



Creative vision: Middlesbrough Football Club's Riverside Stadium is an example of the Teesside Development Corporation's achievements

# Wrestling with the rules

## PHYSICAL REGENERATION

The former Teesside Development Corporation has been criticised for its cavalier approach to financial restraints. But its accusers fail to present the full picture, says Sir Hugh Sykes

The recent National Audit Office investigation into the Teesside Development Corporation (*Regeneration & Renewal*, 8 March, p3) makes fascinating reading for followers of public-private partnerships, which is what the Urban Development Corporations (UDCs) were.

The regeneration of Teesside – one of the biggest regeneration challenges faced by any UDC – was notable for its creative energy and vision, and also for the ingenuity with which financial rules were circumvented.

The report also makes clear the difficulties that the former Department of the Environment (DoE) and the government offices experienced in trying to uphold the integrity of the Government's financial and accounting rules without unduly hampering the highly successful regeneration that was being accomplished.

The report is also interesting in what it does not say and the questions it didn't pose, let alone answer. The most important to my mind is whether the operations of the Teesside Development Corporation, taken as a whole and with all the faults and mistakes, were good value for taxpayers' money.

The other unposed and unanswered question is, were the struc-

ture, operation and supervision of the UDCs ideal or could they have been improved?

There was also entrepreneurial activity of the highest order – the new Riverside stadium for Middlesbrough Football Club, a new campus for Teesside University, the Tees Barrage and a host of other important projects.

The commitment to achieve regeneration by those in charge was also of a very high order, but in the process, rules which hampered progress were often bypassed – hardly an ideal situation. One has some sympathy with ignoring petty rules which are in apparent conflict with agreed policies and there is always a danger and a temptation to ignore or bypass such hindrances. However, the scale of the circumventions is quite surprising.

The development corporation's mistakes are itemised in the National Audit Office report *The Operation and Wind Up of Teesside Development Corporation*. But insufficient mention is made of the many successes. Were the successes less important? And is the transfer of £8 million from the UDC to the university really a loss to the public purse? Does a report like this do anything to encourage business people to forgo large financial rewards that they could otherwise be achieving to work for the public good? While the National Audit Office has a duty to snap at the heels of those who are less than meticulous about observing regulations, it is a shame that

their brief does not extend to providing a balanced report.

One also has to be sympathetic to the DoE and the government offices which acted as sponsors and sort of policemen, offering advice and monitoring services but were a long way short of taking full responsibility for the actions of UDCs. Their dilemma was how to uphold the integrity of the rules while not stopping the thrust of successful regeneration.

There are lessons to be learned here which are relevant to the new generation of Urban Regeneration Companies (URCs).

In the case of the UDCs each was responsible to the relevant minister (and these had a very high turnover rate – something like 15 ministers in ten years) for the regeneration of their areas. There were a dozen or so UDCs, but apart from the minister, who had hundreds of other responsibilities, there was no single person responsible for them all. There was no independent figure experienced in regeneration and management to advise, assist and supervise new UDCs. There was no parent board overseeing the operation of subsidiaries. A new UDC was very much on its own to make or break its own destiny. And there was nowhere for the DoE to go apart from the minister if it was experiencing difficulties with one of the UDCs.

Was this an oversight or conscious decision? I suspect it was the latter. A supremo would not have been over-popular with

the boards of the UDCs and there would have been difficulty in finding the right person. Perhaps the DoE may also not have wished to have such a powerful figure around.

But back to Teesside Development Corporation – were its operations good value for money?

I am not aware of any detailed study. In the absence of such a document, my educated guess is that Teesside, taken as a whole, was an excellent example of successful regeneration – and the UDC should be praised for this, even if it is to be criticised for its cavalier approach to financial rules.

The UDCs achieved a great deal of physical and economic regeneration which could not at the time have been achieved by other means. URCs are totally different. While there is similarly no-one in overall charge, there are other stakeholders and a pooling of knowledge and experience to promulgate best practice.

Social regeneration is now rightly seen as being of key importance and is firmly on the agenda along physical and economic renewal. But it can only be achieved with the active and full participation of a variety of services such as education, employment, health, police and housing. It is the quality of partnership between the URC and the local authority that is the main driver for success, coupled with the cooperation and support of English Partnerships and the RDAs.

