South Tees Development Corporation Board Agenda

Date: Wednesday 29th July 2020, at 2.00pm

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   Attached - Appendix 1 to this report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

7. **Finance Update**

   Attached

8. **Draft Accounts & Annual Governance Statement**

   Attached

9. **Transition Update**

   Attached – Appendices to this report are not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972.

10. **Procurement of Demolition Framework**

    This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

11. **AOB**

12. Date and Time of Next Meeting:

Wednesday 30th September 2020

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 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.

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: 3rd June 2020 Time: 15.00 pm

Venue: Microsoft Teams Live Event

Attendees:		Apologies:
Ben Houchen (Chair)	Tees Valley Mayor	
Paul Booth	TV LEP	
Mary Lanigan	Leader, RCBC	
Graham Robb	Recognition PR	
Steve Gibson	Bulkhaul Ltd	
Andy Preston	Mayor of Middlesbrough	
David Smith	Energy Networks UK	
Sir Alan Cockshaw	Independent Member	
Jacob Young MP	Member of Parliament	
Julie Gilhespie	TVCA	
John McNicholas	STDC	
Gary MacDonald	TVCA	
Chris Harrison	Joint Venture Partner	
Sharon Jones (Secretariat)	TVCA	

South Tees Development Corporation

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	**Welcome and introductions**	The Chair welcomed everyone to the meeting. No apologies were submitted.		
2.	**Declarations of Interest**	None.		
3.	**Minutes of previous meetings**	The minutes of the meeting held on 4th March 2020 were agreed as a true record subject to one minor change.		
4.	**Chair's Update**	There was no separate update from the Chair on this occasion		
5.	**CEO Update**	A report was circulated from the CEO providing an update to the Board on activity since the last meeting. The report and the Appendices are for agreement by the Board. **Resolved** that the detail of the report is noted.		
6.	**Governance Review**	A report regarding a Governance review of STDC was circulated. This report has already been submitted to and agreed by TVCA Cabinet. The report and Appendices are submitted for agreement by the Board. It was clarified that whilst membership of the Board has changed the Associate membership remains unchanged. Associate members are John Sampson – MD of RCBC and Tom Smyth, BEIS.		

		It was agreed that the quorum requirement for the meeting be looked at outside of this forum. **Resolved** that the recommendations in the report are agreed by the Board.		
7.	**Draft Budget 2020-2021**	A paper was circulated regarding the draft budget and Medium-Term Financial Plan. GM specified that Recommendation 1 within the report should be modified and that the Board delegates to the CEO in consultation with the Chair and Director of Finance and Resources any modifications to the budget to reflect changes as a result of statutory and Government processes providing the changes are within the Budget envelope for the year and the MTFP **Resolved** that the recommendations in the report are agreed by the Board.		
8.	**Treasury Management Strategy**	A report was circulated regarding the Treasury Management Strategy. The item was not specifically covered within the meeting and therefore agreement for this item was sought via correspondence following the meeting. **Resolved** that the recommendations within this report are agreed by the Board.		
9.	**Plans for Electricity Infrastructure**	A paper was circulated regarding plans for Electricity Infrastructure. **Resolved** that the recommendations within the report are agreed by the Board.		
10.	**Review of Governance Framework**	A paper was circulated regarding a review of the Governance Framework and revised STDC policies and procedures **Resolved** that the recommendations within the paper are agreed by the Board.		

10.	**AOB**	The Chair advised the Board Members that a response to the consultation regarding Freeport status would be submitted to Government on behalf of STDC. Board members were in agreement with this.		
11.	**Date of next meeting**	**29th July 2020**		

AGENDA ITEM 6

REPORT TO THE STDC BOARD

29th JULY 2020

REPORT OF GROUP CHIEF EXECUTIVE

GROUP 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. Following the update provided In June, STDC's Business Case to secure £71m of Government funding towards demolition and site remediation continued to progress as anticipated.
2. Since June the Business Case has passed a further review by BEIS Commercial leads at the beginning of June and recommendations have been reflected in the final business case document that was issued on 1 July and was presented to a Joint BEIS and MHCLG project investment committee on 15 July. Whilst we still await formal confirmation of the decision, we are very confident of a positive outcome.
3. The Business case will now pass to Treasury for final review with an anticipated outcome announced in mid-August. Once this is achieved, STDC will, subject to Board approval, be able to purchase the shares of STSC and transition to local ownership.
4. The final Business Case is enclosed as a confidential **Appendix 1** for information

COMMERCIAL

5. The commercial focus on delivering new business, job creation and value for STEL has continued at pace with several key deliverables in the month, summarised as follows:
   - Standard HoT's have been delivered and reviewed and form the basic legal framework to support negotiations;
   - The Rail management business case has been delivered and provided us with recommendations as to the way forward;
   - The valuations report has been received and indicated that the market remains positive and that the rentals of comparable locations and sectors are as planned

within our Business Case. In some areas we may expect to witness a premium;

- Transferred land held by Tata under restricted covenants transfer to STDL; and
- We have finalised the HoTs for the proposed energy recovery facility on Prairie site.

6. Together with our joint venture partners, we continue to pursue discussions for HoT's with a number of key potential customers.

7. Preparation work has commenced to make best use and maximise the value of existing infrastructure.

- **Electrical Infrastructure JV Procurement Process -** Preparations for the procurement have progressed and a Prior Information Notice was published on 8th July. Initial responses were positive and several Independent Distributed Network Operators have responded. The Formal OJEU notice and commencement of the procurement is scheduled before end July 2020. Prior to publishing the OJEU several agreements are being materially developed included the Selection Questionnaire, a Scope of Services, the Subscription and Shareholders Agreement, Instruction to Participate in Dialogue (including bid evaluation criteria) and a Financial Model, for internal use to support the evaluation criteria. Womble Bond Dickinson are providing legal support, KPMG are providing financial support and JBA Engineering are providing technical support.

  For the tender stage (expected end Aug 2020) further documentation will be developed including a detailed Instruction to Participate in Dialogue, Articles of Association, Business Purchase Agreements, Land Transfer Document, Design and Build Contracts, Operation and Maintenance Contracts, Customer Supply Contract (pro forma), customer connection agreement (pro forma), Business Plan and Investment Programme Template, Financial Model Template and further iterations of the Subscription and Shareholders Agreement. Tender stage participation is likely to be limited to 3 or 4 companies, as this will be a Competitive Dialogue, with the onus on the Successful Bidder providing the best overall solution to develop the site Electrical Infrastructure. Site visits are likely to occur during the tender stage in Sep 20.

  We expect to bring a recommendation for appointment of a Joint Venture Partner to November's Board.

- **Energy From Waste Electrical Connections -** STDC have been approached by P-Mac Energy and the TV ERF power station projects for connection to the High Voltage Electrical Network. Studies are being undertaken by JBA Engineering to confirm that the generators can connect. It is likely that a conditional connection offer will be required for both projects before the Electrical JV Partner is appointed. As well as being a strategically positive development for the site, as either project will be capable of providing on-site power to high energy demand customers, it will also provide a positive for the Electrical JV procurement process as it confirms the appetite for third parties to connect to this electrical infrastructure.

PROGRAMME DEVELOPMENT

8. Work on the Prairie Site is progressing as follows:

- **Highway Access Scheme**
  - Detailed scheme design (by Atkins) is progressing well and is on programme;
  - Planning permission is expected no later than 28 August 2020;

- Construction commencement is likely to be brought forward by 2 weeks to 07 September 2020. Seymour Civil Engineering is the appointed contractor;
- Completion is scheduled for 30 April 2021; and
- Scheme cost estimate: £1.0M-£1.5M.

- **Site Preparation Works – Phase 1 (40 acres – western end of site)**
  - Full scheme design by our appointed consultant, Arcadis, is nearing completion;
  - The planning application for preparation of the whole STDC land area on the Prairie site was submitted 24 June 2020. Planning permission is anticipated no later than 18 September;
  - Construction commencement is on programme for 21 September 2020 – Seymour Civil Engineering is, again, the appointed contractor;
  - The Phase 1 advance works, comprising site clearance and building demolitions, are continuing;
  - Construction completion is scheduled for 26 March 2021 – we should be able to better this by 6 weeks by virtue of the advance works progression; and
  - Phase 1 scheme cost estimate: £3.2M-£3.7M.

- **Site Preparation Works – Phases 2 & 3 (80 acres – remainder of STDC owned land area)**
  - Consultant Arcadis is working up the scheme design and specifications for Phases 2 & 3 of the site preparation works, to inform tender documents;
  - We plan to go to tender on these works by 31 July 2020 latest;
  - Construction commencement is planned for 21 September 2020;
  - Construction completion is expected by 31 May 2021; and
  - Phases 2 & 3 scheme cost estimate: £7.5M-£8.0M.

- **Metals Recovery Area (50-acre site)**
  - Advance earthworks and site clearance activities to this 50-acre site commenced in March 2020 and are continuing;
  - Procurement of the contractor to execute the main site preparation works to the area is complete – Hall Construction Services was appointed 22 June 2020;
  - The ability to commence the site preparation works is constrained by the need to secure planning permission and the completion of land vesting, post-CPO; and
  - Construction is scheduled to commence 05 October 2020 and complete by 15 February 2021.
  - Scheme cost estimate: £2.5M-£3.0M. Overall contract value £4.7M.

9. South Bank Area and South Bank Wharf developments are as follows:

  - Works continue on the following site surveys, consents and environmental assessment as well as concept design for the potential number 1 quay
  - The planning application submission is scheduled for 16 November 2020 and is on programme;
  - The marine works (new quay and river dredging) are scheduled to commence 10 August 2021 and complete in December 2022;
  - The outline planning application for 4.5M sq. ft of industrial building space was submitted 06 July 2020, on programme;

- The first phase of the landside site preparation works, to around 100 acres of land, is scheduled to commence 18 January 2021. However, advance works have already commenced, involving major site clearance, and these works will extend to other preparatory works, such as bridge and certain other structural demolitions; and
- A detailed planning application for site preparation will be submitted over the coming months, once ground investigations are complete. The plan is to go to tender on the first phase site preparation works by Sep/Oct 2020.

10. Demolition works is being specified in a number of packages as follows:

- **Package 1 – Various Buildings, Prairie Site**
  - The Prior Approval process has been concluded with RCBC and we have the consents needed to start demolitions; and
  - The contractor (Seymour) is now gearing up to commence demolition works on the Prairie Site once the STSC Coke Ovens Gas Main decontamination works in the locale are complete.

- **Package 2 – Heavy Fuel Oil (HFO) Tank Farm and Buildings at South Bank**
  - Prior Approval has been secured from RCBC for the HFO Tank Farm; similar for the various other buildings is expected by 27 July;
  - The advance cleaning/decontamination works contract for the Tank Farm has been progressed and Acumen will provide these services as a sub-contractor to Hall Construction. The works are scheduled to commence in August; and
  - Demolition of the HFO Tank Farm is scheduled to commence 12 October 2020 and complete in February 2021. The scheme is budgeted at £750K.

- **Package 3 – SSI Assets, Advance Demolitions**
  - STDC tendered an advance demolition programme in respect of certain SSI assets in 2018, in anticipation of a deal being done with the Thai Banks. This programme is supported by a fully developed tender pack and the plan is to re-tender the works in readiness for a start in October 2020, upon completion of land vesting;
  - Key demolitions within this package include certain facilities on the proposed NZT site and the gas holder structure at South Bank Coke Ovens; and
  - The works are scheduled to complete by March/April 2021, dependent on whether certain projects are impacted by any HSE imposed, more stringent measures and protocols, further to the investigation into the Ammonia Washers demolition project Scheme cost estimate: £1.2M-£1.5M.

