TEESWORKS

South Tees Development Corporation Board Agenda

Date: Thursday 16th March, 2023 at 9am

Venue: Teesworks Site, Steel House Gate Conference Room, Redcar TS10 5QW

Membership:

Mayor Ben Houchen (Tees Valley Mayor)
Cllr Mary Lanigan (Leader, Redcar & Cleveland Borough Council)
Mayor Andy Preston (Mayor of Middlesbrough)
Graham Robb (Independent Member)
David Smith (Independent Member)
Jacob Young MP (Independent Member)
Neil Schneider (Independent Member)
Julie Gilhespie (Group Chief Executive TVCA, STDC)

Associate Membership:

Tom Smyth (BEIS)
John Sampson (MD, Redcar & Cleveland Council)

AGENDA

1. Apologies for Absence

2. Declarations of Interest

Attached

3. Minutes

Minutes of the meeting held on 19th January, 2023 for confirmation

4. Chair's Update

Verbal

5. Group CEO Update

Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, Appendix 3 to this report is not for publication

6. Finance Update

Attached

7. Budget 2023/24

Attached

8 Freeport Update

Attached

9 Commercial Proposition – Carbon Capture Utilisation and Storage - CCUS

Attached

10 CCUS Update (Confidential item)

Attached
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this item is confidential

11 Update on Legal Proceedings

Verbal
Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, this discussion will be confidential.

12. Date and Time of Next Meeting

TBC

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:
tvcagovernance@teesvalley-ca.gov.uk

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.

TEESWORKS

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: 19th January 2023 Time: 2pm

Location: TVCA Offices, Teesside Airport Business Suite, Teesside International Airport, Darlington

Attendees:		**Apologies:**
Mary Lanigan (Chair)	Leader, RCBC	Tees Valley Mayor - Ben Houchen
Julie Gilhespie	TVCA Group Chief Executive	Andy Preston – Mayor of Middlesbrough
Mieka Smiles	Deputy Mayor of Middlesbrough	Graham Robb
David Smith	Independent Member	John Sampson,
Neil Schneider	Independent Member	Chris Harrison
Gary Macdonald	TVCA Group Director of Finance & Resources	John McNicholas
Tom Smyth	BEIS, Interim Government Representative	
Emma Simson	TVCA, Acting Monitoring Officer	
Sally Henry (Secretariat)	TVCA Governance	
Jacob Young MP	Joined via Teams	

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
1.	**Welcome and introductions**	The Chair welcomed everyone to the meeting.		
2.	**Apologies for Absence**	Apologies were given as noted above.		
3.	**Declarations of Interest**	There were no interests declared.		
4.	**Minutes from previous meeting**	The Board reviewed the minutes of the meeting held on 7th July, 2022. Tom Smyth requested that section 11, paragraph 7 of the confidential minutes be amended to read as follows:- *Tom Smyth informed the Board that the Government's funding arrangements have been scrutinised by the National Audit Office (NAO) and they concluded that the original business case is valid and that the case for public funding had not changed.* **Resolved that the minutes of the 7th July 2022 meeting be amended to reflect the above comments and were then agreed.**	**Amend minutes**	**Governance Officer**
5.	**Chairs Update**	There was no Chair's Update.		
6	**Group CEO Update**	The board were provided a report which reviewed the activity on the Teesworks site throughout 2022 and provided an overview of developments coming in 2023.		

		In addition to the content of the report, the Group CEO advised the board that:- • the TVCA Overview & Scrutiny Committee had met the previous week and a discussion took place about the South Bank Quay and the ongoing Defra enquiry. She further advised that the report of the independent scientific panel, convened by Sir Patrick Valance, is due imminently. The Board will be advised if the outcome of the report impacts on the ongoing work on the quay and surrounding area. Jacob Young advised that the select committee will meet once the report is produced. The Board recognised the impact the crustacean deaths had on local fishing communities and discussed the update regarding the current position in respect of dredging and any implications for site development. The Group CEO provided Board Members with the latest position based on the information that had been reported to Overview and Scrutiny Committee previously. This set out that STDC continue to comply with all necessary regulatory processes and are operating to the highest standards in terms of this development. The works have been progressing in line with plans and will continue to take cognisance of any updates from the independent scientific panel. • Work on the SeAH site continues. Erection of steelworks is expected to commence in early March. A Board member queried whether there had been any objections to the service complex. The Board also asked for background as to its proposed purpose and how it links into services in Redcar town centre. The Group CEO advised that this is a Teesworks development proposal and part of what the Joint Venture partners as part of the development of the site. The plans have been made public however not submitted for planning yet. The planning process will deal with any objections concerning out of town centre shopping. The		

		service station is being designed primarily to service the site and its employees on a day-to-day basis, rather than to compete with existing town centre shops. The proposal for the hotel is also aimed at the 20,000 employees expected on the site and is not meant to be competing with the hotel in Redcar which is geared around the leisure industry. A Board member commented that this is quite a normal model for large employment sites and that any concerns raised can be managed through the planning process. The proposed Park & Ride has been objected to and this was discussed at length during the recent TVCA Overview & Scrutiny Committee meeting. **Resolved that the content of the report was noted.**		
7	**Finance Update**	The Board were provided a report which gave an update on financial performance for quarter two being the 6 months to 30 September 2022 and the forecast position for 2022/23. The Group Director of Finance & Resources highlighted some key points from the report. He confirmed that reports are submitted quarterly to Government for the government funded elements of the programme detailing how progress is being made on the key milestones. It is expected that the COMAH status will be changed by the end of March at which point we will make the approach to HSE to commence the COMAH declassification process.		

