South Tees Development Corporation Board Agenda

Date: Wednesday 3rd June 2020, at 1.00pm

Venue: Microsoft Teams meeting

Membership:

Mayor Ben Houchen (Tees Valley Mayor)
Paul Booth OBE (Chair, Tees Valley Local Enterprise Partnership)
Cllr Mary Lanigan (Leader, Redcar & Cleveland Borough Council)
Mayor Andy Preston (Mayor of Middlesbrough)
Sir Alan Cockshaw (Independent Member)
Steve Gibson OBE (Independent Member)
Graham Robb (Independent Member)
David Smith (Independent Member)
Jacob Young MP (Independent Member)
Julie Gilhespie (Interim Chief Executive Officer, STDC)

Associate Membership:

Tom Smyth (BEIS)
John Sampson (MD, Redcar & Cleveland Council)

Agenda

1. **Welcome & Introductions**

2. **Apologies for Absence**

3. **Declarations of Interest**

4. **Minutes from previous meeting**

   Attached

5. **Chair's Update**

   Verbal Update

6. **Chief Executive's Update**

   Attached – Appendices to this report are not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

7. **Governance Review**

   Attached

8. **Draft Budget 2020-2021**

   Attached – Appendix 1 to this report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

9. **Review of Governance Framework**

   Attached

10. **Treasury Management Strategy**

    Attached

11. **Plans for Electricity Infrastructure**

    This report is not for publication by virtue of Paragraphs 8,9 & 10 of Schedule 12A of Local Government Act 1972

12. AOB

13. Date and Time of Next Meeting:

- 29th July 2020 at 2.00pm

Members of the Public - Rights to Attend Meeting

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

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sharon Jones, Governance & Scrutiny Officer,Sharon.jones@teesvalley-ca.gov.uk. 01642524580.

South Tees Development Corporation

SOUTH TEES DEVELOPMENT CORPORATION (STDC) BOARD

These minutes are in draft form until approved at the next Board meeting and are therefore subject to amendments.

Date: 4th March 2020 Time: 15.00 pm

Venue: Cavendish House, Stockton-On-Tees

Attendees:		Apologies:
Ben Houchen (Chair)	Tees Valley Mayor	Andy Preston
John Baker	Teesside Learning Trust	Anand Srinivasan
Paul Booth	TV LEP	David Smith
Bob Cuffe	Non-Executive Director	Sir Alan Cockshaw
Phillip Leech	Urban & Civic	Steve Gibson
Mary Lanigan	Leader, RCBC	
Graham Robb	Recognition PR	
Jane Turner	Teesside University	
Mary Lanigan	RCBC	
John Hobson	RCBC	
Tom Smyth	BEIS, Interim Government Representative	
David Allison	STDC	
John McNicholas	STDC	
Julie Gilhespie	TVCA	
Gary MacDonald	TVCA	
Andrew Nixon	TVCA	
Sharon Jones (Secretariat)	TVCA	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	**Welcome and introductions**	The Chair welcomed everyone to the meeting. Apologies were submitted as above.		
2.	**Declarations of Interest**	GR – declared that his company have clients within the Offshore Wind Sector.		
3.	**Quorum**	The meeting was noted as quorate.		
4.	**Minutes of previous meetings**	The minutes of the meeting held on 29th January were agreed as a true record. The minutes of the meeting held on 10th February were agreed as a true record.		
5.	**Chair's Update**	The Chair had given a detailed briefing on the CPO situation and all developments relating to this to Board members in advance of this meeting.		
6.	**CEO Update**	**The Chair proposed and Board agreed to pass a resolution to exclude the press and public under paragraph 3 of part 1 of schedule 12a of the Local Government Act 1972, in order to allow Board to consider matters of a commercially confidential nature.** A report was circulated giving members an update from the perspective of the CEO.		

		Resolved that the report was noted.		
7.	**Written Resolutions**	Papers were circulated detailing written resolutions that need approval of the Board as the amounts exceed those in the scheme of delegation. The first is in relation to bridge stock acquired when we took on the land. **Resolved** that the Board endorses the proposal to procure and appoint the technical consultancy services necessary to enable STDC to properly execute its bridge management obligations as estate and asset owner. The second is in relation to access to the Prairie site. **Resolved** that the Board endorses the proposal to procure the technical and project management consultancy services necessary for developing out the Phase 1 Prairie site enabling works scheme and overseeing its delivery through construction.		
8.	**AOB**	GM proposed that audit info is circulated to the Board before 31st March. It should be considered by the Board for assurance at this level and this is deemed to be good practice. This can then be ratified post event on 27th May. It was agreed by AN as Monitoring Officer that this process is acceptable. It was noted that MPIM for this year has been cancelled. It was agreed that the approach to next year’s event will be discussed at a future meeting. DA advised that although the Board endorsed the risk appetite at their last meeting it was done whilst inquorate. The Board agreed that they are all happy to endorse this. **Resolved** that Risk Appetite for STDC is endorsed.		

9.	**Date of next meeting**	**27th May 2020**		

AGENDA ITEM 6

REPORT TO THE STDC BOARD

3rd JUNE 2020

REPORT OF THE CHIEF EXECUTIVE

CHIEF EXECUTIVE UPDATE

SUMMARY

The purpose of this paper is to provide an update to STDC Board on the key activity within STDC since the last meeting.

RECOMMENDATIONS

It is recommended that the Board notes the content of this update report

BUSINESS CASE

1. The STDC Business Case for £71m of Government funding towards demolition and site remediation was approved in principal earlier this year and is a key part of a wider funding strategy for the site which underpinned the successful CPO announced recently.
2. In respect of the £71m, we are now in the final stages of approval of the Full Business Case which focusses much more heavily on the mechanics of how we will deliver the plan rather than whether we should do it and articulates the long – term development programme for the site.
3. The focus of the Business Case is the current "CSR period" of the three years to 31 March 2023 over which the £71m of Government funding will be spent. Thereafter the business case enters the "Investment Fund" period where activities on the site are funded by income and returns from developments.
4. The Business case covers:
    - Decontamination and demolition of the former SSI assets including the Redcar Coke Ovens;
    - Preparing the site for Net Zero Teesside;
    - Preparing the South Bank Wharf Site and rebuilding the wharf (though funding for this is being sought separately);
    - Preparing the Prairie Site for investors
    - Preparing the site for a future return to steelmaking on Teesside; and

- Refurbishing Steel House and the entrance to the site to improve the customer experience.

5. In respect of this we are working with STSC and our future Joint Venture partners and are about to submit a number of planning applications and are already on site in preparing the ground at the Prairie and Metals Recovery site adjacent to the wharf. In the meantime enabling work has started at both the Prairie site and metals recovery area to flatten the sites in preparation.

6. As part of the business case process a due diligence exercise “Gateway 3 Review” was undertaken in mid- May by independent officers from BEIS to assess the proposition. The considered Business Case documentation and included a series of interviews with stakeholders to assess the extent to which the strategic importance, risks, and benefits of the STDC project were properly understood. Interviews considered the technical merits of the Business Case, the role of Board members, and strategic benefits to both Redcar and Cleveland and the wider Tees Valley.

7. The review concluded on 15th May and reported on the 18th May giving STDC’s Business Case an “Amber Rating” (this is the typical result and was anticipated) which allows the Business Case to progress to the next stage. The review also provided several recommendations which will be taken forward by STDC and should strengthen the business case as it is taken to the next stage.

8. The review team will now report to senior officers in BEIS to inform an additional review of the Business Case by BEIS Commercial leads at the beginning of June. Recommendations will then be taken to BEIS’s PIC review in mid-July which is the final Civil Service hurdle before being put forward to Treasury and Minister for approval. This is expected in October and will need to be supported by approvals by STDC and STSC Boards as well as TVCA Cabinet probably in September.

9. Once this is achieved, it is expected that STDC will be able to purchase the shares of STSC and transition to local ownership.

COMMERCIAL

10. The commercial team are currently working with our Joint Venture partners to integrate our approach to potential customers, sharing enquiries and delivering proposals that represent best value for all.

11. This has culminated in the creation of a weekly report and meeting to coordinate and ensure prompt delivery. As a part of this process, we have identified the need to gather further information on the site and to look to standardise our approach to contracting with the market and are undertaking several pieces of work:

- **Industrial land and buildings valuations** - This is to inform commercial negotiations and is based on developable land.

- **Rail management business case -** As a strategic asset within the site, STEL seek to maximise the benefit of the asset and ensure all costs are understood, managed, and recovered from current and future rail users.

- **Standard template Heads of Terms** - for ground lease and D&B (Design and Build)

12. Discussions have continued with several prospective tenants with draft Heads of Terms under negotiation with three potential customers and several projects are expected to progress to Heads of Terms in the period to the next Board meeting.

13. Several the projects identified have common requirements:

- High power connections either for the import or export to the grid
- Unrestricted connectivity to PD Ports

14. To deliver to the market in support of these requirements, the following work has commenced:

- **HV Technical Authoring** – To support the specification writing for the HV electrical works a negotiated tender process has been undertaken, initial tenders have been received and a clarification process is underway.
- **Bravo10 Pipe bridge (port access)** – Sembcorp, as the sole operator of the existing pipeline corridor, are managing the initial feasibility works for replacing the pipe bridge with an underground culvert or tunnel. Tenders have been received the initial feasibility and a joint opening panel between STDC and Sembcorp is expected W/C 26th May. The initial feasibility works are expected to take 6-8 weeks. Further discussions with Sembcorp will be undertaken in June to agree how the detailed design and construction will be managed, assuming the tunnel or culvert solution is determined to be feasible.

15. In general, the level of commercial activity continues to be high, with delivery for the market critical. We have not yet marketed the site directly and the level of interest received is encouraging.

16. The map in Confidential Appendix shows a representation of the areas of the site that are currently under commercial negotiations and demonstrates the very high level of demand that we currently have from credible investors.

PROGRAMME DEVELOPMENT

17. A programme has now been prepared and published defining the planned delivery timescales for the projects to be executed over the coming three to four years. The programme is aligned with our business case to Government.

18. Highlights on progress by key project are

- **Prairie Site** – Highway Access (new roundabout) and Phase 1 Site Preparation scheme designs are well underway with supply chains appointed anticipated construction commencement September 2020. Advance works, comprising site clearance and building demolitions, have commenced and these will be continued across the summer.
- **Metals recovery area -** Advance earthworks and site clearance activities commenced in March 2020 and are well progressed. Procurement of the contractor to execute the main site preparation works is out to tender with works scheduled to commence in late September 2020 subject to planning permission and CPO land vesting.

- **South Bank area/ South Bank Wharf** – The majority of the required supply chain to deliver the various consultancy services and surveys for the marine works consents is in place and environmental impact assessment work is underway to support the planning application which is scheduled for submission in November. In addition, a consultant has been appointed to produce the feasibility and concept design for the new quay which would allow work to commence on development on the Quay in August 2021 (subject to funding). The supply chain for "landside works" is in place with an anticipated works commencement in January 2021 (subject to planning).

- **Net Zero Teesside -** STDC and NZT have established joint Technical Working Group, to explore delivery of the project. Based on the NZT requirements, STDC will need to commence demolition works by 01 March 2021, and run this programme to June 2022.

- **Bravo 10 Pipeline diversion project -** This project concerns the diversion to below ground of existing industrial pipelines that cross the road access into PD Ports. The route needs to be secured as a means of transporting major offshore wind components (e.g., blades) and the pipe bridge impose height and width restrictions (see commercial report). STDC is working with SembCorp and the respective apparatus operators to develop the feasibility study and plan of works for potential execution at the next available shutdown. A completion by 06 September 2021 has been targeted.

- **Demolition of Oil Wharf Tank Farm -** Work has commenced in preparing tender documents and on securing the necessary consents for demolition and the consultant supply chain is appointed. STDC will remove residual heavy fuel oil from the tanks across the summer and demolition is scheduled to commence September/ October 2020
- **Demolition / Decontamination –** extensive work has been undertaken with STSC on repurposing the decontamination and demolition programme to ensure that both can be delivered in accordance with the required timelines for delivery of the investment projects. Options are being presented to STSC Board and will be incorporated into the STDC Business Case to get formal approval from BEIS to the change to the Decontamination project.

19. A detailed note of progress across all projects, along with the latest programme of works is included at Confidential Appendix 2

CPO

20. The CPO order has been approved in full with no reservations. The intention is to vest the land as soon as possible, which is likely to mean that we can start to take possession of land from September this year. There is a significant administrative burden to vesting 173 individual land interests and so a plan has been produced that means we will vest in potentially three tranches;

    - the first tranche being SSI land and interests to allow us to take ownership of the land and release the OR from the site:

- the second tranche being other interests with no time constraints associated with them; and
- the third tranche being interests (if any) where we need to reserve a commercial position before vesting.

GOVERNANCE/HR

21. Following the resignation of the CEO, a review has been undertaken of the structure of the organisation and a separate paper is presented to this meeting to make recommendations in this regard.

FINANCE AND BUDGETS

22. The budget for the year ending 31 March 2020 and medium- term financial plan for the three years to 31 March 2023 is presented to Board for approval in a separate paper.

FINANCIAL IMPLICATIONS

23. Whilst matters with financial implications are discussed in this report, this update report has no specific financial implications

LEGAL IMPLICATIONS

24. Whilst matters with legal implications are discussed in this report, this update report has no specific legal implications

RISK ASSESSMENT

25. Specific identified areas of risk are highlighted following each section of the detailed report. These risks will be discussed at the next STDC SMT meeting to ensure additions/ updates are made to the appropriate risk registers.

CONSULTATION & COMMUNICATION

26. This paper has been prepared directly from separate reports prepared by the Senior Management team of STDC. As the purpose of this report is to provide updates/ information no further consultation has been undertaken/ is necessary.

EQUALITY & DIVERSITY

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

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AGENDA ITEM 7

3rd JUNE 2020

REPORT OF INTERIM CHIEF EXECUTIVE

GOVERNANCE REVIEW

SUMMARY

This report provides an update to the TVCA Group Governance arrangements, incorporating the necessary amendments to give effect to the evolving Group structure and STDC Board composition.