- **Package 4 – Demolition Framework**
  - STDC has commenced the procurement of a Demolition Contractors' Framework – a process governed by OJEU rules, that will conclude in December 2020;
  - The Framework will be structured in two lots, namely: Lot 1 - large-scale, high complexity demolitions; Lot 2 – smaller scale demolitions of a lower complexity;
  - The Framework will address the majority share of the demolition projects across the site, including all of the large-scale, complex facilities, such as: Redcar Blast Furnace; Redcar Coke Ovens; the Sinter Plant; Lackenby Steelmaking Complex; and South Bank Coke Ovens;

- The programme duration is estimated at 5 years minimum; and
- The plan is that the first demolitions under the Framework will be the major facilities located on the proposed NZT land area, commencing on site March/April 2021.

11. **'Bravo 10' Industrial Pipeline Diversion Project**

- A consultant has been appointed to scope out the civil and structural engineering works for a proposed advance Design & Build contract to deliver the necessary below ground infrastructure and highway improvement works to accommodate the pipeline diversion.
- An agreement has been executed between STDC and SembCorp for the pipeline diversion feasibility study, which will be delivered for SembCorp by Nortech.
- A completion of the project by April 2022 has been targeted.
- Scheme cost estimate: c. £5.0M.

12. **Materials Handling Facility (MHF), Warrenby**

- Dialogue has continued with Anglo American (Sirius) regarding the proposed Material Supply Agreement and a way forward has been determined, where we will take the material only if and as we need it.
- Preparation of the MHF is complete, should there be a need to utilise the facility.
- We are presently exploring the potential for using the mudstone material in addressing the remediation of the SLEMS, subject to further ground investigations and field trials being implemented, design solutions being developed, and related EA approvals being secured.

13. **Ground Investigations**

- The initial phase of ground investigation on the Metals Recovery Area has just been completed – this will inform the design of the site preparation works.
- A ground investigation on the SLEMS has now commenced – this will enable remediation options to be considered and developed.
- A further ground investigation is planned to start w/c 20 July on the major landfill at Warrenby, with the purpose of determining the potential for recycling and reuse of close to 1.0M cubic metres of material.
- Further ground investigations are currently being planned for:
- The new quay and hinterland development at South Bank
- The Teardrop site.

CPO

14. The CPO order has been approved in full with no modifications and the deadline for judicial review of the decision has passed. The first General Vesting Declaration was submitted on 29 June and, assuming there are no judicial review claims made, land will vest in the first week of October.
    - We are commencing work on looking at the second GVD, but this is not considered high priority at the moment.

FINANCE AND RESOURCES

15. The draft financial accounts for the year ended 31 March 2020 and a financial performance update for the three months to 30 June 2020 are presented as separate papers

FINANCIAL IMPLICATIONS

16. The financial implications of programme activity are captured in the STDC Delivery Group meetings throughout the year. The Group received regular financial updates linked to programme milestones and a procurement pipeline has been produced to integrate with the programme plan. This will ensure spending profiles are monitored and key critical expenditure path items are identified.

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

18. 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

19. 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

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

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South Tees Development Corporation

AGENDA ITEM 7

REPORT TO THE STDC BOARD

29th JULY 2020

REPORT OF THE HEAD OF FINANCE AND RESOURCES

Q1 FINANCE UPDATE – THREE MONTHS TO 30 JUNE 2020

SUMMARY

The purpose of this report is to provide an update on the financial performance of the STDC Group in the 3-months to 30 June 2020.

RECOMMENDATIONS

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

FINANCIAL PERFORMANCE UPDATE

Expenditure overview

1. This finance update reports performance against the budget presented to the Board in June. To date STDC has incurred net expenditure of £1.8m v's an initial phased budget of £2.7m. The 0.9m underspend arises because of lower than anticipated expenditure on enabling projects v's the budget profile. It is however anticipated that this shortfall arises in part due to overly aggressive budget phasing and it anticipated expenditure will be caught up in the coming months. Capital works delivery is in line with activity levels set out in the operational programme

Expenditure overview	Quarter to Jun-20 Actual £'000	Quarter to Jun-20 Budget £'000	Quarter to Jun-20 Var £'000	Year to Mar-21 Budget £'000
Core operations and running costs	498	409	89	2,102
STDL site management costs	231	289	(58)	1,296
Enabling expenditure and projects	692	1,738	(1,046)	9,161
Capital works projects	364	219	145	13,672
Land purchase costs	-	-	-	11,000
Net expenditure	**1,785**	**2,655**	**(870)**	**37,231**
HV Capital expenditure (end user funded)	-	-	-	3,448
Gross expenditure	**1,785**	**2,655**	**(870)**	**40,679**

Core operating costs / STDL Site Management costs

2. Overall core operating costs across STDC and STDL are broadly in line with the Q1 budget, combined expenditure is £729,000 v's a budget of £698,000. The combined overspend of £31,000 is principally driven by unbudgeted one-off costs. Future savings are expected that will absorb this variance.
3. The gross year to date variances in core STDC and STDL operations costs (£89,000 negative and £58,000 favourable respectively) arise principally due to accounting allocations of costs between the two entities. It is envisaged that this position will be resolved with the full implementation of the Unit 4 finance system into the STDC group (see below)

Enabling expenditure

4. Enabling expenditure is tracking behind the phased budget by c£1m at 30 June. The overall underspend v's budget is summarised as follows
   - **Strategic consultancy £0.7m underspent –** The budget was aggressively phased in respect to these costs with £0.9m (52%) of the overall annual cost of £1.7m phased into the first quarter of the year. It is anticipated that expenditure will move in to line with the budget profile in Q2
   - **Transition due diligence costs £0.2m underspent –** The transition due diligence project is underway and will provide an interim report to July Board. The shortfall in expenditure to Q1 reflects a condensed delivery period with most of the activity commencing in July. Delivery is on track
   - **Other £0.1m underspent –** relates principally to budget costs in support of investor led activity. Again, we would expect this expenditure to accelerate from Q2 as commercial projects develop.

Capital works projects

5. Capital works projects currently underway comprise phase 1 advance works on the Prairie and Metals Recovery sites. A £145,000 acceleration of expenditure against budget arises because of STDC being granted earlier than anticipated access to the Metals Recovery Area, (which is under the control of the Official Receiver)
6. Levels of expenditure are in line with expectations at this stage and align with the operational programme which shows a significant acceleration of expenditure through Q2 to Q4 (See below)

Land acquisition costs

7. The initial CPO vesting declaration was issued in early July 2020 which will lead to vesting of land and payment of compensation in the third quarter of the financial year.
8. An update on STDC's likely financial commitments in relation to land acquisition will be given at the next board meeting in line with the post -Q1reforecasting exercise (see below).

Budget phasing and post quarter reforecast

9. The budget profile, aligned to the original operational programme, shows a significant acceleration of expenditure through the remainder of the financial year

Budget phasing 2019/20	Q1 Actual £'000	Q1 Budget £'000	Q2 Budget £'000	Q3 Budget £'000	Q4 Budget £'000	2020/21 Budget £'000
Core operations and running costs	498	409	461	580	652	2,102
STDL site management costs	231	289	329	352	326	1,296
Enabling expenditure and projects	692	1,738	2,920	2,336	2,167	9,161
Capital works projects	364	219	2,141	5,305	6,007	13,672
Land purchase costs	-			11,000		11,000
Net expenditure	**1,785**	**2,655**	**5,851**	**19,573**	**9,152**	**37,231**
HV Capital expenditure (end user funded)	-		270	1,589	1,589	3,448
Gross expenditure	**1,785**	**2,655**	**6,121**	**21,162**	**10,741**	**40,679**

Delivery of the budget through Q2 and beyond is initially underpinned by enabling work to facilitate the South Bank Area and South Bank Wharf developments and acceleration of capital works already commenced on the Prairie and Metals Recovery Area.

STDC is well placed to deliver the planned increase in activity across the year in particular:

- **South Bank Wharf** – Planning is on schedule and survey works are progressing with marine works (dredging) due to commence in August 2020
- **Prairie expenditure** – Works are underway on Phase 1 advance site clearance works and demolition. A work plan is also in place to deliver a new site access prepare the site for development with an overall package cost of between £11.7m and £13.2m between now and June 2021
- **Metals recovery –** Advance earthworks are underway, and a contractor is appointed. Works with a scheme cost of £2.5m to £3m are planned commencing October 2020 (once STC secure full site access following CPO) and ending February 2020.
- **Other activity –** Significant procurements are progressing to implement a demolition framework and procure a joint venture partner to facilitate development of the HV network on site which will contribute significantly to STDC's capacity to deliver on site.

Since the budget was prepared in May/ June operational priorities have continued to evolve based on anticipated end user demand and this has led to changes in the operational programme.

Changes to the programme made across June and July will be considered in a post quarter reforecasting exercise, the results, which are expected to reallocate funds between projects in the existing budget/ funding envelope, will be presented at the next Board meeting in a reforecast.

This review will also consider refinements needed to assumptions in relation to land acquisition costs following recent developments in execution of the CPO, as well as considering any impacts of the formalising of future joint venture arrangements on the 2020/21 budget.

SYSTEMS IMPLEMENTATION PROGRESS

Work is currently underway to implement Unit 4 Agresso into the STDC group and initial implementation is expected to be complete during August 2020. To date accounting has been prepared manually from a transactional download in a single cost centre of the TVCA accounting system.

Moving forward it is anticipated that the move to Unit 4 will improve the accuracy and efficiency of TVCA monthly reporting and provide operational benefits in support of project cost management activity moving forward.

It is anticipated that full implementation may take a number of weeks as key contracts and supplier arrangements need to be novated from TVCA to allow full utilisation of systems capability

A further update will be given at the next board meeting

FINANCIAL IMPLICATIONS

10. This is a summary report on STDC's current financial position which has no direct financial consequences

LEGAL IMPLICATIONS

11. This report has no specific legal implications

RISK ASSESSMENT

12. This finance update is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk."

CONSULTATION & COMMUNICATION

13. This report has been considered by the Director of finance and STDC senior management team

EQUALITY & DIVERSITY

14. The subject of this report is not expected to have any impacts on groups of people with protected characteristics.

Name of Contact Officer: Mike Russell
Post Title: Head of Finance and Resources
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South Tees Development Corporation

AGENDA ITEM 8

REPORT TO THE STDC BOARD

29th JULY 2020

REPORT OF HEAD OF FINANCE AND RESOURCES

STDC AND GROUP DRAFT UNAUDITED STATUTORY ACCOUNTS AND ANNUAL GOVERNANCE STATEMENT 2019/20

SUMMARY

The purpose of this report is to present the draft statutory accounts for the year ended 31 March 2020.

RECOMMENDATIONS

It is recommended that the STDC Board:

i. Approves the publication of the draft unaudited accounts by 1 September 2020 in accordance with the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020
ii. Considers and endorses the annual governance statement for 2019/20

DETAIL

Requirement to publish draft accounts

1. In accordance with the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020, as a public body STDC is required to publish its draft accounts for public inspection from no later than the 1st September 2020.

2. Publication is currently scheduled to take place on 31 July aligning with TVCA's publication timetable. The drafts will be made available on the STDC website.