		The Board were advised that the target date for the completion of phase 1 of the dredging is September but this is very much depending on the weather. Tom Smyth thanked the Group Director of Finance & Resources for the report and noted that next month will be the final payments to TVCA, on behalf of the STDC, based on the original Business Case agreed in 2020. The purpose of the Business Case was to make the site sufficiently safe to remove the COMAH status, keep it safe and remove structures from the site. The remaining funding was to be used to bring the land up to normal, brownfield status, not to add value to the land. Government funding has been used to deliver against the original business case. Government will continue to monitor the outputs and outcomes associated with this funding with STDC. The Group CEO highlighted that delivery of the jobs is a 3 stage process:- • removing of COMAH status, removal of the structures and creating a brownfield site; • remediation which potentially will take hundreds of millions of pounds; • Development and Inward Investment. NS sought assurance that the position with the budget has been aligned with the Risk Register. Members were advised that the Risk Register will be brought to the March Board alongside the 2023-24 Budget and Medium-Term Financial Plan (MTFP) and this will reflect the transition from the first stage of site delivery set out above to stages two and three. The private sector partners and inward investment on the site will fund stages two and three going forward with STDC remaining responsible for completing its project obligations for the site in 2023 calendar year.		

		Resolved that the content of the report was noted.		
		The Chair passed a motion to exclude press and public at this stage of the meeting so the Board could discuss matters of a Confidential nature.		
8	**Site EHS Management Report**	The Board was provided with an update on the Keep Safe activities on site since the last meeting. **Resolved that:-** • the content of the report was noted.		
9.	**Freeport Director Report**	A report provided by the Freeport Director was circulated which provided the Board with an update. The Board was advised that since the papers were drafted and circulated, the Freeport Business Case has been published. The Freeport item will move to the main part of the agenda of future STDC Board meetings. **Resolved that** the content of the report was noted.		
13.	**Date & Time of Next Meeting**	**Thursday 9th March, 2023 at 2pm** **The Chair requested that the meeting take place in Redcar.**	**Change venue of next STDC Board to Redcar**	**TVCA Governance**

TEESWORKS

Under the terms of paragraph 3 of schedule 12a Local Government Act 1972, Appendix 3 to this report is not for publication

AGENDA ITEM 5

REPORT TO THE STDC BOARD

16TH MARCH 2023

REPORT OF GROUP CHIEF EXECUTIVE OFFICER

GROUP CEO UPDATE

SUMMARY

The purpose of this report is to provide the Board with an activity update since the last meeting and to provide a progress update in relation to the transition into the development phase of the Teesworks site.

RECOMMENDATIONS

It is recommended that the STDC Board:

i. Notes the activity progressed since the last meeting; and
ii. Approves the updated approach to development in light of expected Government legislation in respect of landfill tax as set out in paragraphs 21-27

DETAIL

1. As previously reported in January, the 2023 calendar year ahead represents the completion of STDC areas of responsibility on site in terms of public sector remediation, decontamination and demolition activity, declassification of COMAH status and SeAH delivery implementation support. Further updates are provided within this report covering; Freeport, Utilities, Programme Development and new developments since the last Board meeting.

2. The development phase of the Teesworks site is progressing well with SeAH Wind construction activity for their huge monopile facility and various commercial negotiations with multiple prospective tenants at an advanced stage. One such development is elsewhere on the Agenda today for consideration and approval by Board. The performance of the site is ahead of any schedules previously considered in the original business case and this is enabling accelerated inward investment opportunities for the area leading to skilled jobs in new clean growth sectors repositioning the Tees Valley as a leading player in these areas.

FREEPORT

3. Following the approval of the Full Business Case and the agreement of the MOU, Teesside Freeport now moves into a full operational phase.

4. Two Green Freeports have been announced in Scotland, at Cromarty Firth and Firth of Forth. Teesside Freeport has started to establish working relationships with the Scottish Green Freeports.

5. The inward investment and innovation and skills workstreams have commenced for 2023 which are reflecting the transition from FBC approval to operational deployment.

6. The formal launch of the ICC UK's Centre for Digital Trade and Innovation (C4DTI) took place at Teesside University on 8 March. A more detailed update is provided in the separate Freeport paper.

UTILITIES

7. The joint venture procurement in respect of Teesworks power needs has not reached commercial agreement. Given the transition of all future development to the private sector going forward Teesworks Limited is exploring and developing commercial options for the ongoing future development of the private wire network on site.

8. In terms of specific utilities projects, the work to connect and accommodate SeAH's power requirements continues with a new South Bank 66 & 11kV substation required. All orders for electrical elements are in place and detailed engineering progressing. We are liaising with the supply chain including site visits to this supplier which are already scheduled.

9. SeAH have also formally requested an increase of capacity from 44MVa to 51MVa. This is achievable at no extra cost to STDC, with appropriate amendments to the delivery programme expected to accommodate this change request.

