spoken to our staff about your complaint but they have not been able to put things right, or you are not happy with the result, the next step is for you to make a formal complaint in writing to the Monitoring Officer.

By law, every Combined Authority must designate one of its senior officers as the Monitoring Officer. The Monitoring Officer is responsible for ensuring that the Combined Authority acts and operates within the law.

You can make a complaint in a number of ways:

- completing our 'complaints form' – here [\[include link\]](#)
- write to Complaints, Tees Valley Combined Authority, Teesside Airport Business Suite, Teesside Airport, DL2 1NJ.

When you contact us, please detail your name and address (including your postcode) and your phone number.

If you prefer, you can ask a friend or relative to speak or write to us for you. **We will need your written consent if you would like someone to act on your behalf.**

You will need to include sufficient information to enable us to consider your complaint initially and contact you should we require any further information.

### 2 What happens next?

The Monitoring Officer will ask a Director who has not been involved in your original complaint to look into your complaint.

If we cannot resolve your complaint immediately, we will write to you within five working days to let you know we have received your complaint. We will give you a reference number and let you know that we are investigating your complaint. This information will make it easier for you to contact the person dealing with your complaint if you need to.

The Director will investigate your complaint, take any necessary action and make sure they send a written reply within 15 working days.

If your complaint needs more investigation, and we cannot send you a written reply within 15 working days, we will write to you and let you know when you will receive a written reply.

If you wish to make an appointment to discuss a complaint please contact the Monitoring Officer.

### **3 Aim of the Complaints Policy**

Our complaints policy aims to ensure that customers:

- know where and how to complain to us
- receive an acknowledgement and information on the progress of their complaint
- receive an appropriate response and action is taken where we have failed to provide a satisfactory service.

We are committed to treating all our customers fairly and equally.

We will use complaints to review and improve the way we provide services.

### **4 What is a complaint?**

A complaint is an expression of dissatisfaction about the standard of service the Combined Authority provides.

There are some complaints that will not be dealt with under this policy such as:

- Where legal processes are involved – where a legal challenge is being made regarding whether a decision or action is lawful;
- Where there is a more appropriate individual or organisation to deal with your complaint, such as a tribunal, Ombudsman or another local organisation or council;
- We would not normally deal with complaints about something that happened more than a year ago;
- Complaints about members of the Combined Authority – elected councillors have a separate complaints process and the Monitoring Officer can advise you about this.
- Whistleblowing – there is a separate Whistleblowing Policy [\[include link\]](#)
- Complaints about Freedom of Information (FOI) requests. We have a separate policy for these types of complaints.



- The full Complaints Policy can be found [here \[include link\]](#)

## 5 Choosing the right organisation

Before raising a complaint to the Tees Valley Combined Authority (the Combined Authority), it's important to ensure that you have raised the complaint with the correct organisation.

- The Combined Authority has not replaced existing local authorities; there are five individual councils in the Tees Valley area who deliver the vast majority of services for your community
- The Combined Authority has not replaced companies and organisations providing public transport in the Tees Valley area.

If you have a complaint about any transport services or street related matter, please contact your local authority for your area.

## 6 What if I am still not happy with the response?

If you have been through stages one and two of the complaints procedure and you are still not happy with the results of the investigations, you can write to the Local Government and Social Care Ombudsman.

### **Local Government Ombudsman**

You can contact the Local Government and Social Care Ombudsman about your complaint at any time. However, the Ombudsman usually gives the Combined Authority the opportunity to investigate first.

You can contact the Local Government and Social Care Ombudsman in a number of ways:

Local Government & Social Care Ombudsman  
PO Box 4771  
Coventry  
CV4 0EH

Phone: 0300 061 0614  
Text: 'call back' to 0762 480 3014  
Website: [www.lgo.org.uk](http://www.lgo.org.uk)

# Complaints Policy (Full)

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## COMPLAINTS POLICY

### 1. Introduction

We are committed to providing high-quality services for all members of the public, businesses and organisations. We welcome views from members of the public and will use them to improve our services.

This policy describes how we will deal with complaints and the role of the Local Government and Social Care Ombudsman.

### 2. Aims of the Complaints Policy

Our complaints policy aims to ensure that members of the public:

- (a) know where and how to complain to us
- (b) receive an acknowledgement and information on progress of their complaint
- (c) receive an appropriate response and action is taken where we have failed to provide a satisfactory service.