URCs are still in the developmental stage and have many challenges to overcome if they are to be as successful as the UDCs. The hardest of these is to find sufficiently talented and motivated chief executives and senior management to make them work. Regulations and monitoring will not on their own suffice. Simple structures can help, but in the end it is people who matter. Good people can make complicated structures work and the wrong people can foul up even simple structures.

As the urban White Paper recounts, there is a shortage of good executives experienced in regeneration, and an urgent need for more education and training of professionals.

URCs are perhaps more difficult to operate than the UDCs were – and they were not easy – but they have enormous potential value. They need and deserve our support.

Sir Hugh Sykes is deputy chair of Sheffield One URC and was chairman of Sheffield UDC from 1988 to 1997.

# Whitehall knew of Teesside rule breakers

## ECONOMIC DEVELOPMENT

By Richard Garlick

Senior civil servants knew that the Teesside Development Corporation was breaking government finance rules in the mid-1990s, but chose not to take strong action for fear of unsettling a successful regeneration operation, the permanent secretary for the DTLR said this week.

Giving evidence to the House of Commons public accounts committee on the DTLR's predecessor departments' role in overseeing the corporation, Sir Richard Mottram admitted that "in some cases" civil servants were aware that rules were being broken. The corporation was asked not to repeat the transgressions, he said.

Asked why the corporation's chiefs had not been threatened with the sack if they continued to flout the rules, he said: "It was thought that the board and chief executive had done a good job of regeneration", and that his predecessors had felt that this was their department's priority.

The decision not to deliver an ultimatum would have been "the judgement of officials and ministers together", he said.

He named cabinet secretary Sir Richard Wilson, Treasury permanent secretary Sir Andrew Turnbull and retired Whitehall chief Sir

Middlesbrough FC's stadium: NAO queried deal with corporation



Terry Heiser as among the officials who would have had responsibility for such judgements.

The corporation operated from 1987 to 1998, and is credited with having attracted private sector investment of £1.1 billion to Teesside, creating more than 12,000 new jobs and bringing 520ha of derelict land back into use.

Just before it was wound up the corporation forecast that it would generate a £14.5 million surplus. But Mottram told the committee that the corporation could instead leave a deficit of around £40 million, higher even than the £23 million deficit estimated in last week's National Audit Office

report (*Regeneration & Renewal*, 1 March, p3).

Mottram's evidence confirmed the NAO's finding that the department was nervous about confronting the corporation's board over financial concerns.

The report said that civil servants had considered commissioning an independent external audit of the corporation in 1996, but backed off when corporation chairman Sir Ronald Norman threatened to resign.

The report found that the corporation had breached government accounting rules by delaying payment to creditors and including too many grants that it

expected to receive in the future in its annual financial statements.

It had also failed to seek the necessary approval for some "novel" funding arrangements with developers. Among the deals queried by the report was the transaction that gave Middlesbrough Football Club a 999-year lease on the site of its new BT Cellnet Riverside Stadium at a peppercorn rent of £1.

Duncan Hall, the corporation's former chief executive, told the committee that civil servants had always had a full picture of the corporation's financial operations.

"Every paper, every board minute was sent to the department as a matter of course," he said.

He accepted that concerns had sometimes been raised, but said the corporation had thought that these had subsequently been resolved.

But Mottram said that Hall "bent and broke the rules". When it was suggested to Mottram that the report hinted that Hall had lied to the department, he replied: "It appears so". Hall denied lying. See Editorial, p15 and Diary, p44.

● *The Operation and Wind Up of Teesside Development Corporation* is available from The Stationery Office (tel) 0845 702 3474 and on the National Audit Office website at [www.nao.gov.uk](http://www.nao.gov.uk)

## New homes forecast too low, says charity

### HOUSING

The Government has seriously underestimated the demand for additional housing in the UK over the next two decades, according to a new report.

Social policy research charity the Joseph Rowntree Foundation warns that excessive growth in the south of England will cause severe disruption to the labour market and the delivery of public services, unless there is a change in greenfield development policy and planners take a more proactive stance to replace low-density housing.

The charity estimates that the UK needs 4.5 million new homes by 2016, contrary to government predictions of 3.8 million.

Kelvin MacDonald, director of planning research charity ROOM, said: "The report is a challenge to the anti-development lobby.

● *Land for Housing* is available from (tel) 01904 430033.