3. The unaudited draft accounts and governance statement have been presented to STDC's Audit and Risk Committee and any feedback will be reflected prior to publication. The draft forward governance plan also includes the presentation of a later draft to Audit and Risk Committee following audit review on 21 October in advance of submission of final audited accounts to Board on 25th November. The final accounts publication deadline is 30 November 2020

Results for the year

4. Overall, the group accounts show a net surplus of £0.7m in STDC. STDL is broadly break even, showing an £8k deficit as core operating costs are funded by TVCA as a grant:

Year ended 31 March 2020	STDC £'000	STDL £'000	Group £'000
Income	6,723	7,151	13,874
Expenditure	(5,943)	(6,630)	(12,573)
	780	**521**	**1,301**
Property revaluation	-	(530)	(530)
Surplus/(deficit)	**780**	**(9)**	**771**

STDC

5. Income of £6.7m comprises £3m of funding for operational costs from MHCLG, £3m funding for committed Prairie site remediation costs and £0.7m of TVCA funding for capital works and site investigations

6. Expenditure of £5.9m includes £1.8m of costs related to the CPO defence and hearing, £0.8m of capital works costs, £0.4m of site investigation works and £2.9m of general operating costs (including £0.4m of pension related adjustments)

STDL

7. Income of £7.1m includes £1.9m of grant funding from STDC for operating costs and £5.2mof electricity charges that are passed through to users of the HV electrical network across the STDL site at cost

8. Expenditure includes the £5.2m corresponding costs entry for electricity income alongside £0.7m of bad debt charges related to unpaid electricity charges from British Steel arising from its liquidation in May 2019. Remaining costs represent the day to day operating costs of STDL.

9. In accordance with the requirements of the CIPFA code STDL has revalued its land assets the result of which was a downward revaluation of £0.5m from £12m to £11.5m. This broadly reflects write down of legal fees and stamp duty capitalised on acquisition of the property. The book valuation of the property remains consistent with the purchase price paid by STDL in February 2019

Financial position

10. Summary group balances sheets for the 2019 and 2020 financial year are presented below:

Summary group balance sheets	2020	2019
As at 31 March	£'000	£'000
Fixed assets (Land)	11,500	12,000
Net current assets	5,677	3,961
Total assets less current liabilities	**17,177**	**15,961**
Long term liabilities (TVCA loan)	(12,215)	(12,215)
Long term liabilities (Pensions)	(496)	(52)
	(12,711)	**(12,267)**
Net Assets	**4,466**	**3,694**
Usable reserves	5,673	4,032
Unusable reserves	(1,207)	(338)
Total reserves	**4,466**	**3,694**

- The reduction in fixed asset carrying value reflects the revaluation of land assets as discussed in paragraph 9 above
- The Group shows strong liquidity at the close of the 2019/20 financial year with net current assets of £5.7m including positive cash balances of £6.6m
- Pension liabilities have increased year on year due to the impact of underlying actuarial assumptions
- Overall TVCA has net useable reserves of £2.5m as at 31 March 2020

Annual Governance Statement

11. The annual governance statement for the year is attached, which reflects changes to the STDC's governance structure enacted at the June Board meeting and will be published alongside the annual accounts.

FINANCIAL IMPLICATIONS

12. Whilst this report provides financial information it has no direct financial consequences

LEGAL IMPLICATIONS

13. This report has no specific legal implications

RISK ASSESSMENT

14. Publishing of draft accounts is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

15. These draft accounts have been consulted with the STDC Senior Management team, TVCA finance manager and Group Director of Finance. The accounts are also being presented to STDC's Audit and Risk Committee for endorsement immediately prior to the Bord meeting.

EQUALITY & DIVERSITY

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

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South Tees Development Corporation and Group

Draft Unaudited Financial Statements

for the year ended 31/03/2020

CONTENTS

Narrative Report

Introduction

Welcome to the South Tees Development Corporation and Group's Annual statement of Accounts for 2019/20 which have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

The South tees Development Corporation Group comprises South Tees Development Corporation (STDC) and its wholly owned subsidiary company South Tees Developments Limited.

The purpose of this narrative report is to provide a guide to the Corporation and Group's accounts as well as setting out the Corporation and Group's financial position.

Organisational overview and external environment

The South Tees Development Corporation was established in August 2017 in the wake of the closure of the SSI Steelworks, and is the first mayoral development corporation outside of London. STDC's long term objective is to create a world class, modern industrial park on the former steelworks site and surrounding land that will focus on advanced manufacturing and clean growth. This in turn will generate quality local employment and contribute significantly to decarbonisation of local industry and moving the UK towards "Carbon Net Zero" by 2050.

The South Tees Development Corporation Site is site is the largest industrial development opportunity in the UK comprising 4,500 acres in total. STDC's core operations are the remediation of contaminated, unsafe land within the site boundaries, completion of the demolition of redundant assets and bringing the site back into productive use by releasing over 2,000 acres of additional land for commercial investment.

In February 2019 STDC established its wholly owned subsidiary Company, South Tees Developments Limited. STDC exists to own and manage 1,420 acres of land acquired from TATA Steel Europe.

Governance and transparency

STDC is part of the Tees Valley Combined Authority (TVCA) Group but retains its own separate Board (chaired by the Mayor of the Tess Valley) and governance committees with members drawn from both the public and private sectors. The STDC constitution ensures alignment with the wider objectives of TVCA through the concept of "referral decision" for any significant matters.

A more detailed overview of STDC's governance arrangements is presented within its Annual Governance Statement which can be found at https://www.southteesdc.com/about-us/transparency-required-information/

Minutes of board meetings can be found at https://www.southteesdc.com/about-us/board-meetings/

2019/20 performance

Through 2019/20 STDC's principal focus was to complete the compulsory purchase order of the former SSI steelworks site which contains the majority of the contaminated and unsafe land as well as developing a business case to central government to secure funding to support regeneration activity.

Key milestones include

- **£71m funding commitment** - In January 2020, a £71m funding was committed by treasury in support of the regeneration of the STDC site (subject to final business case.) As at July 2020 the full business case for this funding has been submitted to government with a final decision expected in mid- August
- **Favourable CPO outcome** – Compulsory purchase proceedings took place during 2019/20 to secure the remining 870 acres of land owned by SSI in receivership and other remaining land interests, which sit within the boundaries of the South Tees Development Corporation Site. On 29 April 2020, STDC's CPO was approved unconditionally paving the way for the remainder of the site to be acquired by STDC

Outlook, strategy, and operating model

As a result of the successful CPO conclusion, and in anticipation of release of funding from central government, the focus of STDC's activity is shifting towards land acquisition and delivery of its regeneration programme through 2020/21

Site regeneration

STDC's board has agreed an overall budget of £41m for the year including £26m for capital project works (subject to securing the additional government funding noted above). In the first quarter of 202/21 work commenced on site clearance whilst major procurements are being finalised to secure contractor resource and accelerate activity.

Narrative Report

Land acquisition
In July 2020 STDC made a "General Vesting Declaration" which will lead to transfer of the first tranche of ex SSI steelworks land into local ownership in early October 2020. Further General Vesting Declarations will be made in the year with the aim of taking ownership of all relevant land by the end of the calendar year.

South Tees Site Company (STSC) Transition
In line with the transfer of ex SSI land into STDC ownership the TVCA group is working to complete the transition of the South Tees Site Company into local ownership. South Tees Site Company is currently owned by the Department for Business, Energy and Industrial Strategy (BEIS) and is responsible for decontamination, keep safe, maintenance and security across the South Tees Development Corporation site. The transition of STSC will bring all activities on the STDC site into local control

Commercial activity

STDC is also in final stage discussions with a prospective joint venture partner which will work alongside the group to develop commercial interest on the site, secure inward investors and facilitate development. It is anticipated that these arrangements will be formalised during the 2019/20 financial year

Key risks
The nature of the STDC site brings with it number of safety and delivery risks. In particular, safeguarding individuals on site, maintaining site security and ensuring hazardous and toxic materials do not cause additional environmental harm. Central government continues to fund the activities of South Tees Site Company which manages these risks and is also decontaminating the site.

Medium term risks to delivery include the impact of unforeseen issues when redeveloping the site, relating to ground conditions and potentially unsafe structure. Where possible these risks are mitigated through survey activity and robust planning and safety management systems adopted by contractors on site

Ultimately there is a commercial risk linked to the level of appetite for investors to locate on site, however this is not considered significant and the site continues to receive interest and enquiries from potential investors

Covid-19
To date Covid-19 has had limited impact on the operations of STDC, as a result of a robust business continuity plan the relatively small core team were quickly able to transition to remote working and operations on site continued subject to appropriate adjustments to ensure safe working.
Management continues to monitor the Covid-19 situation and will continually review its risk assessment based on the latest available information.

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 and Group.

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 and Group. The net assets of the Corporation and Group (assets less liabilities) are matched by the reserves held by the Corporation and Group.

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.

STDC Movement in Reserves Statement for the year ended 31 March 2020

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	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2019/20						
Balance at 1 April 2019	**2,020**	**-**	**2,509**	**4,529**	**(64)**	**4,466**
Total Comprehensive Income and Expenditure	780			780	-	780
Adjustments between accounting basis & funding basis under regulations (Note 5)	(2,155)	-	2,494	339	(339)	-
Increase/Decrease in Year	(1,376)	-	2,494	1,119	(339)	780
Balance at 31 March 2020 carried forward	644	-	5,003	5,647	(403)	5,245
	-					
(Annual Accounts						
Amounts earmarked (Note 6)	322					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2020	644					

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2018/19						
Balance at 1 April 2018	**2,174**	**-**	**925**	**3,099**	**(2)**	**3,097**
Total Comprehensive Income and Expenditure	1,368			1,368	1	1,369
Adjustments between accounting basis & funding basis under regulations (Note 5)	(1,522)	-	1,584	62	(63)	-
Increase/Decrease in Year	(154)	-	1,584	1,430	(62)	1,369
Balance at 31 March 2019 carried forward	2,020	-	2,509	4,529	(64)	4,466
General Fund analysed over:						
Amounts earmarked (Note 6)	1,698					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2019	2,020					

STDC Group Movement in Reserves Statement for the year ended 31 March 2020

This statement shows the movement in the year on the different reserves held by the Corporation and Group, 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 and Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2019/20						
Balance at 1 April 2019	**1,523**	**-**	**2,509**	**4,033**	**(338)**	**3,696**
Total Comprehensive Income and Expenditure	771	-	-	771	-	771
Adjustments between accounting basis & funding basis under regulations (Note 5)	(1,625)		2,494	869	(869)	(0)
Increase/Decrease in Year	(854)	-	2,494	1,641	(869)	771
Balance at 31 March 2020 carried forward	669	-	5,003	5,674	(1,207)	4,467
General Fund analysed over:						
Amounts earmarked	347					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2020	669					

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Movement in reserves during 2018/19						
Balance at 1 April 2018	**2,174**	**-**	**925**	**3,099**	**(4)**	**3,097**
Total Comprehensive Income and Expenditure	599	-	-	599	1	599
	-	-	-	-	-	-
Adjustments between accounting basis & funding	(1,250)	-	1,584	335	(335)	-
basis under regulations (Note 5)	-	-	-	-	-	-
Increase/Decrease in Year	(651)	-	1,584	934	(334)	599
Balance at 31 March 2019 carried forward	1,523	-	2,509	4,033	(338)	3,696
General Fund analysed over:						
Amounts earmarked	1,201					
Amounts uncommitted	322					
Total General Fund Balance at 31 March 2019	1,523					

STDC Comprehensive Income and Expenditure Statement
for the year ended 31 March 2020