We are committed to treating all our customers fairly and equally.

We will use complaints to review and improve the way we provide services.

If you wish to make an appointment to discuss a complaint, please contact the Monitoring Officer by email at: [TVCAGovernance@teesvalley-ca.gov.uk](mailto:TVCAGovernance@teesvalley-ca.gov.uk)

### 3. What is a complaint?

A complaint is an expression of dissatisfaction about the standard of service the Tees Valley Combined Authority provides.

There are some complaints that will not be dealt with under this policy such as:

- (a) Where legal processes are involved – where a legal challenge is being made regarding whether a decision or action is lawful;
- (b) Where there is a more appropriate individual or organisation to deal with your complaint, such as a tribunal, Ombudsman or another local organisation or council;
- (c) We would not normally deal with complaints about something that happened more than a year ago;
- (d) Complaints about members of the Combined Authority – elected councillors have a separate complaints process and the Monitoring Officer can advise you about this;
- (e) Whistleblowing policy – there is a separate policy relating to whistleblowing;
- (f) Complaints about Freedom of Information (FOI) requests. We have a separate policy for these types of complaints.

#### 4. How do I make a complaint? – Choosing the correct organisation

Before raising a complaint to the Tees Valley Combined Authority (TVCA), you should ensure that you have raised the complaint with the correct organisation.

- (a) The TVCA has not replaced existing local authorities; there are five individual councils in the Tees Valley area who deliver the vast majority of services for your community
- (b) Transport and Street Matters - If you have a complaint about any transport services or street related matter, please contact the local authority for your area.
- (c) General Data Protection Regulation (GDPR)

If you have a complaint related to the handling of your personal data, please contact the UK's supervisory authority for GDPR:

The Information Commissioner's Office,  
Wycliffe House,  
Water Lane,  
Wilmslow,  
Cheshire  
Telephone: 0303 123 1113  
Website: <https://www.ico.org.uk/concerns>

The Combined Authority has a Data Protection Policy which can be viewed here:

[\[link\]](#)

#### 5. How do I make a complaint?

The Combined Authority will take a proportionate approach to the assessment, investigation and review of complaints; and has an initial two-stage policy.

It is expected that all complaints received will be treated in confidence. There may be rare instances, however, where to preserve the fairness of the complaint's procedure, we might need to contact the complainant to ascertain their willingness to share identity with those subject to or involved in the complaint. This would never be done without the complainants' express agreement.

Where a complainant publicises the facts and details of a complaint during the course of the investigation, the Monitoring Officer (in consultation with the Chair of the Audit and Governance Committee) may conclude that the balance of the public interest lies in treating the identity of the complainant as no longer confidential.

##### **Anonymous Complaints**

Anonymous complaints will not normally be investigated, and will only be accepted in exceptional circumstances where the Monitoring Officer (in consultation with the Chair of

the Audit and Governance Committee) concludes that the balance of the public interest lies in doing so, and the fairness of the procedure is maintained.

## **Step One - Informal Complaint**

We will try to deal with your complaint informally. This means that you should phone or take your complaint to the office or person who dealt with your enquiry.

Our staff will do their best to settle your complaint without you needing to do anything else.

## **Step Two - Formal Complaint**

If you have spoken to our staff about your complaint but they have not been able to put things right, or you are not happy with the result, the next step is for you to make a formal complaint in writing to the Monitoring Officer:

You can make a complaint (or compliment) using one of the following ways. You can:

- Submit a complaint via the Contact us – [info@teesvalley-ca.gov.uk](mailto:info@teesvalley-ca.gov.uk)
- Write to Complaints, Tees Valley Combined

Authority, c/o Monitoring Officer, Teesside International Airport Business Suite, Teesside International Airport, Darlington, DL2 1NJ.

When you contact us, please give us your name and address - including your postcode - and your phone number. If you prefer, you can ask a friend or relative to speak or write to us for you.

The Monitoring Officer will ask a Director to investigate your complaint. If we cannot resolve your complaint immediately, we will write to you within five working days to let you know we have received your complaint. We will give you a reference number and let you know that your complaint is being investigated.

This information will make it easier for you to contact the person dealing with your complaint if you need to.

The Director will:

- investigate your complaint;
- take any necessary action; and
- make sure they send a written reply within 15 working days.

If your complaint needs more investigation, and we cannot send you a written reply within 15 working days, we will write to you and let you know when you will receive a written reply.