**Greenwich development for heritage site** An application to regenerate a site in central Greenwich was submitted for planning approval this week. The scheme by architect the Boisot Waters Cohen Partnership focuses on a 0.7ha site within the Greenwich World Heritage site, containing a mixture of retail and civic buildings. The form of the development is determined by a series of open spaces, leaving a clear view through the site of St Alfege's church from the direction of the Greenwich Observatory. It comprises four principal buildings and a series of "infill" buildings to front onto the three main streets bordering the site.

## Poor excluded from the information age

### TRAINING

The poor, the elderly, the unskilled and those in rural areas continue to be isolated from the growth of information and communications technologies, according to a report published last week.

"The growth of ICT was supposed to break down geographical and cultural divides helping people feel less isolated, but this just isn't happening," said report author Kate Oakley.

The research, carried out by research consultancy the Local Futures Group for computer manufacturer IBM, found that despite predictions that ICT would be adopted by everyone, regular use of technology such as the Internet for shopping and online public services is "still a preoccupation of a minority [who] as a result face exclusion from services in future".

● For a copy of the report (tel) 020 7520 8120.

They have been accused of ignoring all sorts of dubious goings-on at Teesside Development Corporation. So did top officials at the Department of the Environment have their blind eye closed or open?

Pressed for an answer by MPs on the Commons public accounts committee last week (*New Start*, 8 March, p5), DTLR permanent secretary Sir Richard Mottram took a moment to reflect.

No, he said, after confused silence gave way to a loud burst of laughter, 'No blind eye was closed and no blind eye was left open.' The department at the north-east government office took the matter very seriously. At the same time it was 'sympathetic to what [the corporation] was trying to do'.

The National Audit Office's report into the affair last month makes the DoE sound frighteningly lax and weak-willed.

The corporation's use of deferred payments stretched back to 1990, three years after it was set up. The department wrote letters asking for further information. Officials knew the corporation regularly did deals without approval, but accepted its explanations and took no further action.

The department laughed off a warning by accountants Price Waterhouse that the corporation was close to becoming insolvent, believing it was just a tactic to get help. Instead of sacking the chair and commissioning an external audit, officials gave the corporation more money.

It is no surprise that the Teesside Development Corporation continued its irregular and expensive course, totting up losses now estimated at £40m.

The long-running saga is not simply about one man who was a law unto himself, although there is plenty of evidence to suggest that chief executive Duncan Hall regularly ignored a board that was teeming with titles and honours, yet at times was fully ignorant.

It is not a story of fraud – a police investigation found insufficient evidence for a criminal conviction. Nor is it a case of wall-to-wall failure: even its critics admit that the largest urban development company in England brought significant change to an extremely difficult area.

It is, however, an example of what can happen when the people meant to uphold the rules lack the strength or the will to do it. It also begs the question: are things different now?

Mix politics and public administration and what do you get? People who make rules in the pub-interest and break them in the political interest. Despite heavy criticism and Sir Richard's admission that the department's inaction was 'indefensible', there was an implication throughout the hearing that the committee had their man – and should ignore the part played by such civil service luminaries as Cabinet secretary Sir Richard Wilson and Treasury permanent secretary Sir Andrew Turnbull. That twitchy, red-faced man with weak blue eyes – Duncan Hall – was surrounded by 12 committee members. Sitting next to the relaxed and genial Sir Richard Mottram, Mr Hall removed his eyes as if he couldn't bear to see what was coming at him and then replaced them, the nervous action repeated over and again. Occasionally he buried his head in his hands or looked the room as if wondering if the keen-eyed journalists and officials were the kind of people who attend public hearings. He remembered nothing.



# turning a blind eye

It was meant to be a flagship urban regeneration scheme. So why did Teesside Development Corporation end up with egg on its face? **Susan Downer** reports

He was reminded that he personally negotiated land sales at knock-down prices that resulted in the loss of up to £4m; that he circumvented borrowing rules via a special arrangement with a subsidiary of the Royal Bank of Scotland; that the corporation valued the 'contaminated' site of Middlesbrough FC's Riverside Stadium at £1, having paid for the expensive reclamation itself.