The proposed TVCA Group structure is set out at **Appendix 1**, with the TVCA specific area set out at **Appendix 2**. This incorporates the amendments required to South Tees Development Corporation (STDC) structures to reflect the negotiated compromise agreement with SSI/Thai Banks, the successful Compulsory Purchase Order (CPO) process and the associated joint venture arrangements.

RECOMMENDATIONS

It is recommended that the STDC Board:

i. Approves the proposed amendments to the Group Governance arrangements and roles and responsibilities of Senior Officers and, following the Independent Review referred to at paragraph 9 below, delegates the authority to the Tees Valley Mayor to approve any changes, provided the impact of such remains within the funding envelope detailed in the TVCA Medium Term Financial Plan; and

ii. Delegates to the Chief Executive Officer, in consultation with the Director of Finance and Resources and the Monitoring Officer, to make the necessary administrative arrangements to coordinate and manage the proposed amendments.

DETAIL

1. In recent months there have been a number of developments in the progress of the TVCA group that require consideration of the best way to manage the Group going forward, with the desire to maximise efficiency and effectiveness and reduce duplication of effort.

2. In summary these are:
    a. A positive decision has been secured on the CPO of the former SSI land;
    b. An agreement has been secured with SSI/Thai Banks;
    c. Progress has been made towards moving the site to a delivery phase with development partners and a Joint Venture arrangement agreed to take

forward the onward marketing and development of the site once demolition and remediation have been completed;

d. A Joint Venture arrangement has been established to undertake the Business Park development at the south side of the airport site; and
e. TVCA has made a significant investment in a trading company, Teesside International Airport Limited.

3. This report provides an update to the TVCA Group Governance arrangements, incorporating the necessary amendments to give effect to the evolving Group structure and to ensure that the Group is able to maximise efficiency and effectiveness and reduce duplication of effort.

4. The proposed TVCA Group structure is set out at **Appendix 1**. This incorporates the amendments required to STDC structures to reflect the negotiated compromise agreement with SSI/Thai Banks, the successful CPO process and the associated joint venture arrangements.

5. The development of the TVCA Group activities, successful resolution to the CPO inquiry, establishment of development partner joint venture arrangements and the proposed transition of STSC into local control later in the year means that it is appropriate to also review the TVCA Group governance arrangements.

6. The delivery responsibilities set out at Appendix 1 will be discharged by the proposed amendments to establish the TVCA Group Executive Team ("the Executive Team") as referred to in the diagram.

7. The move to TVCA Group delivery structures will enable streamlining and harmonisation of business processes, activities and will enable the group to take advantage of economies of scale. The proposals will lead to a restructuring of TVCA Group resources enabling a refocus on value added activities that directly drive delivery and ultimately economic growth. The group structure also provides the opportunity to take a Group wide approach to the valuable support services that enable operational delivery. The Group Chief Executive Officer will lead the restructuring activity with a view to moving fully to the new arrangements by 1 April 2021 after full transition of STSC to local control. In the interim all opportunities to migrate towards Group operating practices will be undertaken. The estimated financial savings expected from the restructuring are c£250k, however further detail will be developed and estimates refined throughout 2020-21 financial year. The impact of any changes on the 2020-21 financial year will be maintained within the existing budget envelope.

8. The new group structure anticipates that the departed Chief Executive Officer of STDC / STSC and the Managing Director of Teesside International Airport Limited are not replaced and that day to day operational management of these organisations is undertaken by their respective Director groups, and that strategic management and oversight is undertaken by a Group Executive Team, led by the Group Chief Executive and supported by a Group Finance Director and Group Commercial Director. This team will be responsible for overall delivery of the Investment Plan across all of the Group. Given the significant changes in the structure and responsibilities, the Mayor has commissioned the LGA Workforce team to undertake a review of salaries and make recommendation as to any appropriate changes. It is

expected that overall this will deliver significant cost savings compared to previous arrangements.

9. The move to the Group delivery model will require some changes to policies and procedures that will be enacted throughout 2020-21 financial year, subject to any necessary consultation processes and periods where applicable.

10. The increasing development of the TVCA Group structure to support delivery of the TVCA Investment Plan will be significantly enhanced by updating, amending and developing the necessary governance structures, processes and procedures to ensure all opportunities are maximised. This report provides the basis on which to make these amendments within the existing financial envelope and with a commitment to make further savings as the benefits of more harmonised systems develop.

11. TVCA Cabinet is set to approve a new Board composition at its meeting on 29 May 2020 and consequential changes to the STDC Constitution. To facilitate the streamling of the Group structure, further administrative changes are proposed to the workings of STDC Board and these are set out at **Appendix 2**.

FINANCIAL IMPLICATIONS

12. The proposed amendments to the Group Governance arrangements remain within the financial envelope set out in the TVCA Investment Plan as outlined in this report. The target efficiency savings levels from implementing the amendments are £250k in 2021/22 financial year, and this will be monitored and managed as part of the implementation of the administrative structure changes.

13. All staffing changes will be implemented in line with the relevant approved policies and in line with statutory requirements and all enabling technology costs are provided within the existing core budgets as part of the 2020-21 budget setting process.

LEGAL IMPLICATIONS

14. The proposed amendments to the TVCA Group structure require staffing changes that will be subject to the necessary statutory consultation periods. The implementation of the changes will follow all applicable statutory legislation, guidance and associated TVCA Group entities policies.

15. Where administrative changes to the Group structure require amendments to the Scheme of Delegation and/or Constitution of TVCA or its Group entities the necessary approvals will be sought in advance of the implementation of any changes.

RISK ASSESSMENT

16. The TVCA Group structure has evolved since the inception of the Combined Authority to reflect the strategic investments set out within the TVCA Investment

Plan. These developments have detailed the required delivery mechanisms to ensure the efficient and effective delivery of TVCA objectives. TVCA has carefully considered the risks associated with these developments at each stage and will continue to do so as delivery progresses.

17. The Corporate Risk Register has been updated to reflect how the proposed amendments mitigate Corporate Risks through an efficient and effective Group structure.

CONSULTATION & COMMUNICATION

18. The proposed amendments will require different stages of communication, with the initial stage being this report to Cabinet Members. The implementation of the amendments and subsequent operational activity may require administrative changes to policies/procedures to maximise the efficiency of the Group. Where such activity requires changes to TVCA Group entity policies/procedures and/or constitutional changes all necessary approvals will be sought and communicated accordingly prior to implementation.

19. The Group entities will require appropriate marketing and branding activity to clearly communicate their purpose and responsibilities and how they support the overall vision for the Tees Valley. A marketing and branding piece of work is currently underway to support this requirement and will be communicated to key stakeholders.

EQUALITY & DIVERSITY

20. The proposed amendments to the Group structure, and all Group entities will be required to comply fully with all prevailing Equality and Diversity requirements. There are no new Equality and Diversity issues associated with the content and decisions contained in this report.

LOCAL ENTERPRISE PARTNERSHIP

21. This item has been considered at the LEP meeting in advance of it coming forward to Cabinet.

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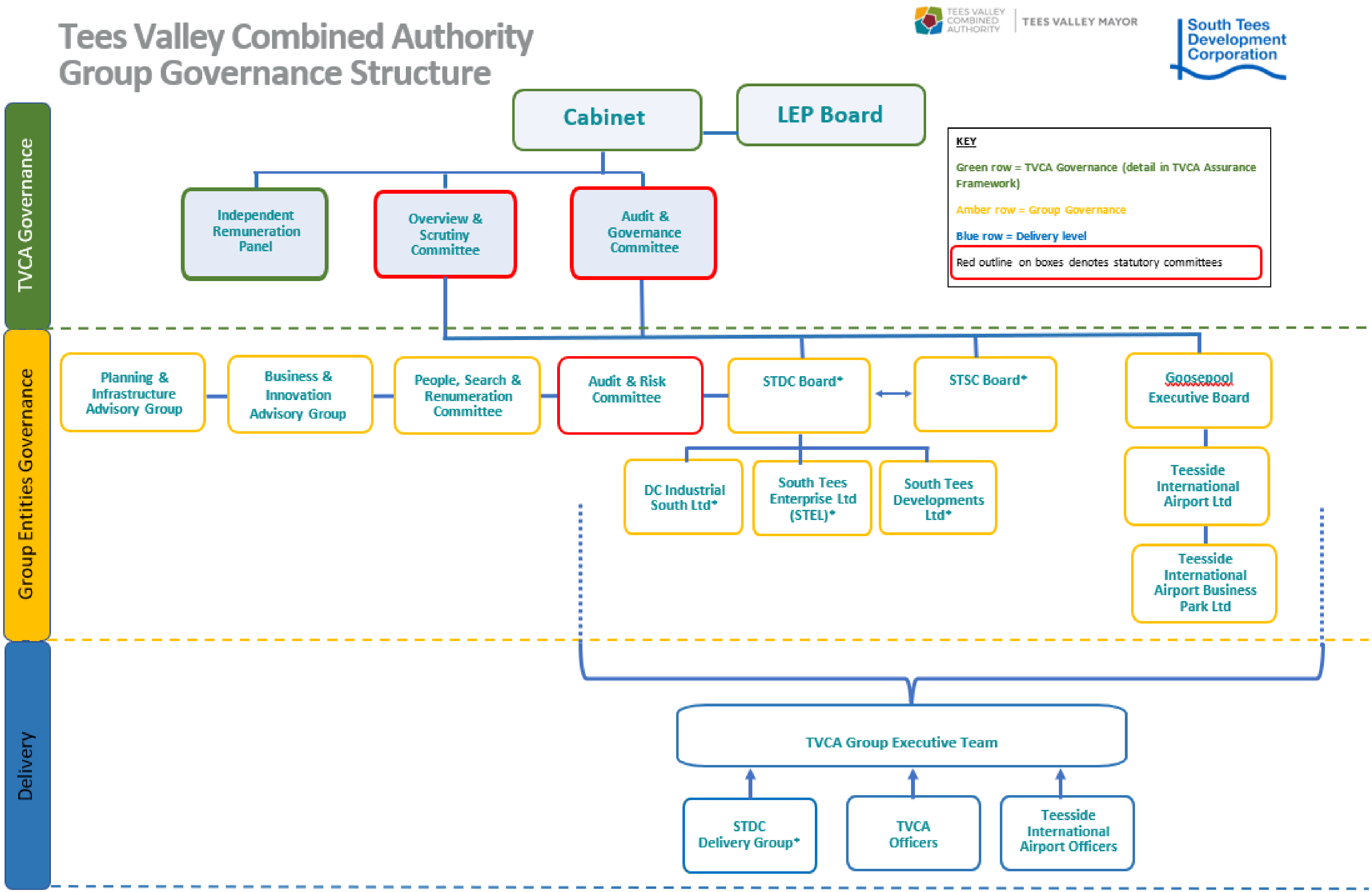
Appendix 1



Tees Valley Combined Authority
Group Governance Structure
TEES VALLEY COMBINED AUTHORITY
TEES VALLEY MAYOR
South Tees Development Corporation
TVCA Governance
Group Entities Governance
Delivery
Cabinet
LEP Board
Independent Remuneration Panel
Overview & Scrutiny Committee
Audit & Governance Committee
KEY
Green row = TVCA Governance (detail in TVCA Assurance Framework)
Amber row = Group Governance
Blue row = Delivery level
Red outline on boxes denotes statutory committees
Planning & Infrastructure Advisory Group
Business & Innovation Advisory Group
People, Search & Renumeration Committee
Audit & Risk Committee
STDC Board*
STSC Board*
Goosepool Executive Board
DC Industrial South Ltd*
South Tees Enterprise Ltd (STEL)*
South Tees Developments Ltd*
Teesside International Airport Ltd
Teesside International Airport Business Park Ltd
TVCA Group Executive Team
STDC Delivery Group*
TVCA Officers
Teesside International Airport Officers

Appendix 2

STDC Approvals

Document	Paragraph	Approval	Approval authority
Scheme of Delegation	**3. General Delegations to all Chief Officers** *(Chief Officers - CEO, Director of Finance & Resources, Engineering & Programme Director and Monitoring Officer).* **Contracts & Accounts**	GD2 - The disposal of surplus or obsolete equipment to the person submitting the highest quotation up to a limit of **£10,000** in value.	**All Chief Officers**
		GD3 - The acceptance of the best value tender or quotation: A) For the supply of goods, materials or services for which financial provision has been made in the Development Corporation's budget and that do not exceed **£1,000,000**, and B) For building and civil engineering works for which financial provision has been made in the Development Corporation's budget and that do not exceed **£10,000,000.**	**Chief Executive and Director of Finance and Resources**
		GD4 - The invitation of quotations for contracts for the supply of goods, materials or services from at least three persons, subject to financial provision having been made in the Revenue or Capital Budget of the Development Corporation.	**All Chief Officers**
		GD5 - The invitation of quotations for contracts for the execution of works from at least three persons, subject to financial provision having been made in the Revenue or Capital Budget of the Development Corporation.	**All Chief Officers**
		GD6 - The provision of services or the purchase of materials or minor items of equipment for which provision has been made in the revenue estimates.	**All Chief Officers**

Appendix 3

Proposed STDC Board

Mayor Ben Houchen
Paul Booth OBE
Cllr Mary Lanigan
Sir Alan Cockshaw
Mayor Andy Preston
Steve Gibson OBE
Graham Robb
David Smith
Jacob Young MP

TVCA Corporate Risk 2019/20 - Q1

Appendix 4

					Net Risk Score								
Ref	**Risk description/ Category**	**Consequences**	**Owner**	**Current Controls**	**Impact (1-5)**	**Probability (1-5)**	**Score (1-25)**	**Change since last Q**	**Reasons for change since last quarter**	**Further Controls Required**	**Deadline**	**Comments**	**Review Date**
C07	Failure to provide sufficient capacity to deliver TVCA functions. (DELIVERY)	• Delays in terms of TVCA business being transacted, decisions being made and funding being defrayed • Potential loss of investment into Tees Valley • Delays in achieving SEP and Investment Plan outputs and outcomes • Potential effect on ability to bid credibly for additional funding • Key staff may decide to leave organisation • Reputational damage	Chief Executive	• Oversight by Senior Management Team •Reviews being implemented •Recruitment under way in key areas (eg AEB devolution) •Further reviews as part of annual medium term financial plan to go to January Cabinet •Implementation of reviews under way	4	3	12	-	Proposed TVCA Group structure changes to be implemented to improve the efficiency and effectiveness of the Group. The necessary amendments to the TVCA Group structure will be presented to TVCA Cabinet and Group entity Board structures where applicable.	TVCA Group operational structure/policy/procedure changes will be implemented throughout 2020-21 financial year to support the proposed arrangements.	Mar-21	Further updates will be provided as part of the normal Corporate Risk Register update cycle.	May-20

Appendix 5

South Tees Development Corporation

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Draft revised Constitution

Version 6.0

To be presented to Tees Valley Combined Authority Cabinet on: 29.05.2020

Contents

Document Version Control

Document Title	Date Approved by Board	Replaces Version	In force from:
Constitution Version 6.0	TBC	Constitution Version 5.0	TBC
Constitution Version 5.0	29.01.2020	Constitution Version 4.0	29.01.2020
Constitution Version 4.0	24.07.2019	Constitution Version 3.0	24.07.2019
Constitution Version 3.0	25.07.2018	Constitution Version 2.0	25.07.2018
Constitution Version 2.0	30.05.2018	Constitution Version 1.0	30.05.2018
PREVIOUS UPDATES			
Document Title	**Date Approved by Board**	**Amendments made**	**In force from:**
Constitution Version 1.0	24.08.2017	None, original constitution	01.08.2017

Introduction

1. The South Tees Development Corporation ("the Corporation") is a Mayoral Development Corporation responsible for approximately 4,500 acres (1,820 hectares) of land to the south of the River Tees, in the Borough of Redcar and Cleveland.