## **Step Three - Complaint Review**

If you have been through steps one and two of the complaints procedure and you are still not happy with the results of the investigations, you can write to the Local Government and Social Care Ombudsman (see 7, below).

## 6. Points to note

Most complaints will be dealt with through these procedures without difficulty. However, in order that the Combined Authority deals with complaints in a way that is demonstrably consistent and fair the complaints procedures should acknowledge complaints may be withdrawn. The procedures should also explain how the Combined Authority might deal with unreasonably persistent complainants or other unreasonable behaviour by complainants. There should be an acknowledgement of organisational learning following complaints.

### **Withdrawing a Complaint**

A complainant may withdraw their complaint at any time. The relevant Director will consider whether, or not the issue of concern requires further consideration under appropriate internal management review systems.

### **Persistent and Unreasonable Complaints**

The Combined Authority is committed to dealing with all complaints fairly and impartially. However, there are occasions when contact from a complainant becomes too frequent or complex, so that it hinders our consideration of their complaints, or those made by other people.

The Combined Authority does not expect its staff to tolerate behaviour by complainants which is unacceptable, abusive, offensive or threatening, and will take action to protect staff from such behaviour. The term 'persistent and unreasonable complainant' broadly applies to those customers who are aggressive or have demonstrated abusive behaviour as well as those who make unreasonable demands or become unreasonably persistent with vexatious complaints or contact with the Combined Authority. In such cases we may take action to limit the contact the complainant has with us.

Customers to whom this policy may apply include those who:

- Refuse to accept the remit of the process to be undertaken as described to them
- Request action that is not compatible with the process or make unreasonable demands
- Introduce unrelated additional information and expect it to be taken into account
- Make excessive contact with staff
- Submit habitual complaints about issues that have been previously dealt with
- Engage with staff in a manner which is deemed unacceptable or inappropriate
- Refuse to adhere to previously agreed communication plans
- Behave in a threatening or abusive manner, having been previously advised it is not acceptable

In all cases, the Combined Authority will write to tell the complainant why it believes the behaviour is unacceptable; what action the Combined Authority will be taking; the duration of that action; and how, and when it will be reviewed. The complainant will also be informed as to how to challenge the decision if they disagree with it. However, in cases of extreme behaviour, which threatens the immediate safety and welfare of staff, the Combined Authority will consider other options, for example escalating the matter to the police or

taking legal action. In such cases, the complainant may not, necessarily, get prior warning of the action.

## **Learning from Complaints**

Listening to feedback about our services can identify potential service problems and affords us the opportunity of putting things right. The Combined Authority is determined to learn from complaints and any changes that we can make to help or prevent a recurrence and improve our service at any point in the process, will be highlighted and acted upon.

Through Annual Reporting to the Audit & Governance Committee of the Combined Authority the trends and themes of complaints can be identified in public forum. The Annual Complaints report will include:

- The number of complaints received
- The outcome of complaints (e.g. the proportion upheld)
- Complaint themes and trends
- What the Combined Authority has learnt from complaints and the changes made as a result
- Compliments, and example compliments – such as quotes

## **7. Local Government and Social Care Ombudsman**

The Ombudsman has a statutory responsibility for investigating complaints of maladministration about local authorities. However, the Ombudsman will usually only consider a complaint after it has completed the Authority's complaints procedure. At the end of stage two, complainants are advised of their rights to progress their complaint to the Ombudsman should they remain dissatisfied.

While the Ombudsman can investigate complaints about how the Authority has done something, they would not normally question what an Authority has done simply because someone does not agree with it.

The Local Government and Social Care Ombudsman can be contacted about your complaint at any time. However, the Ombudsman usually gives the Combined Authority the opportunity to investigate first. You can contact the Local Government Ombudsman at:

Local Government & Social Care Ombudsman

PO Box 4771

Coventry CV4 0EH

Phone: 0300 061 0614

Website: [www.lgo.org.uk](http://www.lgo.org.uk)

How to Complain - Local Government and Social Care Ombudsman

Complain to us by post - Local Government and Social Care Ombudsman





## 8. Comments and suggestions

As well as learning from complaints, we want to know any comments or suggestions you may have that will help us improve our services. You can do this by telling a member of staff about your comment or suggestion. Alternatively put your comment or suggestion in writing:

Tees Valley Combined Authority  
Teesside Airport Business Site  
Teesside International Airport  
Darlington  
DL2 1NJ

# Whistleblowing Policy

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## WHISTLEBLOWING POLICY

This policy enables employees, elected members, contractors, members of the public and other persons that it deals with to voice confidentially serious concerns over alleged malpractice and alleged wrongdoing within the Combined Authority.