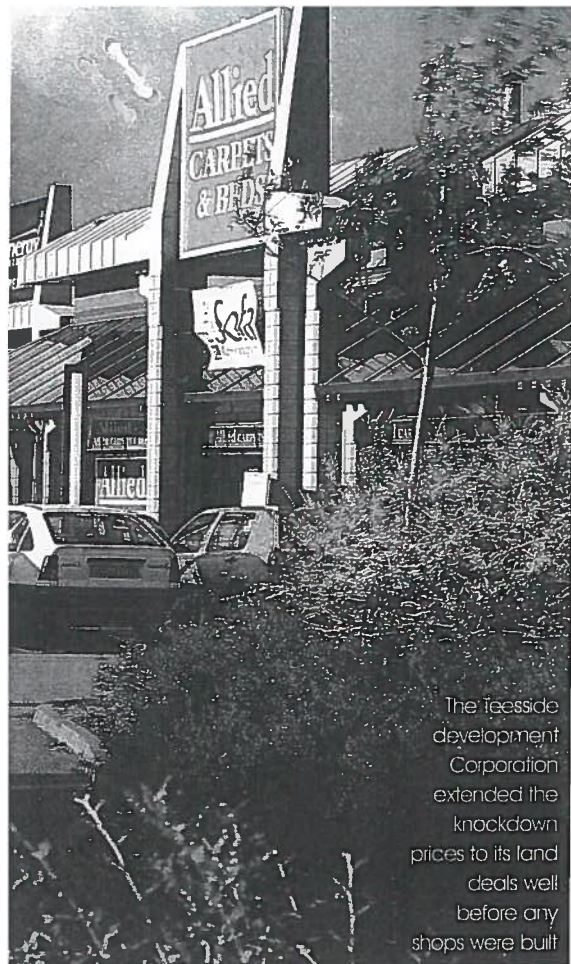
If the problem is what committee member Alan Williams called the 'arrogance, contempt or plain stupidity' of Duncan Hall and Sir Ron Norman, the corporation's chair, the answer is a tightening of rules, closer monitoring, stronger boards, and a firmer hand by civil servants, who were described by the committee as 'patient to the point of irresponsibility'.

These are the kinds of recommendations in the NAO report and now favoured by the DTLR. Sir Richard Mottram told the committee: 'I agree with

the report that we need to think increasingly about internal control of non-departmental public bodies in relation to the work they are doing... and certainly we should match the way we are monitoring bodies to the risk to public money.'

Last year non-departmental public bodies – quangos – became subject to a mandatory code of practice to help ensure appointments are made on merit through a process that is open and transparent. In the light of the Teesside inquiry, the DTLR has also pledged to look at how its own guidance on the sponsorship of quangos can be firmed up.

However, it is still up to chairs to ensure board members have the relevant information and training to enable them to carry out their duties. Sir Ron Norman failed to do this, allowing Duncan Hall to make decisions, sell them to the board on scant information and get the necessary rubber stamp.



The Teesside development Corporation extended the knockdown prices to its land deals well before any shops were built

The NAO report shows financial information to the board dried up in the 1990s. They never received the full business case for any proposals and no-one except Mr Hall was called upon to explain the pros and cons of proposed developments.

But perhaps this interpretation is far too kind to the then DoE. There is more than enough evidence to suggest that the department's blind eye was winking conspiratorially.

The department, guilty of a 'systematic failure to perform the basic job of oversight' looked everything over and then overlooked everything. Sir Richard's insistence that Duncan Hall 'consistently bent or broke the rules' behind the department's back is not good enough.

Teesside Development Corporation operated in an area of wasteland where unemployment stood at 25%. Guidance urged urban development companies to do anything 'necessary or expedient' to foster regeneration. Duncan Hall and his team created 12,000 jobs and brought more than £1bn of private investment to an area that had not seen private investment for a decade.

