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Introduction

Welcome to the South Tees Development Corporation's Annual statement of Accounts for 2017/18. The Statement of Accounts contains all the financial statements and disclosure notes required by statute. The statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The purpose of this narrative report is to provide a guide to the Corporation's accounts as well as setting out the Corporation's financial position.

Objectives

Under new legal powers available to Tees Valley Combined Authority (TVCA) the South Tees Development Corporation (STDC) was established in August 2017 to redevelop the site of the former SSI steelworks which closed down in 2015 following SSI's liquidation. STDC is the first mayoral development corporation outside London.
The masterplan for the redevelopment of the site has been agreed with the long term view to redevelop the site to provide a high value, low carbon, diverse and inclusive economy. Creating significant employment prospects for the area.

STDC's masterplan is to acquire the site from its current owners and redevelop over a 25 year timescale in order to encourage employment in the region. STDC is currently in negotiations to buy land whilst also seeking funds from Government to allow redevelopment to commence.

Key Sections Included in the Statement of Accounts

Statement of Responsibilities - This sets out the respective responsibilities of the Development Corporation and the Chief Financial Officer for the Accounts.

Movement in Reserves Statement - This statement shows the movement during the year of the different reserves held by the Corporation.

Comprehensive Income and Expenditure Statement - This account summarises the revenue costs of providing all services and the income and resources received in financing the expenditure.

Balance Sheet - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Corporation. The net assets of the Corporation (assets less liabilities) are matched by the reserves held by the Corporation.

Cash Flow Statement - This statement provides a summary of the flow of cash into and out of the Corporation for revenue and capital purposes.

Notes to the Financial Statements - These include the accounting policies and concepts applied, as well as the disclosure notes relating to the above statements.

Resource Position

The Medium Term Financial Plan shows two years of activities. This is because this is the period of support already agreed. Additional funding requests for further activities on the site have been made to HMG beyond this period. It is anticipated that the resources needed will be made available as required. The funding will come from both Government and the TVCA. At present funding for two years of running costs and specific works on site have been agreed.

Governance

The STDC has its own Board and governance committees. The STDC constitution includes the concept of referral decision for matters that are capable of a significant risk of liability landing on TVCA. The governance board and committees benefit from members from public sector and non public sector organisations.

Strategies

The strategic plan to redevelop the site is set out in the masterplan which is available on the website www.southteesdc.com The ambition is to redevelop the site to provide locations for a variety of industry types which should create a significant number of jobs in the area and safeguard the future of this area.

Narrative Report

Principal Risks

The initial risks are safeguarding the hazards and progression to land ownership. It is anticipated that these will be resolved in the near term.
Medium term risks are of unforeseen issues when redeveloping the site, principally these would be ground conditions but there could also be a similarly small risk of items identified whilst demolition of current structures takes place.
The STDC board are confident that whilst there could be a lack of investors wishing to locate on site, this does not have a high likelihood.

Opportunities

The whole masterplan is an opportunity to enhance the local area. The creation of high quality jobs in industries which are resilient to future change should create an increase in economic activity locally and further afield.

Organisational overview and external environment

At this stage of the Corporation's existence there are few staff and operational costs are limited due to the land ownership situation. Greater activities will be necessary as land is acquired. The environment that STDC operates in has few areas of competition with the benefits of deep water port facilities etc.

Performance

Progress has been made in the 8 months of the STDC's existence, this is the initial phase of the long term redevelopment. It will be many years before significant jobs are created. Operationally we now have information on ground conditions over the site and therefore are able to consider where within the site potential investors would be situated. These costs form part of the non staff costs shown in the income and expenditure report.

Outlook

The near term funding has been agreed. Middle and longer term operations will depend upon successful acquisition of the land. Once the ownership of the land has been achieved, the investment to redevelop will commence

Operational model

In the 8 months to date STDC has used the available funding to get started on the works to understand the ground conditions and complete the masterplan for the redevelopment. The availability of agreed funding for the next two years will allow the progression of activities to obtain the land and to progress the cautious recruitment of staff to enable the clearance of the site once ownership has passed.

