

**South Tees Development Corporation**

**Annual Governance Statement 2023/24**

**1. Introduction**

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

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

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

Our ambition remains to oversee the creation of a world-class centre for the clean energy, offshore and innovation sectors, creating 20,000 good-quality, well-paid jobs as a result of investment at the Teesworks site (the Site). The pace and ambition for the site remains high and the role of STDC's Board and Committees remain unchanged. The STDC Board and its Committees must maintain robust governance and programme assurance, risk management and oversight of the discharge of health and safety responsibility whilst the wider Group co-ordinates the competing priorities of a complex programme of works.

It is also our ambition that our governance framework continues to add genuine value to the decisions and policymaking of the organisation.

**2. The Scope of Responsibility**

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

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

These arrangements are designed to be consistent with the principles and best practice outlined in the Chartered Institute of Public Finance and Accountancy (CIPFA) - A guidance on good governance standards in the Public Sector.

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

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

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

Our governance framework comprises the systems and procedures we believe will achieve our strategic objectives and deliver our activities in an appropriate and cost-effective way.

These objectives, as laid out in our Masterplan are:

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

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

#### **4. Tees Valley Review**

Following an allegation made in Parliament of ‘industrial scale corruption’ in May 2023, the Secretary of State for the Department of Levelling up Housing and Communities announced an independent review into the relationship between the South Tees Development Corporation and Teesworks Limited.

The Independent Review “found no evidence to support allegations of corruption or illegality”<sup>1</sup>. The review made 28 Recommendations, the majority of which related to the Governance of the Tees Valley Combined Authority Group, which includes the South Tees Development Corporation. This Statement considers the arrangements which are in place to ensure the effectiveness of our Governance Framework and acknowledges the recommendations made by the Tees Valley Review

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

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

##### **(a) The Constitution**

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

The Constitution – which can only be amended with agreement of the Tees Valley Combined Authority Cabinet – also sets out expected standards of behaviour for both officers and members. The Constitution clearly sets how both the activities of the Chair, Group Chief Executive and other Senior Officers will be subject to a robust set of checks and balances, and details how this scrutiny process will be delivered.

Draft amendments to the STDC Constitution with the aim of addressing a number of the recommendations of the Tees Valley Review were considered and approved by the South Tees Development Corporation Board, and the Tees Valley Combined Authority Cabinet and

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<sup>1</sup> Independent review report: South Tees Development Corporation and Teesworks Joint Venture

its Statutory Committees during September 2024 following extensive engagement with stakeholders.

**(b) Statutory and non-Statutory Committees**

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

- A **Board**, the ultimate decision-making body of the Development Corporation with a constitutional responsibility to guide and oversee delivery of the key objectives of STDC.

The Tees Valley Review made a number of recommendations in respect of the make-up of Boards and Committees. It was recommended that:

*‘TVCA should 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.’*

Appointments to the South Tees Development Corporation Board are made by TVCA Cabinet following a recommendation from the Tees Valley Mayor.

In response to this recommendation, the Tees Valley Mayor proposed an increase in the number of Members on the South Tees Development Corporation to allow for a wider and more diverse skills mix. TVCA Cabinet also received a skills matrix detailing the skills mix of the proposed board, together with pen pictures of each of the proposed board members, in order to inform its decision.

A process is in place to ensure that when Members leave the Board, and new Members join the skills mix is reviewed and presented to the Cabinet when approval for the appointment of new Members is sought.

In addition, the Tees Valley Review recommended that the role of Associate Members be clarified. The role of an Associate Member is now clearly defined in the STDC Constitution, approved by STDC Board and TVCA Cabinet.

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

## **SOUTH TEES DEVELOPMENT CORPORATION**

- The Tees Valley Review proposed a review of the STDC internal audit function. In May 2024 the Chartered Institute of Public Finance & Accountancy (CIPFA) was commissioned to carry out a review of the internal audit function. This made 22 recommendations. These recommendations have all been accepted by STDC management and progress towards their implementation will be reported to and monitored by the Audit & Governance Committee.

