

AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

13 JUNE 2017

REPORT OF THE MANAGING DIRECTOR

SOUTH TEES DEVELOPMENT CORPORATION

SUMMARY

This report formally proposes the designation of the South Tees area as a Mayoral Development Corporation. It follows extensive consultation with statutory consultees, stakeholders and the Combined Authority's Overview and Scrutiny Committee. The report also proposes a Constitution for the South Tees Development Corporation, for agreement. The Constitution sets out the statutory framework under which the Corporation will operate, including the relationship between the Development Corporation and the Combined Authority on financial matters.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Agrees to the formal designation of the South Tees area, as defined by the boundary in the constitution, as a Mayoral Development Corporation (to be named the "South Tees Development Corporation (STDC)");
- ii. Agrees that the Mayor should formally propose the creation of the STDC to the Secretary of State, thereby initiating the next stage of the statutory process;
- iii. Agrees the STDC's Constitution at Appendix 1;
- iv. Agrees to initiate the process to appoint Board members, and the independent chair of the STDC's Audit Committee, on the basis set out in the constitution.

Under the Combined Authority's constitution and legislation, these recommendations need to be approved by a majority of Cabinet members, including the Mayor. Because the proposed site is wholly within their Borough, the proposals also specifically require the support of the Leader of Redcar and Cleveland.

DETAIL

1. The Tees Valley secured powers to create locally accountable development corporations in March 2017, the first area outside of London. The intention to create a development corporation in the South Tees area was part of the area's long-term response to the closure of the SSI Steelworks, to drive forward growth and investment, create jobs and support local communities.
2. As part of the process to establish the corporation, the Combined Authority undertook a statutory consultation which opened on 23rd December 2016 and closed on 10th March 2017. The consultation was open to all stakeholders both within and outside of the boundary of the site and was publically available on the Combined Authority's website. Overall responses to the consultation were positive and in agreement with the proposals. Many responses highlighted the importance of ensuring robust management of risks and liabilities and the need for Government to meet its obligation to fund the costs arising from the closure of the Steelworks, and to support the regeneration of the SSI-owned sites.
3. The Combined Authority Board considered the outcome of the consultation at their meeting on 22nd March 2017 and agreed to progress with the establishment of the development corporation. The proposal was considered and supported by the Overview and Scrutiny Committee on 4 April, who received a number of briefings and also had the opportunity to visit the site.
4. Following the election on 4th May, the Tees Valley Mayor, Ben Houchen, has been active in finalising the proposals and has also visited the site, and discussed the proposals with the Secretary of State. The Mayor is wholly in support of the creation of the Mayoral Development Corporation, and now proposes to make a formal submission to seek parliamentary approval.
5. Subject to Cabinet's agreement, specific legislation for the Development Corporation will then be drawn up by officials, in consultation with officers of the Combined Authority. It is expected that the legislation will be passed by Parliament prior to the Summer recess (20th July) with the South Tees Development Corporation to come in to force on 1st August 2017. There is a possibility that the result of the general election may disrupt parliamentary business during this period. However, since the Order requires a negative resolution without a debate or vote, we expect at this stage for it to progress as originally planned.
6. At its March meeting, the Cabinet agreed to develop a draft constitution for the STDC in parallel with the process for establishing it. The constitution is a vital element of the good governance of the STDC. It sets out the statutory framework, its core objectives, how decisions are made, board arrangements and powers. It determines the checks and balances on the application of those powers, getting the right balance between the freedom of the STDC to make commercial arrangements to meet its objectives, with the need to be prudent and accountable as a public body. While the Constitution applies only to the STDC, as the first such body outside London it provides a potential benchmark for other development corporations, here and within other Combined Authorities.
7. A number of consultees, and Cabinet itself, have raised the importance of ensuring effective financial management, to avoid any risks and liabilities which might arise from the STDC's operations from impacting on the financial integrity of the Combined Authority itself, or its constituent councils. The draft constitution therefore includes a "referral mechanism", to ensure that decisions which

generate significant risks and liabilities have to be escalated to the Combined Authority for ratification. Other aspects of the constitution, including the role of a joint Combined Authority/STDC Finance Director, and its Audit Committee, provide additional checks and balances.

FINANCIAL IMPLICATIONS

8. There are significant liabilities associated with the SSI sites within the South Tees area, and a process is underway led by the Official Receiver, with responsibilities which fall to central government. Those responsibilities are currently overseen by the South Tees Site Company, accountable to central government. Government has made clear commitments that its obligations to the site will be met in full, and any transfer of responsibilities locally would need to be specifically approved by the Combined Authority. It is therefore important to stress that the creation of a South Tees Development Corporation, which includes sites owned by SSI, does not in any way constitute a transfer of risk or liabilities for those sites.
9. The Managing Director of the Combined Authority and Chief Executive of the shadow STDC have established a Working Group to oversee the financial relationships between the Combined Authority and Development Corporation, including the coordination of negotiations with government on the future costs associated with the site, and this group will continue to operate to ensure a satisfactory conclusion to these matters. To provide the STDC with working capital to begin its operations (on matters not covered by the responsibilities of the South Tees Site Company), the Combined Authority has approved a loan of £400k to the STDC, to be repaid at the point the STDC is able to generate its own revenue sources.

LEGAL IMPLICATIONS

10. The legislation enabling the powers to create Mayoral Development Corporations has now been enacted by ministers. A further Order will be required, following the formal designation, to create the South Tees Development Corporation. It is expected that this legislation will be passed by Parliament before the Summer recess and the development corporation will be established as a legal entity on 1st August 2017.

RISK ASSESSMENT

11. The proposed constitution creates new arrangements to manage and mitigate the risks and liabilities which may arise through the operations of the STDC; including the proposed arrangements for referral of high risk decisions to the Combined Authority for ratification.

CONSULTATION

12. Consultation with all statutory bodies and wider consultation with all organisations affected by the proposals took place between 23rd December and 10th March. The outcome of the consultation was considered by the Combined Authority Board on 22nd March. Consultation with the Combined Authority's Overview & Scrutiny Committee took place at their meetings in February and April.

Name of Contact Officer: Andrew Lewis
Post Title: Managing Director
Telephone Number: 01642 527091
Email Address: andrew.lewis@teesvalley-ca.gov.uk