Basis of preparation and presentation

The near term funding has been agreed, so the Corporation has no issues in the next two years. The medium term is also expected to be adequately funded to cover the operational needs.
The outlook for the longer term depend upon the successful outcome of negotiations to acquire the land. At present this is looking hopeful, but one unlikely longer term scenario could be that the land failed to pass to our ownership

STDC Movement in Reserves Statement for the period ended 31 March 2018

This statement shows the movement in the year on the different reserves held by the Corporation, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Corporation's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Reserves £000s
Movement in reserves during 2017/18						
Transfer from Tees Valley Combined Authority				-		-
Revised Balance at 1 April 2017	**-**	**-**	**-**	**-**	**-**	**-**
Total Comprehensive Income and Expenditure	3,097			3,097	(1)	3,096
Adjustments between accounting basis & funding basis under regulations (Note 5)	(923)	-	925	2	(2)	-
Increase/Decrease in Year	2,174	-	925	3,099	(3)	3,096
Balance at 31 March 2018 carried forward	2,174	-	925	3,099	(3)	3,096
General Fund analysed over:						
Amounts earmarked (Note 6)	2,102					
Amounts uncommitted	72					
Total General Fund Balance at 31 March 2018	2,174					

STDC Comprehensive Income and Expenditure Statement for the period ended 31 March 2018

The Comprehensive Income and Expenditure Statement (CIES) shows the economic cost in the period of providing services in accordance with generally accepted accounting practices.

	2017/18		
	£000s	**£000s**	**£000s**
	Expenditure	**Income**	**Net**
Core Running Costs	212	(2,384)	**(2,172)**
Development Costs	25	(25)	**-**
Cost Of Services	**237**	**(2,409)**	**(2,172)**
Financing and Investment Income and Expenditure:			
Net interest on the net defined benefit liability/asset			-
Interest receivable and similar income			-
Taxation and Non-Specific Grant Income:			
Non-ringfenced government grants	-	-	-
Capital grants and contributions	-	(925)	(925)
(Surplus) or Deficit on Provision of Services	**237**	**(3,334)**	**(3,097)**
Re-measurements of the defined benefit liability			
Other (gains) and losses			1
Other Comprehensive Income and Expenditure			**1**
Total Comprehensive Income and Expenditure			**(3,096)**

STDC Balance Sheet as at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Corporation. The net assets of the Corporation (assets less liabilities) are matched by the reserves held by the Corporation. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Corporation may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Corporation is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

	Note	31 March 2018 £000s
Non-current assets		
Long Term Debtors		-
Total non-current assets		-
Current assets		
Short term investments		
Debtors	9	7
Cash and Cash Equivalents	10	4,074
Total current assets		4,081
Current liabilities		
Cash and Cash Equivalents		-
Short Term Creditors	11	(985)
Total current liabilities		**(985)**
Long term liabilities		
Long Term Creditors		-
Other Long Term Liabilities		
Total long term liabilities		**-**
Net Assets:		**3,096**
Reserves		
Usable reserves:		
General Fund Balance	1	72
Earmarked General Fund Reserves	6	2,102
Capital Grants Unapplied		925
		3,099
Unusable Reserves:		
Pensions Reserve		-
Accumulated Absences Account	5	(3)
		(3)
Total Reserves:		**3,096**

Mayor Ben Houchen ………………………………………………………

25th July 2018

STDC Cash Flow Statement for the period ended 31 March 2018

The Cash Flow Statement shows the changes in cash and cash equivalents of the Corporation during the reporting period. The statement shows how the Corporation generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Corporation are funded by way contributions and grant income or from the recipients of services provided by the Corporation. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Corporation's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Corporation.