### **(c) Referral Decisions**

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

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

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

The Tees Valley Review noted that where an STDC decision has in the past been a referral decision, this has been correctly noted and referred to Cabinet as required. The Review recommended that each and every time a decision is being proposed to the STDC Board, the Monitoring Officer makes it clear whether or not a decision is a 'Referral Decision' and the reason for this decision. The Monitoring Officer has ensured that all template STDC Reports include revised detail in respect of Referral Decisions and no reports will be signed off and published for the STDC Board until this information is completed.

### **(d) Internal Audit**

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

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

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During 2023/2024 TIAA has completed 4 of its 5 proposed audits from its audit plan, approved by the STDC Audit & Governance Committee. One of the audits related to governance and internal control – as a result of the Tees Valley Review this was deferred and will now take place during 2024/25 which will capture the positive improvements to governance following the recommendations of the Tees Valley Review.

Of those audits completed, one outcome is awaited, two gave substantial assurance and two gave reasonable assurance. STDC Audit Committee will be engaged in ensuring that actions from all audits are addressed.

### **(e) External Audit**

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

### **(f) Chief Financial Officer and Financial Arrangements**

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

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

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

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

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**(g) Monitoring Officer**

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

The role of shared Statutory Officers (including the Monitoring Officer and s73 Officer) between TVCA and STDC was considered by the Tees Valley Review, in a number of recommendations. The position in respect of shared Statutory Officers was considered by Cabinet in September 2024. The proposals from Cabinet to maintain the present shared Statutory Officer roles but with a Head of Legal and a Head of Finance & Resources leading on legal and financial matters for STDC – these roles have been codified in the STDC Constitution which has been approved by STDC Board and Cabinet.

**South Tees Site Company**

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

In July 2024 the STDC Board approved a proposal to transfer the Health and Safety responsibility for the Teesworks Site from STSC to STDL.

**South Tees Developments Limited**

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

As noted above, at its meeting on 18 July 2024 STDC approved the transfer of the responsibility for Health and Safety matters at the Teesworks Site, from STSC. The work to effect this transfer of responsibility is underway.

# **SOUTH TEES DEVELOPMENT CORPORATION**

## **Other interests: Teesworks Limited**

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

Following the completion of the energy joint venture in relation to the High Voltage Network at the Teesworks Site, between Teesworks Limited (50%) and Energy North West (50%), STDC now has a 5% interest (to reflect its 10% share in Teesworks Limited) in Steel River Energy Limited (SREL). This arrangement concluded mid- October 2024 and therefore a level of oversight of SREL will be incorporated into the overall governance processes of STDC.

## **Risk Management Framework**

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

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

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

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

## **Gifts & Hospitality**

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

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

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

An Anti-Fraud and Corruption Strategy exists to:

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

### **Governance Arrangements**

Following the integration of Development Corporation governance functions within the wider Combined Authority group in 2020, the Corporation has access to a dedicated Governance Team to ensure that the Development Corporation is compliant with its regulatory responsibilities and to advise both members, employees and partner organisations. The team oversees a number of areas including transparent decision making, Declarations of Interest, Whistle-blowing, Data Protection and Freedom of Information request handling.

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

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

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

STDC is subject to the Freedom of information Act 2000 and the Environmental Information Regulations 2004. The group Governance Team processes such requests for STDC. Over the last financial year STDC has received and responded to 46 such requests for information.

The Tees Valley Review made the following recommendation in respect of Freedom of Information Requests:

*'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.'*

STDC's performance in respect of Freedom of Information Requests is now published quarterly on its website. In addition all Freedom of Information data will be reported to STDC Audit & Governance Committee for oversight.

## **6. Tees Valley Review – general**

In addition to regular reporting to the STDC Board on the implementation of the recommendations from the Tees Valley Review and the effectiveness of that implementation, the Local Government Association has also agreed to carry out a review of the implementation of the Review recommendations. The review report will be provided to STDC Board in due course.

## **7. Review of effectiveness**

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

### **External Audit**

The Government, together with the Financial Reporting Council (FRC), the National Audit Office (NAO), and organisations in the wider system has taken a number of actions, which are designed to address the backlog and put local government audit on a sustainable footing.