10. The workstream with National Grid (NG) to formally assess the viability of the High Voltage Network to accommodate generation (TV ERF, battery energy storage and wind generation) and to assess future site demand scenarios for Teesworks is ongoing, with Teesworks in continued dialogue with NG.

11. The SCADA system install is complete and system operational. Optimisation of system is continuing. The documentation pack has been issued for review and a training schedule has been developed, training will progress over the next 8 weeks.

12. Strategy for the former Redcar site distribution has been refined to accommodate NZT remediation timescales, optimisation of existing assets and the ability to supply potential customers. Work ongoing to prioritise and develop priority items for action in Q1 2023.

PROGRAMME DEVELOPMENT

13. Dorman Point
    - The Eston Road highway access scheme is fully complete and operational. Design work is now underway in connection with the implementation of security control measures for Dorman Point.
    - Around 65 acres of ground remediation works have been completed, with a further phase underway, opposite the Teesworks Skills Academy. Additionally, work is progressing on the construction of the new open channel watercourse, as part of the Teesworks strategic surface water drainage network.
    - With the recent announcement of the proposed Circular Fuels development, design work is shortly to commence for the extension of road and drainage networks through the site, with similar activities happening in parallel for electrical infrastructure and other utilities.

14. South Bank
    - Progress is being maintained on the construction of South Bank Quay. With the quay wall having now been completed, the land-based works are focused on construction of the heavy lift platform and concrete pavement immediately behind the wall. Regarding the river works, the Phase 2 dredging – the main capital dredge – commenced on 30-Jan-23 and is progressing, benefitting from a favourable weather window, with the works having reached 40% completion.
    - Construction of the 1.7km (1 mile) long South Bank Link Road commenced in January. This is a 34-week project, due for completion in September 2023.
    - Regarding the new South Bank Watercourse, which is being delivered in two phases, Phase 1, comprising around 40% of the project, is progressing and will conclude in May. The procurement of a contractor for Phase 2 will begin in March, with overall project completion targeted for the end of 2023.
    - Work continues on construction of the SeAH Wind monopile manufacturing facility with ground engineering (piled foundation) works being well advanced.

15. Demolition Works Programme
    - Considerable progress is being maintained on the site-wide demolition programme. Demolition of the South Bank Coke Ovens, Redcar Coke Ovens Battery and Redcar Sinter Plant are complete. On the BOS Plant, all demolitions have been concluded, with scrap metals processing being all that remains, and this will complete by April.
    - Decontamination and demolition work on the Redcar Coke Ovens By-Products plant continues and is scheduled for completion by May 2023.
    - On the Redcar Blast Furnace, there is one final blowdown scheduled for March, that will complete the demolition operations. Finally, work on the demolition of Redcar Power Station is progressing.
    - We expect the entire demolition programme to be complete by July 2023, within a two-year timeframe, some two years ahead of the original four-year estimate.
    - Regarding the Altrad decontamination project, this is expected to complete at the end of March 2023.

16. Net Zero Teesside

- We expect to finalise the commercial negotiations with BP by the end of February. Once concluded, and with the Option Agreement signed, the ground remediation works to the 100-acre site can commence. A start date in early March 2023 is being targeted.

17. Teesworks Park and Ride Facility

    - This facility is part of the wider Transport funded solution for the site including links to the wider transport infrastructure.
    - The concept design is complete for the proposed 1,500-space Park and Ride facility at Steel House, the planning application has been approved, and development of detailed design proposals continues. One of the first users of the facility will be the NZT project, where 2,000 construction operatives are expected at peak.
    - Advance earthworks are underway to prepare the site for construction, involving the removal of large landforms.
    - We expect to commence the procurement process for the construction contractor over the coming weeks.

18. Key Risks to Delivery
    - As noted, STDC is working on several significant projects all of which carry delivery risks. These are actively in mitigation through the comprehensive project management and related project controls processes being implemented by our appointed consultants, with robust project plans in place, regular project progress reviews being held, and intervention actions being taken, where necessary, to address potential impacts to cost and schedule, and ensure delivery to programme.

SAFETY, HEALTH AND ENVIRONMENT (SHE) MANAGEMENT UPDATE

19. The associated services that have maintained the site in terms of Keep Safe will no longer be required as the areas they supported are either removed or de-risked to a level that can be taken on by future estate management arrangements. The South Tees Site Company (STSC) Board will meet over the course of the next six months to agree the detailed arrangements for this transition and oversee the conclusion of STSC activities on site and make recommendations to the STDC Board in respect of future Safety, Health and Environment management as part of overall Estate Management activities.

20. We anticipate that the COMAH status of the site will be removed during 2023 after which SHE responsibilities will be discharged in a different way. The details of this will come to Board at the point that we anticipate the change happening.

REGENERATION OPERATING MODEL

21. STDC, through the acquisition of brownfield land for economic regeneration purposes, as a public sector body has since inception inherited major environmental liabilities, not of their making, connected with this former industrial site. These liabilities have a critical influence on STDC's ability to successfully remediate a site for future development.

22. Invariably, on sites with a longstanding use history comprising heavy industrial processes, significant quantities of the materials to be handled through the remediation programme can, by their nature, be deemed not suitable for reuse, and requiring of disposal to landfill. However, considering the contaminative nature of said materials, any such operations presently attract a Landfill Tax levy at the current Standard Rate of £96.70 per tonne, which usually renders this option non-viable and often places the regeneration body in an impossible position in endeavouring to maximise the return on public sector investment.