### 1. INTRODUCTION

- 1.1 Employees/Officers are sometimes the first to realise that there may be something seriously wrong, but they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Combined Authority; or they may fear harassment, victimisation or other reprisals. In these circumstances it may be easier to ignore the concern rather than report what may be just a suspicion of malpractice.
- 1.2 The Combined Authority is committed to the highest possible standards in the delivery of its services, and for full accountability for those services. In line with that commitment employees are encouraged to come forward and voice any serious concerns they may have about the Combined Authority's operations. It is recognised that certain matters will have to be dealt with on a confidential basis. This policy makes it clear that you can do so without fear of reprisals. This policy is intended to encourage and enable you to raise serious concerns within the Combined Authority rather than overlooking a problem or "blowing the whistle" outside.
- 1.3 The policy applies to all Officers, employees and any contractors working for the Combined Authority on Combined Authority premises. It also covers suppliers and those providing services under a contract with the Combined Authority in their own premises. It also allows for elected members and members of the public to report any concerns they may have.

### 2. AIMS AND SCOPE OF THIS POLICY

- 2.1 This policy aims to:
  - (a) provide avenues for you to raise concerns and receive feedback on any action taken;
  - (b) allow you to take the matter further if you are dissatisfied with the Combined Authority's response to the concerns expressed; and
  - (c) reassure you that you will be protected from possible reprisals or victimisation
- 2.2 Complaints systems are in place to provide a mechanism for individuals to complain about the standard of service, action or lack of action by the Combined Authority or its employees, which affect our services to the public. If you are an employee there are procedures in place to enable you to lodge a grievance relating to your own

employment. The Whistleblowing Policy is intended to cover concerns that fall outside the scope of these procedures e.g. malpractice or wrongdoing.

- 2.3 Thus any serious concern that you may have regarding possible malpractice or wrongdoing in any aspect of service provision or the conduct of Officers or Members of the Combined Authority (although complaints about Members' conduct will need to be forwarded to the Combined Authority's Monitoring Officer) or others acting on behalf of the Combined Authority, can and should be reported under this policy. Employees and Officers are expected to report malpractice and wrongdoing and may be liable to disciplinary action if they knowingly and deliberately do not disclose information relating to malpractice or wrongdoing in any aspect of service provision or the conduct of Officers or Members of the Combined Authority or others acting on behalf of the Combined Authority.

### 3. WHAT IS MALPRACTICE OR WRONGDOING?

- 3.1 Malpractice and wrongdoing may be about something which:-

- is unlawful; or
- against the Combined Authority's Procedure Rules or policies; or
- is not in accordance with established standards of practice; or
- amounts to improper conduct by an Officer or a Member.

- 3.2 The overriding concern should be that it would be in the public interest for the malpractice or wrongdoing to be corrected and, if appropriate, sanctions to be applied.

- 3.3 The following are examples of issues which could be raised under this policy. It is not intended to be an exhaustive list and there may be other matters which could be dealt with under the policy:

- (a) any unlawful act or omission, whether criminal or a breach of civil law
- (b) maladministration, as defined by the Local Government Ombudsman
- (c) breach of any statutory code of practice
- (d) breach of, or failure to implement or comply with any policy determined by the Combined Authority
- (e) failure to comply with appropriate professional standards or other established standards of practice
- (f) corruption or fraud

- (g) actions which are likely to cause physical danger to any person, or give rise to a risk of significant damage to property
- (h) failure to take reasonable steps to report and rectify any situation which is likely to give rise to a significant avoidable cost, or loss of income, to the Combined Authority or would otherwise seriously prejudice the Combined Authority
- (i) abuse of power, or the use of the Combined Authority's powers and authority for any unauthorised or ulterior purpose
- (j) unfair discrimination in the Combined Authority's employment or services
- (k) dangerous procedures risking health and safety
- (l) damage to the environment
- (m) other unethical conduct

## 4. SAFEGUARDS

### *HARASSMENT OR VICTIMISATION*

- 4.1 The decision to report a concern can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice or from the Combined Authority as a whole. The Combined Authority will not tolerate any harassment or victimisation and will take appropriate action in order to protect you if you raise a concern in good faith. In addition you are protected in law by the Public Interest Disclosure Act 1998, which gives employees protection from detriment and dismissal where they have made a protected disclosure, provided the legal requirements of the Act are satisfied.
- 4.2 This does not however necessarily mean that if you are already the subject of disciplinary procedures that those procedures will be halted as a result of a concern being raised under this policy.

