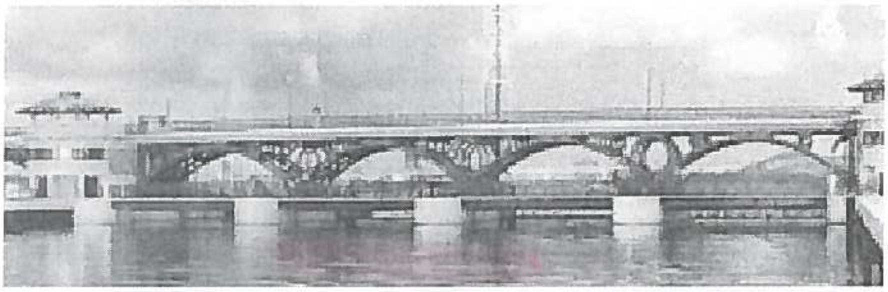
executive summary

In this section

Background and main findings

1 Urban Development Corporations were set up between 1981 and 1993 to achieve the physical, environmental and economic regeneration of urban areas experiencing long-term decline. To achieve this objective, the Corporations had extensive powers and the autonomy to develop their own approach to regeneration.

2 Teesside Development Corporation (the Corporation) was the largest Development Corporation in England, covering some 12,000 acres in the North East of England. Established in September 1987 and wound up on 31 March 1998, it received total government grants of £354 million and generated other income of £116 million, including income from the sale of land and property. Over its lifetime the Corporation helped attract private sector investment of £1.1 billion into the area, created over 12,000 new jobs and brought 1,300 acres of derelict land back into use. The Corporation achieved much of lasting benefit in a difficult area.



3 In November 2000 three Members of Parliament[1] for constituencies in the North East of England and a former contractor passed to us concerns about the Corporation's operations, as set out in detail in Appendix 2 to this report. In the light of these concerns, we examined the way the Corporation went about its business and handled its wind up.

4 Our main findings are:

- Over its lifetime the Corporation operated broadly within available resources, but its approach to regeneration led to some financial difficulties in the mid-1990s. Around this time, the Corporation entered into 'forward funding arrangements' with developers and deferred payment agreements with contractors, and delayed payments to creditors. For some agreements the Corporation had not sought the required Departmental or Treasury approval, and delaying payment of sums due breached the rules of Government Accounting.[2] The Corporation paid out £1.6 million in compensation to developers, who had paid funds to the Corporation in advance of developments, when the developments did not proceed.

1 *Dr Ashok Kumar, MP for Middlesbrough South and East Cleveland, Dari Taylor, MP for Stockton South and Frank Cook, MP for Stockton North.*

2 *Guidance for Government Departments and other public bodies issued by HM Treasury on the proper handling and reporting of public money.*

- The Corporation sold or transferred land at values which suggest there may have been a shortfall of £4 million compared with the sites' regeneration value[3], based on advice we obtained from the District Valuer. It also entered into transactions that resulted in losses of £5.3 million.
- When it wound up its affairs in March 1998, the Corporation estimated that it left the Commission for the New Towns[4], the residuary body with responsibility for any outstanding matters, with a surplus of £14.5 million, if £16.25 million of uncertain receipts were included, or a deficit of £1.8 million on a more prudent basis later recommended by the Corporation's auditors. However, some liabilities were excluded and others understated, and none of the uncertain receipts has yet materialised. At February 2002 the Corporation's potential deficit is some £23 million, which may be offset if some of the uncertain receipts materialise, but which could rise further as outstanding liabilities are settled by the residuary body. The Corporation also left significant items of unfinished business.
- Governance at the Corporation could have been more robust. The Chief Executive often negotiated transactions himself and recommended them to the Board. Not all Board members had a clear understanding of their responsibilities or of the public sector financial framework within which the Corporation operated. They focused on the Corporation's regeneration efforts, and looked to the Corporation's external auditors, Price Waterhouse[5] and the Department for assurance on financial management issues even though these were primarily the Board's responsibility.
- The Department responsible for oversight of the Corporation was aware of the Corporation's approach to its business activities. In some cases, the Department too readily accepted the Chief Executive's explanations and assurances and in others it was ineffectual in bringing about remedial action. It did not invoke any of its more significant powers of intervention although it considered doing so.