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

2018/19				2019/20		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
1,636	(1,419)	**217**	Core Running Costs	2,951	(1,239)	**1,712**
965	(603)	**362**	Enabling Infrastructure	2,569	(2,057)	**512**
127	(127)	**-**	Development Costs	423	(423)	**-**
2,729	**(2,149)**	**580**	**Cost Of Services**	**5,943**	**(3,718)**	**2,224**
			Financing and Investment Income and Expenditure:			
1	(2)	(1)	Net interest on the net defined benefit liability/asset			-
			Taxation and Non-Specific Grant Income:			
-	(1,946)	(1,946)	Capital grants and contributions		(3,004)	(3,004)
2,730	**(4,097)**	**(1,368)**	**(Surplus) or Deficit on Provision of Services**	**5,943**	**(6,723)**	**(780)**
			(Surplus) or deficit on revaluation of non current assets			-
		(1)	Actuarial (gains) or losses on pension assets & liabilities			-
			Other (gains) and losses			-
		(1)	**Other Comprehensive Income and Expenditure**			**-**
		(1,369)	**Total Comprehensive Income and Expenditure**			**(780)**

STDC Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2020

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

2018/19				2019/20		
£000s	£000s	£000s		£000s	£000s	£000s
Expenditure	Income	Net		Expenditure	Income	Net
2,922	(1,935)	**987**	Core Running Costs	9,581	(8,391)	**1,190**
965	(603)	**362**	Enabling Infrastructure	2,569	(2,057)	**512**
127	(127)	**-**	Development Costs	423	(423)	**-**
4,015	**(2,666)**	**1,349**	**Cost Of Services**	**12,573**	**(10,870)**	**1,703**
			Financing and Investment Income and Expenditure:			
1	(2)	**(1)**	Net interest on the net defined benefit liability/asset	-	-	**-**
-	-	**-**	***Taxation and Non-Specific Grant Income:***	-	-	**-**
-	(1,946)	**(1,946)**	Capital grants and contributions	-	(3,004)	**(3,004)**
4,016	**(4,614)**	**(598)**	**(Surplus) or Deficit on Provision of Services**	**12,573**	**(13,874)**	**(1,301)**
		-	(Surplus) or deficit on revaluation of non current assets			530
		(1)	Actuarial (gains) or losses on pension assets & liabilities			-
		-	Other (gains) and losses			-
		(1)	**Other Comprehensive Income and Expenditure**			**530**
		(599)	**Total Comprehensive Income and Expenditure**			**(771)**

STDC and Group Balance Sheet as at 31 March 2020

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Corporation and Group. The net assets of the Corporation and Group (assets less liabilities) are matched by the reserves held by the Corporation and Group. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Corporation and Group 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 and Group 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	Group	Group	STDC	STDC
		31 March 2020 £000s	**31 March 2019 £000s**	**31 March 2020 £000s**	**31 March 2019 £000s**
Non-current assets		-	-		
Property, plant and equipment	9	11,500	12,000	-	-
Asset in the course of construction	9	0	-	0	-
Long term loan	10	-	-	11,273	11,273
Long Term Debtors	11	-	-	150	150
Total non-current assets		11,500	12,000	11,423	11,423
Current assets					
Short term investments					
Debtors	12	9,733	2,756	7,093	2,602
Cash and Cash Equivalents	13	6,603	3,034	3,034	3,034
Total current assets		16,337	5,790	10,127	5,636
Current liabilities					
Short Term Creditors	14	(10,660)	(1,829)	(4,596)	(1,328)
Total current liabilities		(10,660)	(1,829)	(4,596)	(1,328)
Long term liabilities					
Long Term Creditors	15	(12,215)	(12,215)	(11,215)	(11,215)
Other Long Term Liabilities	16	(496)	(52)	(496)	(52)
Total long term liabilities		(12,711)	(12,267)	(11,711)	(11,267)
Net Assets:		**4,466**	**3,694**	**5,244**	**4,463**
Reserves					
Usable reserves:					
General Fund Balance	1	322	322	322	322
Earmarked General Fund Reserves	6	347	1,201	322	1,698
Capital Grants Unapplied		5,003	2,509	5,003	2,509
		5,673	4,032	5,648	4,528
Unusable Reserves:					
Capital Adjustment Account	27	(695)	(273)	108	-
Pensions Reserve		(496)	(52)	(496)	(52)
Accumulated Absences Account	5	(16)	(13)	(16)	(13)
		(1,207)	(338)	(404)	(65)
Total Reserves:		**4,466**	**3,694**	**5,244**	**4,463**

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

July 2020

STDC and Group Cash Flow Statement For The Year Ended 31 March 2020

The Cash Flow Statement shows the changes in cash and cash equivalents of the Corporation and Group during the reporting period. The statement shows how the Corporation and Group 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 and Group are funded by way contributions and grant income or from the recipients of services provided by the Corporation and Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Corporation and Group'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 and Group.

	Note	Group **2019/20** **£000s**	Group **2018/19** **£000s**	STDC **2019/20** **£000s**	STDC **2018/19** **£000s**
Net (surplus) or deficit on the provision of services		**(1,301)**	**(598)**	**(1,227)**	**(1,368)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements:					
Revaluation losses		(421)	(273)	-	-
Pension Fund adjustments		(444)	(52)	(444)	(52)
Increase/(Decrease) in Revenue Debtors	12	6,978	2,749	4,491	2,595
(Increase)/Decrease in Revenue Creditors	14	(8,829)	(844)	(3,267)	(343)
(Increase)/Decrease in Long Term Creditors	15	447	(11,215)	447	(11,215)
Increase/(Decrease) in Long Term Debtors		-	-	0	150
		(2,268)	**(9,635)**	**1,227**	**(8,865)**
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	nnual Account	(2,494)	(1,584)	(2,494)	(1,584)
		(2,494)	**(1,584)**	**(2,494)**	**(1,584)**
		-	**-**		
Net cashflow from operating activities		**(6,064)**	**(11,817)**	**(2,494)**	**(11,816)**
Investing activities					
Purchase of property, plant and equipment, investment property and intangible assets		-	11,273	0	-
Purchase of short term and long term investments		-	-	0	11,273
Other receipts from investing activities		2,494	1,584	2,494	1,584
Net cashflow from investing activities		**2,494**	**12,857**	**2,495**	**12,856**
Financing activities					
Net (increase) or decrease in cash and cash equivalents		**(3,569)**	**1,040**	**0**	**1,040**
		-	**-**		
Cash and cash equivalents at the beginning of the reporting period		**(3,034)**	**(4,075)**	**(3,035)**	**(4,075)**
		-	**-**		
Cash and cash equivalents at the end of the reporting period	13	**(6,603)**	**(3,035)**	**(3,035)**	**(3,035)**

The cashflow for operating activities includes the following items:

Interest received	**-**	**-**	**-**	**-**
Interest paid	**-**	**-**	**-**	**-**

Note 1: Group Expenditure & Funding Analysis

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

2018/19			STDC	2019/20		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**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**		**£000s**	**£000s**	**£000s**
1,412	(1,194)	**218**	Core Running Costs	2,504	(792)	**1,712**
589	(227)	**362**	Enabling Infrastructure	1,763	(1,251)	**512**
-	-	**-**	Development Costs	-	-	**-**
2,001	**(1,421)**	**580**	**Net Cost Of Services**	**4,266**	**(2,043)**	**2,224**
(2,251)	303	(1,948)	Other Income and Expenditure	(4,267)	1,263	(3,004)
(250)	**(1,118)**	**(1,368)**	Surplus or Deficit	**0**	**(780)**	**(780)**
(72)			**Opening General Fund Balance**	**(322)**		
(250)			Less/Plus (Surplus) or Deficit	**0**		
(322)			**Closing General Fund Balance at 31 March 2019**	**(322)**		

2018/19			Group	2019/20		
Net Expenditure Chargeable to the General Fund	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**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**		**£000s**	**£000s**	**£000s**
1,684	(696)	**988**	Core Running Costs	3,881	(792)	**1,190**
589	(227)	**362**	Enabling Infrastructure	1,763	(1,251)	**512**
-	-	**-**	Development Costs	-	-	**-**
2,273	**(923)**	**1,350**	**Net Cost Of Services**	**5,645**	**(2,043)**	**1,703**
(2,523)	575	(1,948)	Other Income and Expenditure	(5,645)	2,642	**(3,004)**
(250)	**(348)**	**(598)**	Surplus or Deficit	**(0)**	**599**	**(1,301)**
(72)			**Opening General Fund Balance**	**(322)**		
(250)			Less/Plus (Surplus) or Deficit	**(0)**		
(322)			**Closing General Fund Balance at 31 March 2019**	**(322)**		

Note 1: Group Expenditure & Funding Analysis

Notes to the Expenditure and Funding Analysis:
STDC

Adjustments between Funding and Accounting Basis 2019/20				
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	-	(444)	(348)	**(792)**
Enabling Infrastructure	510	-	(1,761)	**(1,251)**
Development Costs	-	-	-	**-**
Net Cost Of Services	510	(444)	(2,109)	**(2,043)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,004)		4,267	**1,263**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(2,494)	(444)	2,158	**(780)**

Adjustments between Funding and Accounting Basis 2018/19				
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	362	53	(1,609)	**(1,194)**
Enabling Infrastructure	-	-	(227)	**(227)**
Development Costs	-	-	-	**-**
Net Cost Of Services	362	53	(1,836)	**(1,421)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(1,946)	-	2,249	**303**
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(1,584)	53	413	**(1,118)**

Notes to the Expenditure and Funding Analysis:

Group Adjustments between Funding and Accounting Basis 2019/20				
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	-	(444)	(348)	(792)
Enabling Infrastructure	510	-	(1,761)	(1,251)
Development Costs			-	-
Net Cost Of Services	510	(444)	(2,109)	**(2,043)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,004)		5,646	2,642
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(2,494)	(444)	3,537	**599**

Group Adjustments between Funding and Accounting Basis 2018/19				
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	635	54	(1,385)	(696)
Enabling Infrastructure			(227)	(227)
Development Costs			-	-
Net Cost Of Services	635	54	(1,612)	**(923)**
Other Income and Expenditure from the Expenditure and Funding Analysis	(1,946)		2,521	575
Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Surplus or Deficit on the Provision of Services	(1,311)	54	909	**(348)**

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.

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 Group 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 Corporation and Group's expenditure and income is analysed as follows:

	Group	Group	STDC	STDC
	2019/20	2018/19	2019/20	2018/19
	£000s	£000s	£000s	£000s
Expenditure				
Employee b Annual Accounts	928	874	928	874
Other services expenses	10,809	3,141	4,148	1,855
Pension payments	444	1	444	1
Total Expenditure	**12,181**	**4,016**	**5,520**	**2,730**
Income				
Fees, charges and other service income	(5,282)	(518)	-	(2)
Interest and investment income	-	(2)	-	(2)
Local Government grants and contributions	(1,900)	-	-	-
Government grants and contributions	(6,300)	(4,094)	(6,300)	(4,094)
Total Income	**(13,482)**	**(4,614)**	**(6,300)**	**(4,098)**
(Surplus) or Deficit on the Provision of Services	**(1,301)**	**(598)**	**(780)**	**(1,368)**

Segmental Income

Income received on a segmental basis is analysed below:	2019/20	2018/19	2019/20	2018/19
	£000s	£000s	£000s	£000s
Services	**Income from Services**	**Income from Services**	**Income from Services**	**Income from Services**
Core Running Costs	(5,282)	(518)	-	(2)
Total income analysed on a segmental basis	**(5,282)**	**(518)**	**0**	**(2)**

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:

- IFRIC 23 Uncertainty over Income Tax Treatments

The corporation has sought independent tax advice to ensure correct tax treatment of the activities is recognised in the accounts. It is therefore believed that the treatment is correct and nothing falls under the scope of this standard.