23. Landfill Tax is a pertinent example within the current regulatory framework (and a problem experienced across the whole of the UK). The imposition of Landfill Tax on a public sector remediation programme such as STDC's activity at Teesworks involves expenditure of public sector funds for economic regeneration purposes, when materials are being recycled, reused, and contained to the regeneration site. The imposition of Landfill Tax appears counterintuitive. The magnitude of the monies involved in paying Landfill Tax can be very large, and invariably would see the regeneration body paying back to UK Government funds that had been allocated to it in support of the economic regeneration initiative being delivered.

24. STDC and has responsibility for the public sector obligations at the former steelworks site, including historic contamination. With this responsibility comes the costs and associated significant landfill tax costs. All future development and associated remediation is the responsibility of the private sector.

25. The Government issued a consultation in November 2021 with responses required by February 2022 which TVCA as a Group responded to (response is shown at **Appendix 1).** Following the consultation, and further dialogue with Government throughout 2022, the Government have indicated that legislative changes would be required to address the issues raised here in respect of Landfill Tax.

26. On the assumption that the Government legislates in response to this consultation, the expectation is that new landfill tax provisions will be brought forward in due course that would provide reliefs that would only apply to certain specific categories of regeneration and would require the public body to be the beneficiary of the landfill tax reliefs. A further detailed briefing produced for Government on the landfill tax issues is provided at **Appendix 2.**

27. The consultation made clear that only public bodies would be able to obtain the necessary landfill tax reliefs for regeneration projects and activity. STDC as landowner are proposed therefore to conduct all future land remediation for development at Teesworks prior to Teesworks Ltd drawing down its option on relevant areas of the site. Adjustments to the option price for land will need to be made to reflect the costs of this work when options are exercised.

FINANCIAL IMPLICATIONS

28. The changes to the landfill tax regime will mean that STDC will be conducting capital development works on the Teesworks site with future Finance updates to Board incorporating this activity in addition to pre-existing STDC obligations on site. The

funding and cashflow for such work will be required to be in place prior to any works being contracted.

29. The Park and Ride facility will be funded from Transport allocations with all necessary land area for the facility remaining with STDC to manage.

30. Finance updates are provided as separate papers for Board consideration.

LEGAL IMPLICATIONS

31. The landfill tax requirements are expected to be passed through parliament alongside the Finance Bill in March 2023. The proposed changes to STDC operating model contained in this update report would only take effect if the legislation was passed and if it required a public body such as STDC to be the beneficiary of the landfill tax reliefs.

RISK ASSESSMENT

32. At the last Board a review of 2022 was provided and a forward look to 2023. Following on from this update it seemed appropriate to reflect on the significant undertaking that Board Members (past and present) and partners across the region undertook including the risks that required effective management to ensure these future opportunities could be realised.

33. Back in 2017 when the South Tees Development Corporation was created several key milestones and decisions were required from the Board to ensure that the overall development was a success. At each of these key stages the Board agreed to accept and take on new risks that were necessary to transform the area and realise the opportunities for the site to be an anchor of economic growth in the region.

34. To provide Board Members with a recap of these key milestones and decisions provided below is a diagram showing them along with the change in the STDC risk profile over that same time period taken from our Risk Management systems. You can see from the analysis that economic regeneration activity of this scale requires an appropriate risk appetite to be considered.

Diagram 1

35. The analysis demonstrates the journey STDC Board Members, officers, partners and stakeholders have been required to manage throughout this time period. Since 2017 814 risks have been identified and assessed of which 512 risks have been closed or avoided following analysis of the context and mitigation/management measures were put in place. The current risk portfolio for the Teesworks site includes 302 risks, all of which have been identified, assessed or in the assessment stage.

The average risk score for STDC is currently at 5 which is a reduction of 59.9% from the average inherent risk score at the time of identification. The current risk performance has 90% of all risks within tolerance with all others with active management plans. Further information in respect of the risk management position is provided at **Appendix 3.**

36. The updated Risk Management Policy and Framework is provided separately on the Agenda for Board members to review and, where applicable, approve.

EQUALITY & DIVERSITY

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

Name of Contact Officer: Julie Gilhespie
Post Title: Group Chief Executive Officer
Email Address: Julie.gilhespie@teesvalley-ca.gov.uk

Redeveloping land affected by contamination or underdeveloped land: the potential cost barrier of landfill tax

Call for Evidence on a Proposed Landfill Tax Grant Scheme

Tees Valley Combined Authority Response

Question group 1: Definition and Prevalence of the Landfill Tax Trap

We propose that a site falls within the Landfill Tax Trap if:

1. The use of landfill is reasonably necessary to dispose of some or all of the contamination or material present at the site to realise opportunities for remediation, economic development, or to secure long term environmental or human health protection of surrounding land or water body, AND
2. LfT obligations arising from the disposal of material from remediation to landfill would result in the total costs of site remediation exceeding the land value uplift from bringing land affected by contamination back into beneficial use, so it is suitable for use that serves the needs of the local community, BUT
3. All other costs of remediation, absent the LfT obligation, would be less than the land value uplift.