### *CONFIDENTIALITY*

- 4.3 It will be easier to follow up and to verify complaints if complainants are prepared to give their names. However, wherever possible the Combined Authority will protect those who do not want their names to be disclosed. It must be appreciated that any investigation process may nonetheless reveal the source of the information and that a statement from you may be required as part of the evidence.

## *ANONYMOUS ALLEGATIONS*

- 4.4 Concerns expressed anonymously are much less powerful, and they will be treated with caution and considered at the discretion of the Combined Authority. In exercising this discretion the factors to be taken into account would include:
- (a) the seriousness of the issues raised;
  - (b) the credibility of the concern; and
  - (c) the likelihood of obtaining the necessary information and confirmation of the allegation.

## *DELIBERATELY FALSE OR MALICIOUS ALLEGATIONS*

- 4.5 The Combined Authority will view very seriously any deliberately false or malicious allegations it receives, and will regard the making of any deliberately false or malicious allegations by any employee as a serious disciplinary offence which could result in dismissal.
- 4.6 If you make an allegation in good faith but it is not confirmed by the investigation, no action will be taken against you.
- 4.7 The Combined Authority will try to ensure that the negative impact of either a malicious or unfounded allegation about any employee is minimised. However, it must be acknowledged that it may not be possible to prevent all of the repercussions potentially involved.

## **5. HOW DO I RAISE A CONCERN?**

- 5.1 If you suspect wrongdoing in the workplace:
- **do not** approach or accuse the individuals directly
  - **do not** try to investigate the matter yourself
  - **do not** convey your suspicions to anyone other than those with the proper authority, but **do** something!
- 5.2 As a first step, you should normally raise concerns with your immediate manager or supervisor. However, the most appropriate person to contact will depend on the seriousness and sensitivity of the issues involved and who is thought to be involved in the malpractice. For example, if you believe that senior management is involved in the matter of concern, or the normal channels of communication are inappropriate for some reason, as an employee of the Combined Authority you should approach a

nominated officer (an Officer who has been nominated for the purpose of dealing with concerns under this policy). If you feel that this would be inappropriate in the light of the particular matter concerned, or if you are not a Combined Authority employee, you can contact the Combined Authority's Monitoring Officer.

- 5.3 Concerns may be raised verbally but are better raised in writing. You are invited to set out the background and history of the concern giving relevant names, dates and places where possible, and the reason why you are particularly concerned about the situation. If you do not feel able to put your concern in writing, you can telephone or meet the appropriate Officer.
- 5.4 The earlier a concern is expressed, the easier it is to take appropriate action.
- 5.5 Although you are not expected to prove the truth of an allegation that is made, it will be necessary for you to demonstrate to the person contacted that there are sufficient grounds for concern.
- 5.6 Advice and guidance on how matters of concern may be pursued can be obtained from the Combined Authority's Monitoring Officer.
- 5.7 Alternatively, you may wish to seek advice from your trade union or professional association.
- 5.8 Elected members who wish to raise a concern should do so by contacting the Combined Authority's Monitoring Officer.
- 5.9 Members of the public who wish to raise a concern should do so by contacting the Combined Authority's Governance Manager

## **6. HOW THE COMBINED AUTHORITY WILL RESPOND**

- 6.1 The action taken by the Combined Authority will depend on the nature of the concern. Where appropriate, the matters raised may:
  - be investigated by management, internal audit, or through the disciplinary process
  - be referred to the Police
  - be referred to the external Auditor
  - need to be the subject of a referral to the Combined Authority's Monitoring Officer
  - form the subject of an independent enquiry