Note 3: Critical Judgements in Applying Accounting Policies

In applying it's accounting policies the Corporation and Group 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:

The decision to prepare group accounts. South Tees Developments Ltd commenced activities with the acquisition of land on 22nd February 2019. The comparative results therefore show a partial year for this subsidiary.

Bad Debt Provision. South Tees developments Ltd trades with the current and former British Steel which has gone into compulsory liquidation. The Directors have prudently provided a 100% provision against the debt due from the former in the financial year.

Classification and valuation basis of the land in the Group accounts. The Directors have considered the options of possible acounting treatment and have decided to show the land under Property Plant and Equipment.

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 and Group 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 Corporation and Group's Balance Sheet at 31 March 2020 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 21.
- The valuation of the land in Property, Plant and Equipment has been informed by an independent RICS valuer who has provided a 'red book' report showing the valuation used in the accounts.

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

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Adjustments involving the Capital Adjustment Account	(108)			108
Adjustments involving the Capital Grants Unapplied Account	(2,494)		2,494	-
Adjustments involving the Pensions Reserve	444			(444)
Adjustments involving the Accumulated Absences Adjustment Account	3			(3)
Total Adjustments	**(2,155)**	**-**	**2,494**	**(339)**

2018/19	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	(1,584)		1,584	-
Adjustments involving the Pensions Reserve	52			(52)
Adjustments involving the Accumulated Absences Adjustment Account	10			(10)
Total Adjustments	**(1,522)**	**-**	**1,584**	**(62)**

2019/20	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Group Adjustments involving the Capital Adjustment Account	422		-	(422)
Group Adjustments involving the Capital Grants Unapplied Account	(2,494)		2,494	-
Group Adjustments involving the Pensions Reserve	444			(444)
Group Adjustments involving the Accumulated Absences Adjustment Account	3			(3)
Total Adjustments	**(1,625)**	**-**	**2,494**	**(869)**

2018/19	General Fund Balance £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Movement in Unusable Reserves £000s
Group Adjustments involving the Capital Adjustment Account	273			(273)
Group Adjustments involving the Capital Grants Unapplied Account	(1,584)		1,584	-
Group Adjustments involving the Pensions Reserve	52			(52)
Group Adjustments involving the Accumulated Absences Adjustment Account	10			(10)
Total Adjustments	**(1,249)**	**-**	**1,584**	**(335)**

Note 6: Movements in Earmarked Reserves - STDC

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 2019/20.

Earmarked Reserves	Balance at 31 March 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
Revenue Reserves				
Planned Activities	(1,698)	1,376		(322)
Total Revenue Reserves	**(1,698)**	**1,376**	**-**	**(322)**

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Planned Activities	(2,102)	404	-	(1,698)
Total Revenue Reserves	**(2,102)**	**404**	**-**	**(1,698)**

Note 6: Movements in Earmarked Reserves - Group

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 2019/20.

Earmarked Reserves	Balance at 31 March 2019 £000s	Transfers Out 2019/20 £000s	Transfers In 2019/20 £000s	Balance at 31 March 2020 £000s
Revenue Reserves				
Planned Activities - STDL	(1,698)	1,376		(322)
Planned Activities - Subsidiary	497	1,378		(25)
Total Revenue Reserves	**(1,201)**	**2,754**	**-**	**(347)**

Earmarked Reserves	Balance at 31 March 2018 £000s	Transfers Out 2018/19 £000s	Transfers In 2018/19 £000s	Balance at 31 March 2019 £000s
Revenue Reserves				
Planned Activities - STDL	(2,102)	404		(1,698)
Planned Activities - Subsidiary		497		497
Total Revenue Reserves	**(2,102)**	**901**	**-**	**(1,201)**

Note 7: Members' Allowances

There are no elected members of the Corporation nor the Group. It is wholly controlled by the Tees Valley Combined Authority and as such there is no members remuneration by STDC nor the Group.

Note 8: Employee Remuneration STDC and Group.

The Chief Executive is employed by the South Tees Site Company, a Government run organisation responsible for the safety, security and upkeep of the former SSI site. His remuneration is included in the table information for that entity.
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 was recharged to STDC by TVCA and in 2019/20 this amounted to £25,885. (2018/19 £11,461)

Remuneration of the CEO's senior staff are shown in the following table.

Remuneration of Senior Employees							
Post holder information	**Salary (Including fees & Allowances) £**	**Expense Allowances £**	**Benefits in kind £**	**Total Remuneration excluding pension contributions 2019/20 £**	**Pension contributions £**	**Total Remuneration including pension contributions 2019/20 £**	**Total Remuneration including pension contributions 2018/19 £**
Engineering and Project Director	132,600			**132,600**	22,542	**155,142**	145,762
Assistant Director of Regeneration	68,501			**68,501**	-	**68,501**	58,395
Senior Non Executive Director	16,667			**16,667**	-	**16,667**	20,556
Interim Commercial Director	55,833			**55,833**	-	**55,833**	41,129
Commercial Director	37,053			**37,053**	6,299	**43,352**	-
Strategic Utilities Director	14,483			**14,483**	2,462	**16,945**	-
	325,137	-	-	325,137	31,303	356,440	265,842

The Senior Non Executive Director deputised for the CEO role until the appointment of the new CEO in September 2019.

The number of employees whose taxable remuneration, including benefits, redundancy and other severance payments, exceeded £50,000 is shown below, in bands of £5,000:

Remuneration Summary Salary Range	Number of Employees 2019/20	Number of Employees 2018/19
50,001 - £55,000	3	1
55,001 - £60,000	-	1

Remuneration of the CEO and his senior staff has been excluded from the salary range analysis in the table above

Note 9: Property, Plant and Equipment (STDC and Group)

	Group		STDC	
	Other Land and Buildings	TOTAL	Other Land and Buildings	TOTAL
	£000s	£000s	£000s	£000s
Cost				
As at 1 April 2019	12,273	**12,273**	-	**-**
Additions	0	**0**	0	**0**
Revaluation	(773)	**(773)**		**-**
Disposals		**-**		**-**
As at 31 March 2020	11,500	11,500	0	0
Depreciation				
As at 1 April 2019	-	**-**	-	**-**
Depreciation Charge	-	**-**	-	**-**
Impairments	-	**-**	-	**-**
Derecognition of Disposals	-	**-**	-	**-**
As at 31 March 2020	-	**-**	-	**-**
	-	-	-	-
Net Book Value				
As at 1 April 2019	12,000	12,000	-	-
As at 31 March 2020	11,500	11,500	0	0

	Group		STDC	
	Other Land and Buildings	TOTAL	Other Land and Buildings	TOTAL
	£000s	£000s	£000s	£000s
Cost				
As at 1 April 2018	-	**-**	-	**-**
Additions	12,273	**12,273**	-	**-**
Revaluation	(273)	**(273)**		**-**
Disposals		**-**		**-**
As at 31 March 2019	12,000	12,000	-	-
Depreciation				
As at 1 April 2018	-	**-**	-	**-**
Depreciation Charge	-	**-**	-	**-**
Impairments	-	**-**	-	**-**
Derecognition of Disposals	-	**-**	-	**-**
As at 31 March 2019	-	**-**	-	**-**
	-	-	-	-
Net Book Value				
As at 1 April 2018	-	-	-	-
As at 31 March 2019	12,000	12,000	-	-

Basis of classification

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by independent professional valuers (GVA) on a triennial basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.
An independant valuers opinion of Fair Value was prepared in accordance with the RICS Valuation- Global Standards 2017, CPIFA Code, and the International Financial Reporting Standards (IFRS) and related definition of "Fair Value". This valuation has informed the revalued figure shown in the accounts. Buildings on the land are dilapidated redundant assets from a former use and therefore carry no value.

Basis of depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment would be calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives, but the valuation of the land shown in the accounts allocates no value to the redundant buildings on it.

Treatment of revaluation suspluses/(losses)

Surpluses on revaluation are shown as a non usable revaluation reserve, losses are recognised in surplus/deficit on the provision of services in so far as they do not reduce a previously created revaluation reserve.

Note 10: Long Term Loan

During the year South Tees Development Corporation made a loan to South Tees Developments Ltd, a company set up to hold the land, run the repurposing projects and maintain the estate management of the first section of the STDC site to be acquired.

Note 11: Long Term Debtors - Group and STDC

	Group	Group	STDC	STDC
	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Other receivables	-	-	150	150
	-	**-**	**150**	**150**

Note 12: Short Term Debtors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade Receivables	590	-	-	-
Prepayments	154	194	2	40
Other receivables	8,989	2,562	7,091	2,562
	9,733	**2,756**	**7,093**	**2,602**

Note 13: Cash and Cash Equivalents - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Bank and Imprests	6,603	3,034	3,034	3,034
	6,603	**3,034**	**3,034**	**3,034**

Note 14: Short Term Creditors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade payables	(4,213)	-	(1,998)	-
Other Payables	(3,104)	(1,829)	(2,598)	(1,328)
Other entities and individuals	(3,343)	(505)		-
	(10,660)	**(1,829)**	**(4,596)**	**(1,328)**

Note 15: Long Term Creditors - Group and STDC

	31 March 2020 £000s	31 March 2019 £000s	31 March 2020 £000s	31 March 2019 £000s
Trade payables	-	-	-	-
Other Payables	(12,215)	(12,215)	(11,215)	(11,215)
	(12,215)	**(12,215)**	**(11,215)**	**(11,215)**

Note 16: Other Long term Liabilities - Group and STDC

	31 March 2020 £000s	31 March 2020 £000s	31 March 2020 £000s	31 March 2019 £000s
Pension Provision	(496)	(52)	(496)	-52
	(496)	**(52)**	**(496)**	**(52)**

Note 17: 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 2018/19 is shown in Note 7. During 2018/19, there were no related party transactions between TVCA members and STDC.

Tees Valley Combined Authority (TVCA)
STDC was set up under the control of TVCA. The trading arrangement between these two entities results in material balances due to and from TVCA at the year end.