	Note	2017/18 £000s
Net (surplus) or deficit on the provision of services		**(3,097)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements:		
Pension Fund adjustments		1
Increase/(Decrease) in Revenue Debtors	9	7
(Increase)/Decrease in Revenue Creditors	11	(985)
Increase/(Decrease) in Long Term Debtors		-
		(977)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:		
Capital Grants credited to surplus or deficit on the provision of services		(925)
		(925)
Net cashflow from operating activities		**(4,999)**
Investing activities		
Purchase of short term and long term investments		-
Other receipts from investing activities		925
Net cashflow from investing activities		**925**
Net (increase) or decrease in cash and cash equivalents		**(4,074)**
Cash and cash equivalents at the beginning of the reporting period		**-**
Cash and cash equivalents at the end of the reporting period	10	**(4,074)**
The cashflow for operating activities includes the following items:		
Interest received		**-**
Interest paid		**-**

Note 1: Corporation Expenditure & Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the Corporation in comparison with those resources consumed or earned by the Corporation in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Corporations directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	2017/18		
	Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000s	**£000s**	**£000s**
Core Running Costs	(72)	(2,100)	**(2,172)**
Development Costs	-	-	**-**
Net Cost Of Services	**(72)**	**(2,100)**	**(2,172)**
Other Income and Expenditure	-	(925)	(925)
Surplus or Deficit	**(72)**	**(3,025)**	**(3,097)**
Opening General Fund Balance			
Less/Plus (Surplus) or Deficit	**(72)**		
Closing General Fund Balance at 31 March 2018	**(72)**		

Notes to the Expenditure and Funding Analysis:

Adjustments between Funding and Accounting Basis 2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes**	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000s	**£000s**	**£000s**	**£000s**
Core Running Costs	-	1	(2,101)	**(2,100)**
Development Costs	-	-	-	**-**
Net Cost Of Services	-	-	-	**-**
Other Income and Expenditure from the Expenditure and Funding Analysis	(925)	-	-	**(925)**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(925)	1	(2,101)	**(3,025)**

Notes to the Expenditure and Funding Analysis:

Adjustments for capital purposes: this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments: this is the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the Corporation as allowed by statute and the replacement with current service costs and past service costs.

For Financing and investment income and expenditure **–** the net interest on the defined benefit liability is charged to the CIES.

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For ***Financing and investment income and expenditure*** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Expenditure and Income Analysed By Nature

The Corporations expenditure and income is analysed as follows:

	2017/18
	£000s
Expenditure	
Employee benefits expenses	115
Other services expenses	122
Interest payments	-
Total Expenditure	**237**
Income	
Fees, charges and other service income	(10)
Interest and investment income	-
Government grants and contributions	(2,399)
Total Income	**(2,409)**
(Surplus) or Deficit on the Provision of Services	**(2,172)**

Segmental Income

Income received on a segmental basis is analysed below:	2017/18
	£000s
Services	**Income from Services**
Core Running Costs	(10)
Total income analysed on a segmental basis	**(10)**

Note 2: Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 9 Financial Instruments, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and available for sale to amortised cost and fair value through other comprehensive income respectively based on the contractual cashflows and business model for holding the assets. There are not expected to be any changes in the measurement of financial assets. Assessment of the Corporation's financial assets does not anticipate any impairment.

- IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Corporation does not have any material revenue streams within the scope of the new standard.
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases).

The Corporation does not anticipate that the above amendments will have a material impact on the information provided in the financial statements in that there is unlikely to be a change to the reported information in the reported net cost of services or the Surplus or Deficit on the Provision of Services.

Note 3: Critical Judgements in Applying Accounting Policies

In applying it's accounting policies the Corporation has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

No critical judgements made.

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Corporation about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Corporations Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- Pension liabilities: estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Corporation with expert advice about the assumptions to be applied. Sensitivities are included in Note 16.

Note 5: Adjustments between Accounting Basis and Funding Basis under Regulations

2017/18	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	-			-
Adjustments involving the Capital Grants Unapplied Account	(925)		925	-
Adjustments involving the Pensions Reserve	(1)			1
Adjustments involving the Accumulated Absences Adjustment Account	3			(3)
Total Adjustments	**(923)**	**-**	**925**	**(2)**

Note 6: Movements in Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

Earmarked Reserves	Balance at 1 August 2017 £000s	Transfers Out 2017/18 £000s	Transfers In 2017/18 £000s	Balance at 31 March 2018 £000s
Revenue Reserves				
Planned Activities	-	-	(2,102)	(2,102)
Total Revenue Reserves	**-**	**-**	**(2,102)**	**(2,102)**

Note 7: Members' Allowances

There are no elected members of the Corporation. It is wholly controlled by the Tees Valley Combined Authority and as such there is no members remuneration by STDC.