2. The Corporation has been established pursuant to the powers devolved to the Tees Valley Mayor under the Tees Valley Combined Authority (Functions) Order 2017. This Constitution reflects this statutory framework and constitutes a direction to the Corporation pursuant to s220 Localism Act 2011.

3. This Constitution initially took effect on August 1st 2017 – when new statutory arrangements were enacted - and has been amended four times subsequently, most recently on January 29th 2020. Prior to this the functions of the Corporation were led by a Shadow Board established by the Combined Authority and Government Ministers in May 2016.

Objectives

4. The objectives of the Corporation are:

    a. 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;

    b. To attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;

    c. To transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community;

    d. 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.

5. In support of these core objectives, the Corporation will work collaboratively with the Tees Valley Combined Authority, Redcar and Cleveland Council, the SSI Task Force and other partners to contribute positively to local and Tees Valley-wide initiatives on skills, job opportunities for local people (including those directly and indirectly

affected by the closure of the steelworks), inward investment, transport, sustainable development, the natural environment, culture and tourism.

6. Arrangements for mutual cooperation and understanding will be set out between the Corporation, Combined Authority and Redcar and Cleveland Council; addressing the issues set out in paragraph 4 and any other relevant matters.

7. To support the achievement of its core objectives, the Corporation will develop, consult upon and maintain a Master Plan, setting out how its objectives will be secured by the development of land and infrastructure within its area of responsibility.

Boundary

8. The precise area covered by the Corporation (the "Site") is shown at Appendix A.

The Board

9. The Chair, Vice-Chair and Board of the Corporation shall be appointed by the Combined Authority, following a proposal put to it by the Mayor.

10. The Board must include the Tees Valley Mayor and the Leader of Redcar and Cleveland Council (as the authority in which the site is located). The Mayor may propose themselves as Chair of the Corporation.

11. Other Board members shall be appointed following an open and transparent process in accordance with best practice in public appointments. In making appointments, the Mayor and Combined Authority must have regard to the desirability of appointing a person who has experience of, and has shown some capacity in, a matter relevant to the carrying out of the Corporation's functions. Appointments shall be for a fixed period of no more than 4 years, to align with the Mayor's period of office.

12. There shall be a minimum of 6 and a maximum of 10 Board Members in total, in addition to those detailed in paragraph 10.

13. A Board member may resign by serving notice on the Mayor.

14. Any Board member may be removed by the Mayor, with the agreement of the Combined Authority, where there is due cause to do so in accordance with Schedule 21 Localism Act 2011.

15. The Chair of the Board may resign that appointment by serving notice on the Mayor, without resigning membership of the Board. Where the Mayor is the Chair of the Board, they may resign by informing the Combined Authority.

16. All decisions of the Corporation, unless otherwise delegated, shall be taken by the Board in accordance with the arrangements set out in this Constitution. The Board shall seek consensus on all matters, but where consensus cannot be achieved decisions shall be made by majority vote, with the Chair exercising a casting vote.

17. Subject to any direction given to it by the Combined Authority, the Corporation may decide on its own procedure, and the procedure of any of its Board, Audit & Risk Committee or workstreams established by the Board.

18. The quorum shall be one-third of the members in office, rounded up in the event of an uneven number, to include the Tees Valley Mayor and the Leader of Redcar & Cleveland Council.

19. The Chief Executive of the Combined Authority shall be appointed as an Associate Member, with the right to participate fully in Board discussions and to receive all papers but not vote.

20. The Corporation shall hold an Annual Meeting to consider any amendments to its procedures, to recommend any changes to this Constitution to the Combined Authority, and to make appointments to Committee roles.

21. The Combined Authority may set an allowance for Board members, following advice received from its Independent Remuneration Panel.

The Statutory Officers

22. The Corporation shall appoint a Chief Executive with overall responsibility for the Corporation's operations and staff, and to act as lead adviser to the Board.

23. The Director of Finance & Resources of the Combined Authority (the "Director of Finance") shall fulfil the role of Director of Finance & Resources of the Corporation. The powers of the Director of Finance & Resources are set out in this Constitution and Statute. The Director of Finance & Resources shall oversee the interface between the financial responsibilities of the Combined Authority and the Corporation, to ensure the financial integrity of both organisations.

24. Further to s7 of the Tees Valley Combined Authority (Functions) Order 2017, the designation and reports of the Monitoring Officer to the Combined Authority (the “Monitoring Officer”) shall apply as if the Corporation were a Committee to the Combined Authority.

Powers of the Corporation

25. Subject to Legislation, this Constitution and any other directions made by the Combined Authority, the Corporation may do anything it considers appropriate for the purposes of securing the regeneration of its area, or for purposes incidental to that objective.

26. The Corporation has a number of specific powers from the Localism Act, as set out below in this section. All of the powers are subject to the overriding objectives set out in paragraph 3, and the provisions of this Constitution, and are summarised as:

a. <u>Powers in relation to infrastructure</u>
   i. This includes the power to provide, or facilitate the provision of infrastructure.

b. <u>Powers in relation to land</u>
   i. The power to regenerate or develop land.
   ii. To bring about the more effective use of land.
   iii. To provide buildings or other land.
   iv. To acquire, hold, improve, manage, reclaim, repair or dispose of land, buildings, plant, machinery, equipment or other property.
   v. To carry out building or other operations, including demolishing buildings.

c. <u>Powers to acquire land</u>
   i. To acquire land in its area or elsewhere, in accordance with the provisions of the Localism Act 2011.

d. <u>Powers in relation to acquired land</u>
   i. To override easements
   ii. To extinguish public rights of way (with the consent of the Secretary of State)

e. <u>Powers in relation to businesses and companies</u>
   i. To carry on any business.
   ii. To form or acquire interests in any business or company.

f. <u>Financial assistance powers</u>
   i. To provide financial assistance to any person.
   ii. This may be given in any form, including grants, loans, guarantees,

investments, or the incurring of expenditure for the benefit of the person assisted.

g. Powers in relation to discretionary relief from non-domestic rates
   i. To determine the amount of discretionary rate relief from non-domestic rates (i.e. business rates).

27. Redcar & Cleveland Borough Council shall continue to be the billing and collecting authority for non-domestic rates for existing operations, except in respect of areas of the Site which are designated as Enterprise Zones where the revenue is received by the Combined Authority. Going forwards designation of the whole of the Site as a Special Economic Area, with business rates at a level of 100%, enables arrangements to be put in place regarding the shares for the Council and TVCA.

Decision Making

28. The 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.

29. The Statutory Officers shall advise the Board when a Referral Decision may be required, and their advice shall be communicated to the Board before any such decisions are taken. In the event that the Statutory Officers conclude that a Board decision or other event gives rise to a Referral Decision they shall, in the absence of such a referral by the Board, and in consultation with the Chief Executive of the Combined Authority, refer that decision to the Combined Authority for consideration. In these circumstances, the decision will not be implemented until ratified by the Combined Authority. Where there is a requirement for an urgent decision, the Combined Authority will not unreasonably delay ratification.

30. Where the Audit and Risk Committee identifies a significant risk under paragraph 28, it shall recommend to the Board that in their view this gives rise to a Referral Decision.

31. 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).

32. A decision by the Corporation to exercise powers in relation to discretionary relief from non-domestic rates which has a significant adverse financial impact upon Redcar & Cleveland Borough Council must also be approved by the Leader of Redcar & Cleveland Borough Council. The Leader of the Council may, or may be required by their Council to, refer such decisions for agreement by the Council as a whole.

33. Officers working for the Corporation shall maintain a register of significant risks which may lead to or constitute a Referral Decision in accordance with clause 28 and notify the Director of Finance & Resources at the earliest opportunity of changes to the risk profile of the Corporation which could have a material effect on the Corporation's or Combined Authority's liabilities.

34. The Combined Authority has a Strategic Economic Plan and a Local Industrial Strategy which are supported by Redcar and Cleveland Borough Council's Regeneration Masterplan (2010) and Growth Strategy (2015). The Corporation works within the context of these strategies to grow and diversify the local economy. In 2017, the Corporation launched its comprehensive Master Plan, presenting the vison, strategy and ideas for the transformational regeneration of the South Tees area into a national asset for new industry and enterprise, to be realised through the creation of a world class industrial business park, making a substantial contribution to the economic growth and prosperity of the Tees Valley.

35. The Corporation shall ensure that any new facilities it facilitates do not unduly jeopardise the viability of existing retail business, health, education or training facilities across the wider Tees Valley.

Reporting

36. As soon as reasonably practicable after the end of each financial year, the Corporation must prepare an annual report on how it has exercised its functions during the year, including a copy of its audited statement of accounts for that year, and send that report to the Combined Authority's Cabinet, Overview and Scrutiny Committee and Audit and Governance Committee. The "financial year" shall mean a period of 12 months ending with 31st March.

37. The Corporation's officers shall respond promptly to requests from the Director of Finance & Resources, and follow any advice and actions required in a timely manner. The Corporation shall make available any financial information reasonably requested from the Combined Authority, or from Finance Directors of the Combined Authority's constituent councils.

Committees

38. In addition to the Audit & Risk committee, the Corporation may establish workstreams of the Board.

39. A workstream may, with agreement of the Board, include persons who are not members of the Corporation. The work of these workstreams, or any recommendations made by them, will be reported back to the Board as part of the Chief Executive's standing update or by additional report as appropriate

40. The Board must approve the Terms of Reference of any such workstream.

Audit and Risk Committee

41. The Corporation shall establish an Audit & Risk Committee. The Mayor, with agreement of the Combined Authority, shall appoint an independent Chair of the Audit and Risk Committee who is not also a member of the Corporation's Board. The Combined Authority's Audit and Governance Committee shall appoint one of its members to be a member of the Corporation's Audit and Risk Committee. The other members of the Audit and Risk Committee shall be appointed by the Board.

Delegations

42. The Corporation may delegate any of its functions to any of its members, Committees or staff.

43. A Committee of the Corporation may delegate any function conferred on it to any member of the Corporation, any sub-committee of the Committee, or any of the Corporation's staff.

44. The Corporation shall establish:

    a. A Scheme of Delegation to include appropriate financial limits;
    b. Procurement Policy which accords with the Public Contract Regulations 2015;
    c. Financial Procedure Rules including provision for setting an annual budget;
    d. A Code of Conduct together with a register of interests;
    e. Provisions relating to the resolution of conflict of interests;
    f. Access to information procedure rules.

Amending the Constitution

45. This Constitution is a living document and shall be amended as the Corporation progresses. Authority is delegated to the Monitoring Officer of the Combined Authority, in consultation with the Chief Executive of the Corporation and the Chief Executive of the Combined Authority, to make amendments to the Constitution in order to reflect organisational or

legislative changes, or to make any minor textual or grammatical corrections. Any other changes shall be agreed by the Combined Authority’s Cabinet.

Appendix A – Plan of the area of responsibility of the South Tees Development Corporation

A larger scale plan of the boundary is available at www.teesvalley-ca.gov.uk/stdc

South Tees Development Corporation

Cavendish House, Teesdale Business Park
Stockton-on-Tees
Tees Valley TS17 6QY
Tel: 01642 408 000
www.southteesdc.co.uk

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

South Tees Development Corporation

AGENDA ITEM 8

REPORT TO THE STDC BOARD

3rd JUNE 2020

REPORT OF FINANCE DIRECTOR

BUDGET 2020-21 AND MEDIUM-TERM FINANCIAL PLAN

SUMMARY

The purpose of this paper is to present the STDC Group budget for the year to 31 March 2021 and medium-term financial plan for the three years to 31 March 2023.

The STDC Group comprises South Tees Development Corporation and its wholly owned subsidiary company South Tees Developments Limited ("STDL"), which holds and manages the former TATA land assets.

The budget comprises expenditure of £40.7m as summarised below. This reflects a step change in activity levels at STDC group which spent £7.2m (draft) in the year to 31 March 2020:

	Period	Year	Year	Year
	Mar-18	Mar-19	Mar-20	Mar-21
	Actual	Actual	Outturn	Budget
Budget expenditure overview	**£'000**	**£'000**	**£'000**	**£'000**
Operations and running costs	233	2,148	1,455	2,102
STDL site management costs		497	1,660	1,296
Enabling expenditure and projects		490	3,257	9,161
Capital projects		14	812	17,120
Land purchase costs		11,215	-	11,000
Budget expenditure	**233**	**14,363**	**7,184**	**40,679**

This acceleration of activity reflects a period of significant change at STDC as the Compulsory Purchase proceedings for the remainder of the STDC site have concluded and the Group focuses on development of its post CPO land acquisition strategy and programme of works thereon. In addition, work is ongoing to secure central government funding from BEIS and MHCLG to enable demolition and preparations for development across the site.