5 Our other findings are set out opposite.

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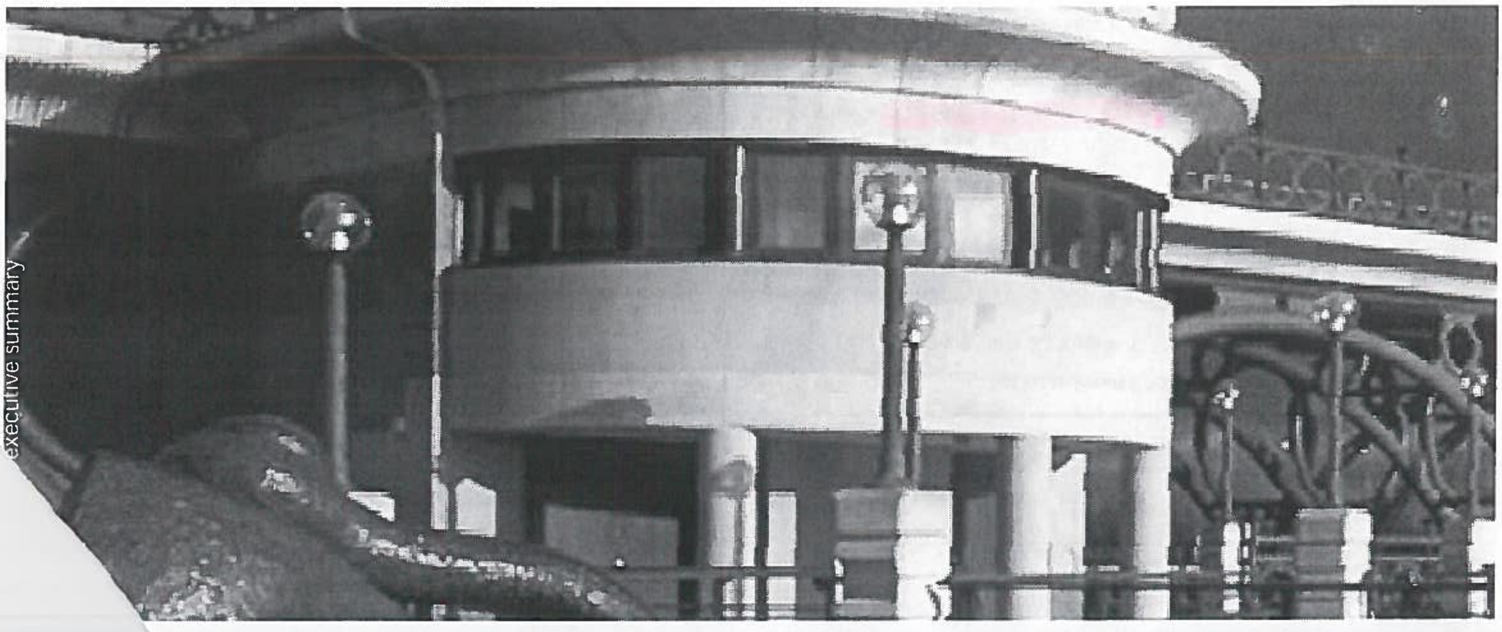
3 *Regeneration value was expected to reflect the best price that could reasonably be obtained in relation to the proposed use of the land, rather than necessarily to maximise receipts by disposing of land for the most profitable use, providing that use was in line with Corporations' regeneration objectives.*

4 *The Commission for the New Towns was the residuary body that inherited any outstanding assets and liabilities upon the wind up of Urban Development Corporations. The Commission was merged with English Partnerships in May 1999 and now operates under the name English Partnerships.*