- 6.2 In order to protect individuals and the Combined Authority, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (for example allegations of breaches of the Combined Authority's Code of Conduct, or discrimination issues) will normally be referred for consideration under these procedures.
- 6.3 Some concerns may be resolved by agreed action without the need for investigation.
- 6.4 Within 14 calendar days of a concern being raised under this procedure the relevant Officer will write to you:
- (a) acknowledging that the concern has been received;
  - (b) indicating how it is proposed to deal with the matter;
  - (c) giving an estimate (so far as reasonably practicable) as to how long it will take to provide a final response;
  - (d) telling you whether any initial enquiries have been made; and
  - (e) telling you whether further investigations will take place and if not, why not.
- 6.5 The amount of contact between you and the Officers considering the issues will depend on the nature of the matters raised; the potential difficulties involved; and the clarity of information provided. If necessary, further information will be sought from you.
- 6.6 Where any meeting is arranged, you have the right, if you so wish, to be accompanied by a trade union or professional association representative or a friend who is not involved in the area of work to which the concern relates.
- 6.7 The Combined Authority will take appropriate steps to minimise any difficulties you may experience as a result of raising a concern. For example, if you are required to give evidence in criminal or disciplinary proceedings the Combined Authority will advise you about the procedure.
- 6.8 The Combined Authority accepts that you need to be reassured that the matter has been properly addressed. Therefore, subject to any legal restraints, you will receive as much information as possible about the outcomes of any investigation.

## 7. HOW CAN I TAKE THE MATTER FURTHER?

- 7.1 This policy is intended to provide employees and other persons with an avenue to raise concerns **within** the Combined Authority and it is hoped that you will take this option

in the first place. The Combined Authority hopes you will be satisfied with the action taken under the policy. If you are not, and you feel it is right to take the matter outside the Combined Authority, then depending upon the nature of the issue involved, the following are possible contact points:

1. the External Auditor
2. relevant professional bodies or regulatory organisations
3. the Police
4. the Local Government Ombudsman
5. Public Concern at Work
6. an independent legal adviser within the meaning of the Public Interest Disclosure Act 1998
7. a regulatory body designated for the purposes of the Public Interest Disclosure Act

7.2 If you do wish to take the matter outside the Combined Authority, you must first ensure that you do not disclose confidential information. Check with a nominated Officer or the Monitoring Officer about that. In addition, if you wish to secure the protections afforded by the Public Interest Disclosure Act, you must ensure that your disclosure is protected within the meaning of the Act and that it complies with a set of specific conditions which vary according to whom the disclosure is made. Again, please check with a nominated Officer or the Monitoring Officer about these matters.

## **8. RESPONSIBILITY FOR THE POLICY**

8.1 The responsibility for the effectiveness of this policy rests with the Monitoring Officer. That Officer will be advised about and maintain records of concerns raised and the outcomes (but in a form which does not endanger your confidentiality) and will report as necessary to the Combined Authority or one of its Committees.

REPORT TO THE TEES VALLEY COMBINED AUTHORITY  
AUDIT & GOVERNANCE COMMITTEE

6 MARCH 2024

GROUP UPDATE

## SUMMARY

This report provides a general update on the key activities of the Mayor and Combined Authority since the last Committee meeting, which are not covered in other reports to this meeting.

## RECOMMENDATIONS

It is recommended that the Overview and Scrutiny Committee notes the report.

## DETAIL

### BUSINESS SOLUTIONS

1. UKSPF Supporting Local Business was launched prior to Christmas with an information event led by the Business Board held on 10<sup>th</sup> January. This event was aimed at all businesses and support organisations that were interested in applying to the open call opportunity to work with TVCA to develop a new Business Support offer to Tees Valley businesses. Further work was undertaken to support those organisations intending to apply and 121 clinics were held across all Local Authorities, over 50 organisations attended these. The open call launched £5.5m is available to support all activity to help businesses start-up, grow and thrive. The event was well attended by over 150 people. Applicants were encouraged to propose new solutions to delivering business support.
2. This UKSPF call closed on 31<sup>st</sup> January. 66 Applications were received and are being appraised in line with the call requirements. The Business Board are part of the moderation process. Appraisal will be concluded in March and funding awards made in order to commence delivery as soon as practical from April 2025.
3. TVCA officers are working with the Department of Work and Pensions to shape the new Universal Support programme that will be commissioned by TVCA as the lead authority. This programme will provide personalised support to those who are disabled, have health conditions and those who have complex barriers to accessing work.

### NET ZERO

4. The Tees Valley's Innovation Cluster Coordinator is now in post and is delivering TVCA's Launchpad Cluster Management programme as part of our Launchpad Pilot, in partnership with Innovate UK. Launchpad Cluster Management will bring innovative companies and supporting



institutions together to develop technologies that help to decarbonise Tees Valley and wider UK industry.