Entities Controlled or Significantly Influenced by the Corporation

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.
South Tees Developments Limited is a wholly owned subsidiary of South Tees Development Corporation.
Details of the Income and Expenditure with these organisations is set out below:-

	Group		STDC	
2019/20	**Income Received £000s**	**Expenditure £000s**	**Income Received £000s**	**Expenditure £000s**
Tees Valley Combined Authority	(1,900)	6,716	(6,300)	4,126
South Tees Developments Ltd	-	-	(101)	-
Stockton Borough Council	-	1	-	1
Redcar & Cleveland Borough Council	5	30	5	30
South Tees Site Company	(14)	117	(14)	76
Total	**(9)**	**6,864**	**(110)**	**4,233**

2018/19	**Income Received £000s**	**Expenditure £000s**	**Income Received £000s**	**Expenditure £000s**
Tees Valley Combined Authority	-	-	-	-
South Tees Developments Ltd	-	-	-	-
Redcar & Cleveland Borough Council	-	31	-	31
South Tees Site Company	(2)	192	(2)	192
Total	**(2)**	**223**	**(2)**	**223**

The below table sets out the amounts owed to and from the corporation as at 31 March 2019:-

	Group		STDC	
2019/20	**Owed by STDC To £000s**	**Owed to STDC From £000s**	**Owed by STDC To £000s**	**Owed to STDC From £000s**
Tees Valley Combined Authority	11,215	2,146	11,215	4,737
South Tees Developments Ltd	-	-	-	11,778
Stockton Borough Council	-	1	-	1
Redcar & Cleveland Borough Council	61	-	-	-
South Tees Site Company	4	-	-	-
Total	**11,279**	**2,147**	**11,215**	**16,516**

2018/19	**Owed by STDL To £000s**	**Owed to STDL From £000s**	**Owed by STDC To £000s**	**Owed to STDC From £000s**
Tees Valley Combined Authority	11,215	3,716	11,215	2,561
South Tees Developments Ltd	-	-	-	11,423
Redcar & Cleveland Borough Council	31	-	-	-
South Tees Site Company	75	-	75	-
Total	**11,321**	**3,716**	**11,290**	**13,984**

Note 18: External Audit Costs

The Group 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 Groups external auditors:

	Group		STDC	
	2019/20	**2018/19**	**2019/20**	**2018/19**
	£000s	**£000s**	**£000s**	**£000s**
Fees payable to Mazars LLP with regard to external audit services	21	21	21	21
Fees payable to Mazars LLP for the certification of grant claims	-	-	-	-
Fees payable in respect of other services provided by Mazars LLP	-	-	-	-
	21	**21**	**21**	**21**

Note: There is no additional charge this year for the audit of South Tees Developments Limited

Note 19: Grant Income

The Corporation credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

	Group		STDC	
	2019/20	**2018/19**	**2019/20**	**2018/19**
Credited to Taxation and Non Specific Grant income	**£000s**	**£000s**	**£000s**	**£000s**
South Tees Industrial Zone Access Grant From Tees Valley Combined Authority			-	-
South Tees Developments Ltd Grant From Tees Valley Combined Authority	1,900	-	-	-
Development Grant for Prairie site From MHCLG	3,004	1,946	3,004	1,946
Total	**4,904**	**1,946**	**3,004**	**1,946**

	2019/20	**2018/19**	**2019/20**	**2018/19**
Credited to Services	**£000s**	**£000s**	**£000s**	**£000s**
Operating Grant From MHCLG	3,000	2,000	3,000	2,000
Development Grant for Prairie site From MHCLG	296	14	296	14
Total	**3,296**	**2,014**	**3,296**	**2,014**

Note 20: Financial Instruments - STDC

Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Corporation becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financal Assets

A financial asset is a right to future economic benefits controlled by the Corporation that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Corporation. The financial assets held by the Corporation during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Corporation.

Financal Instruments

The value of debtors and creditors reported in the tables below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet a also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		**Short Term**	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	11,423	11,423	10,127	5,636
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**11,423**	**11,423**	**10,127**	**5,636**

The financial liabilites disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		**Short Term**	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(11,215)	(11,215)	(4,553)	(1,294)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(11,215)**	**(11,215)**	**(4,553)**	**(1,294)**

Nature and Extent of Risks Arising from Financial Instruments

Key risks

The Corporation's 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**

Note 20: Financial Instruments STDC Group

Categories of Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Corporation and Group becomes party to the contractual provisions of a financial instrument. They are classified based on the business model for holding the instruments and their expected cashflow characteristics.

Financal Assets
A financial asset is a right to future economic benefits controlled by the Corporation and Group that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Corporation and Group. The financial assets held by the Corporation and Group during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Corporation and Group.

Financal Instruments
The value of debtors and creditors reported in the tables below are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet a also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	-	-	16,182	5,582
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial assets	**-**	-	**16,182**	5,582

The financial liabilites disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Short Term	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£000s	£000s	**£000s**	£000s
At Amortised Cost	(12,215)	(12,215)	(10,617)	(1,587)
At Fair Value Through Other Comprehensive Income	-	-	-	-
At Fair Value Through Profit & Loss	-	-	-	-
Total financial liabilities	**(12,215)**	(12,215)	**(10,617)**	(1,587)

Nature and Extent of Risks Arising from Financial Instruments

Key risks
The Corporation and Group’s 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 and Group**
- **liquidity risk – the possibility that the Corporation and Group might not have funds available to meet its commitments to make payments**

Note 21: 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.

STDL has no direct employees and is therefore not part of the LGPS.

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 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	150	134
• Past service cost	9	-
Financing and Investment Income and Expenditure		
Net interest cost	-	(1)
Total Post Employment Benefit Charged to the (Surplus) or Deficit on the Provision of Services	**159**	**133**
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)	(122)	(3)
• Actuarial gains and losses arising on changes in financial assumptions	(10)	11
• Actuarial gains and losses due to changes in demographic assumptions	(13)	(9)
• Actuarial gains and losses due to liability experience	509	-
• Actuarial gains and losses due to acquisitions	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**364**	**(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	205	(134)
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	**79**	**80**

The amount included in the Comprehensive Income and Expenditure Account as "Re-measurements of the defined benefit liability" is £0.444m. 2019 £0.001m

Pension Assets and Liabilities Recognised in the Balance Sheet

Changes to the present value of the defined benefit obligation

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Present value of defined benefit obligation	(1,127)	(185)
Fair value of assets	631	133
Net liability recognised in the Balance Sheet	**(496)**	**(52)**

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

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Opening fair value of scheme assets	133	11
Interest income	8	2
Remeasurement gains and (losses)	122	3
Contributions from the employer	79	80
Contributions from employees into the scheme	41	39
Net increase from acquisitions	-	-
Benefits paid	248	(2)
Closing balance at 31 March 2019	**631**	**133**

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

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

	Local Government Pension Scheme 2019/20 £000s	Local Government Pension Scheme 2018/19 £000s
Opening balance at 1 April	(185)	(11)
Current service cost	(150)	(134)
Interest cost	(8)	(1)
Contributions by scheme participants	(41)	(39)
Actuarial gains and losses - financial assumptions	10	(11)
Actuarial gains and losses - demographic assumptions	13	9
Actuarial gains and losses - liability experience	(509)	-
Benefits paid	(248)	2
Past service cost (inc. curtailments)	(9)	-
Net increase from acquisitions	-	-
Past service cost	-	-
Closing balance at 31 March 2019	**(1,127)**	**(185)**

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2019/20 £000s	%
Equity investments (Quoted)	459	72.7%
Property (Quoted)	56	8.9%
Government Bonds	-	0.0%
Corporate Bonds	-	0.0%
Cash	85	13.4%
Other Investments	32	5.0%
	631	**100%**

	Fair value of scheme assets 2018/19 £000s	%
Equity investments (Quoted)	96	71.9%
Property (Quoted)	12	9.2%
Government Bonds	-	0.0%
Corporate Bonds	-	0.0%
Cash	22	16.8%
Other Investments	3	2.1%
	133	**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 2019.

The principal assumptions used by the actuary have been:

	2019/20	2018/19
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.8	22.2
Women	23.5	24.1
Longevity at 45 for future pensioners:		
Men	23.2	23.9
Women	25.3	25.9
Other assumptions:		
Rate of inflation (RPI)	2.7%	3.2%
Rate of inflation (CPI)	2.1%	2.1%
Rate of increase in salaries	3.1%	3.1%
Rate of increase in pensions	2.1%	2.1%
Rate of Pension accounts revaluation rate	2.1%	2.1%
Rate for discounting scheme liabilities	2.4%	2.5%
Take-up of option to convert annual pension into retirement lump sum	80.0%	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

2019/20	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	151	145	139
Rate of increase in salaries (increase or decrease by 0.1%)	145	145	145
Rate of increase in pensions payment (increase or decrease by 0.1%)	150	145	140
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	140	145	150

2018/19	Increase	Base Figure	Decrease
	£000s	£000s	£000s
Longevity (increase or decrease in 1 year)	191	185	179
Rate of increase in salaries (increase or decrease by 0.1%)	187	185	183
Rate of increase in pensions payment (increase or decrease by 0.1%)	190	185	181
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	178	185	192

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 £0.225m contributions to the scheme in 2020/2021. (2019/2020 £0.082m.)

The weighted average duration of the defined benefit obligation for scheme members is 27.9 years. (2018/2019 37.4 years.)

Guaranteed Minimum Pension (GMP) and McCloud Judgement

At 31 March 2019 the group did not make any amendments for the potential impact of GMP and the McCloud Judgement. The actuary report dated 31 March 2020 has included within its calculations the impact of both of these cases. Any increase in liabilities at 31 March 2020 arising from the impact of GMP has been charged through other comprehensive income. The potential McCloud judgement liability has been presented as a past service cost this year.

Note 22: Termination Benefits - STDC and Group

2019/20 There was one termination payment to a director of the Corporation of £0.01m

In 2018/19 there was one termination payment made to an officer (ie not a director) of the Corporation of £0.01m

Note 23: Provisions - STDC and Group

The only provision made in the year is a bad debt provision relating to the debt due to STDL from British Steel.

Note 24: Contingent Liabilities - STDC and Group

The Corporation has no contingent liabilities.

Note 25: Post Balance Sheet Events - STDC and Group

Events after the Reporting Period

On 29 April 2020 the South Tees Development Corporation (Land at the former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019 ("the Order"), was confirmed without modification. The order allows STDC to take ownership of the remaining land within the boundaries of the South Tees Development Corporation site through a formal vesting process.

On 3 July 2020 STDC submitted its first "General Vesting Declaration" to give notice to occupiers of land withing the scope of CPO that land is to be acquired. Compensation will be payable to parties displaced by the vesting in consideration for the land acquired, however at this time it is not possible to determine the exact value due to ongoing negotiations.

Annual Accounts

Note 26: Leases - STDC and Group

The Corporation and Group is required to review all lease transactions and consider whether they are operational or finance leases. STDL has leases which came with the land (both as lessee and lessor), these do not transfer the risks and rewards to the lessee, so do not qualify as finance leases. The nature of the agreements is for rents of items which could not be seen as assets e.g. pipework.
Annual ongoing commitments with these leases are:

	2019/20 £000s	2018/19 £000s
Income	254	255
Expenditure	194	202

Note 27: Capital Adjustment Account - STDC and Group

	2019/20 £000s	2018/19 £000s
Balance at 1 April 2018	273	-
	273	-
- Revaluation losses on property, plant and equipment	530	273
- Revenue expenditure funded from capital under statute	806	376
Capital financing applied in the year:		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(296)	(14)
Application of grants to capital financing from the Capital Grants Unapplied Account	(510)	(362)
Statutory provision for the financing of capital investment charged against the General Fund	(108)	
Capital expenditure charged against the General Fund balance		-
	422	273
Other adjustments	**-**	**0**
Balance at 31 March 2019	**695**	**273**

Note 28: Capital Expenditure and Financing - STDC and Group

	31 March 2020 £000s	31 March 2019 £000s
Opening Capital Financing Requirement	**11,215**	**-**
Capital investment		
Land & Buildings		11,215
Assets In Course of construction		
Revenue expenditure funded from capital under statute	806	376
Sources of Finance		
Government grants and other contributions	(806)	(376)
Sums set aside from revenue:		
Direct revenue contributions		-
Minimum Revenue Provision	(108)	-
Closing Capital Financing Requirement	**11,107**	**11,215**

Note 29: Statement of Accounting Policies - STDC and Group

General Principles
The Statement of Accounts summarise the Corporation and Group's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Corporation and Group 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 2018/19, 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 and Group 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 and Group.
- Income from the provision of services is recognised when the Corporation and Group 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 and Group.
- 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 and Group'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 and Group'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 29: Statement of Accounting Policies - STDC and Group

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

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.

Note 29: Statement of Accounting Policies - STDC and Group

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:

- 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 Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Corporation and Group becomes a party to the contractual provisions of a financial instrument. The Corporation now has a long term creditor relating to a loan from TVCA.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Corporation and Group 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 and Group 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 and Group when there is reasonable assurance that:

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

Amounts recognised as due to the Corporation and Group 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

The Corporation and Group is required to review all lease transactions to consider whether they are operational or finance leases. STDL has leases which came with the land (both as a lessee and lessor), these do not transfer the risks and rewards to the lessee, so do not qualify as finance leases.