Q1. Do you consider that this definition represents a fair definition of the Landfill Tax Trap?

a. Yes ☐
b. No ☒
c. If no, how would you alter the definition?

Land Value uplift is an unnecessarily narrow definition for the Landfill Tax Trap. It is entirely possible, even likely, that on former industrial sites, the value of un-remediated land is negative, even after accounting for the negation of Landfill Tax. In such circumstances, it is not unusual for the public sector to intervene to bring the land back into operational use because of the wider economic benefits of so doing.

Another challenge with the proposed approach is that assessing remediation costs is often difficult when dealing with contaminated land, especially where sites have a long history of former industrial uses. For example, on the Teesworks site, we have already found, on remediation works delivered to date, many instances of unforeseen adverse ground conditions not represented within available site records, such as extensive buried structures requiring removal, that were only detected once the remediation works were underway, and ground contamination that proved far more extensive and onerous than ground investigation data had suggested. This is why the cost per acre for delivering remediation can vary widely, and this can typically be in the range of £120k to £300k per acre, based on our recent experiences on Teesworks. This makes it impossible to know for certain what the costs of remediation will be on any given project to inform the value for money assessment in advance. This will create a circularity if the grant is dependent on assessing the costs and benefits of remediation upfront

Additionally, there are potential scenarios where the remediation costs exceed the land value uplift (absent of the LfT obligation), for example, brownfield and contaminated sites in lower value market areas. This reflects the vast discrepancies in land values nationally, as noted at page 7 of the consultation document. Notwithstanding, such sites may not be economically viable to bring back into active use on a pure financial model; other strategic objectives often support the investment case, e.g., regeneration, bringing brownfield sites back into use, job creation or environmental enhancements.

Therefore, socioeconomic benefits such as economic development, and long-term protection of the environment and human health should also be considered despite these not necessarily resulting in an uplift in land value, especially for land that has a negative value due to contamination.

It is, therefore, important that the definition allows for these strategic objectives to be met, for example, by amending clause 3 as follows:

"All other costs of remediation, absent of the LfT obligation, would be less than the land value uplift**. <u>In circumstances where the remediation costs exceed the land value uplift it must be demonstrated that the remediation can be delivered and is in alignment with the Local Authority's (including Combined Authorities and Mayoral Development Corporations) strategic vision and objectives for the area."</u>**

We therefore consider that the definition of the Landfill Tax Trap should reflect the economic (and wider socio-economic benefits calculated in accordance with the HMT Green Book, such that those benefits are in excess of the costs of remediation.

Q2. Are you aware of any specific site or sites that you believe meet the above definition of the Landfill Tax Trap? If yes, please provide details including a summary of the location, type of contamination, estimated land value or other benefits, if remediation where to take place, and estimated cost of remediation including likely Landfill Tax obligation if known.

The Teesworks site is a Mayoral Development Corporation (MDC) in Tees Valley.

Teesworks is home to the UK's first and largest Freeport. The MDC was established following the closure of the SSI Steelworks in 2015, which resulted in significant job losses for the region, and which left behind extensive areas of derelict, contaminated former industrial land requiring intervention. The MDC area is sized at 4,500 acres, of which approximately 2,600 acres are available for redevelopment. The MDC is tasked with regenerating the site, driving forward its redevelopment to create jobs, secure investment and transform the region.

Significant Government funding has already been invested in the site. Since 2015, over £200m has been committed to preparing the site for redevelopment, already unlocking over 775 jobs. Around £393m of capital investment is expected over the next 12 months. The site is stimulating confidence and attracting significant private sector investment, which is set to deliver significant economic growth opportunities and thousands of jobs Once complete, Teesworks will be a strategic location for the clean energy and advanced manufacturing sectors. It will be at the heart of the UK's Net Zero strategy, providing major development space for offshore wind manufacture and marshalling, and carbon capture, utilisation and storage.

Development at Teesworks has been noted as an exemplar in delivering the Government's flagship Levelling-up agenda and is helping to establish Tees Valley as a global lead for Net Zero Industry.

Critical land preparation work is ongoing at the site to enable further development and unlock private sector investment. This work includes the need to remediate and restore an historic landfill, address the removal to landfill of extensive volumes of hazardous waste (a by-product from the previous steelmaking processes) from a proposed development site, and remove an existing closed landfill for development reasons; proposals that are supported by the Environment Agency. Landfill tax costs associated with these examples alone are anticipated to be in excess of £250m.

There are other areas of the site that will present similar remediation challenges, requiring reliance on disposal of significant volumes of waste materials to landfill, such as the land area occupied by the Redcar Blast Furnace, Redcar Power Station, and Redcar Coke Ovens, dating back to the 1970s, which collectively occupy a major land area within the Foundry development zone on Teesworks. This is a prime development site due to its size (at approximately 150 acres) and its location close to the river and related deep-water port facilities, It has already been subject to a number of major enquiries from significant international inward investors. The opportunity cost of not remediating and redeveloping this area could, therefore, be significant, in failing to attract, for example, a large-scale multinational operator requiring quayside access and use of world class port facilities, so missing out on the job creation opportunities and wider economic benefits this would deliver. This further emphasises why the LfT issue should not be solely connected with viability in terms of remediation costs and land value uplift,

We are currently demolishing assets on these plots, and until the asset demolitions and follow-on ground investigations are concluded, it is impossible to accurately estimate the cost of bringing the land back into beneficial use. Indeed, it may be the case that the full cost of remediation will only be clear once the remediation is undertaken, as it is not possible to be absolutely certain on the severity of land contamination and other ground challenges until the remediation works have been undertaken.