5. TVCA and its local authority partners are developing a Local Area Energy Pathway for the region, which will look at the Tees Valley's future energy needs. This will tackle infrastructure and constraints, supply and demand, domestic energy efficiency, as propose an indicative pipeline of investible green energy and low carbon projects.

## SCREEN INDUSTRIES DEVELOPMENT

6. The first film to have been supported through the North East Production Fund premiered at The Showcase Cinema in Stockton-on-Tees on 24 January 2023. Jackdaw is the first feature film from Hartlepool-based Jamie Childs whose previous credits include directing The Sandman for Netflix, His Dark Materials for BBC and Willow for Disney.
7. Jackdaw is an action-thriller, starring Oliver Jackson-Cohen, Jenna Coleman and Rory McCann. It follows the story of Jack Daeson, a fictional former motocross champion and army veteran, who returns home to care for his brother after their mother drives. The film was shot on location across Hartlepool, Middlesbrough and Redcar & Cleveland and used the Northern Studios as a production base.
8. The UK premiere brought cast and crew back to the region along with 154 invited guests - cast and crew, key industry partners like North East Screen, and local authority partners. Public screenings ran alongside – with tickets for four screens selling out.
9. The premiere was attended by around 15 local and national media organisations. This included TV broadcasters from BBC Look North and ITV Tyne Tees who both delivered live coverage from the red carpet for their evening news bulletins. Two reporters from BBC Tees also attended, producing coverage for both local radio and social media accounts. All main local print titles were represented including The Gazette/Teesside Live, Northern Echo, Hartlepool Mail and Hartlepool and Stockton Life. The was also a significant presence from national photographic agencies, with coverage from Getty Images, Shutterstock, Splash and Alamy. This resulted in coverage of the event appearing in national titles with an AVE (advertising value equivalent) of £1.8m.

## TEESSIDE INTERNATIONAL AIRPORT

10. Teesside Airport commenced its Turn of Year 2024 campaign on 26<sup>th</sup> December. This is a key time of year within the industry to promote holidays and flights to encourage early bookings. The campaign tactics include digital marketing as well as traditional media including radio, billboards and door drops. The campaign will run to the end of March. The airport has also agreed partnerships with local travel agents that will guarantee joint promotion throughout the region of the airport summer 2024 offer.