As the above workstreams continue to progress, the programme of works that will be taken forward for the remainder of the financial year and beyond has been outlined, however a level of uncertainty remains over the exact funding mechanisms and legal arrangements linked to SSI land acquisition and the future joint venture arrangements. As a result, the budget has been prepared based upon certain key assumptions, principally:

- **SSI land deal and Joint venture arrangements** – The SSI land deal and Joint Venture arrangements (which have yet to be enacted pending approval of the final Thai Bank) are ultimately enacted
- **Funding arrangements from government** – Presentation of the full business case to government to secure additional central government funding of £53.8m (excluding amounts allocated to South tees Site company for keep safe and decontamination) over the three year "CSR period" to 31 March 2023 is successful and funding aligns with the assumptions made in development of that business case
- **South Tees Site company and Transition** – Costs of preparing and executing the transition of South Tees Site company are reflected in the budget. However operating costs of this company are excluded.

Should the above assumptions fail to materialise, revisions will be necessary and further papers will be brought for Board approval as appropriate

RECCOMENDATIONS

i. It is recommended that the budget for the year ending 31 March 2021 as presented in this report is approved subject to:
    - Completion of the SSI land deal and enactment of arrangements with joint venture partners
    - Confirmation of funding from central government and successful completion of the business case process
ii. It is also recommended that the board delegates authority to the Chief Executive and Director of Finance of STDC to allow virement of budgets between projects within the funding envelope identified to accommodate changing operational priorities and potential future investor demand

iii. As outlined in Section 1.7 of this report Board approval is also sought under the STDC published Scheme of Delegation to invite quotations and subsequently appoint contractors for each of the two projects specified in Confidential Appendix 1.

1. BUDGET FOR THE YEAR ENDED 31 MARCH 2021

1.1. Overview

1.1.1. The following budgets have been prepared in conjunction with operational management as the programme of activity has been developed alongside STDC's full business case to government for funding.

1.1.2. Expenditure has been built bottom up from planned project activity and it has been assumed that available funding will be taken from a combination of existing TVCA and central government commitments alongside a new £53.8m ask of government covering the period to March 2023.

Budget expenditure overview	Period Mar-18 Actual £'000	Year Mar-19 Actual £'000	Year Mar-20 Outturn £'000	Year Mar-21 Budget £'000
Operations and running costs	233	2,148	1,455	2,102
STDL site management costs		497	1,660	1,296
Enabling expenditure and projects		490	3,257	9,161
Capital projects		14	812	17,120
Land purchase costs		11,215	-	11,000
Budget expenditure	**233**	**14,363**	**7,184**	**40,679**
Funded by:				
MHCLG operations funding	236	2,148	3,166	1,849
MHCLG Prairie Grant		14	293	5,764
TVCA ringfenced funding		489	941	244
TVCA site operations funding		497	1,200	1,297
TVCA loan funding		11,215	1,584	20,705
New Ask BEIS				*2,308*
New Ask MHCLG				*5,063*
End user contributions/ advance rentals				*3,449*
	236	**14,363**	**7,184**	**40,679**

- 10.8m of proposed delivery in 2020/21 is funded from new government funding streams or contributions from end users, either to secure land or for specific HV infrastructure connection work
- Remaining funding comes from existing committed TVCA/ MHCLG funding streams

1.2. Operational costs/ STDSL Site management

1.2.1. Operational costs are budgeted to increase by £0.6m compared to the annual costs in the 2019/20 outturn. This is principally a result of additional staffing resource programmed to support increased delivery in the year. New proposed staffing costs comprise:

Area/ directorate	Headcount increase	Notes	2020/21 cost impact £'000	Annualised cost impact £'000
Capital projects/ programme delivery	7	Senior project manager x1 Project managers x3 Assistant project managers x2 Project/ Programme planner x1	212	436
Senior Health and safety lead	0.5	Assumes shared with Siet company	30	60
Finance and resources	2	Procurement officer x2	46	94
Property/ estates management	1	Site management	39	53
Energy/ infrastructure	2	Project managers x2	49	161
	12.5		**376**	**804**

1.2.2. As several the proposed additional heads are recruited mid-year, the annual cost impact of new headcount is not fully reflected in the 202/21 budget. Should these heads be recruited on a permanent basis, annualised staffing cost would increase by c£0.4m over and above the current year budgeted levels. Accordingly, it is proposed that where possible temporary resource is used to fill resource gaps to allow the underlying cost base to be flexed along with activity.

1.2.3. It is also acknowledged that any permeant additions to the STDC structure would require referral to People Search and Remuneration committee

1.2.4. STDL site management costs fall to their "normalised" level of c£1.3m in 2020/21. Costs in the 2019/20 outturn were higher than anticipated due to a bad debt in the year following the insolvency of British Steel.

1.3. Enabling expenditure/projects

1.3.1. Budgeted costs (representing preparatory works for future capital projects or other consultancy projects that have a site wide impact and or enable future capital works), are presented below:

Enabling projects	Year Mar-21 Budget £'000	Notes
Enabling works	4,991	South Bank and materials handling
Strategic Consultancy	1,744	Principally site wide stratgy studies. £100k project specifc
Bridge Engineering survey	600	Bridge catalouging and condition assesments
Legal services	560	General legal frameworks in support of delivery
Other	1,266	CPO execution, Systems, STSC Transition project management
	9,161	

1.3.2. The year on year budgeted cost increase compared to 2019/20 (outturn £3.3m) of £5.9m is largely due

- **Enabling works** – Principally preparatory surveys and planning works regarding development of South Bank and contractor costs and mobilisation to handle materials to be used for site preparation works(filling and topping).
- **Other increases** – further costs are included for necessary finance, commercial and programme/project management system implementations and execution and vesting of the CPO

1.4. Capital projects

Capital projects	Year Mar-21 Budget £'000	Notes
Gross expenditure		
Prairie site	5,495	Prairie preparation works, MHCLG funded
Metals Recovery Site	3,430	Site preparation works
High Voltage electrical infrastructure	3,425	£1.1m general site infrasructure, £2.3m end user funded
Steel House	1,650	£150k feasibility followed by £1.5m potential works for winterproofing
Bravo 10 Pipebridge works	1,300	To enable Quay access from site
OSW (Oil Wharf tank farm demolition)	900	Demolition at South Bank
Net Zero Teesside	520	Initial project enabling works
Other works	400	Potential infrastructure/site accomodation works
	17,120	
Assumed contributions		
HV electrical capital contributions	2,341	Capital contributions for HV connection
Land commitment fees	1,108	Assumned end user fees
	3,449	
Net capital projects	**13,671**	

1.4.1. Principal programmed projects include ongoing work to prepare the Prairie site for development (£5.5m), including a new gateway highway to the site. The Metals Recovery Site works (£3.4m), relate to site preparation for a manufacturing development.

1.4.2. Gross HV electrical costs of £3.4m are expected to be partly offset by capital contributions from end users. The remaining £1.1m is for general site infrastructure upgrades and is funded by STDC.

1.4.3. Remaining expenditure is either capital enabling work for strategic priorities (Bravo 10, Tank farm and Net Zero Teesside) or to preserve assets for future development (Steel House)

1.4.4. The above presents a single year view of project activity. Medium to long term planning is outlined in the business case to government, financial highlights from which are summarised in section 4 below.

1.5. Land purchase costs

1.5.1. The Budget includes an estimate of all land acquisition costs in the year including compensation settlement to land holders displaced because of the CPO vesting process.

1.6. Capacity to deliver

1.6.1. The 2020/21 budget includes a total of £26.2m of combined enabling and capital project delivery activity that will be subject to external procurement and associated lead times on new contracts. In this regard, to ensure deliverability, a forward procurement plan has been developed across all key projects.

1.6.2. The status of procurements against key planned capital projects is outlined below:

	Year Mar-21 Budget	
Capital projects	**£'000**	**Procurement staus**
Gross expenditure		
Prairie site	5,495	£3.9m at contract award, remainder in procurement
Metals Recovery Site	3,430	Procurement documents in preparation
High Voltage electrical infrastructure	3,425	Detailed plan in place to procure a JV partner, anticipacted contract Q4 2020 calendar year
Steel House	1,650	Docs completed - procurement to start
Bravo 10 Pipebridge works	1,300	Design work awarded, capital works procurement being managed alongside sole pipeline operator
OSW (Oil Wharf tank farm demolition)	900	Procurement documents in preparation
Net Zero Teesside	520	Documentation completed - procurement to start
Other works	400	Procurements to comence
	17,120	

1.6.3. In addition, procurements are either underway or in place for the majority of enabling activity.

1.6.4. At the current time additional forward resourcing requirements for the procurement and contract/project management are also being finalised to accommodate the increased delivery levels. Anticipated increases in staffing resource in these areas is summarised in section 1.2 above.

1.7. Approvals Required

1.7.1. The STDC published Scheme of Delegation requires Board approval where it is the intention to:

- Seek quotations for Works exceeding £1M in value, and
- Accept a best value tender, and so enter into a contract, for Works where the value exceeds £3M.

1.7.2. There are two such projects that STDC needs to commence in the near future, and these are summarised briefly in the confidential appendix to this report. Board approval is therefore being sought to invite quotations and subsequently appoint contractors for each of the two projects.

1.8. Flexibility of funding/ delivery

1.8.1. The funding profile in the 2020/21 budget includes £7.3m of newly allocated central government funding. However, the exact mechanism of through which this funding will be delivered is yet to be agreed and there is a possibility that funding conditions may be linked to delivery milestones.

1.8.2. Accordingly, any slippage, acceleration or reprioritisation of the programme presented to government could impact on funding availability. Against a background of developing investor interest and Covid uncertainty, consideration has been given to how funding streams can be managed alongside activity to ensure optimisation of funding

1.8.3. Key mitigating factors and controls are/ will be:

- **Established/developing supply chains** – STDC has in place appointed supply chains for the planning, design and construction activities on most of the projects to be undertaken, including incidental demolition works. The remainder will be in place by the middle of 2020. Regarding major demolition projects, supply chains are in the process of being developed in line with programme requirements.

- **Robust budgetary monitoring and management to be implemented –** STDC is in the process of scoping and procuring a full finance system to manage increased financial complexity
- **Ability to prioritise resource to projects at risk of funding** – Performance against funding will be monitored and mobilised resource can be redeployed if required to mitigate potential funding risks
- **Flexibility in TVCA approved funding**– Beyond 2020/21 budget commitments there is approximately £20m of TVCA committed investment plan funding that can be mobilised into STDC to support accelerated delivery or delivery that might not immediately attract government support and needs to be "cash flowed"
- **Collaborative approach to working with key government stakeholders** – Throughout the business case development process STDC has consulted with key government stakeholders and developed strong working relationships, which in turn should maximise the potential of funding being advance in a flexible manner and will continue to ensure that any future funding risks are appropriately flagged to government and managed effectively.

1.8.4. A summary of the historic/ forward funding profile for STDC is presented below for information:

Funder	Status	Total £	p/e Mar-18 Actual £	Y/e Mar-19 Actual £	y/e Mar-20 Outturn £	y/e Mar-21 Budget £	Cumulative Commited Mar-21 Budget £	Remaining Mar-21 Budget £
MHCLG operations funding	Received	7,399	236	2,148	3,166	1,849	7,399	-
MHCLG Prairie Grant	Earmarked	11,653	-	14	293	5,764	6,071	5,582
TVCA ringfenced funding	Received	1,675	-	490	941	244	1,675	-
TVCA site operations funding	Approved	12,000	-	497	1,200	1,296	2,993	9,007
TVCA loan funding	Approved	44,500	-	11,215	1,584	20,705	33,504	10,996
New Ask BEIS	New ask	13,894	-	-	-	2,308	2,308	11,586
New Ask MHCLG	New ask	39,910	-	-	-	5,063	5,063	34,847
End user contributions/ advance rentals	New ask	3,448	-	-	-	3,448	3,448	-
		134,479	**236**	**14,364**	**7,184**	**40,677**	**62,461**	**72,018**

1.8.5. Note that following all actual and budgeted expenditure though to March 2021, there remains £20m of TVCA funding commitments that could potentially be used flexibly to manage cash flow variations should flexibility of central government funding become an issue

2. MEDIUM TERM FINANCIAL PLAN 2020 TO 2023

2.1. Overview

2.1.1. STDC Group has undertaken a detailed medium to long term planning exercise alongside development of its business case to central government for funding. At the heart of a plan is the delivery of several core earmarked projects in the three-year period to 31 March 2023, described as the “CSR” period (to align with the anticipated timing of the next Comprehensive Spending Review).

2.1.2. A headline financial summary from the plan to the end of the CSR period (excluding activity and funding linked to South Tees Site Company) is presented alongside the 2020/21 budget below:

Expenditure overview	y/e Mar-21 Budget £'000	y/e Mar-21 Plan £'000	y/e Mar-22 Plan £'000	y/e Mar-23 Plan £'000	"CSR" 2021-2023 Plan £'000
Operations and running costs	2,102	615	652	681	1,947
STDL site management costs	1,296	619	1,261	1,292	3,172
Capitalisable strategic costs	9,161	9,471	3,033	3,012	15,516
Expenditure before capital projects	**12,559**	**10,705**	**4,946**	**4,985**	**20,636**
Capital projects	17,120	16,359	37,725	55,210	109,294
Land purchase costs	11,000	-	10,506	-	10,506
	40,679	**27,064**	**53,177**	**60,195**	**140,435**
Funded By					
MHCLG operations funding	1,849	-	-	-	-
MHCLG Prairie grant	5,764	5,764	5,157	546	11,467
TVCA funding streams	22,247	10,481	18,559	14,679	43,718
New Ask BEIS	2,308	2,308	2,576	4,979	9,863
New Ask MHCLG	5,063	5,063	11,942	22,904	39,909
Project and rental income	3,448	3,448	14,943	17,087	35,478
	40,679	**27,064**	**53,177**	**60,195**	**140,435**

Note: *The financial plan assumes that a proportion of operating and site management costs are ultimately capitalisable (shown as “capitalisable strategic costs) whereas the budget classifies these costs as operating expenditure. Hence in the table above “Expenditure before capitalisable costs” is comparable between budget and plan, but lines above do not correspond due to differing approaches to categorising costs*

2.1.3. The budget for 2020/21 has been developed in parallel to the medium-term strategic plan based on detailed operational programme planning, developing investor requirements and an accelerated CPO process. Acceleration of this activity has brough forward the budget’s spend profile versus the medium-term plan. The budget and medium term forecast for the 20/21 financial year are compared below

	y/e Mar-21 £'000	y/e Mar-21 £'000	Notes
Gross expenditure per medium term plan		**27,064**	
Acceleration of "capitalisable strategic costs"	1,854		Principally enabling works for South Bank Whaf Quay
Additional project spend	761		See below
Accelerated land acquisition	11,000		Due to programme acceleration / CPO timing
		13,615	
Gross expenditure per budget		**40,679**	

2.2. Capital project activity

2.2.1. As a result of the acceleration of activity, whilst projects align between the budget and business case, phasing of expenditure differs.