The supply of employment land across the Tees Valley is extensive and land values are depressed. We have already mentioned in our response to Q1 that the typical cost of remediation of land can vary widely depending upon what is ultimately found within the ground – between £120k and £300k per acre on Teesworks to date, before any Landfill Tax is accounted for. As such, in a number of instances, taken in isolation, it will not be economically viable to proceed with remediation, however essential such projects may be to the our wider redevelopment objectives, hence the Governmental support received to date.

The above circumstances create a circularity in assessing value for money, and where strategically important sites are concerned, especially where we are trying to bring former industrial sites back into beneficial use rather than develop greenfield sites, a more pragmatic approach is needed.

In demonstration of some of the challenges presented, a number of Teesworks case studies have been appended to our response. These are:

1. SLEMS – involving remediation of a prime development site impacted by years of hazardous waste by-products deposition from the steelmaking process.
2. Long Acres East – addressing the remediation on the site of an existing, closed landfill.
3. Dorman Point South – where remediation of the site is impacted by former iron and steel making uses such as a coke works and open-hearth furnaces dating back to the early part of the 20th century.
4. Foundry North – where land is occupied by a coke works and associated by-products plant, a power station, and a blast furnace.

The case studies are accompanied by a plan defining the locations of the four sites.

Q3. What type of site should qualify as meeting the Landfill Tax Trap definition?

a. Redevelopment only ☐
b. Sites where land remediation will have a wider economic, environmental, and socioeconomic benefit, including through improvements to public health ☐
c. Other, please specify ☒

The definition should incorporate both 3a and 3b, i.e., Redevelopment sites and/or sites where land remediation will have a wider economic, environmental, and socioeconomic benefit, including through improvements to public health.

Additionally, consideration could be given to the definition of a qualifying site including: "**Sites with a specific end user requirement that cannot be satisfied elsewhere**", to ensure economic development opportunities are not lost.

Question group 2: Environmental criteria

1. The applicant must demonstrate that use of landfill is reasonably necessary, and steps have been taken to minimise the quantity of waste that will be landfilled.
2. Reasonableness may be evidenced with respect to:
    a. The nature of the waste and / or the location of the site meaning there is a lack of a suitable alternative,
    b. The treatment operation that would be carried out to move up the waste hierarchy and minimise the amount of disposal to landfill,
    c. Restrictions to the future utility of the site post-remediation (e.g., due to instability) absent removal and landfilling,
    d. Disproportionate delay and opportunity costs arising from an alternative remediation method, and / or

e. Current or imminent pollution that may cause harm to the environment.

3. The applicant should evidence that the contamination has been present for a minimum period of time prior to the commencement of any new grant offer, ensuring contamination is historic and so removing any incentive to add new contamination to the site.
4. No party benefitting from the remediation or planned development should be subject to any past or current legal action in respect of the contamination to be removed.

Q4. Do you think these criteria are appropriate and sufficient to proportionately protect the waste hierarchy?

a. Yes ☐
b. No ☒
c. If no, please provide details:

We agree with the appropriateness of the criteria subject to the inclusion of some additional wording at 2d.

Economic opportunities and specific end user requirements are often time sensitive. As such, while it may be theoretically possible to remediate a site and avoid the use of landfill, the related methodologies typically require overly long timescales to implement, resulting in the inward investment and job creation opportunity being lost.

We therefore propose that clause 2d be amended to read as follows:

"Disproportionate delay and opportunity costs arising from an alternative remediation method **including where specific end user requirements cannot be satisfied elsewhere,** and/or"

Q5. What should count as historic contamination?

a. 1-4 Years ☐
b. 5-10 Years ☐
c. 10 Years + ☐
d. Other, please specify: ☒

We consider "5 Years +" to be a better timeframe. This would prevent polluters gaining advantage from their own actions, mitigate long term harm to and from sites, and allow sufficient time to elapse from the time of contamination for all options for remediation and future redevelopment to have been explored, prior to applying for the grant.

Q6. Who should scrutinise whether a proposed project meets these environmental criteria?

DEFRA is best placed to scrutinise whether a project meets the criteria. DEFRA would need to ensure that adequate and competent resources are allocated to the scrutiny of applications to ensure timely determination, in order to avoid delays that could jeopardise projects. STDC suggests that strict determination periods (i.e., maximum 13 weeks) are implemented and enforced. This will help ensure that engagement on the potential inward investment and job creation opportunity can be progressed with certainty on the decision-making timeframe, to mitigate any risk of said opportunity being lost, and ensure the project stays on schedule.

Given the impossibility of accurately defining the level of LfT Grant required at the outset of the application process, it will be beneficial if the basis of the grant is an estimation of costs based on a schedule of qualifying material typologies and related quantities that require to be disposed of to landfill in connection with the remediation project (and, thereby, those that don't), with such information being provided to the landfill operator (or operators). Qualifying materials would then be disposed of to landfill, supported by an audit trail, with the grant monies being reimbursed to the applicant in arrears, on a monthly basis, with periodic reviews and updates (say quarterly) on the likely outturn total grant amount required.