Note 8: Employee Remuneration

During the year there were no senior managers appointed by the Corporation.
The Chief Executive is employed by the South Tees Site Company, a Government ran organisation responsible for the safety, security and upkeep of the former SSI site.
The Director of Finance is employed by Tees Valley Combined Authority.
Neither of the above received direct remuneration from STDC, however a proportion of the Director of Finance salary is recharged to STDC by TVCA and in 2017/18 this amounted to £28,953.

Note 9: Short Term Debtors

	31 March 2018 £000s
Central Government	7
Local Government	-
Other entities and individuals	-
	7

Note 10: Cash and Cash Equivalents

	31 March 2018 £000s
Bank and Imprests	4,074
Cash Equivalents	-
Bank Overdraft	-
	4,074

Note 11: Short Term Creditors

	31 March 2018 £000s
Central Government	-
Local Government	(982)
Other entities and individuals	(3)
	(985)

The Local Government Creditors includes grants received in advance to the sum of £750k

Note 12: Related Party Transactions

The Corporation is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Corporation or to be controlled or influenced by the Corporation. Disclosure of these transactions allows readers to assess the extent to which the Corporation might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Corporation.

Central Government

Central government has effective control over the general operations of the Corporation – it is responsible for providing the statutory framework within which the Corporation operates, provides the majority of its funding in the form of grants (via TVCA) and prescribes the terms of many of the transactions that the Corporation has with other parties.

Members

Members of the TVCA have direct control over the Corporation's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 7. During 2017/18, there were no related party transactions between Authority members and STDC.

Entities Controlled or Significantly Influenced by the Authority

No elected member or senior officer of the corporation sit on any board or management committee of any entities which are significantly controlled or influenced by the corporation.

Related Parties

South Tees Development Corporation was established by Tees Valley Combined Authority and is part of their overall group structure.
South Tees Site Company is a Government controlled organisation who is responsible for the safety, security and upkeep of the former SSI Site.
Details of the Income and Expenditure with these organisations is set out below:-

2017/18	Income Received £000s	Expenditure £000s
Tees Valley Combined Authority (TVCA)	(2,399)	232
South Tees Site Company (STSC)	(10)	3
Total	**(2,409)**	**235**

The below table sets out the amounts owed to and from the corporation as at 31 March 2018:-

As At 31 March 2018	Owed By STDC To £000s	Owed To STDC From £000s
Tees Valley Combined Authority (TVCA)	232	-
South Tees Site Company (STSC)	-	7
Total	**232**	**7**

Note 13: External Audit Costs

The Corporation has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Corporations external auditors:

	2017/18 £000s
Fees payable to Mazars LLP with regard to external audit services	18
Fees payable to Mazars LLP for the certification of grant claims	-
Fees payable in respect of other services provided by Mazars LLP	-
	18

Note 14: Grant Income

The Corporation credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18.

Credited to Taxation and Non Specific Grant Income	**2017/18 £000s**
South Tees Industrial Zone Access Grant From Tees Valley Combined Authority	925
	925

Credited to Services	**2017/18 £000s**
Operating Grant From Tees Valley Combined Authority	2,399
Total	**2,399**

Note 15: Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term 31 March 2018 £000s	Current 31 March 2018 £000s
Loans and receivables	-	4,074
Financial assets carried at contract amounts	-	7
Total financial assets	**-**	**4,081**
Financial liabilities carried at contract amount	-	(982)
Total financial liabilities	**-**	**(982)**

Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Mark to Model Valuation for Financial Instruments

As at 31st March 2018 the Corporation held £4m financial assets and had £982k financial liabilities. All the financial assets are classed as Loans and Receivables and held with Notice Accounts. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation provided by Arlingclose our Treasury Management Advisors. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the private sector.