2.2.2. Overall budgeted project spend for 202/21 is £0.8m greater than outlined in the medium-term plan. This is illustrated below:

	y/e	**y/e**	**y/e**	**y/e**	**"CSR"**
	Mar-21	**Mar-21**	**Mar-22**	**Mar-23**	**2021-2023**
	Budget	**Plan**	**Plan**	**Plan**	**Plan**
Capital projects	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Gross expenditure					
Prairiepreparation	5,495	5,764	7,035	5,694	18,493
Metals Recovery Site	3,430	-	-	3,769	3,769
High Voltage electrical cost	3,425	3,245	17,786	15,014	36,045
Steel House	1,650	1,650	-	369	2,019
Bravo 10 Pipebridge works	1,300	-	-	-	-
South Bank Wharf (Oil Wharf tank farm demolition 20/21)	900	900	-	-	900
Net Zero Teesside	520	2,050	6,581	6,420	15,051
Site for new area workshop (as a result of NZT demolition activity)	200	1,025	315	-	1,340
Infrastructure Corridor/highway	200	802	2,465	2,378	5,645
Coke oven Gas main demolition	-	923	946	862	2,731
Hydrogen Rail	-	-	-	1,118	1,118
High Tip site	-	-	2,597	5,323	7,920
Materials handling	-	-	-	4,204	4,204
Redcar Coke Oven demolition	-	-	-	5,900	5,900
Other sites (projects to be identified)	-	-	-	4,159	4,159
	17,120	**16,359**	**37,725**	**55,210**	**109,294**

2.2.3. Reprioritisation of projects – budget spend £0.5m below medium-term plan levels

2.2.4. The principal phasing differences between budget and medium term plan are the acceleration of expenditure on the Metals Recovery site offset by deferral of expenditure on Net Zero Teesside (in line with current expectations of investor demand) as well as reprioritisation of some expenditure not linked directly to investors (Infrastructure corridor, new site workshops and Coke Oven gas main demolition works)

2.2.5. Additional project – Bravo 10 pipe bridge re-routing £5m in addition to medium term plan

2.2.6. Rerouting of the Bravo 10 pipe bridge has been included in the budget over and above expenditure shown in the medium-term plan. These diversion works are necessary to guarantee quay access for the site and have an estimated overall cost of £5m across the three years to March 2023 with the first £1.3m delivered in the current year.

2.3. Medium term funding considerations

2.3.1. Funding analysis against the medium-term plan indicates that, over the CSR period, STDC will have a potential funding surplus of c £4.2m at March 2023, principally as a result of a proportion of the BEIS expenditure being earmarked against demolition activity in the 23/4 financial year:

	Remaining	Y/e	Y/e	y/e	"CSR"	Remaining
	Mar-20	Mar-21	Mar-22	Mar-23	2021-2023	Mar-23
	Outturn	Plan	Plan	Plan	Plan	Plan
Funding analysis - Medium term plan	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
MHCLG existing funding	13,195	5,764	5,157	546	11,467	1,728
TVCA funding streams	42,248	10,481	18,558	14,679	43,718	(1,470)
New Ask BEIS	13,894	2,308	2,576	4,979	9,863	4,031
New Ask MHCLG	39,910	5,063	11,942	22,904	39,909	1
Grant/ loan funding	**109,247**	**23,616**	**38,233**	**43,108**	**104,957**	**4,290**
Project and rental income		3,448	14,943	17,087	35,478	
Total funding	**109,247**	**27,064**	**53,176**	**60,195**	**140,435**	**4,290**

2.3.2. However, there will be an additional requirement to fund the £5m of costs relating to the Bravo-10 pipe bridge diversion

2.3.3. In addition, the level of flexibility in relation to defrayment of government funding is as of yet unclear, and consideration has been given to maintaining liquidity, particularly towards the end of the CSR period when TVCA funding commitments are nearing exhaustion and cannot be used to support cash flow.

2.3.4. In this regard, the medium-term funding model indicates that there will be adequate potential availability of institutional loan funding (secured against end user lease commitments) to provide any additional liquidity.

2.3.5. In summary we consider that, delivery of planned priorities would provide opportunities to secure additional finance providing liquidity later in the CSR period if required. Indeed, private sector leverage is the principal financing stream assumed to continue development of the STDC site from the 2023/4 financial year onwards.

3. FINANCIAL IMPLICATIONS

3.1. As this is a financial paper, financial implications are discussed in the preceding sections of this report

4. LEGAL IMPLICATIONS

4.1. None

5. CONSULTATION AND COMMUNICATION

5.1. Budgets have been developed in consultation with the senior management team of STDC and its future Joint Venture partners who have provided detailed input based on the developing programme of delivery activity

6. EQUALITY AND DIVERSITY

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

7. RISK ASSEMENT

7.1. The key risks associated with the delivery of this budget are:

7.2. **Failure for key assumptions to materialise** – Should the key assumptions summarised in the background section to this report fail to materialise. STDC would consider any changes necessary to the delivery programme and forecast forward accordingly. A revised budget and set of assumptions would be presented to board for approval at the earliest opportunity

7.3. **Material shift (forward or backward) in programme delivery phasing (including Covid**) – See "flexibility of funding/ delivery" above. Also note that resource requirements will be considered on a flexible/ outsourced basis to allow core costs to be scaled alongside activity levels.

7.4. **Intra group funding arrangements with Joint Venture partners** – The budget has been built from projects in the operational delivery plan and does not allocate activity specifically between the current STDC group and its future JV partners as the exact split of activities is currently being determined.

7.5. This is considered a valid approach as the programme has been developed and costed in conjunction with the future JV partners and core operating costs for all activity have been costed within this budget.

7.6. However, appropriate governance and arrangements to allocate costs appropriately in advance and following the JV's formalisation will be required to support delivery of this budget. This is discussed in a separate paper

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South Tees Development Corporation

AGENDA ITEM 9

REPORT TO THE STDC BOARD

3rd JUNE 2020

REPORT OF THE GOVERNANCE MANGER

REVIEW OF GOVERNANCE FRAMEWORK

SUMMARY

As part of the integration of the South Tees Development Corporation (STDC) governance structure into the wider Tees Valley Combined Authority group governance structure an ongoing review of existing Development Corporation governance procedure is being undertaken to ensure compatibility between policies and procedures, compliance with regulatory requirements and to deliver a group-wide approach to governance.

This process requires Board approval for the adoption of revised STDC policies and procedures.

RECOMMENDATIONS

It is recommended that the STDC Board agree to:

i. The adoption of revised policies relating to Data Protection, Anti-Fraud & Corruption and Freedom of Information.
ii. The adoption of revised procedures relating to Gifts & Hospitality and Declarations of Interest.
iii. The adoption of the TVCA Data Protection Officer as designated Data Protection Officer for STDC and the undertaking of a GDPR Gap Analysis.

DETAIL

1. The South Tees Development Corporation governance structure is currently being integrated into the wider Tees Valley Combined Authority group governance structure with the intention of improving transparency and enhancing the effectiveness of the Corporation decision-making process.

2. As part of this ongoing process a systematic review is being undertaken of all aspects of the existing Development Corporation governance framework to ensure compatibility between policies and procedures and those of the Tees Valley Combined Authority and those of the Corporation, to provide assurance that regulatory standards are being adhered to and to deliver a group-wide approach to governance.

3. As part of this process it is proposed that existing Combined Authority policies with regards to Data Protection and Freedom of Information are adapted to make them appropriate for use by the Development Corporation and are then adopted by the Corporation.

4. It is also proposed that existing Combined Authority practices with regards to Gifts & Hospitality and Declarations of Interest be adapted and adopted by the Development Corporation.

5. Draft policies and procedures are attached as appendices to this report.

6. Prior to internal-restructuring and the integration of Development Corporation's governance function with the Combined Authority, the previous Deputy Director of Regeneration undertook the role of STDC's designated Data Protection Officer. As part of the integration of governance functions it is proposed that the Development Corporation adopt the Tees Valley Combined Authority's designated Data Protection Officer as it's own Data Protection lead. The Combined Authority's designated Data Protection Officer is its Head of Legal and Governance.

7. In order to provide maximum assurance that the Corporation is meeting its responsibilities with regards to the General Data Protection Regulations (GDPR) 2018 at the time of the wider Combined Authority Group assuming this function it is also proposed that the Board agree to the undertaking of a GDPR Gap Analysis by a suitably qualified officer.

8. A proposed course of action for the undertaking is attached as an appendix 5.

FINANCIAL IMPLICATIONS

9. Support for the governance of the South Tees Development Corporation is provided from within the Authority's budget, as agreed by Board through the annual budget process, and funded through resources devolved from central government.

LEGAL IMPLICATIONS

10. The report relates to the Constitution of the South Tees Development Corporation which sets out the appropriate statutory framework. All proposed policies for adoption are fully compliant with the necessary statutory requirements, where applicable.

CONSULTATION & COMMUNICATION

11. Consultation has taken place with the Tees Valley Combined Authority Group Monitoring Officer. Upon agreement, a organisation-wide process of staff awareness training will be undertaken to embed these practices across the Development Corporation.

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Data Protection Policy

May 2020

South Tees Development Corporation

Contents

1. Introduction

This document covers South Tees Development Corporation's (STDC) policy on data protection. It outlines the principles of data protection and outlines the processes STDC follows to ensure information used by STDC is collected, stored, processed and disclosed in accordance with the law. It also outlines the important rights that the Data Protection Act provides all individuals (including members of staff), including the right to find out what personal information is held on computer and paper records. This Policy includes the requirements of the General Data Protection Regulation (GDPR) which replaced the current Data Protection Act 1998 on 25th May 2018.

2. Policy Statement

STDC will ensure that its policy upholds the rights and protects the interests of all those with whom the organisation has contact with, by protecting data and information in accordance with legislative and regulatory requirements and provisions. This will be achieved by ensuring that data processing and information exchange systems comply with the six principles of data protection.

STDC recognises that information relating to the activities of the organisation and its working practices should be made as widely available as possible in the interests of freedom of information (please refer to our FOI policy for further information). However whilst operating this policy, we must also recognise that some information may be sensitive or confidential and its release may prejudice the activities of STDC and the privacy of its employees. There are exceptions to Data Protection and exceptions to the rule when an individual exercises one of their 'Rights'.

STDC will ensure that all staff are trained to a high standard to enable them to carry out all their duties in line with legislation and this policy.

3. Regulation and Legislation

The Data Protection Act 2018 is in place to protect the personal data that organisations hold on staff and other individuals. To comply with the Act, STDC must act in accordance with six principles, which aim to ensure that personal information is:

a. Processed lawfully, fairly and in a transparent manner
b. Collected for specified, explicit and legitimate purposes
c. Adequate, relevant and limited to what is necessary
d. Accurate and, where necessary, kept up to date
e. Retained only for as long as necessary
f. Processed in an appropriate manner to maintain security

Under the Data Protection Act "personal data" means:

"Data relating to a living individual who is or can be identified either from the data or from the data in conjunction with other information that is in, or is likely to come into, the possession of the data controller".

For the majority of information that we hold, STDC acts as the "Data Controller", i.e. we process information on behalf of staff and other individuals, and decide how best to process, store and secure that information. As a data controller we are registered with the ICO and our registration reference number is TBC. Further details can be accessed at www.ico.org.uk

STDC may also instruct others to process data on our behalf. This is called a “Data Processor” and is any company acting *on behalf* of STDC to process information. Where this is the case, STDC will have a contract with the company which clearly sets out how we expect them to process the information.

4. Roles and Responsibilities

The table below summarises the roles and responsibilities in relation to the Policy. It is important to note that the role of the Data Protection Officer is to provide advice to the organisation and to encourage effective processes. The responsibility for adhering to the regulations lies with each team, to ensure that they have full ownership of the data they process.

Roles	**Responsibility**
Directors	Accountable for ensuring: • adequate resource is available in the organisation to deal with the requirements of Data Protection and its procedures; • this Policy is implemented effectively and adhered to; • all staff are appropriately trained.
Data Protection Officer	Responsible for: • providing advice to the organisation; • encouraging effective implementation of the policy and its procedures; • ensuring the processes are updated according with the law.
All staff	Should have an awareness of this Policy and act in accordance with the procedures.

5. Records

Data Asset Register and Privacy Notices

In line with the regulations, STDC has produced an internal data asset register, and uses this information to produce and publish privacy notices, as appropriate. The information within the asset register and privacy notices has been developed by and is owned by each of the teams processing the data. They include the following information:

- WHY the personal data is processed i.e. the reason we process.
- WHO the information is about.
- WHAT specific information we are processing.
- WHEN are we processing that information from, and how long for.
- WHERE we are storing that information.
- If the information is shared outside of STDC, who it is shared with.
- Data subject rights.

Note that if information is stored outside of the European Economic Area (EEA), the location is checked against the countries that GDPR considers ‘adequate’, and if this is not the case, the issue is raised with the Data Protection Officer for consideration as to what information is stored, how sensitive it is and the risks considered.

The data asset register informs the risk register for STDC and is reviewed regularly.