The grant should be awarded on the basis of the full LfT burden arising from the remediation project, not the net amount of LfT charges once the estimated land value uplift, absent of the LfT imposition, has been calculated and deducted.

It is assumed that the scrutinising body and/or HMRC will develop a pro forma application template to standardise the approach to applicant submissions.

Q7. What evidence do you consider that you / an applicant could be reasonably asked to present to demonstrate that a proposed project meets these environmental criteria?

Evidence of contamination:
The "nature of the waste" and "current or imminent pollution that may cause harm to the environment" should be evidenced by:

- A comprehensive ground investigation report in line with BS 5930:2015 +A1:2020 demonstrating the quantity and extent of the problem material within the site and waste classification if discarded.
- Demonstration that the material is contaminated and not suitable for use by a detailed quantitative risk assessment (DQRA) conducted in line with LCM 2020.
  Demonstration that the material is geotechnically unsuitable without improvement (e.g., stabilisation) to meet the project required earthworks specification, but, critically, only where such stabilisation is proven viable in the timeframe available for the project – which is often not the case.
- Confirmation that the EA has already classified the material as waste, e.g., via disposal permit records, correspondence, etc.
- The historic nature of the contamination should be evidenced
  - A Phase 1 Environmental Site Assessment / Desk Study which should review the site development history / pollution records and assess the likely dates of any pollution events.
  - Contaminant ageing assessments if possible / available (noting these will not be obtainable in all cases).

Reports should be authorised by an environmental professional holding a SiLC qualification to provide certainty to DEFRA / HMRC that they are to an appropriate professional standard.

Remediation Options Appraisal (ROA):
Assess disposal to landfill (both with and without the application of the proposed scheme) alongside other potential remediation and treatment technologies, where such treatment technologies present

viable alternatives from a project timescale perspective. The ROA should demonstrate, using a suitable scoring matrix, that the scheme is the most appropriate approach for the management of the material.

- The ROA should consider:
    - Both contaminant remediation and geotechnical improvement as required by the development, including related timescale impacts and how these could influence project viability.
    - The site location, surrounding land uses and the impact of the assessed approaches on these stakeholders.
    - The viability of a do nothing "absent removal" approach.
    - If the material could be managed on site and any "Restrictions to the future utility of the site post-remediation" that would result from this approach.
    - Development drivers such as "Disproportionate delay and opportunity costs arising from an alternative remediation method", which are normally assessed by ROA and should be included.

For sites where more than one problem material is present, the ROA should assess each material separately rather than as a single volume. This will ensure that only the most problematic materials requiring removal to landfill are subject to the grant and that where a "treatment operation that would be carried out to move up the waste hierarchy and minimise the amount of disposal to landfill" this is undertaken where viable in the context of relative project timescales (remediation project versus end user development).

Planning documents:

- Planning application documents and /or approvals
- Sustainability assessments
- Geotechnical reports and calculations
- Biodiversity impact assessments/statements .

Question group 3: Financial and socioeconomic criteria

We welcome views on following criteria which we consider may help protect these financial

and socioeconomic principles:

1. The applicant is a local authority or other public body who either owns the site (whether directly or through a Development Corporation or similar) or else is prepared to buy it from the Crown Estate (where in escheat).
2. The applicant must supply evidence that LfT is acting as a financial barrier to remediation in line with criteria 2 and 3 of the Landfill Tax Trap definition above.
3. The applicant must evidence that a plan is in place to secure timely redevelopment or other clear social or environmental benefit post-remediation, with any necessary planning permissions already in place.
4. The applicant must evidence that they are able to meet all other remediation costs and agrees that the grant will only be paid at the point the LfT has been paid by the landfill operator and the applicant has provided evidence of invoicing.

Q8. Do you agree that application should be restricted to local authorities?

a. Yes ☒
b. No ☐
c. If no, please provide details ☐

In the context that the definition in the Call for Evidence document defines local authorities as being inclusive of Combined Authorities and Mayoral Development Corporations.

Q9. What evidence do you think an applicant should reasonably be expected to provide that LfT is acting as a financial barrier to remediation?

The applicant will need to submit a Viability Statement for the site/project which clearly articulates compliance with the Landfill Tax Trap and the benefits that would accrue should the scheme be allowed to proceed absent of the Landfill Tax imposition. The Viability Statement would include the following information:

- Estimated remediation costs (or a cost range, where a specific figure is not readily determinable – see earlier comments at Q1)
- Justification behind planned remediation methodology / approach' (i.e., there will be instances in which there is a time-bound opportunity to secure a specific site end-user/operator, which requires remediation and redevelopment by a specific date. This could result in the available / selected remediation options not being the cheapest, but still the best value in terms of achieving the most upside potential in terms of socio-economic, long-term job creation from inward investment, etc).
- Estimated Landfill Tax costs
- Estimated land values (existing and post-remediation)
- Other evidence of market failure as appropriate
- Anticipated benefits of remediation (e.g., jobs created, GVA increase, private sector investment unlocked, environmental / health benefits, etc).

Q10. What evidence do you think an applicant should reasonably be expected to provide that a plan is in place to secure redevelopment or other public benefit?

The evidence provided will vary depending on the site in question and stage of development.