The fair values calculated are as follows:

Financial liabilities	31 March 2018	
	Carrying Amount £000s	**Fair Value £000s**
Creditors	982	982
Total financial liabilities	**982**	**982**

Loans and receivables	31 March 2018	
	Carrying Amount £000s	**Fair Value £000s**
Cash on Deposit	4,074	4,074
Debtors	7	7
Total loans and receivables	**4,081**	**4,081**

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Note 15: Financial Instruments

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Corporations activities expose it to a variety of financial risks; the key risks are:

- **credit risk –** the possibility that other parties might fail to pay amounts due to the Corporation
- **liquidity risk –** the possibility that the Corporation might not have funds available to meet its commitments to make payments

Overall procedures for managing risks

The Corporations overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Corporation to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Corporation to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Corporations overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance.

These are required to be reported and approved at or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Corporations financial instrument exposure. Actual performance is also reported after each year and regular updates are provided to the Audit & Governance Committees.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Corporations customers. This risk is minimised through the Annual Investment Strategies, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services.

The Annual Investment Strategies also consider maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied.

The following analysis summarises the Corporation’s potential maximum exposure to credit risk on other financial assets:-

	Amount at 31 March 2018	**Historical experience of default**	**Adjustment for market conditions at 31 March 2018**	**Estimated maximum exposure to default at 31 March 2018**	Estimated maximum exposure to default at 31 March 2017
	£000s	**%**	**%**	**£000s**	£000s
Debtors	7	0.00%	0.00%	-	-
				-	-

No breaches of the counterparty criteria occurred during the reporting period and the Corporation does not expect any losses from non performance by any of its counterparties in relation to deposits.

Liquidity Risk

The Corporation manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Corporation is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Note 16: Defined Benefit Pension Schemes

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the Corporation makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Corporation has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Corporation participates in The Local Government Pension Scheme, administered locally by Middlesbrough Council – this is a funded defined benefit final salary scheme, meaning that the Corporation and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits
We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Corporation resources is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme 2017/18 £000s
Comprehensive Income and Expenditure Statement	
Cost of Services:	
• Current service cost	7
• Past service cost	-
Financing and Investment Income and Expenditure	
Net interest cost	-
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**7**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
• Return on plan assets (excluding the amount included in the net interest expense)	1
• Actuarial gains and losses arising on changes in financial assumptions	-
• Actuarial gains and losses due to liability experience	-
• Actuarial gains and losses due to acquisitions	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**1**
Movement in Reserves Statement	
• Reversal of net charges made to the (Surplus) or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(7)
Actual amount charged against the General Fund Balance for pensions in the year:	
• Employers' contributions payable to scheme	**8**

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is £0.001m.

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Corporation's obligation in respect of its defined benefit plans is as follows:

	Local Government Pension Scheme 2017/18 £000s
Present value of defined benefit obligation	(11)
Fair value of assets	11
Net liability recognised in the Balance Sheet	**0**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme 2017/18 £000s
Opening fair value of scheme assets	-
Interest income	-
Remeasurement gains and (losses)	(1)
Contributions from the employer	8
Contributions from employees into the scheme	4
Net increase from acquisitions	-
Benefits paid	-
Closing balance at 31 March 2018	**11**

Reconciliation Of Present Value Of The Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme 2017/18 £000s
Opening balance at 1 April	0
Current service cost	(7)
Interest cost	-
Contributions by scheme participants	(4)
Actuarial gains and losses - financial assumptions	-
Actuarial gains and losses - liability experience	-
Benefits paid	-
Net increase from acquisitions	-
Past service cost	0
Closing balance at 31 March 2018	**(11)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2017/18 £000s	%
Equity investments (Quoted)	9	79.9%
Property (Quoted)	1	7.3%
Government Bonds	-	0.0%
Corporate Bonds	-	0.0%
Cash	1	11.1%
Other Investments	0	1.7%
	11	**100%**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by AON Hewitt, an independent firm of actuaries; estimates for the Teesside Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	2017/18
Mortality assumptions:	
Longevity at 65 for current pensioners:	
Men	22.9
Women	25.0
Longevity at 45 for future pensioners:	
Men	25.1
Women	27.3
Other assumptions:	
Rate of inflation (RPI)	3.1%
Rate of inflation (CPI)	2.0%
Rate of increase in salaries	3.0%
Rate of increase in pensions	2.0%
Rate of Pension accounts revaluation rate	2.0%
Rate for discounting scheme liabilities	2.6%
Take-up of option to convert annual pension into retirement lump sum	80.0%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme

