

Annual Governance Statement 2018/19 - draft

Introduction

1. The South Tees Development Corporation (STDC) was established on 1st August 2017 as a new statutory body, a Mayoral Development Corporation, pursuant to the powers devolved to the Tees Valley Mayor under the Tees Valley Combined Authority (Functions) Order 2017. It lies wholly within the borough of Redcar and Cleveland and encompasses an area of approximately 4,500 acres to the south of the River Tees.
2. STDC has been established as the special purpose public sector vehicle for delivering area-wide, transformational economic regeneration on South Tees, to augment the wider economic growth plans of the Tees Valley. Representing the largest single regeneration opportunity in the UK, STDC's regeneration programme will be pivotal in transforming the South Tees area into a national asset for new industry and enterprise, making a substantial contribution to the economic growth and prosperity of the region.
3. Prior to its formal establishment, STDC was led by a Shadow Board, established by the Tees Valley Combined Authority and Government Ministers, in May 2016. Transition arrangements enabled decisions made by the Shadow Board to be reflected in policies and procedures of the Corporation at the point when it took effect. A Constitution was developed, led by the Combined Authority, setting out the objectives and powers of the STDC and establishing a framework for the Board, decision making through Committees, including Audit and Risk, and delegations.

Scope of Responsibility

4. STDC is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. The Corporation has set up a wholly owned subsidiary, South Tees Developments Ltd, whose purpose is to own and develop recently acquired former Tata Steel land/assets. This Special Purpose Vehicle (SPV) is covered by Articles of Association. Further governance changes are anticipated during the course of this year.
6. The Corporation has established governance arrangements which are set out in its Constitution, available on its website at:

<https://www.southteesdc.com/wp-content/uploads/2019/02/STDC-Constitution-18-07-25.pdf>

The Annual Governance Statement sets out how the Corporation has complied with the framework and how it meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015 in relation to a review of the effectiveness of the Internal Control system.

The Purpose of the Governance Framework

7. The governance framework comprises the systems and processes, and culture and values that direct and control STDC activities and through which the Corporation is accountable in the fulfilment of its stated purpose and objectives. It enables the Corporation to monitor the

achievement of its strategic objectives and to consider whether those objectives have led to the delivery of its objectives.

8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk in terms of adherence to policies, and achievement of aims and objectives, and can therefore only provide a reasonable level and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process of improvement, designed to: identify and prioritise the risks to STDC attaining adherence to its policies, and achievement of its aims and objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically.
9. A governance framework has been in place at STDC for the year ended 31 March 2019 and up to the date of approval of the statement of accounts. The Constitution, originally agreed by the Tees Valley Combined Authority in June 2017, to reflect governance arrangements post-establishment of STDC as a statutory body, is reviewed annually by the Board. This Constitution was developed in consultation with the Constituent Authorities and in parallel to the legislative process which defines the specific powers and functions transferred to the Combined Authority and the Mayor in creating Development Corporations.

The Corporation's Vision

10. There is a clear vision of our purpose and intended outcomes for promotion of **economic growth** and commercial development of the STDC area through conversion of the assets into opportunities for **business investment** and **economic growth**.
11. These aspirations and goals, along with the Corporation's plan for delivering them, are laid down in the South Tees Regeneration Master Plan that was launched for consultation in October 2017. This sets out the vision and strategy for redevelopment of some 2,300 acres of land, and the related objectives and deliverables, over a 25-year timeframe. The South Tees Area Supplementary Planning Document, adopted in May 2018 by Redcar & Cleveland Borough Council, alongside the Council's revised Local Plan (May 2018 also), provides the planning framework to guide and inform future planning applications for the STDC area. Our ambition incorporates economic, social and environmental priorities, with the aim of contributing significantly to economic growth within Tees Valley.
12. The objectives of the Corporation are:
 - a. To further the economic development and regeneration of the South Tees area, so that it becomes a major contributor to the Tees Valley economy and the delivery of the Tees Valley's Strategic Economic Plan;
 - b. To attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;
 - c. To transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community;
 - d. To contribute to the delivery of the UK Industrial Strategy, by supporting the growth of internationally competitive industries with access to global markets, taking a comprehensive approach to redevelopment at a scale that enables the realisation of an

international-level investment opportunity.