5 *Price Waterhouse were the Corporation's external auditors throughout the Corporation's lifetime. Price Waterhouse merged with Coopers and Lybrand in July 1998 to form PricewaterhouseCoopers.*



Other findings

On the Corporation's financial management of its activities and its wind up

6 In each of the four years 1992-93 to 1995-96, to cover expenditure already incurred, the Corporation anticipated in its financial statements between £18 million and £29 million of grants receivable in the following financial year. The sums anticipated ranged from 60 per cent to 100 per cent of the following year's grant, and some were anticipated in advance of Parliament voting the funds. And in its 1994-95 and 1995-96 financial statements the Corporation anticipated grants of £19 million and £20 million respectively not due until 2 years later. Treasury guidance did not permit anticipation of material amounts of grant. The Department interpreted Treasury guidance as permitting such anticipation of grant. The Corporation's Chief Executive and Director of Finance, and Price Waterhouse, told us that they understood that the Corporation's anticipation of grants was permitted under the Department's accounts directions (paragraphs 2.7 to 2.10).

7 The Corporation made commitments to four development schemes, totalling some £34 million, outside its delegated authority and without prior approval from the Department. The Department subsequently approved two of these schemes. In the case of one of the other schemes, the Corporation subsequently let contracts for elements of the scheme. The Government Office for the North East took the view that this had been done to bring them below the threshold for Departmental approval, and expressed concern to the Board that the Department's rules had been circumvented in this way (paragraphs 2.25 and 2.26).

8 On 20 March 1998, at its last meeting before wind up, the Board approved payments totalling £5.1 million without the knowledge of the Department or the Commission for the New Towns which was subsequently obliged to meet £1.9 million of these commitments. In the last few weeks of the Corporation's life, the Chief Executive also granted a £0.5 million mortgage to a developer, which was prohibited by the Urban Development Guidebook[6]. The developer subsequently went into administration and did not repay any of the mortgage (paragraph 3.9 and paragraph 2.34, Case C).

6 *The Urban Development Guidebook set out detailed requirements for, and guidance on, Corporations' day-to-day activities and was binding on Corporations.*

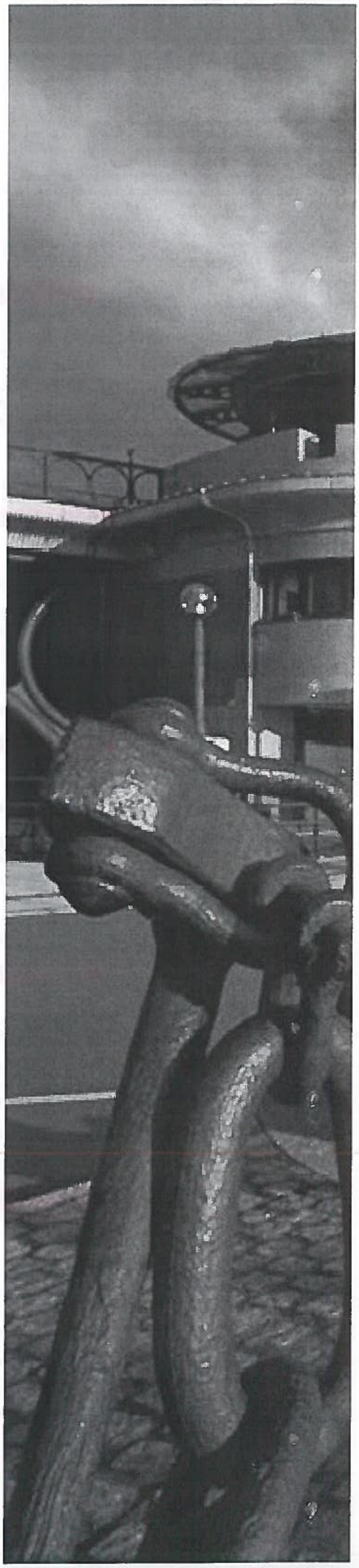
9 Corporations were expected to secure an orderly and tidy exit, divesting themselves of all property, rights and liabilities by December 1997 and leave as little business as possible for the residuary body, the Commission for the New Towns. Where Corporations did not complete their divestment programmes before wind up, they were expected to leave the Commission with sufficient assets to cover outstanding liabilities. The Corporation's Chief Executive was still in negotiations with developers and others up to the close of play on the last day of the Corporation's operational life. The Corporation left the Commission significant items of unfinished business, some of which English Partnerships was still working to resolve at February 2002 (paragraphs 3.10 and 3.11).