	Increase	**Base Figure**	**Decrease**
	£000s	**£000s**	**£000s**
Longevity (increase or decrease in 1 year)	11	11	11
Rate of increase in salaries (increase or decrease by 0.1%)	11	11	11
Rate of increase in pensions payment (increase or decrease by 0.1%)	11	11	11
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	11	11	11

Impact on the Corporation’s Cash Flows
The objectives of the scheme are to keep employers’ contributions at as constant a rate as possible. The Corporation has agreed a strategy with the scheme’s actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be carried out as at 31 March 2019.
The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Corporation anticipates to pay £0.021m contributions to the scheme in 2018/2019.

The weighted average duration of the defined benefit obligation for scheme members is 37.4 years.

Note 17: Termination Benefits

There were no termination benefits to report.

Note 18: Provisions

The Corporation has not been required to establish any provision's in year.

Note 19: Contingent Liabilities

The Corporation has no contingent liabilities.

Note 20: Post Balance Sheet Events

The Corporation has no post balance sheet events to report.

Note 21: Statement of Accounting Policies

General Principles
The Statement of Accounts summarise the Corporation's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Corporation is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Corporation Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the financial statements is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

Accruals of Income and Expenditure
Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Corporation transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Corporation.
- Income from the provision of services is recognised when the Corporation can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Corporation.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.
In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.
Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Corporation's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.
Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Employee Benefits
Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave for current employees and are recognised as an expense for services in the year in which employees render service to the Corporation. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to (Surplus) or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Note 21: Statement of Accounting Policies

Post Employment Benefits

Employees of the Corporation are members of one pension scheme:

- The Local Government Pensions Scheme, administered by Middlesbrough Corporation.

The schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Corporation and its predecessor.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Teesside Pension Fund attributable to the Corporation are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on the Aon Hewitt GBP Central AA Curve.
- The assets of the Teesside Pension Fund attributable to the Corporation are included in the Balance Sheet at their fair value:
  quoted securities – current bid price
  unquoted securities – professional estimate
  unitised securities – current bid price
  property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- *current service cost:* the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- *past service cost*: the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability: i.e. net interest expense for the Corporation - the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *the return on plan assets* - excluding amounts included in the net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- *actuarial gains and losses:* changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Teesside Pension Fund:

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Corporation to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

Note 21: Statement of Accounting Policies

- those that provide evidence of conditions that existed at the end of the reporting period – the Financial Statements are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Corporation becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset in the Balance Sheet. For most of the loans that the Corporation has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Corporation when there is reasonable assurance that:

- the Corporation will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Corporation are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non Specific Grant Income (non ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Corporation's arrangements for accountability and financial performance.

Note 21: Statement of Accounting Policies

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Corporation a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Corporation may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Corporation becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Contingent Liabilities & Contingent Assets

A contingent liability arises where an event has taken place that gives the Corporation a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Corporation. A contingent asset arises where an event has taken place that gives the Corporation a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Corporation. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Reserves

The Corporation sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Corporation expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Corporation.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Corporation has determined to meet the cost of this expenditure from existing capital resources, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged.

VAT

VAT on income and expenditure is included only to the extent that it is not recoverable from HM Revenue and Customs.

Note 21: Statement of Accounting Policies

Fair Value Measurement
The Corporation measures some of its non-financial assets, and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Corporation measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Corporation takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Corporation uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. this takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - unobservable inputs for the asset or liability.