13. In support of these core objectives, the Corporation works collaboratively with the Tees Valley Combined Authority, Redcar and Cleveland Borough Council, the SSI Task Force and other partners to contribute positively to local and Tees Valley-wide initiatives on skills, job opportunities for local people (including those directly and indirectly affected by the closure of the steelworks), inward investment, transport, sustainable development, the natural environment, culture and tourism.
14. The Master Plan is underpinned by a robust 'Strategy for Regeneration' of the STDC area, principally defined by 10 Core Principles:
 - i. Ensure strong alignment with UK Government's Industrial Strategy
Resulting in an Area Based STDC Industrial Strategy while shaping the regeneration proposals to ensure the Tees Valley can make a telling contribution to the realisation of UK Government's aspirations for the Northern Powerhouse Initiative
 - ii. Form strategic alliances with major operators so that the Tees Valley presents a coordinated, world class offer to the international marketplace
Collaborating with major land owners, industries and operators within the area to capitalise on synergies and symbiotic opportunities, avoid conflicts of use, realise true alignment and deliver mutually beneficial outcomes
 - iii. Prioritise uses connected with advanced manufacturing and advanced and new technologies
Future-proofing the development and the long-term economic sustainability of the Tees Valley, while building an international-level brand for South Tees that is built on innovation and manufacturing excellence
 - iv. Promote and support development uses aligned with a low carbon, circular economy, while delivering redevelopment within a framework of reduced energy costs and waste minimisation
So supporting the Tees Valley in becoming an exemplar, demonstrator region through the establishment of integrated supply chains in energy-intensive, high-tech prime sectors
 - v. Focus on highly-skilled employment generating opportunities, while balancing this with the need to create a wide spectrum of job opportunities
Creating opportunities for upskilling and an increase in both the mean salary levels and Gross Value Added (GVA) for the Tees Valley economy
 - vi. Evaluate redevelopment proposals not only from a direct jobs perspective, but as potential catalysts for job creation across the wider Tees Valley
Capitalising on and harnessing opportunities for supply chains and support industries and optimising beneficial outcomes for the local economy and our local communities
 - vii. Deliver efficient connectivity across the South Tees area through enhanced on-site transport infrastructure to realise optimal functionality
Delivering a truly integrated industrial and manufacturing zone with excellent intra-connectivity, where the benefits of excellent port facilities and beneficial neighbouring industrial operators can be fully harnessed
 - viii. Deliver redevelopment in a way that reduces pollution, contributes to habitat protection and long term sustainability, and that encourages bio-diversity

Creating a destination that is an exemplar of how major industry and vitally important environmental assets can co-exist in a mutually-beneficial way, realised through genuine collaboration between new businesses and national and local environmental bodies

- ix. Ensure the regeneration of the South Tees area makes a major contribution to the transformation in education and skills across the Tees Valley
Working with local authorities, the education sector, and local training and development initiatives to realise, through the redevelopment proposals, major opportunities for improving education attainment levels across the area and the skills base, to provide greater access to employment
 - x. Use the regeneration opportunity to strengthen transport connections with Redcar town centre and other urban centres, to realise improved economic and community benefits
Capitalising on the significant increases in local employment afforded by the redevelopment of the STDC area to boost visitor economy, help revitalise town centres and deliver improved benefits for local communities
15. A set of indicative metrics and outcomes are also identified with the Master Plan and these frame the principal outputs to be attained in the realisation of a comprehensive regeneration of the area. They help shape our priorities and the key actions we will take. These, in turn, drive the activity of our various functions and how we focus our resources. We are clear where we need to get to and what we need to do to get there; and this is continually reviewed

The Governance Framework

- 16. Whilst the overarching vision remains unchanged, arrangements are in place to review the Corporation's governance arrangements as priorities change. The annual strategic planning process, and engagement and participation with partners and stakeholders will ensure the Corporation's vision remains relevant and meets the needs of the area. There are regular reviews of the Constitution and related documents to ensure that these are up to date and effective.
- 17. Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including an annual appraisal scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job descriptions / person specifications.
- 18. The roles and responsibilities of Corporation members and employees are clearly documented. The STDC Constitution sets out how the Corporation operates. It incorporates a scheme of delegation, indicates responsibilities for functions and sets out how decisions are made. The Constitution is subject to regular review, with substantive changes requiring the unanimous agreement of the Corporation's Board.
- 19. The Constitution includes Rules of Procedure and various Codes and Protocols that set out standards of behaviour for members and officers.
- 20. During the year, a system of scrutiny was in place through the regular Committees and Senior management meetings allowing:
 - a. Review or scrutiny of decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the Development Corporation;