The term "audit backstop" refers to a deadline set by authorities to ensure that all outstanding audits are completed by a specific date and may result in disclaimed opinions driven by backstop dates.

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Auditors' other statutory duties including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue Public Interest Reports remain.

Mazars concluded that South Tees Development Corporation will be subject to a disclaimed opinion as a result of the "audit backstop" for the financial year 2022/23. This opinion was issued in December 2024 and an extract is below.

*'We do not express an opinion on the financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.'*

### *Basis for disclaimer of opinion*

*On 30 September 2024, the Accounts and Audit (Amendment) Regulations 2024 ('The Amendment Regulations') came into force. The Amendment Regulations require the Authority to publish its Accountability Statements, which include the financial statements and auditor's opinion for the year ended 31 March 2022, by 13 December 2024 ('the backstop date'). The backstop date introduced by the Amendment Regulations has impeded our ability to obtain sufficient appropriate evidence upon which to form an opinion on the financial statements as there has been insufficient time to perform all necessary audit procedures.*

*In addition, as referenced in the Corporation's Annual Governance Statement, on 23 January 2024 the Secretary of State of the Department for Levelling Up, Homes and Communities (DLUHC) published its commissioned review into allegations of corruption, wrongdoing, and illegality in respect of the Teesworks project. The report concluded that the review panel found no evidence of illegality but the systems of governance and finance in place within the Corporation did not include the expected sufficiency of transparency and oversight to evidence value for money.*

*International Standing on Auditing (UK) 250 requires the auditor to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit. As a result of the backstop arrangements described above, there has been insufficient time to perform the procedures we deem necessary to obtain sufficient appropriate audit evidence regarding any potential non-compliance with laws and regulations arising from the matters reported in the DLUHC-commissioned review.*

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

*We are required to report to you if, in our view we are not satisfied that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023. On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in December 2021, we have identified the following significant weaknesses in the Corporation's arrangements for the year ended 31 March 2023.*

*In November 2024 we identified significant weaknesses in relation to financial sustainability, governance and improving efficiency, economy and effectiveness. In our view this significant weaknesses remain for the year ended 31 March 2023.'*

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Significant weaknesses in arrangements	Recommendation
<p>Government commissioned Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation (STDC) and Teeswork Joint Venture (JV)</p> <p>The January 2024 Government commissioned independent panel report made 28 recommendations for the Authority and Corporation to improve the transparency and oversight of how it evidences value for money. In September 2024, the Authority and Corporation published its action plan in response to each of the Panel's recommendations. The Panel's report indicates significant weaknesses in the Corporation's arrangements for financial sustainability, governance and improving efficiency, economy and effectiveness.</p>	<p>The Corporation should implement the action plan it has developed in response to the Government commissioned Independent Panel report and ensure that it monitors its delivery and achievement.</p>

STDC Single Entity and Group unaudited Statements of Accounts for 2023/24 are published on the STDC website. Ernst & Young have been appointed via the Public Sector Audit Appointments ("PSAA") for the financial year 2023/24. Ernst & Young are reviewing at a national level the impact the introduction of the "audit backstop" date will have on individual audits.

## Internal Audit

The Internal Audit Annual report for 2023/24 was received from TIAA in January 2025 which concluded that:

*'TIAA is satisfied that, for the areas reviewed during the year, Tees Valley Combined Authority has reasonable and effective risk management, control and governance processes in place.'*

Summary of Internal Audit work completed for 2023/24:

Assignment	Assurance Level	Actions agreed		
		L	M	H
Data Protection – GDPR	Reasonable	4	9	0
Risk Mitigating Controls	Reasonable	3	1	0
Key Financial Controls Process to Pay	Substantial	0	0	0
Control of Major Accident Hazard (COMAH)	Substantial	0	0	0
ICT Disaster Recovery	Reasonable	3	3	-



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<b>Follow up on previous Internal Audit Management Actions</b>	Complete	-	-	-
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**8. Conclusion**

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

**Signed**

Ben Houchen      Tees Valley Mayor and Chair of South Tees Development Corporation      *signature*      *date*

Julie Gilhespie      Group Chief Executive, South Tees Development Corporation      *signature*      *date*