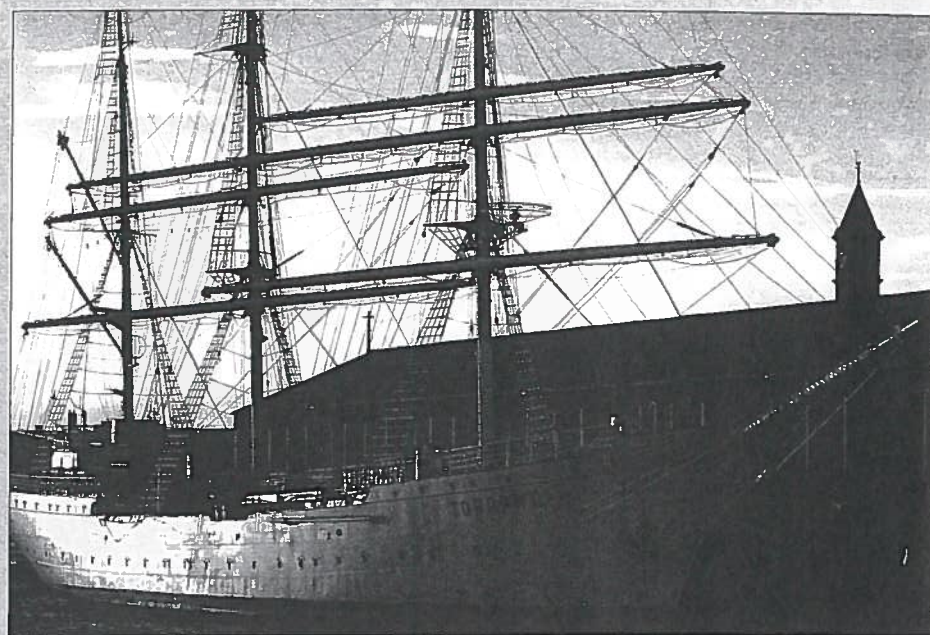
If the issue is a lack of political will to enforce the rules, politicians and civil servants need to look closely at themselves.

It is, as Sir Richard acknowledged, a balancing act. Arm's length bodies given a regeneration portfolio must be allowed to get on with the job within a framework that is somehow both firm and accommodating.

As one source puts it: 'There has to be a happy medium between having the dead hand of the civil service and the system on top of you and allowing people to get away with murder.'

'Stupid rules are sometimes used as weapons by people in the centre who want to control things. The only way to avoid mistakes is to do nothing.'

## shiver me timbers: Teesside and the Tovarisch



Twelve urban development corporations were set up in England between 1981 and 1993 as short-life non-departmental public bodies. Their remit was to achieve sustainable physical, environmental and economic regeneration in particular areas experiencing long-term economic and industrial decline.

They were supposed to bring land and buildings into effective use, encouraging the development of new businesses, creating an attractive environment and ensuring housing and social facilities were available to attract people to live and work in the area.

In 1997 Teesside Development Corporation decided the area's regeneration would be well served by the purchase of a Ukrainian training ship, *Tovarisch* (above), detained in port in Newcastle after safety inspectors found it unseaworthy.

It remained in port because the master and crew did not have the money to rectify

its deficiencies. After negotiating with the Ukraine government, the corporation agreed to meet subsistence costs of the ship's master and crew for two years and in May 1997 towed the ship to Middlesbrough to be renovated at a proposed tall ships centre.

In February 1998 it was decided to locate the tall ships centre in Hartlepool, after the corporation's bid for lottery funding was rejected. Unfortunately, Hartlepool dock couldn't accommodate such a large ship. The *Tovarisch* remained in Middlesbrough Dock until 1999 at a cost of £240,000 (£150,000 of which was incurred by the commission).

After the corporation wound up, the Commission for the New Towns paid for it to be towed away.

The National Audit Office report, *The operation and wind up of Teesside Development Corporation*, is at [www.nao.gov.uk/publications/nao\\_reports/index.htm](http://www.nao.gov.uk/publications/nao_reports/index.htm)

Doing nothing is not an option; doing things better is a necessity.

Teesside, the source says, fouled up so often because of its lack of contact with other stakeholders. Part of the solution is openness (the Teesside board met only in secret) and being open-minded instead of succumbing to paranoia.

The government is now more willing to negotiate over rules, and favours more partnership working – both of which can make a positive contribution to the way regeneration works.

If anything makes a difference, perhaps it will be the many and varied eyes of stakeholders on the ground, including individuals like Middlesbrough

MP Ashok Kumar who fought for years and pleaded with ministers to get the corporation's secret into the open.

Dr Kumar says he will approach secretary of state Stephen Byers after the public accounts committee has published its report, to find out what actions have been taken and what procedures have been laid down for the future. He may also approach the Crown Prosecution Service to see there are grounds for prosecution. He is keen to see the entire board surcharged.

His message to people bent on doing the same thing? 'You can't get away with dodgy deals and bending rules. Someone will seek accountability.'

**'If the issue is a lack of political will to enforce the rules, politicians and civil servants need to look closely at themselves. It is, as Sir Richard acknowledged, a balancing act'**