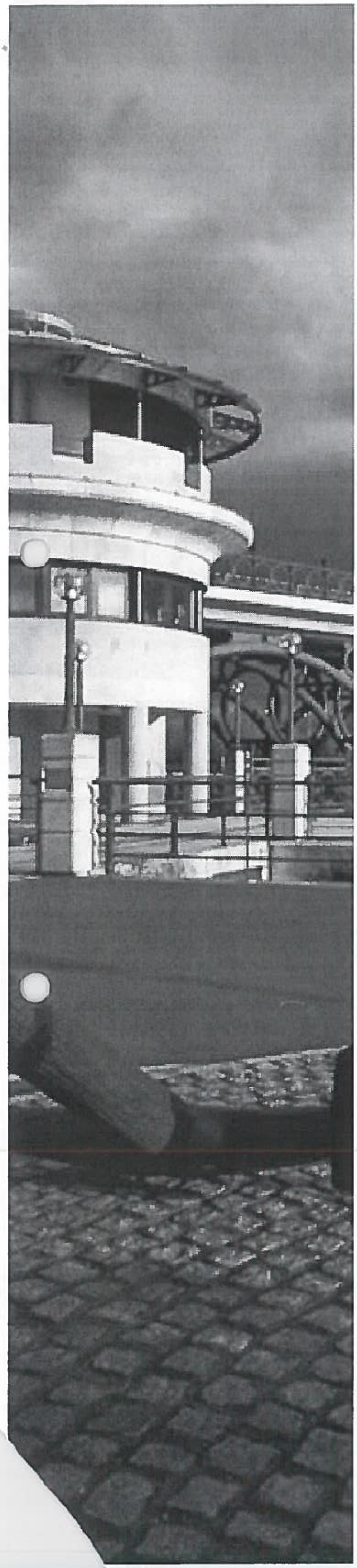
On governance and accountability at the Corporation

10 The Board minutes for Teesside Development Corporation show that the Chief Executive was the only officer who attended Board meetings. During the last four years of the Corporation's life the Corporation's Director of Finance attended only two Board meetings, both in June 1998. Board members told us that this policy had been agreed between the Chairman and the Chief Executive early in the Corporation's life, the Chairman noting that he had regular access to operational staff (paragraph 4.12).

11 The Corporation's Board was responsible for approving the Corporation's budget and monitoring income and expenditure. To discharge this latter function the Board received brief summary reports each quarter up to January 1995, when they were discontinued. Subsequently the Board received financial position statements as at October 1995 and January 1996, which showed the Corporation's cash budget, its actual income and expenditure and management's forecasts of total income and expenditure at the year-end. Major items of expenditure incurred to date were also listed. After January 1996 reporting lines changed, with detailed financial information being reported to the audit committee while the Board received no other financial reports other than the Corporation's annual financial statements. The Board did not see full business cases in support of major projects before approving them. Instead they relied on short reports from the Chief Executive for assurance that the projects provided value for money (paragraphs 4.6 and 4.7).

12 The Corporation's Board approved and paid the Chief Executive's full performance bonus each year up to and including 1998. The Department advised the Board to reconsider its decision to pay the Chief Executive the full 10 per cent bonus for 1998 of some £6,800; the Chief Executive subsequently repaid some £1,700 (paragraphs 4.16 and 4.17).