Overheads and Support Services

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

Note 29: Statement of Accounting Policies - STDC and Group

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Corporation and Group 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 and Group 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 and Group 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 and Group 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 and Group. 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 and Group 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 and Group 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 and Group.

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 29: Statement of Accounting Policies - STDC and Group

Fair Value Measurement

The Corporation and Group 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 and Group 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 and Group 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 and Group 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.

Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the noncontrolling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

Property, plant and equipment

(i) Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses. Land and buildings are revalued by independent professional valuers on a triennial basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset.

Note 29: Statement of Accounting Policies - STDC and Group

Increases in carrying amounts arising from revaluation, including currency translation differences, are recognised in the asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognised against the asset revaluation reserve. All other decreases in carrying amounts are recognised as a loss in the statement of comprehensive income.

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(iii) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset and any fair value gains or losses on qualifying cash flow hedges of property, plant and equipment that are transferred from the hedging reserve.

Depreciation

Freehold land is not depreciated.

c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

d) Disposal

On Disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within 'Other (losses)/gains - net'. Any amount in revaluation reserve relating to that asset is transferred to retained profits directly.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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 and Group has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of levy.

Capital Expenditure and Capital Financing

Capital expenditure in STDL has been financed by a loan from STDC. The expenditure in the year was the acquisition of land for regenearative purposes in line with the masterplan.

REFCUS funding will be used to remediate phase 1 of the land acquired in the year.

Responsibilities for the Annual Financial Statements

The Corporation and Group's Responsibilities

The South Tees Development Corporation and Group 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 Group, 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 Corporation and Group's 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;
- Annual Accounts
- 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 and Group Accounts at the accounting date and its income and expenditure for the year ended 31 March 2019.

G Macdonald **Date: July 2020**
Director of Finance

These financial statements replace the unaudited financial statements certified by the Director of Finance on 31st May 2019.

G Macdonald **Date: July 2020**
Director of Finance

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

Annual
Accounts

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.

Annual Accounts

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 Corporation 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 Corporation 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".

South Tees Development Corporation
Annual Governance Statement 2020/21

1. Introduction

This Annual Government Statement comes at a pivotal moment for the South Tees Development Corporation.

As this statement was published, the public inquiry into compulsory purchase orders sought by the Corporation came to a conclusion, with the Planning Inspectorate ruling in favour of the Corporation and granting us the powers that we need to bring the land into local control, get spades into the ground and make our visionary 25-year Master Plan for the site a reality.

This Master Plan will see the creation of a world-class centre for the clean energy, offshore and innovation sectors, creating 20,000 good-quality, well-paid jobs.

But as the Development Corporation moves into its delivery phase, the need for good governance grows stronger. Over the next twelve months our organisation is likely to grow in complexity as we move towards the transition of the South Tees Site Company into the wider Development Corporation and ensure appropriate oversight and scrutiny of delivery vehicles established as part of the Compulsory Purchase Order process and site development.

It is for this reason that the past year has seen us integrate our governance function into that of the wider Tees Valley Combined Authority Group. This move was designed to deliver greater transparency and efficiency of the Development Corporation's day-to-day decision-making process. We are already seeing the impact of that decision in strengthening both our delivery and openness.

2. The Scope of Responsibility

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

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

These arrangements are designed to be consistent with the principles and best practice outlined in the CIPFA guidance on good governance.

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

3. The Purpose of our Governance Framework

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

Our governance framework comprises the systems and procedures we believe will achieve our strategic objectives and deliver our activities in an appropriate and cost-effective way. These objectives, as laid out in 25-year Master Plan are:

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

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

4. The Key Elements of our Governance Framework

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

The Constitution

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

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

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 has been undertaken to ensure compatibility between policies and procedures, compliance with regulatory requirements and to deliver a group-wide approach to governance.

This Governance Review has included a number of constitutional amendments, including new commitments to the publication of Board and Audit & Risk Committee papers and allowing public access to meetings of these committees.

Statutory and non-Statutory Committees
The South Tees Development Corporation Currently operates the following statutory committees:

- A **Board**, the ultimate decision-making body of the Development Corporation with a constitutional responsibility to guide and oversee delivery of the key objectives of the STDC.
- An **Audit & Risk Committee** with oversight responsibilities in matters concerning risk, financial affairs and probity, overseeing STDC's internal audit and external audit arrangements.

Monitoring Officer
We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Commercial and Legal Manager at Redcar and Cleveland Borough Council is the Corporation's designated Monitoring Officer and a protocol is in place with all directors, to safeguard the legality of all Corporation activities. All Board reports are considered for legal issues before submission to members.

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

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

External Audit
The purpose of the External Auditors, Mazars, is to provide an opinion on the accounts and Value For Money conclusion.

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

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

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

There are comprehensive budgeting systems in place and a robust system of budgetary control, including quarterly and annual financial reports, which indicate financial performance against forecasts. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

South Tees Site Company
The land at the STDC site is currently managed by the South Tees Site Company Ltd (STSC), an interim government body established in December 2016 to ensure the safe, secure and cost-effective management of the former site. This company has its own Board, which contains representation from the Development Corporation.

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

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

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

A revised Declaration of Interests process has been agreed as part of a recently completed Governance Review.

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

A revised Gifts & Hospitality process has been agreed as part of a recently completed Governance Review.

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

An Anti-fraud and Corruption Strategy exists to:

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

A revised Anti-fraud and Corruption Strategy has been agreed as part of a recently completed Governance Review.

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

5. Review of effectiveness

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

External Audit
Our most recent auditor's report, issued on July 25th 2019, concluded that:

"In all significant respects, the Corporation put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019".

Internal Audit
An annual Internal Audit Report is awaited. Recent audits of our individual areas of our governance framework made the following conclusions:

- **Budget setting and control:** "*Our review highlighted examples of strong practice…. (but) our review identified a number of areas where the Corporation could improve its control framework around budgeting and monitoring*

- **Procurement:** *"the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied. However, we have identified issues that need to be addressed in order to ensure that the control framework is effective in managing the identified area."*

6. Impact of COVID-19

Although the COVID-19 outbreak in March 2020 presented significant challenges to day-to-day operations of the South Tees Development Corporation – particularly work on site - robust pre-existing business continuity plans ensured in was possible to minimise the impact of the disruption on our governance arrangements.

The Corporation responded to the unprecedented situation by:

- Ensuring continuity of the governance framework by immediately re-arranging all non-statutory meetings to take place by video conferencing and preparing for statutory meetings to take place by video conferencing in advance of this power being granted to local authorities.
- Implementing power to temporarily hold statutory meetings remotely granted under the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local

Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 from April 2020.
- Implementing guidance from the relevant supervisory authority – the Information Commissioner's Office – relating to the treatments of Freedom of Information requests during the outbreak and informing request makers.
- Adjusting financial reporting schedules to reflect revised deadlines and communicating these changes to the appropriate committee members.

7. Conclusion

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

8. Progress

The following actions have been proactively taken since the publication of the previous Annual Governance Statement in order to mitigate against future risks and continue to strengthen our arrangements.

Action	Outcome
Integration of governance framework with Tees Valley Combined Authority.	Improved transparency and effectiveness of decision-making process.
Governance Review	Ongoing review of effectiveness of every aspect of governance framework to provide greater assurance for Board members, committee members, senior officers and stakeholders.
Risk Appetite Statement and Risk Threshold	Board-level adoption of Risk Appetite Statement and Risk Threshold levels detailed in Risk Management Framework.

9. Action Plan

The following actions are envisaged for the future development of our governance and risk management systems.

Action	Outcome	Responsibility	By When
Review and updating of Corporation Constitution	Reviewed constitution	Chief Executive	End July 2020
Governance Review	Enhanced transparency, decision-making and assurance	Director of Finance & Resources	Autumn 2020
Introduction of TVCA Group Governance Framework Toolkit	Further embed governance framework across organisation.	Director of Finance & Resources	Autumn 2020
Review of governance of delivery of constituent elements of Combined Authority Group – including South Tees	Enhanced transparency, risk management and decision-making.	Chief Executive/Director of Finance & Resources	End July 2020

Development Corporation and associated vehicles.			

Signed

Ben Houchen	Tees Valley Mayor and Chair of South Tees Development Corporation	*signature*	*date*
Julie Gilhespie	Acting Chief Executive, South Tees Development Corporation	*signature*	*date*

AGENDA ITEM 9

REPORT TO THE STDC BOARD

29th July 2020

REPORT OF THE GROUP CHIEF EXECUTIVE

TRANSITION OF SOUTH TEES SITE COMPANY LIMITED ("STSC") INTO LOCAL OWNERSHIP

SUMMARY

The purpose of the paper is to seek STDC board approval to proceed with the acquisition of 100% of the issued share capital of South Tees Site Company ("STSC")

RECOMMENDATIONS AND DECISION

Subject to a future approval by Tees Valley Combined Authority Cabinet and STDC's business case to Government being successful, STDC Board is, recommended to mandate the Group Chief Executive, in consultation with the Mayor, Group Director of Finance and Resources, and Monitoring Officer to:

i. Conclude an agreement with the department of Business Energy and Industrial Strategy to acquire 100% of the share capital of South Tees Site Company
ii. Complete all due diligence, sign all documents and complete all other actions required to give effect to this Report

BACKGROUND INFORMATION

1. STSC is responsible for keep safe, security and decontamination of the former SSI assets situated on the STDC site and is wholly owned by the Department for Business Energy and Industrial Strategy ("BEIS"). STSC operates under the direction of the Official Receiver, who assumed responsibility for the former SSI steelworks site and assets following its liquidation in 2015.

2. The former SSI site is categorised as an "Upper Tier" site under the Control of Major Accident Hazards (COMAH) Regulations and presents a significant safety and environmental risk if not properly managed. STDC's compulsory purchase order and recent vesting declaration will bring this site into STDC group ownership, ending the Official Receiver's role on site and transferring responsibility for site management and safety to STDC. Accordingly, STDC intends to acquire STSC from BEIS to ensure continuity of critical site management operations.

3. STDC's business case to government to regenerate the STDC site assumes the redirection to STDC of any unspent funds earmarked by BEIS to support future activities of STSC (the "Redirected Funds"). The estimated value of the Redirected Funds

reflected in STDC’s business case submission is £71m of c £117m originally earmarked by BEIS to fund STSC’s activities.

4. Accordingly, a successful outcome in relation to business case funding will be a key precondition of proceeding with the transition of STSC. The current timeline suggests that transition can take place in early October following a final funding decision by Government on STDC’s business case in mid- August.

STSC OVERVIEW AND POSITION

5. STSC was incorporated in October 2016 in order to address the health and safety risks inherent in the Redcar steelworks site following the liquidation of SSI. Currently STSC operates under a Framework agreement funded by BEIS with two distinct objectives:

   - Manage, operate, and maintain the Redcar Steelworks site under a Management Agreement with the Official Receiver
   - Provide support, advice, and co-operation to the South Tees Development Corporation in the development of its strategic vision for the regeneration of the wider South Tees area.

6. The Management Agreement with the Official Receiver requires STSC to execute good and efficient management and administration of the day-to-day operations and “Keep Safe” status of the site.

7. STSC also assumed responsibility for, and continues to operate, Resource Sharing Agreements (“RSA’s) inherited from SSI UK, and provides services (including facilitation of electricity supply to a number of organisations connected to the site infrastructure including British Steel and Redcar Bulk terminal. The RSA’s were originally created due to several services on the site that were deemed to be ‘site wide’ and physically difficult or financially prohibitive to split. These primarily relate to the provision of electricity and site security. STSC has continued to provide these services under the Management Agreement.