## FINANCIAL IMPLICATIONS

11. There are no financial implications to this report.



## LEGAL IMPLICATIONS

12. There are no legal implications to this report.

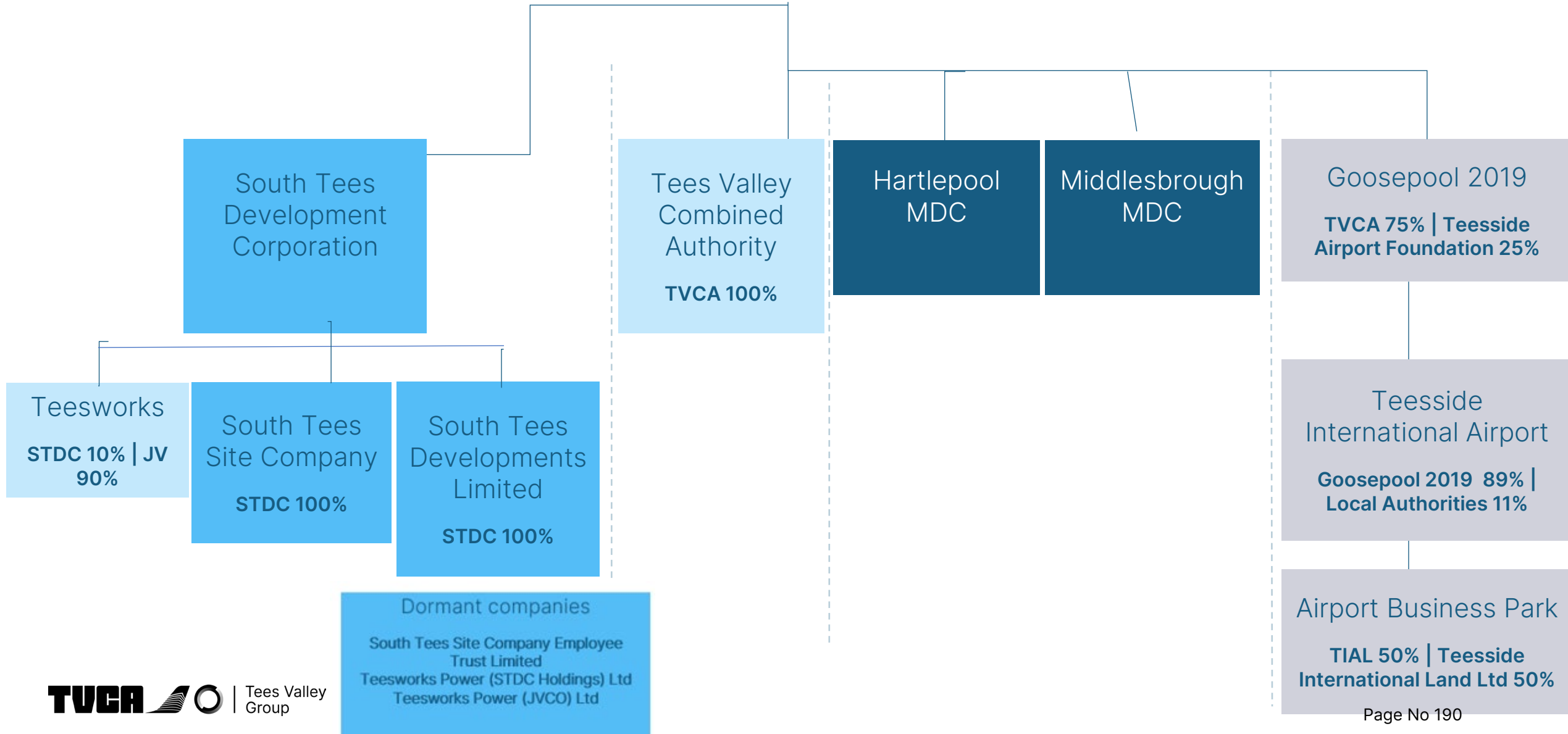
## RISK ASSESSMENT

13. This report is an update and therefore is categorised as low risk.

Name of Contact Officer: Julie Gilhespie  
Post Title: Group Chief Executive Officer  
Email Address: [julie.gilhespie@teesvalley-ca.gov.uk](mailto:julie.gilhespie@teesvalley-ca.gov.uk)

# Tees Valley Combined Authority Group

For Information Item:  
Item 15



**Item 16****Tees Valley Combined Authority Audit and Governance Committee  
Terms of Reference Summary**

Our Audit & Governance Committee is a key component of Tees Valley Combined Authority's ('TVCA' or the 'Authority') corporate governance, and the purpose of the committee is to provide independent assurance of the adequacy of the risk management framework and the internal control environment of TVCA helping to ensure efficient and effective assurance arrangements are in place.

**Governance, Risk and Control**

To review:

- The Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- the Annual Governance Statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances.
- the assessment of fraud risks and potential harm to the Authority from fraud/corruption and to monitor counter-fraud strategy, actions and resources.

To consider:

- the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To agree:

- the risk management strategy and monitor the effective development and operation of risk management and its progress in addressing risk-related issues.

**Internal Audit**

To receive and review:

- proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- 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 authority or there are concerns about progress with the implementation of agreed actions.

To approve:

- the internal audit charter.
- significant interim changes to the risk-based internal audit plan and resource requirements.
- the risk-based internal audit plan.

Anything is possible

To consider:

- reports from the head of internal audit on internal audit's performance.
- summaries of specific internal audit reports as requested.
- a report on the effectiveness of internal audit to support the AGS.

To contribute to the Quality Assurance and Improvement Programme and the external quality assessment of internal audit.

To support the development of effective communication with the head of internal audit and make appropriate enquiries of both management and the head of internal audit to determine any inappropriate scope or resource limitations.

## **External Audit**

To consider:

- the external auditor's annual letter/relevant reports/and the report to those charged with governance.
- specific reports as agreed with the external auditor and comment on the scope and depth of external audit work, ensuring it gives value for money.

To commission work from internal/external audit and recommend on the effectiveness of relationships between them as well as other inspection agencies/relevant bodies.

## **Financial Reporting**

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

## **Accountability Arrangements**

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/external audit functions.
- to TVCA Cabinet on committee performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

## **Standards**

To promote and maintain high standards of conduct by Authority members/co-opted members and ensure they observe the Members' Code of Conduct and advise TVCA Cabinet on the adoption or revision of the Members' Code of Conduct.

To determine complaints made against members/co-opted members and monitor complaints received by the Authority in respect to Member conduct.

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.

Anything is possible