On the Department's oversight

13 Responsibility for funding, monitoring and reviewing the Corporation's activities was shared between the Department's headquarters and the Government Office for the North East, which also sponsored the Tyne and Wear Development Corporation. The Director of Regeneration and, on occasion, the Regional Director at the Government Office liaised directly with the Corporation's Chief Executive and Chairman on an informal basis as and when required. Other parts of the Department were also involved in monitoring the Corporation including the Department's Finance, Environment and Sponsored Bodies Division, the Department's Accountancy Advisor and the Department's internal audit service (paragraphs 5.2 to 5.4).

14 The Department relied on the Corporation's Board for assurance that the Corporation's activities were being properly governed. It did not invoke any of its powers of intervention although it considered de-designating the Corporation's Chief Executive as the Corporation's Accounting Officer in the period immediately after the Corporation's wind up but before its final dissolution in June 1998; and it considered not recommending the Corporation's Chairman for re-appointment when his second term of office expired. It did not consider strengthening corporate governance in the Corporation by making other changes to the Board, or by taking up the Chief Executive's offer early on in the Corporation's life to nominate a representative to attend the Corporation's Board meetings (paragraph 5.10).

15 The Department considered commissioning an independent external audit of the Corporation in July 1996 because of its concerns about the reliability of financial information including that on cash flow and commitments. However, the Chairman threatened to consider his position if it did so, and the Department decided that it would not be helpful to undermine confidence on Teesside by precipitating the Chairman's and possibly other Board members' resignations. However, the Department commissioned additional work by the external auditors, intensified its monitoring of the Corporation's cash flow and pressed the Corporation to focus on an effective wind up (paragraphs 5.11 and 5.12).

16 In July 1996 the Government Office expressed concern about the Corporation's lack of progress with its preparations for wind up. The Government Office reviewed the Corporation's draft exit strategy and concluded that it might be inadequate to address major issues of concern. The Chief Executive had not set finalisation dates for individual projects, making it difficult for the Government Office to track progress. During the wind up period, the Government Office pursued the Corporation for delivery of its wind up strategies, regeneration statements, risk assessments and evidence of progress on land disposals. Staff at the Government Office compiled some of these schedules themselves from the available information and used the data to challenge the Corporation to make more progress (paragraphs 5.12, 5.13 and 5.17).

17 We were unable to find amongst the files left by the Corporation key information such as marketing and disposal files, and contract files with developers and contractors. The Department did not have a consistent policy on whether Corporations' papers were public documents subject to the requirements of the Public Records Act. For example, the papers of the London Docklands Development Corporation were covered by the Act, whilst Teesside Development Corporation's were not. The absence of any requirement for the Corporation to meet the strict provisions of the Public Records Act before wind up meant that the Corporation decided for itself which documents to retain, and which to destroy (paragraphs 5.18 to 5.20).