Data Protection Impact Assessments (DPIAs)

Organisations are required to undertake DPIAs when undertaking any significant changes to the way they process personal data or when it may be about to take on a new set of personal data. This ensures that it upholds the principles of "privacy by design" and any new project considers and implements the principles of data protection from the beginning. The approach should be proportionate and therefore STDC will carry out DPIAs as and when required.

Note that in some circumstances the change may be assessed as so significant that it requires the approval of the Information Commissioner's Office. The Data Protection Officer will co-ordinate such discussions.

6. Subject Rights

Individuals have access to a set of 'Subject Rights' and can exercise them at any time. However, the rights of data subjects differ depending upon the legal basis for the processing of the information. The specific rights will be set out clearly in the privacy notices that STDC publish on their website separately to this policy. The full list of rights are as follows:

- Right to be notified
- Right to access
- Right to rectification
- Right to be forgotten
- Right to restrict processing
- Right to portability
- Right to object
- Right to restrict automated decision-making including profiling

In line with the regulations, most of the Subject Rights will be completed within 30 days (1 calendar month) and will be provided free of charge.

Those wishing to submit a data subject access request can do so by contacting:

Data Protection Officer
South Tees Development Corporation
Cavendish House
Teesdale Business Park
Stockton-on-Tees
TS17 6QY

or

DPO@southteesdc.com

7. Breach Management

There is a requirement under Data Protection to have a documented process to deal with a data breach. All breaches must be logged, and under certain circumstances, a breach must be reported to the Information Commissioner's Officer with 72 hours of STDC becoming aware of the breach. Having this process in place helps in the understanding, damage limitation, evidence gathering, resolution and communication of a breach.

Staff should communicate with the Data Protection Officer immediately if a breach has taken place.

8. Monitoring and review

This Data Protection Policy will be reviewed every three years, or in line with legislation.

The accountability for this Policy lies with the Chief Executive Officer and responsibility for providing advice on, and updating this Policy, lies with the Data Protection Officer.

This policy may be subject to an audit in line with the internal audit plan. Elements of Data Protection activities across STDC are subject to management review and audit at any time to ensure that the Policy is being adhered to.

South Tees Development Corporation

Anti-Fraud & Corruption Strategy

May 2020

1. Introduction

South Tees Development Corporation (STDC) is committed to preventing fraud, bribery and corruption within the organisation and ensuring funds are used as they are intended.

The Development Corporation will seek the appropriate disciplinary, regulatory, civil and criminal sanctions against fraudsters and where possible, will attempt to recover losses.

2. Purpose

The purpose of this strategy is to:

- Improve the knowledge and understanding of all STDC staff, irrespective of their position, about the risk of fraud, bribery and corruption within the organisation.
- Promote an anti-crime culture and an environment where staff feel able to raise concerns and understand that fraud, bribery and corruption is unacceptable.
- 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.

3. Scope

This policy applies to all individuals working at all levels including Board, Executive and Non-Executive Members (including co-opted members), Honorary Members of the Board, Members, employees (whether permanent, fixed-term, or temporary), consultants, contractors, vendors, suppliers, service users, trainees, seconded, home-workers, casual staff and agency staff, interns and students, agents, sponsors, volunteers, employees and committee members of organisations funded by STDC, employees and principals of partner organisations, or any other internal and external stakeholders or persons associated with STDC and any other parties who have a business relationship with STDC wherever located (collectively referred to as “Staff”) in this Policy.

This policy is not intended to provide a comprehensive approach to preventing and detecting fraud, bribery and corruption.

Any abuse or non-compliance with this policy or procedures will be subjected to a full investigation and appropriate disciplinary action.

4. Strategy Particulars

The Corporation has a responsibility to protect public funds for which we are responsible. Fraud on public funds is unacceptable therefore the Corporation is committed to minimising the risk of fraud, corruption and misappropriation. Development of an anti-fraud culture is part of improving resilience to fraud through raising awareness, clearly defined responsibilities, robust reporting mechanisms and a suitably resourced anti-fraud strategy.

In terms of the Development Corporation and the functions it delivers, the levels of fraud detected nationally are very low and as such the risk of fraud to the Development Corporation is considered low.

This Strategy will be focused on employee related fraud and procurement fraud.

The Development Corporation recognises that as well as causing financial loss, fraud is also detrimental to the provision of services, and damaging to the reputation of, and confidence in, the Corporation and public bodies in general.

The Corporation is clear it will not tolerate any impropriety by employees, members or third-party organisations, and will ensure appropriate sanctions are considered following an investigation. This may include appropriate internal disciplinary action, civil recovery and/or criminal prosecution following a full investigation.

5. Definitions

Fraud

Fraud involves dishonestly making a false representation, failing to disclose information or abusing a position held, with the intention of making a gain or causing a loss. The gain or loss does not have to succeed, as long as the intent is there.

The Fraud Act 2006 came into force on 15th January 2007 and applies in England, Wales and Northern Ireland.

Fraud by false representation – a representation can be in words, written or communicated by conduct. There must be knowledge that the representation was untrue or misleading.

Fraud by failing to disclose – not declaring something (verbally or in writing) when there is a legal duty to disclose that information.

Fraud by abuse of position – occupying a position in which you are expected to safeguard, or not to act against, the financial interests of another person or organisation, and abusing that position.

Further areas for consideration are – possession of articles for use in fraud and the making or supplying articles for use in fraud.

Actions that could be seen to constitute fraud include, but are not limited to:

- Any dishonest or deceptive act;
- Making fraudulent statements e.g. falsifying timesheets, travel and subsistence, sick or special leave
- Theft, destruction of property or data, or misappropriation of funds;
- Impropriety in the handling and reporting of money or financial transactions;
- Subletting;
- Profiteering because of inside knowledge of the company's activities;
- Disclosing confidential information;
- Obtaining goods, money or services by deception
- Intimidation or exploitation
- False accounting/invoicing and / or the destruction, removal or inappropriate use of records;
- Serious misuse of IT or communications system.

Bribery and Corruption

Bribery and corruption involves offering, promising or giving a payment or benefit-in-kind in order to influence others to use their position in an improper way to gain an advantage.

- Offences of bribing another person:

The Bribery Act 2010 makes person (P), guilty of an offence if either of the following two cases apply:

- P offers, promises or gives a financial or other advantage to another person, and P intends the advantage to induce a person to perform improperly a relevant function or activity, or to reward a person for improper performance of such a function or activity.

- P offers, promises or gives a financial or other advantage to another person, and P knows or believes that the acceptance of the advantage would itself constitute the improper performance of a relevant function or activity.

  - Offences relation to being bribed:

The Bribery Act 2010 makes person (R) guilty of an offence if any of the following applies:

- R requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly (whether by R or another person).

- R requests, agrees to receive or accepts a financial or other advantage, and the request, agreement or acceptance itself constitutes the improper

- R requests, agrees to receive or accepts a financial or other advantage as a reward for the improper performance (whether by R or another person) of a relevant function or activity.

- In anticipation of or in consequence of R requesting, agreeing to receive or accepting a financial or other advantage, a relevant function or activity is performed improperly by R or by another person at R’s request or with R’s assent or acquiescence.

Failure of a commercial organisation to prevent bribery (Section 7 of the Bribery Act 2010):

- A relevant commercial organisation (e.g. STDC) is guilty of an offence under this section if a person associated with the organisation bribes another person intending to obtain or retain business for the organisation, or to obtain or retain advantage in the conduct of business for the organisation.

- However, it is a defense for the organisation to prove that it had in place adequate procedures designed to prevent persons associated with the organisation from undertaking such conduct.

6. Responsibilities within the Organisation

Through our day to day work, we are in the best position to recognise risks within our own areas of responsibility. We also have a duty to ensure that those risks are identified and eliminated. This section outlines the roles and responsibilities of individuals within STDC who can contribute to protecting it by reporting fraud and other irregularities.

- **Chief Executive**

The Chief Executive has the overall responsibility for funds entrusted to the organisation as the accountable officer. The Chief Executive must ensure adequate policies and procedures are in place to protect the organisation.

- **Audit & Risk Committee**

The Audit and Risk committee are responsible for seeking assurance that STDC has adequate arrangements in place for countering fraud.

- **Director of Finance & Resources**

The Director of Finance & Resources is responsible for approving financial transactions across the organisation.

The Director of Finance & Resources prepares documents and maintains detailed financial procedures and systems which apply the principles of separation of duties and internal checks to supplement those procedures and systems.

The Director of Finance & Resources will report annually to the Board on the adequacy of internal financial controls and risk management as part of the Board's overall responsibility to prepare a Statement of Internal Control for inclusion within STDC's annual report.

The Director of Finance & Resources will, depending on the outcome of the initial investigations, inform appropriate senior management of suspected cases of fraud, bribery and corruption, especially in cases where the loss may be above an agreed limit or where the incident may lead to adverse publicity

If an investigation is deemed appropriate, the Director of Finance & Resources will delegate the investigation to the Head of Finance whilst retaining overall responsibility.

The Director of Finance & Resources will consult and take advice from the Human Resources (HR) Manager, if a member of staff is to be interviewed or disciplined. The Director of Finance & Resources will not conduct a disciplinary investigation, but the employee may be subject to a separate investigation by HR.

- **Internal and External Audit**

The role of internal and external audit includes reviewing controls and systems and ensuring compliance with financial instructions. The external auditors have a statutory duty to ensure STDC has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

Auditors have a duty to pass on any suspicions of fraud, bribery or corruption to the Director of Finance and Resources.

- **Human Resources (HR)**

HR will liaise closely with the managers from the outset if an employee is suspected of being involved in fraud, bribery or corruption. HR will also ensure appropriate use of STDC's Disciplinary Policy and Procedure. HR will advise those involved in the investigation on matters of employment law and other procedural matters such as disciplinary and complaints procedures as requested. Close liaison between any appointed external agencies and HR will be essential to ensure that parallel sanctions are effectively applied in a coordinated manner.

HR will conduct robust pre-employment checks at the recruitment stage for all employees, (temporary, fixed term and permanent) and refer any discrepancies to the CEO. Checks will include identification, eligibility to reside and work in the UK, qualifications, membership of professional body, references/previous employment and when relevant, DBS and health checks.

- **Managers**

Managers are responsible for ensuring policies, procedures and processes within their local area are adhered to and kept under constant review including conducting risk assessments and mitigating identified risks.

Managers have a responsibility to ensure staff are aware of fraud, bribery and corruption and understand the importance of protecting the organisation from it. Managers are also responsible for the enforcement of disciplinary action for staff who fail to comply with policies and procedures.

Any instances of actual or suspected fraud, bribery or corruption brought to the attention of a manger should be reported to the Director of Finance & Resources immediately. It is important that managers do not investigate any suspected financial crimes themselves.

- **All Employees**

All staff are required to comply with STDC policies and procedures and apply best practice to prevent fraud, bribery and corruption (for example in the areas of procurement, personal expenses and ethical business behaviour). Staff should be made aware of their own responsibilities in protecting STDC from these crimes.

Employees who are involved in or manage internal control systems should receive adequate training and support in order to carry out their responsibilities.

Employees are expected to act in accordance with the standards laid down by their professional institutes, where applicable, and have a personal responsibility to ensure that they are familiar with them.

Employees also have a duty to protect the assets of the organisation, including information, goodwill and property. This means, in addition to maintaining the normal standards of personal honesty and integrity, all employees should always:

- avoid acting in any way that might cause others to allege or suspect them of dishonesty;

- behave in a way that would not give cause for others to doubt that STDC employees deal fairly and impartially with official matters; and

- be alert to the possibility that others might be attempting to deceive.

All employees have a duty to ensure that public funds are safeguarded, whether they are involved with cash or payment systems, receipts or dealing with contractors or suppliers.

All employees should be aware that fraud and bribery will normally, dependent upon the circumstances of the case, be regarded as gross misconduct thus warranting summary dismissal without previous warnings. However, no such action will be taken before an investigation and a disciplinary hearing have taken place. Such actions may be in addition to the possibility of criminal prosecution.

Employees will not request or receive a bribe from anybody, nor imply that such an act might be considered. This means that you will not agree to receive or accept a financial or other advantage from a former, current or future client, business partner, contractor or supplier or any other person as an incentive or reward to perform improperly your function or activities.

The Standing Orders and Standing Financial Instructions place an obligation on all staff and Non-Executive Directors to act in accordance with best practice. In addition, all STDC staff and Non-Executive Directors must declare and register any interests that might potentially conflict with those of STDC.

If an employee suspects that fraud, bribery or corruption has taken place, it should be reported to Director of Finance & Resources and/or nominated others.

7. Information Management and Technology

The Head of Information Security (or equivalent) will contact the Director of Finance & Resources immediately in all cases where there is suspicion that IT is being used for fraudulent purposes. This includes inappropriate internet/intranet, e-mail, telephone, PDA use and any offence under the Computer Misuse Act 1990. Human Resources will be informed if there is a suspicion that an employee is involved.

8. External parties

Those organisations undertaking work on behalf of STDC are expected to maintain strong anti-fraud principles and have adequate controls in place to prevent fraud when handling public funds and dealing with customers on behalf of STDC. Contractors and sub-contractors acting on STDC's behalf are responsible through contractual arrangements put in in place during the tender process and through contracts, for compliance with the Bribery Act 2010

9. External communications

Individuals (be they employees, agency staff, locums, contractors or suppliers) must not communicate with any member of the press, media or another third party about a suspected fraud as this may seriously damage the investigation and any subsequent actions to be taken. Anyone who wishes to raise such issues should discuss the matter with either the Director of Finance & Resources.

10. Detection

The Corporation will use all legal and cost-effective means to detect fraud, corruption and bribery including working with other organisations in national data matching schemes e.g. the National Fraud Initiative and HMRC Taxes and Management Act Returns. This may require the lawful sharing of information.

The risk-based Internal Audit Plan ensures areas with a risk of fraud are reviewed at least annually.

All stakeholders are expected to report suspected fraud, corruption or bribery.

11. Prevention

There are a number of key requirements to support the prevention of fraud, corruption and bribery:

- Establishment of adequate internal control systems to prevent fraud is the responsibility of management.
- Senior Management Team responsibility for assessing the effectiveness of internal control systems in relation to fraud, corruption and bribery.
- Internal Audit coverage is sufficient to provide annual assurance to the Corporation's Audit & Risk Committee and supports managers by assessing controls in relation to the prevention of fraud.
- Awareness raising with staff around the importance of maintaining adequate controls systems.