- b. The submission of reports and/or making of recommendations to the Development Corporation with respect to the discharge of any functions which are the responsibility of the Development Corporation;
 - c. The submission of making of reports and/or making of recommendations to the Development Corporation on matters that affect the Corporation's area or stakeholders.
21. There is a requirement in the Constitution for establishment of an Audit & Risk Committee with an Independent Chair who is not a member of the Corporation's Board, and for the Combined Authority's Audit and Governance Committee to appoint one of its members to be a member of the Corporation's Audit & Risk Committee.
22. The Development Corporation has secured provision of certain of its administrative functions (including legal, human resources and ICT) through delegation to external providers such as Tees Valley Combined Authority and South Tees Site Company Ltd, with a view to their more economical, efficient and effective discharge.
23. Financial policies and procedures are in place. Risk management processes have been significantly reviewed and strengthened, with development and adoption of the Risk Policy and Risk Management Framework. HR policies have been developed and adopted, aligned with TVCA's where applicable, and these will be implemented in the coming months. There are comprehensive budgeting systems in place and a robust system of budgetary control, including preparation of annual financial reports, which evaluate financial performance.
24. The formal role of the Director of Finance (DoF) is currently provided through the current CEO for TVCA (the advert for a replacement closes on 2 June 2019). Interim Heads of Finance have been appointed for both Tees Valley Combined Authority and South Tees Development Corporation.
25. The Development Corporation has an Audit & Risk Committee which undertakes an assurance and advisory role, with the following remit:
- Audit**
- a. To consider the effectiveness of STDC's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance from the Chief Officers, Internal Auditors and External Auditors that action is being taken on risk-related issues within the organisation.
 - b. To consider internal audit annual reports and opinions; and consider a review of the effectiveness of the system of internal audit.
- Standards**
- c. To promote and maintain high standards of conduct by STDC members and co-opted members.
 - d. To ensure the STDC members and co-opted members observe the Members' Code of Conduct.
 - e. To advise the Development Corporation Board on the adoption or revision of the Members' Code of Conduct.
 - f. To monitor complaints received by STDC in respect of Member conduct.
 - g. To conduct hearings following investigation and determine complaints made against members and co-opted members.

- h. Where a member or co-opted member is found to have failed to comply with the Code of Conduct to take such action as may be necessary to promote and maintain high standards of conduct, in accordance with the powers available to the Committee.
26. The Corporation has reviewed and implemented its own Anti-Fraud and Corruption Policy designed to encourage prevention, promote detection, ensure effective investigation where suspected fraud or corruption has occurred; and the prosecution of offenders where appropriate. This includes an Annual Review of the Register of Personal Interests for all members of the Board and the staff of STDC.
27. We have arrangements in place 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, including those of the SPV.
28. Arrangements for confidential reporting (whistle-blowing) and for receiving and investigating complaints are in place. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Corporation's business, they can easily report their concerns. The whistle blowing arrangements support the maintenance of a strong regime of internal control.
29. Members are experienced in their roles for the Development Corporation, and undertake designated portfolio roles through Committee membership in support of Board decision-making; supported by lead officers for that portfolio area. A review of Board and Committee membership is undertaken as part of the Annual Governance arrangements. The Corporation recognises that managing the performance of all of employees is key to ensuring that the organisation meets and delivers on its stated purpose and objectives. This includes assessing ability against requirements of the role, focusing on strengths and highlighting areas for potential improvement, job-related training, and ongoing evaluation of the extent to which employees understand and support the values of the Corporation.
30. Channels of communication have been established with all partners and stakeholders to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of partners and stakeholders and we carry out consultation, where appropriate. The Corporation, through TVCA, maintains an active social media presence, and ensures full transparency of its policies.
31. We continue to work closely with all our partners including the Tees Valley Combined Authority, Redcar & Cleveland Borough Council, other public bodies and the private sector. We have established proportionate governance arrangements for all partnerships.

Review of Effectiveness

32. The Development Corporation has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.
33. The Senior non-Executive Officer (in lieu of the CEO who left STDC mid-September 2018), the Director of Finance, Engineering & Programme Director and interim Commercial Director, supported by the Compliance & Governance Manager, have undertaken this review and a report is being prepared for the Annual Review Meeting of the Corporation in July 2019.

34. The review was informed by a number of assurances gathered from all available sources, in particular:

- a. Assurances from senior officers responsible for relevant specialist areas.
- b. Provision of the internal audit service, by RSM, to the Development Corporation for 2018/19. Internal Audit has liaised with the relevant statutory officers during the year to assist in the adequacy and effectiveness of the Corporation's existing systems of internal control. The Head of Internal Audit's annual assurance opinion will be available for the STDC Annual meeting.
- c. Audit and Risk Committee Identification of "significant risks" and recommendations to the Board that in their view give rise to a Referral Decision. A Referral Decision is any decision or issue which may result in a significant risk of:
 - i. A financial liability; or
 - ii. A statutory liability; or
 - iii. An environmental or criminal liability

and as such would be referred to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision.

- d. Review of the Performance and Terms of Reference of each of the Committees and Groups of the Development Corporation

35. The outcome of the review of effectiveness has provided us with the necessary assurance that the only significant issues identified, giving rise to Referral Decisions were related to: the making of a Compulsory Purchase Order; the negotiations with the Thai Banks on purchase of the former SSI land; and the purchase of Tata land. The findings of the review will be reported to the Audit & Risk Committee and any identified improvement actions will be included in an Improvement Plan.

36. We propose over the coming year to take steps to implement any improvements necessary to further enhance the effectiveness of and strengthen the Corporation's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and effectiveness as part of the next annual review.

By order of the Corporation

Signed:

Signed:

Paul Booth

Ben Houchen

Senior non-Executive Officer

Mayor

Date: 31/05/2019

Date: 31/05/2019