Recommendations

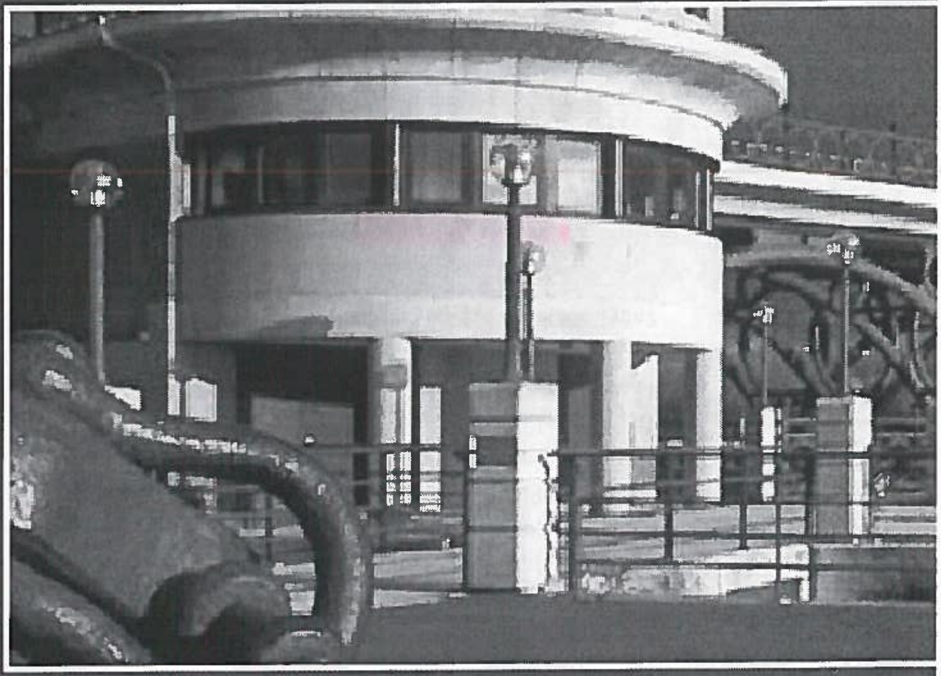
18 The standards required for the proper conduct of public business are fully compatible with the entrepreneurial approach needed for successful regeneration activities. Bodies need to tailor their operations, however, to keep within public expenditure limits and to discharge their responsibilities for public funds in a proper manner. Boards must hold Chief Executives to account through proper challenge and scrutiny; and by maintaining a strong internal control framework supported by an independent internal audit function, itself overseen by an audit committee which is independent of the Chief Executive and senior finance staff. Departments must have sufficient understanding of the operations of the sponsored body to discharge effectively their own responsibilities for the proper use of public funds provided to that body.

19 Urban Development Corporations no longer exist but, based on the important issues of oversight and governance highlighted by this case, we make the following recommendations to government departments sponsoring other non-departmental bodies (NDPBs). Departments should:

1. In appointing Board members of NDPBs, review carefully the composition of the Board to provide for an appropriate range of skills specific to the activities of the body, and also the financial, and wider business and other skills required; and satisfy themselves that the personalities of appointees will provide sufficient checks and balances to make for sound corporate governance.

2. Provide people appointed to the Board or senior management positions with sufficient knowledge and understanding of the financial management and reporting requirements of public sector bodies, and in particular draw their attention to any differences which might exist between private and public sector practice.

3. Encourage Boards to take advice and receive reports from key senior operational staff directly and not to rely exclusively on reports from the Chief Executive. In particular Boards should ensure that major decisions which they are asked to endorse have been scrutinised by those with relevant expertise, and that the financial implications have been fully considered.



4 Check that Boards receive and review regular financial information on the NDPB's activities to exercise sufficient oversight of its handling of public monies; and that the Board has considered, and taken appropriate action to manage, key risks relevant to their activities.

5 Ensure that a sufficiently independent (of operational/executive staff) audit committee is established; and review the effectiveness of the committee's oversight of the internal control framework, and of internal and external audit activity.

6 Facilitate comprehensive and effective oversight by designating a member of the Department with primary responsibility for monitoring all aspects of the NDPB's activities, with that person seeking advice from other specialists as required.

7 Focus oversight on those sponsored bodies which pose the greatest risk, based on a periodic risk assessment reflecting for example: the nature and profile of the body's activities; the amount of public monies at stake; the adequacy of the body's corporate governance arrangements; its financial performance; internal and external auditors' reports; and openness of communications between the body and the Department.

8 Where significant concerns about the body's activities or corporate governance arise, draw these to the attention of the whole Board (and the internal and external auditors where relevant) and seek explanations or assurances from the Board that appropriate action is being taken to address the areas of concern.

9 Protect public interests when a body is to be wound up, by seeking independent assurance on key transactions, financial commitments and cash flows; and where the activities to be wound up are significant, consider representation on the Board to ensure the wind up phase is conducted in a proper and successful manner.

10 Where the Chief Executive is eligible to receive a performance bonus on the recommendation of the Board, ensure performance objectives give due weight to the proper management and use of public funds as well as key operational achievements.