12. Response

Any instances of fraud, bribery or corruption will be dealt with through the following mechanisms:

- All instances of fraud must be notified to Internal Audit services to enable the completion of annual returns and to form evidence to support the Annual Governance Statement.
- Investigations will be conducted by the most appropriate section as follows. Fraud involving employees will be investigated in accordance with the Corporation's disciplinary procedures by a nominated Investigation Manager, with support as required from the Internal Audit service.
- The Corporation will adhere to the provisions of the Regulation of Investigatory Powers Act (RIPA) and Money Laundering Legislation.

Any decision to involve the Police in any investigation of fraud will be taken by the Director of Finance in consultation with the CEO and the Monitoring Officer.

The outcome of the investigation of fraud against the Corporation will be reported appropriately to ensure systems and procedures are amended and to act as a deterrent.

The Corporation recognises the need to ensure that its investigation process is not misused. Any abuse such as the raising of malicious allegations by officers/members will be dealt with as a disciplinary matter

13. Sanctions – including recovery of proceeds could be through POCA, Civil Law or Pensions

This section outlines the sanctions that can be applied and the redress that can be sought against individuals who commit fraud, bribery or corruption against STDC and should be read in conjunction with STDC's Disciplinary Policy and procedure.

The types of sanction which the organisation may apply are:

- Civil – sanctions can be taken to recover money and/or assets which have been fraudulently obtained, including interest and costs.
- Criminal – STDC will work in partnership with the police and the Crown Prosecution Service to bring a case to court against an offender. Outcomes, if found guilty, can include fines, a community order or imprisonment and of course, a criminal record.
- Disciplinary – procedures will be initiated when an employee is suspected of being involved in fraudulent or illegal activity.

STDC will seek financial redress whenever possible to recover losses to fraud, bribery and corruption. Redress can take the form of confiscation under the Proceeds of Crime Act 2002, compensation orders, a civil order for repayment, or a local agreement between STDC and the offender. Funds recovered will be returned to STDC for use as originally intended.

14. Reporting a Suspicion of Fraud, Bribery or Corruption

If any person has any concerns about fraud, bribery or corruption, they must inform the Director of Finance & Resources immediately [unless the Director of Finance is implicated, in which case they should contact the Chair or Chief Executive]. The individual should not contact the Police unless it is an emergency.

If you feel unable to talk to the Director of Finance & Resources, Chair of Chief Executive, you should contact the Human Resources Manager.

Appendix B provides a summary of do's and don'ts when it comes to suspecting and reporting fraud. Managers are encouraged to copy this to staff and place it on the notice boards in their department.

All reports of fraud, bribery and corruption will be taken seriously and are thoroughly investigated. The Director of Finance & Resources will make sufficient enquiries to establish whether or not there is any foundation to the suspicion that has been raised. If the allegations are found to be malicious, they will also be considered for further investigation to establish their source.

STDC wants all employees to feel confident that they can report any fraud, bribery and corruption suspicions without any risk to themselves. In accordance with the Public Interest Disclosure Act 1998, STDC has produced a Whistleblowing Policy which should be read in conjunction with this policy.

The Public Interest Disclosure Act 1998 gives protection to individuals, casual workers, agency workers and contractors, non-employees etc who make a qualifying disclosure when they reasonably believe it is in the public interest for them to do so.

15. Policy Framework

The policy framework surrounding prevention of fraud, bribery and corruption includes:

- Code of Conduct including protocol on Gifts & Hospitality, Declarations of interest and Confidential Reporting ("whistleblowing") policy and Complaints procedures.
- Procurement Policy
- Financial Procedure rules
- ICT Security Policies
- Robust internal control systems, processes and reliable record keeping
- Effective Internal Audit
- Effective Recruitment procedures
- Disciplinary Policy and Procedures
- Induction and Training

16. Process for Monitoring Compliance and Effectiveness

The following monitoring processes are in place for this policy:

Standard	**Monitoring Process**
Monitoring arrangements for compliance and effectiveness.	A report will be provided to the approving committee.
Responsibility for conducting the monitoring/audit	This policy shall be reviewed in line with legislative requirements and based upon continual usage by Director of
Frequency of the monitoring/audit.	Annual.
Process for reviewing results and ensuring improvements in performance occur.	The Audit Committee will review the results of this audit/report. The discussion and action any action points will be recorded in the minutes and followed up by the Audit Committee.

APPENDIX B: Fraud and corruption: what to do and not to do; A desktop guide for STDC

FRAUD **is the dishonest intent to obtain a financial gain from, or cause a financial loss to, a person or party through false representation, failing to disclose information or abuse of position.**

BRIBERY **is the deliberate use of bribery or payment of benefit-in-kind to influence an individual to use their position in an unreasonable way to help gain advantage for another.**

DO

- **note your concerns**

Record details such as your concerns, names, dates, times, details of conversations and possible witnesses. Time, date and sign your notes.

- **retain evidence**

Retain any evidence that may be destroyed, or make a note and advise the Director of Finance & Resources

- **report your suspicion**

Confidentiality will be respected – delays may lead to further financial loss.

DO NOT

- **confront the suspect or convey concerns to anyone other than those as detailed within this policy**

Never attempt to question a suspect yourself; this could alert a fraudster or accuse an innocent person.

- **try to investigate, or contact the police directly**

Never attempt to gather evidence yourself unless it is about to be destroyed; gathering evidence must take into account legal procedures in order for it to be useful. The Director of Finance & Resources can conduct an investigation in accordance with legislation.

- **be afraid of raising your concerns**

The Public Interest Disclosure Act 1998 protects employees who have reasonable concerns. You will not suffer discrimination or victimisation by following the correct procedures.

- **Do nothing**

Freedom of Information Policy

May 2020

South Tees Development Corporation

Introduction

1. The Freedom of Information Act 2000 (the Act) provides a right of public access to information held by public authorities which includes South Tees Development Corporation (the Development Corporation).

2. The Development Corporation is committed to its obligations under the Act which require it to do the following:
    - Publish certain information about its activities;
    - Respond to requests for information.

Scope of Policy

3. This policy applies to all recorded information held by the Development Corporation and includes both paper and electronic records.

Responsibilities

4. The Chief Executive has overall responsibility for the Development Corporation 's compliance with the Act.

5. Day to day operations are the responsibility of the Governance Team.

Publication Scheme

6. We are required to have a Publication Scheme by the Freedom of Information Act 2000 and have adopted the standard Publication Scheme published by the Information Commissioner.

7. The Scheme sets out the kind of information we routinely make available to the public as part of our normal business activities.

Requests for Information

8. Under the terms of the Act individuals may submit written requests for information to the Development Corporation.

9. The contact details for submitting a request are as follows:

   South Tees Development Corporation
   Cavendish House
   Teesdale Business Park
   Stockton
   TS17 6QY

   Email: enquiries@southteesdc.com

10. Requestors have a right to be informed within 20 working days whether the Development Corporation holds the requested information and if so, to receive a copy of the information, unless an exemption applies.

11. There are a number of exemptions under the Act which entitle the Development Corporation to withhold information if it considers it is appropriate to do so. If the decision is made to withhold the information it will provide the requestor with the following:
    - Confirmation, if appropriate, whether the requested information is held;
    - Details of the appropriate exemption under the Act;
    - Reasons why it considers the exemption applies.

Fees

12. Information made available through the Publication Scheme will be provided free of charge unless otherwise stated.

13. The Development Corporation complies with the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations (2004). All requests that take less than 18 hours or £450 (being the “appropriate limit”) to process will be free of charge. If the estimated time for compliance is in excess of 18 hours then the Development Corporation may refuse the request or alternatively may issue an invoice for the estimated cost, such invoice to be paid before the Development Corporation undertakes its retrieval of the requested information.

Internal Review and Complaints

14. Requestors have the right to ask for an internal review of how their request has been handled. This includes where the requested information has been withheld.

15. Such requests should be submitted in writing to enquiries@southteesdc.com. The internal review will be carried out by the Chief Executive within 20 working days of receipt.

16. If the requestor is dissatisfied with the outcome of the internal review then they can appeal the decision to the Information Commissioner’s Office (ICO) which oversees compliance with the Act. The ICO can be contacted at the following address:

    Information Commissioner’s Office
    Wycliffe House
    Water Lane
    Wilmslow
    SK9 5AF
    Telephone: 0303 1231113

    Web : www.ico.org.uk

South Tees Development Corporation

South Tees Development Corporation Declaration of Interests Procedure

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

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Development Corporation. As a general principle, members should act impartially and should not use their position at the Development Corporation to further their personal or private interests.

3. There are two types of personal interests covered by the Constitution:

    a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
        i. a member of your family;
        ii. any person with whom you have a close association;
        iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
        iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
        v. any body as described in paragraph 3 b) i) and ii) below.

    b. Any other personal interests. You have a personal interest in any business of the Development Corporation where it relates to or is likely to affect:
        i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Development Corporation;
        ii. any body which:
            - exercises functions of a public nature;
            - is directed to charitable purposes;
            - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

<u>Declarations of interest relating to the Councils' commercial role</u>

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

<u>Procedures for Declaring Interests</u>

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

Register of Interests

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

Declaration of Interests at Meetings

7. The Development Corporation will include a standing item at the start of each statutory meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

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

leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

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

GIFTS AND HOSPITALITY

All offers of gifts and hospitality of £25.00 or more in value, including any offers of sponsorship for training or development - whether or not they are accepted - must be recorded promptly (and by no later than 28 days from the date of the offer) in a register held by the Governance Team. A form has been provided for that purpose (a copy is attached).

Completed forms should be submitted to and approved by your Director and supplied to the Governance Team for recording and monitoring purposes.

An annual reminder is sent to all staff reminding them of the requirement to report offers of gifts or hospitality whether accepted or not and requesting that they familiarise themselves with the guidance in Appendix 3 of the South Tees Development Corporation Constitution.

This is particularly important insofar as key employees are concerned. These employees are Directors; Team Leaders; employees who deal with contracts/tenders; members of teams which investigate alleged fraud or corruption; and those who advise committees and other formal bodies.

South Tees Development Corporation GDPR Gap Analysis Plan – May 2020

Action	Details	Lead Officer	Timescale
Appointment of Data Protection Officer	Designation of suitably qualified Data Protection Officer (DPO) to take proper responsibility for data protection compliance.	Chief Executive	May 2020
Assets to be reviewed			
Information Asset Register Audit	Information Audit to take place to identify and document what personal data is held by STDC and on what grounds.	DPO	Completion dependant on lifting of COVID-19 restrictions.
Data Protection Policy.	Organisation-wide approach to Data Protection with accompanying communication to data subjects affected by its provisions	DPO	May 2020
Data Policy Impact Assessment (DPIA) Procedure and Register	Organisations are required to undertake DPIAs when undertaking any significant changes to the way they process personal data or when it may be about to take on a new set of personal data. A standard procedure for conducting a DPIA should be implemented and a register of all DPIA conducted established.	DPO	Completion dependant on lifting of COVID-19 restrictions.
Development of Data Sharing Agreements and Register	Organisations should develop a template data sharing agreement for when information is shared with a third party and maintain a register of all Sharing	DPO	Completion dependant on lifting of COVID-19 restrictions.

	Agreements entered into.		
Development of Breach Management Procedure	Organisations are required to have a documented process to deal with a data breach. All breaches must be logged, and under certain circumstances, a breach must be reported to the Information Commissioner's Officer with 72 hours of organisation becoming aware of the breach. A register of data breaches should also be maintained.	DPO	Completion dependant on lifting of COVID-19 restrictions.
Periodic Reporting of Progress in all of the above to Audit & Risk Committee and STDC Board			
Development of Data Protection Framework	Consolidation of all above actions in single framework, with appropriate communication and training of staff.	DPO	Completion dependant on lifting of COVID-19 restrictions.
Audit & Risk Committee and STDC Board Approves policy and notes that Action Plan has been completed. Annual Review by Audit & Risk Committee of compliances and procedure.			

AGENDA ITEM 10

REPORT TO THE STDC BOARD

3RD JUNE 2020

REPORT OF HEAD OF FINANCE AND RESOURCES

STDC TREASURY MANAGEMENT 2020/21

SUMMARY

Treasury management is the management of the Corporation's cash flows, borrowing and investments, and the associated risks. The successful identification, monitoring and control of financial risk are therefore central to the Corporation's prudent financial management.

Treasury risk management at the Corporation is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Corporation to approve a treasury management strategy annually.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

RECOMMENDATIONS

It is recommended that the STDC Board:

i. Approves the Treasury Management Strategy, Capital Strategy (including Minimum Reserve Position Statement) and Investment Strategy, which are appended to this covering report

1. DETAIL

1.1. In line with the budgeting process for 2020/21 STDC's underlying borrowing requirements have been considered in order to support delivery of the c £39m of capital expenditure planned for the current year budget and subsequent expenditure over the medium term planning period through to 31 March 2023.

1.2. The attached papers set out the parameters under which STDC will manage its own borrowing which in turn will be used to provide loans to/ investments in subsidiary companies and Joint Venture Partners which will deliver the capital expenditure on STDC's behalf.

1.3. Whilst the policies also define the approach to management of surplus funds available for reinvestment this is unlikely to be a material consideration for STDC which is likely to hold only those funds necessary to maintain reasonable liquidity, whilst financial leverage is used to fund site regeneration activities.

2. FINANCIAL IMPLICATIONS

2.1. The implications of this paper are predominantly financial and are detailed in the attached appendices. In particular, the annual borrowing and investment limits are set for STDC for the remainder of the current financial year

3. LEGAL IMPLICATIONS

3.1. This paper has no specific legal implications

4. RISK ASSESSMENT

4.1. Treasury Management policies are categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control risk.

5. CONSULTATION & COMMUNICATION

5.1. This report has been discussed internally with the Finance Director of STDC/TCVA. There are no specific communication requirements

6. EQUALITY & DIVERSITY

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

7. ENCLOSURES

Appendix 1 – Treasury Management Strategy 2020/21

Appendix 2 –Capital Strategy

Appendix 3 – Investment Strategy

Name of Contact Officer: Mike Russell
Post Title: Head of Finance and Resources
Telephone Number: 01642
Email Address: mike.russell@southteesdc.com

Appendix 1

TREASURY MANAGEMENT STRATEGY 2020/21

1. Introduction

Treasury management is the management of the Corporation's cash flows, borrowing and investments, and the associated risks. The successful identification, monitoring and control of financial risk are therefore central to the Corporation's prudent financial management.