Responsibilities for the Annual Financial Statements

The Corporation's Responsibilities

The South Tees Development Corporation is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Corporation, that officer is the Chief Financial Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Annual Financial Statements by the date specified by the Secretary of State.

The Chief Financial Officers Responsibilities

The Chief Financial Officer is responsible for the preparation of the Corporations Annual Financial Statements in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code of Practice).

In preparing the Annual Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code of Practice.

The Chief Financial Officer has also:

- kept accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of the accounts by the Chief Financial Officer

In accordance with the requirements of the Accounts and Audit Regulations 2015, I certify that by signing this statement the Annual Financial Statements give a true and fair view of the financial position of South Tees Development Corporation Accounts at the accounting date and its income and expenditure for the period ended 31 March 2018.

J Gilhespie **Date: 31 May 2018**
Director of Finance

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2018.

J Gilhespie **Date: 25 July 2018**
Director of Finance

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TEES DEVELOPMENT CORPORATION

Opinion on the financial statements

We have audited the financial statements of South Tees Development Corporation (‘the Corporation’) for the period ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

• give a true and fair view of the financial position of South Tees Development Corporation as at 31 March 2018 and of its expenditure and income for the period then ended; and

• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the Chief Financial Officer’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

• the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Corporation’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of the Chief Financial Officer for the financial statements

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. The Chief Financial Officer is also responsible for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TEES DEVELOPMENT CORPORATION

The Chief Financial Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Corporation is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Financial Officer is responsible for assessing each year whether or not it is appropriate for the Corporation to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Conclusion on South Tees Development Corporation’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, South Tees Development Corporation has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Corporation had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Corporation put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Corporation had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Corporation

The Corporation is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Corporation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Corporation’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TEES DEVELOPMENT CORPORATION

Matters on which we are required to report by exception under the Code of Audit Practice
We are required by the Code of Audit Practice to report to you if:
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report
This report is made solely to the Board of South Tees Development Corporation, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Board of the Corporation those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate
We certify that we have completed the audit of South Tees Development Corporation in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Kirkham
For and on behalf of Mazars LLP

Salvus House
Aykley Heads
Durham
DH1 5TS

26-Jul-18

Appendix A

Glossary of Terms

Accruals
The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount. International Accounting Standard (IAS) 39 requires the amortised cost to be calculated using the effective interest method.

Capital Charge
A charge to service revenue accounts to reflect the cost of non current assets used in the provision of a service.

Capital Expenditure

Expenditure on the acquisition of a non current asset or expenditure designed to extend its useful life.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency
A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non occurrence of one or more uncertain future events.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non current asset, whether arising from use, effluxion of time or obsolescence through technological or other changes.

Effective interest method
This is a method of calculating the amortised cost of a financial asset or financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate in a financial instrument is the rate that exactly discounts the cash flows associated with the instrument to the net carrying amount at initial recognition.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items, merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Appendix A

Glossary of Terms

Finance Lease

A lease that transfers substantially all the risks and rewards of ownership of a non current asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Going Concern

The concept that the Authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Inventories

Comprise the value of items held in the following categories:

a) goods or other assets purchased for resale;
b) consumable stores;
c) raw materials and components purchased for incorporation into products for sale;
d) products and services in intermediate stages of completion;
e) long term contract balances; and
f) finished goods.

A long term investment is an investment that is being held for use on a continuing basis in the activities of the Authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria are classified as current assets.

Long Term Contracts

A contract entered into for the design, manufacture or construction of a substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts, if they are sufficiently material to the activity of the period.

Net Book Value

The amount at which non current assets are included in the balance sheet i.e. the historical cost or current value, less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use i.e. the costs of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of a non operational asset), less any expenses incurred in realising the asset.

Appendix A

Glossary of Terms

Non Current Assets
Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Non Operational Assets
Non current assets held by a Authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non current assets held and occupied, used or consumed by the Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates in prior years.

Prudence
The concept that revenue is not anticipated, but is recognised only when realised, in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Usable Reserves
Amounts set aside to meet future costs, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

Unusable Reserves

Reserves that not available to spend; this category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".