8. As at March 2020 STSC had a headcount of 119 staff across all functions of the business and an annual payroll cost of around £5.9m.

9. In anticipation of the transition of STSC into the STDC Group, the management teams of both organisations have worked together closely in recent months with STSC providing input into STDC’s business case and the development of a joint approach to the decontamination and demolition on site. In addition, STDC and STSC share a Chief Executive and STSC’s Site Director sits as part of STDC’s Senior Management Team and the newly established STDC Delivery Group.

DUE DILIGENCE AND ACQUISITION INTEGRATION

10. KPMG UK has been engaged by STDC to provide specialist management consultancy services in relation to the acquisition of STSC. KPMG’s work is split into three packages as follows

    - Work Package 1 – Undertake review and provide recommendations regarding governance and organisational structure

- Work Package 2 – Financial Due Diligence and technical SHE Due Diligence (subcontract to Stantec)
- Work Package 3 – Operationalisation of STSC business case (including zero based budgeting) and implementation of findings from Work Packages 1 and 2

11. The above workstreams have been designed to ensure that risks and financial implications of the acquisition of STSC are identified and addressed prior to completion and that at the point of transition appropriate governance and operational processes are implemented around STSC.

12. KPMG's engagement also includes technical input from Stantec UK Limited, an organisation with significant experience and expertise in operating sites similar to the South Tees Development Corporation.

13. KPMG's initial findings and advice from packages 1 and 2 have been made available as appendices to this paper. Work package 3 will report later and provide support relating to the post acquisition integration of STSC

14. Legal advisors will also be engaged in the coming weeks to provide technical input into the transaction documents and undertake legal due diligence.

KPMG'S INITIAL FINDINGS

Work programme 1

15. The key findings from Work programme 1 are summarised into three key categories:

16. Transition considerations- The transition of STSC will lead to the requirement to novate, update, and replace several key legal agreements that govern the operations of STSC. In particular, STSC operates under a Framework Agreement with BEIS and an Asset Management Agreement with the Official receiver. In addition, as a "GovCo" STSC is effectively self-insured via an indemnity with BEIS.

17. It is also unlikely that BEIS will continue to provide an indemnity to STSC to cover the period of ownership prior to transition. Accordingly, due to the absence of any other specific insurance arrangements contingent liabilities crystallising post transition will need to be funded by the STDC group from its funding settlement with BEIS.

18. Governance considerations -Existing BEIS led governance arrangements will fall away, driving a requirement to review the scope and terms of reference of key governance activities as well to as re populate the STSC board and governance committees with appropriate skilled and experienced individuals, should access to these be lost as a result of transition.

19. Management and Staffing - A review of management and staffing arrangements will be necessary post transition to ensure that STSC can successfully integrate into the wider STDC/TVCA group. There will be a requirement to consider what management arrangements can be shared across the TVCA Group and to identify any management activities currently undertaken by BEIS that will need to be replaced.

Work programme 2

20. KPMG's financial due diligence has provided the following key highlights in its interim report:

21. ***Continuity of funding commitments* -** STDC Business case assumes a fixed level of funding will be transitioned from BEIS in respect of STSC funding. STDC need to ensure that any funding unspent by STSC prior to transition is transferred into STDC to prevent any loss of funding.

22. ***Resource sharing agreements*** – the agreements by which STSC administers utility charges and other central costs across the site are not formalised. In addition, it is considered likely that due to the complexity of charging arrangements and site infrastructure STSC may be part subsidising the electricity usage of some tenants. Electricity supply arrangement on site can also lead to significant month on month movements in STSC's working capital requirements that may need to be funded moving forward.

23. ***Cost base and run rate*** – Whilst underlying headcount and operating costs have remained stable in STSC over recent years FY20 saw a steep increase in costs for the "Invest to Save" programme. This programme is designed lead to an overall reduction in future keep safe costs (as a result of decommissioning and decontaminating certain assets). KPMG has highlighted instances of one off cost which have diverted some funding.

24. ***Potential debt like items* –** Post transition STDC group will be required to fund any inherited liabilities from funding secured from BEIS through the Business Case process. This will include any future costs linked to the September 2019 incident that occurred on site, any other contingent liabilities including recourse for any past breaches of environmental legislation/ permitting by STSC.

Technical Input – Stantec

25. Stantec's work is currently underway but has yet to formally report, an update on progress will be given as a part of KPMG's presentation to the meeting. Outputs will inform Work Packages 2 and 3 and can be summarised into the following key areas:

    - To understand and document the status of regulatory compliance at the Site with respect to health, safety and environmental permits, legislation and associated best practice.
    - To review the activities of STSC, both from a cost and labour perspective and what has been achieved since STSC was set up in 2016.
    - To review the planned activities and costs provided by STSC for future critical HSSE activities required at the Site.
    - To provide a detailed assessment of cost associated with the management of the HSSE aspects of the Site, identifying areas of efficiency or additional cost to meet compliance standards within the STSC revised risk management framework

26. The full scope of Stantec's work is appended to this paper for information.

MANAGEMENT APPROACH TO MITIGATING IDENTIFIED RISKS

27. STDC management has taken some comfort from outputs to date from work packages 1 and 2 in that the work has not identified any issues linked to the transition of STSC that were not anticipated in its transition planning assumptions, whilst also quantifying the extent of some key exposures.

28. An approach will be taken of continuing dialogue with BEIS to ensure that the funding transitioned in to STSC is optimised both in terms of quantum and the flexibility thus ensuring that future requirements to scale activity in line with the demands of the site can be met.

29. In addition, whilst the position regarding any potential contingent liabilities transferred with the acquisition of STSC will be highlighted to BEIS in discussions, it is not considered that failure to secure any further financial contribution or indemnity in relation to these matters should become a deal breaker. In particular, Redirected Funds include c12m for “Tier 3” funding designated as a buffer in STSC to cover any unforeseen costs over and above core operational activity. This in turn should provide STDC with a fund to cover contingencies.

30. In parallel to discussions with BEIS the following activities will continue; KPMG’s findings to date will be used to feed the activities of Work Package Three, the legal advisors that will be engaged to execute the transition, and STDC’s senior management who are working on the continuance of key commercial arrangements and activities.

31. Key risks identified will also be captured and fed into STDC’s strategic risk register that has been developed alongside the Business Case to government for funding. A schedule of transition specific risks taken from STDC’s strategic risk register, alongside new risks identified from due diligence to date is included as an appendix to this report.

ONGOING ASSURANCE

32. To provide ongoing assurance a separate STDC Programme Assurance Framework has been developed encompassing all aspects of the STDC programme including the post transition operations of STSC. This includes a full monitoring and evaluation plan which has been agreed with government and the formalisation of an existing “STDC Delivery Group” which includes senior management from STDC, STSC and all Joint Venture partners which is tasked with reviewing and assessing performance and reporting to the Tees Valley Combined Authority Executive Group and STDC Board.

33. A copy of the STDC’s Programme Assurance Framework is enclosed as an appendix.

LEGAL TERMS OF PROPOSED TRANSACTION

34. The headline proposed terms for of the transaction are that STDC will acquire 100% of the issued share capital of South tees Site Company Limited for nominal consideration, subject to BEIS assigning the Redirected Funds to STDC.

35. Detailed contractual negotiations have yet to commence, as key findings from the ongoing KPMG engagement and future legal due diligence will be used to inform any specific negotiations around more detailed terms of the transaction.

FINANCIAL IMPLICATIONS

36. As a result of acquiring South Tees Site Company, STDC will take on future responsibility for decontamination and keep safe of the entire STDC site including management and remediation of the upper tier COMAH Hazards. In consideration for taking on this liability STDC has through its business sought assignment of the Redirected Funds (estimated at £71m at the time of transition). This will be used specifically to continue keep safe and decontamination activities on site through to the end of 2022/23 financial year.

37. In addition, STSC manages a number of Resource Sharing Agreements across the STSC site, (principally those in relation to supply and distribution of electricity across the site) which will continue under STDC's ownership and include an element of commercial risk.

38. The current working assumption is that funding requested in the business case will be adequate to safely operate and decontaminate the site whilst completing demolition of unsafe structures such that from 2023/4 and beyond site management costs fall to a normal level in line with the operation of a more typical site.

39. The site has inherent financial risk linked to operating and regenerating an upper tier COMAH site and these have been clearly considered, recorded and will be managed. The other risks and uncertainties linked to the acquisition of STSC include the adequacy of funding to complete the works necessary to bring the site into a manageable state, potential unforeseen contingent liabilities taken on with STSC and the impact of Resource Sharing Agreements on STSC's working capital funding requirements and overall commercial performance.

40. These uncertainties are being considered in the scope of KPMG's assignment. In addition, STDC management has also negotiated upfront funding from Government rather than the traditional in arrears funding they allocate for grants. Whilst the ideal request was for devolution style funding from central government this would require legislation to enact and is not the proposed route for funding of this programme. Government have committed to flexible reprofiling requests from TVCA/STDC as required to enable a flexible funding arrangement that will be required to enable STDC to deliver this complex programme.

LEGAL IMPLICATIONS

41. Further to s201(1) the object of STDC is to secure the regeneration of its area. STDC has powers to pursuant to Chapter 2 Section 201 (2) of the Localism Act 2011 to “do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes”.

42. Article 4 of the Tees Valley Combined Authority (Functions) Order 2017 specifically applied Chapter 2 Part 8 of the Localism Act 2011 to the Tees Valley Combined Authority, and enabled the South Tees Development Corporation (Establishment) Order 2017 by virtue of those powers.

43. Paragraph 4a of the STDC constitution describes STDC’s principal objective which is “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”.

44. In accordance with paragraph 25 of its constitution STDC is also empowered to “do anything it considers appropriate for the purposes of securing the regeneration of its area, or for purposes incidental to that objective”” which includes the power “To form or acquire interests in any business or company” (Para 26.e.ii).

45. These powers enable STDC to carry out the recommendations set out in this report.

RISK ASSESSMENT

46. The acquisition of STSC substantially increases the STDC Group’s overall operating risk as responsibility is assumed for management and remediation of an upper tier COMAH site. However, this risk is inherent in STDC’s land acquisition strategy and is unavoidable if the STDC group wishes to take control of the former SSI land assets and regenerate that area.

47. Accordingly, the acquisition of STSC, which around the time of transition will have been responsible for safe management of the site and its hazards for around four years, is considered the lowest risk approach to continuing the safe operation of the site.

48. The principal financial risk linked to the acquisition is the adequacy and flexibility of funding to ensure, where possible, STDC is not exposed to unforeseen costs or a shortage of funding. These risks are being addresses as far as possible through appropriate due diligence and the funding and payment mechanism that is being requested from central government.

49. Programme and performance management also present a significant risk in relation to successful decontamination of the former SSI assets by STSC and in this regard steps have been taken to ensure performance is properly appraised and managed via the STDC Programme Assurance Framework.

CONSULTATION & COMMUNICATION

50. The STDC Masterplan was consulted extensively prior to approval. The successful CPO process to acquire the necessary land to deliver the masterplan included engagement

with landholders, stakeholders and led to the public inquiry that concluded with a positive planning inspector decision on 29 April 2020.

51. This report contains the required implementation steps to move the STSC site management resources into local control alongside the local control of land across the STDC area.

52. The STDC Business Case and proposals contained within this report will also be presented to TVCA Cabinet consisting of Local Authority leaders and Local Enterprise Partnership representatives from across the private sector.

EQUALITY & DIVERSITY

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

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