Treasury risk management at the Corporation is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Corporation to approve a treasury management strategy annually. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Through a service level agreement Tees Valley Combined Authority (TVCA) provides the Corporation with financial support which includes the management of short-term cash balances available for investment.

2. Borrowing Strategy

The Corporation's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Corporation's long-term plans change is a secondary objective.

The Corporation's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With interest free loans available to STDC from a funding allocation within TVCA's investment plan, it is likely to be more cost effective in the short-term to use loans from TVCA and internal cash resources finance activity. As STDC moves towards the end of the "CSR period" to March 2023, these funding allocations are likely to be utilised and further borrowing will become necessary. At this point consideration will be given to the balance of borrowings between short – term (likely lower cost) facilities and long-term more costly facilities based upon the circumstances of the STDC site and the availability of income streams at the time.

By following the borrowing strategy, the Corporation will be able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. A 'cost of carry' and breakeven analysis may determine whether the Corporation borrows sums at long-term fixed rates in future years with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Corporation may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. However, based on current planned activity levels (which do not indicate an external borrowing requirement until 2022/3 this is considered unlikely at this stage.

In addition, the Corporation may borrow short-term loans to cover unplanned cash flow.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Tees Valley Combined Authority
- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other Sources of Debt Finance

Capital finance may be raised by the following methods that are not borrowing, but may be classed other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Corporation when borrowing will investigate all available sources of finance, such as local authority loans and bank loans, to achieve the most favourable rates.

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other.

The Prudential Indicators which the Corporation will follow, and the minimum revenue provision statement are set out in the capital strategy report (Appendix 2)

3. Investment Strategy

The Corporation through its agreement with TVCA currently holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Corporation's investment balance has ranged between £3m and £ 7.1m. However, increased spending plans will reduce the previously held balances significantly and as such the invested funds will reduce to a lower amount necessary to manage liquidity and provide a buffer for unforeseen circumstances during 2020/21.

The CIPFA Code requires the Corporation to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Corporation's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Corporation will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

All of the Corporation's surplus cash is currently invested in short-term unsecured bank deposits. As a result of the anticipated increased expenditure in the coming year the Corporation will continue with this approach, maximising interest returns through a managed cashflow process.

The Corporation may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

<u>Approved investment counterparties and limits</u>

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 10 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 10 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000 3 years	£15,000,000 4 years	£15,000,000 10 years	£7,500,000 4 years	£7,500,000 10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000 10 years	£5,000,000 5 years	£7,500,000 5 years
Pooled funds and real estate investment trusts	£15m per fund				

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £5,000,000 per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Corporation to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Corporation's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Corporation may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Corporation maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Corporation's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Corporation understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Corporation's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Corporation will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Corporation's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£15,000,000
Any group of pooled funds under the same management	£37,500,000
Negotiable instruments held in a broker's nominee account	£37,500,000
Foreign countries	£15,000,000
Registered providers and registered social landlords	£37,500,000
Unsecured investments with building societies	£15,000,000
Loans to unrated corporates	£15,000,000
Money Market Funds	£75,000,000
Real estate investment trusts	£37,500,000

Liquidity management: The Corporation uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Corporation being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Corporation's investment plan and cash flow forecast.

4. Treasury Management Indicators

The Corporation measures and manages its exposures to treasury management risks using the following indicators.

Liquidity: The Corporation has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£1m

Interest rate exposures: This indicator is set to control the Corporation's exposure to interest rate risk. Based on the current level of investments held the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
One-year revenue impact of a 1% rise in interest rates	£35k
One-year revenue impact of a 1% fall in interest rates	£3k

Note: Assumes that interest rates will be a minimum of zero

The impact of a change in interest rates is calculated on the assumption that investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Corporation's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

The upper limits have been set as wide as possible as this is necessary as the Corporation currently has no external debt portfolio and therefore setting the indicators more narrowly could be prohibitive. The limits will be reviewed and amended to be more meaningful if the Corporation takes out any external borrowing.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Corporation's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£5m	£5m	£5m

Note: this is a notional limit as in the period under review STDC is unlikely to have significant surplus funds available for long term investment

5. Related Matters

The CIPFA Code requires the Corporation to include the following in its treasury management strategy.

Financial Derivatives: In the absence of any explicit legal power to do so, the Corporation will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Corporation has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Corporation's treasury management activities, the Director of Finance believes this to be the most

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 73 officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 2

CAPITAL STRATEGY 2020/21

1. Introduction

The capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of current delivery programme and ultimately the Corporation's Masterplan and along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure and Financing

Capital expenditure is where the Corporation spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

STDC is forecasting significant capital expenditure over the coming years both to secure land following the recently concluded Compulsory Purchase Order proceedings (which allows STDC to purchase the remaining areas of the development corporation site). Further capital expenditure will also be incurred as a result of capital projects to prepare the STDC site for development and end user occupation.

Expenditure will be directly incurred by STDC as well as been incurred by subsidiary companies and future Joint Venture partners which STDC will finance with loans/ investments.

In 2020/21, STDC is planning capital expenditure of £38.9 million as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £'000

	2019/20	**2020/21**	**2021/22**	**2022/23**
	Outturn	**Budget**	**Plan**	**Plan**
Capital Expenditure	2,385	38,951	45,873	55,492

Governance: In order to draw down loans and grant funding (both TVCA funds and central government) requests for funding will be submitted to TVCA by the Corporation, which are fully appraised and approved in line with the Combined Authority Assurance Framework (approved by the Ministry of Housing Communities and Local Government). The assurance framework sets out how projects will be monitored through delivery and beyond completion to measure the economic impact of the investment.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Corporation's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £'000

	2019/20	2020/21	2021/22	2022/23
	Forecast	**Budget**	**Plan**	**Plan**
Capital Grants	801	14,531	19,675	37,336
Capital Receipts	-	2,341	14,041	13,377
Revenue Contributions	-	1,107	1,428	3,184
Borrowing Required	1,584	20,972	10,729	1,595
Total	**2,385**	**38,951**	**45,873**	**55,492**

The Corporation will first use any internally held funds, followed by borrowing approved within the TVCA investment plan to reduce the overall requirement for external borrowing within a given year. The benefits of this approach will be monitored regularly against the potential for incurring additional costs by deferring external borrowing into future years when long-term borrowing rates are forecast to rise. The below table sets out the estimated split between internal, TVCA and external borrowing across the period:

Table 3: Borrowing estimate in £'000

	2019/20	2020/21	2021/22	2022/23
	Outturn	**Budget**	**Plan**	**Plan**
Internal borrowing	1,584			
TVCA Borrowing	-	20,972	10,729	
External Borrowing	-		-	1,595
Total Borrowing	**1584**	**20,972**	**10,729**	**1,595**

Debt is only a temporary source of finance and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP is as follows:

Table 4: Replacement of debt finance (MRP) in £'000

	2019/20	2020/21	2021/22	2022/23
	Outturn	**Budget**	**Plan**	**Plan**
Revenue Streams	224	256	675	890

Ministry of Housing Communities and Local Government (MHCLG) Guidance requires the Corporation to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The recommended statement is attached at schedule 1 for approval.

The Corporation's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, loan fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Corporation's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	2019/20	2020/21	2021/22	2022/23
CFR	12,575	33,291	43,344	44,049

3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Corporation's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Corporation is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed.

Borrowing strategy: The Corporation's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and therefore when borrowing the Authority will seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Corporation's total outstanding external debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	2019/20	2020/21	2021/22	2022/23
	Forecast	**Budget**	**Budget**	**Budget**
Debt	12,799	33,771	44,500	46,095
CFR	12,575	33,291	43,344	44,049

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the Corporation's debt levels exceed CFR in the period to March 2023. This is a result of the significant investment in the period and year on year increases in borrowings, without scheduled capital repayments (as a large proportion of debt is advanced from TVCA on favourable terms). The CFR to debt ratio is anticipated to return to balance in later years as STDC begins to generate revenue and begin scheduled debt repayment

***Affordable borrowing limit*:** The Corporation is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2019/20	2020/21	2021/22	2022/23
Authorised Limit	15,359	40,525	53,400	55,314
Operational Boundary	12,799	33,771	44,500	46,095

Further details on borrowing are included in the Treasury Management Strategy included at Appendix 1.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Corporation's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

Further details on treasury investments are included in the Treasury Management Strategy included at Appendix 1.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 73 officer and finance staff, who must act in line with the treasury management strategy and treasury management practices approved by Cabinet. Mid-term and annual reports on treasury management activity will be presented to the audit committee and cabinet**.**

4. Liabilities

As set out in table 6 above the Corporation forecasts to hold £12.8m of long-term debt at 31st March 2020. As at 31st March 2019 the Corporation had a pension liability of £52,000.

Governance: The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported appropriately.

5. Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount of revenue funding available for investment excluding specific grant schemes.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019/20	2020/21	2021/22	2022/23
Financing costs (£'000)	224	256	675	890
Proportion of revenue	7%	9%	47%	13%

Notional borrowing costs (expressed as MRP) peak as a percentage of revenue in 2021/22 due to STDC incurring capital costs in advance of sites generating revenue. This position begins to resolve from 2022/3 onwards. Note that the MRP provision is a non-cash entry.

6. Knowledge and Skills

The Corporation has professionally qualified staff across a range of disciplines that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The skills available from internal resources allow the Corporation to develop business cases for capital investment and external professional advice is taken where required.

Schedule 1 – Annual Minimum Revenue Provision Statement 2020/21

Where the Corporation finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Corporation to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2012.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Grants, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Corporation to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The Corporation's capital expenditure is in the form of direct investment in certain assets and investment in loans and grants to subsidiaries and Joint Venture partners. The nature of this investment is to acquire and regenerate land within the boundaries of the South Tees Development Corporation area. As the Corporation's borrowing cannot be directly linked to an individual asset the number of years used for MRP calculations will be 50 years (the maximum allowable under the statutory guidance) reflecting Investment in land, a non-depreciable asset class. The MRP will be determined by charging the expenditure over this period on an annuity method.

Capital expenditure incurred during 2020/21 will not be subject to an MRP charge until the following year.

Appendix 3

INVESTMENT STRATEGY 2020/21

1. Introduction

The Corporation invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
- to assist in delivering the Masterplan by lending to or buying shares in other organisations (investments)

This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003), and focuses on the second of these categories.

2. Treasury Management Investments

The Corporation can receive its income in cash (predominantly in the form of Government grants) before it pays for its expenditure in cash. These activities, plus the timing of borrowing decisions, can lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Further details: Full details of the Corporation's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix 1.

3. Investments – Loans

The Corporation can lend money to its subsidiaries and Joint Venture partners to support delivery of the Masterplan and stimulate local economic growth. Loans are not issued by the Corporation for purely financial return, they are provided if the proposal meets the priorities set out in the Masterplan and related strategies.

Details of the loans provided as at 31 March 2019 are shown in table 1 below.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to loans remains proportionate to the size of the Corporation, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. It is recommended that the limits are set as follows;

Table 1: Loans in £'000

	31.3.2019 actual			2020/21
	Balance Owing £'000	**Loss allowance £'000**	**Net Figure In Accounts £'000**	**Approved Limit £'000**
Subsidiaries / JVs	11,215	0	11,215	58,000

Accounting standards require the Corporation to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Corporation's statement of accounts from

2019/20 onwards will be shown net of this loss allowance. However, the Corporation makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: In making loans the Corporation is exposing itself to the risk that the borrower defaults on repayments. The Corporation therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Corporation is proportionate and prudent.

The Corporation will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

4. Proportionality

Currently the Corporation is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Corporation is dependent on achieving the expected net returns from investments.

Table 2: Proportionality of Investments

	2018/19	**2019/20**	**2020/21**
	Actual	**Outturn**	**Plan**
Revenue Expenditure £’000	2,645	3,115	1,234
Investment Returns £’000	0	0	0
Proportion	**0%**	**0%**	**0.%**

Note that beyond the “CSR period” to 31 March 2023, STDC will shift to an “Investment Fund” business model, where rental income from tenants on the STDC site will generate income in subsidiary companies and Joint Venture partners which will provide STDC with a return on capital investment and support both operational costs and costs of further investment in the site. Accordingly as STDC reaches this phase, investment returns will become material as a proportion of revenue expenditure.

5. Borrowing in Advance of Need

Government guidance is that Corporation’s must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Corporation has not borrowed and has no plans to borrow in advance of need.

6. Capacity, Skills and Culture

Board members and statutory officers: For all investment decisions the Corporation follows the Assurance Framework agreed with Ministry of Housing Communities and Local Government (MHCLG). Due Diligence is carried out on all investments by internal and external resources depending on the type of investment. Internal members of staff carry out regular professional development through training courses and conferences. The input from the above resources result in a comprehensive appraisal of all investments which is consulted on and provided to the Board for a decision.

Commercial deals: Within the Corporation there is significant experience in both Public and Private Sector deals. Where required external support is drafted in to assist in these deals.

Corporate governance: The Corporation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Corporation had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

7. Investment Indicators

The Corporation has set the following quantitative indicator to allow elected members and the public to assess the Corporation's total risk exposure as a result of its investment decisions.

Total risk exposure: The indicator shows the Corporation's total exposure to potential investment losses. This includes amounts the Corporation is contractually committed to lend but have yet to be drawn down and guarantees the Corporation has issued over third party loans.

Table 3: Total investment exposure in £'000

	31.03.19 Actual £'000	**31.03.20 Outturn £'000**	**31.03.21 Forecast £'000**
Treasury Management Investments	3,034	3,034	1,000
Investment – Loans*	11,215	11,215	50,000
TOTAL INVESTMENTS	**14,249**	**14,249**	**51,000**
Commitments to Lend	-	-	-
TOTAL EXPOSURE	**14,307**	**14,307**	**51,000**