Evidence of planning permission for the remediation of the site should be a requirement. This should be accompanied by a Redevelopment Plan demonstrating how the site will be brought into active use following remediation. The Redevelopment Plan should include evidence of market demand and expected end users. Alternatively, a statement of the clear public benefits should be submitted,

We do not consider that a planning permission for a specific end user development should be a requirement, as in most instances, the end user will not commit until remediation has started or taken place.

The financial Viability Statement would need to demonstrate that the scheme is funded and that contractors have been approached to price and implement the remediation works (hence, the importance of a 13-week approval process for the grant application). If alternative remediation could be brought forward, the applicant would need to demonstrate compliance with our suggested modified clause 2d (of the Question group 2: Environmental criteria) that the opportunity costs are such that an exemption is required.

Other evidence, depending on circumstances, may include:

- How the development fits with the applicant's master plan
- HMT Greenbook compliant Business Case for the associated works
- Governance arrangements and relevant papers and approvals (e.g., MDC Board).

Q11. What evidence do you think an applicant should reasonably be expected to provide that all other costs of development are affordable to them?

This can be addressed in the Viability Statement discussed above, which could incorporate proof of funds. But typically, the following evidence would likely need to be provided:

- Details of proposed funding sources and proof of funds
- Medium Term Financial Plan inclusive of development costs and any funding requirements
- Confirmation by s151 (s73) Officer that the scheme is affordable.

TEESWORKS

Teesworks – Site Remediation Programme Environmental Liabilities and Constraints Landfill Tax

Background and Context

1. Through the acquisition of brownfield land for economic regeneration purposes, public sector bodies invariably inherit major environmental liabilities, not of their making, connected with former industrial uses. These liabilities have a critical influence on a regeneration body's ability to successfully remediate a site for future development.

2. Fundamentally, the regeneration body is, through the implementation of the related ground remediation programme, addressing inherited major public sector environmental liabilities that cannot be ignored. However, the current legislative framework governing waste materials categorisation and reuse, combined with related environmental permitting protocols and constraints, and, importantly, Landfill Tax levies, is serving to adversely impact the ability of such bodies to deliver site remediation, and thereby economic regeneration, in a cost-effective, viable manner.

3. The overriding purpose of the regeneration body is (with UK Government support) to take major tracts of redundant, contaminated land, and, through the deployment of remediation strategies and techniques, involving the reprocessing and reuse of earthworks materials, return such land to beneficial, employment generating uses.

4. Typically, the remediation programme requires the reuse and movement around the site of major quantities of materials for beneficial use in remediating the land for development. However, in so doing, these materials are, in the majority of cases, by typology, being categorised as waste under current UK protocols, and this imposes significant regulatory constraints on their use, from both a compliance and timescale perspective, often slowing down the remediation programme and, in many cases, rendering the proposition non-viable.

5. Invariably, on sites with a longstanding use history comprising heavy industrial processes, significant quantities of the materials to be handled through the remediation programme can, by their nature, be deemed not suitable for reuse, and requiring of disposal to landfill. However, considering the contaminative nature of said materials, any such operations presently attract a Landfill Tax levy at the current Standard Rate of £96.70 per tonne, which usually renders this option non-viable and often places the regeneration body in an impossible position in endeavouring to maximise the return on public sector investment.

6. Landfill Tax is a pertinent example within the current regulatory framework (and a problem experienced across the whole of the UK). The imposition of Landfill Tax on a public sector remediation programme, involving expenditure of public sector funds for economic regeneration purposes, when materials are being recycled, reused, and contained to the regeneration site, appears counterintuitive. The magnitude of the monies involved in paying Landfill Tax can be very large, and invariably would see the regeneration body

paying back to UK Government funds that had been allocated to it in support of the economic regeneration initiative being delivered.

7. This problem is appropriately demonstrated through the following relevant example on Teesworks, which concerns the proposed remediation of the land area known as the SLEMS and the potential use of the on-site High Tip landfill facility to enable a cost-effective remediation solution to be realised.

SLEMS and High Tip

8. In acquiring the land comprising the Teesworks estate, STDC inherited several major environmental liabilities connected with the legacy iron and steel making industries that have operated on the site for almost 170 years.

9. The SLEMS site at South Bank occupies some 65 acres. It contains an estimated 1.5 million tonnes of BOS Oxide and other heavily contaminated wastes from the former steelmaking process, positioned on top of a closed, former landfill facility.

10. The SLEMS is integral to realising the successful redevelopment of Teesworks in line with the recent master plan and related outline planning applications for close to 15 million square feet of B1/B2/B8 development across the site. Importantly, it is crucial to the ongoing delivery of the proposed offshore wind manufacturing centre at South Bank.

11. Regarding High Tip, South Bank, this is sized at close to 80 acres in area, and it contains, by volume, almost 4.0 million cubic metres (9.0 million tonnes) of various waste materials, primarily from iron and steel making processes. STDC is now the owner and permit holder for the asset, and this carries with it significant environmental risks and liabilities, including the requirement to implement major restoration works, held over from 2014, that SSI failed to deliver. This is a pertinent example of an inherited liability that could potentially compromise Teesworks' ability to fully deliver on its regeneration objectives.

12. Due to the volume of material contained in High Tip, its removal as a restoration option has long since been ruled out as a viable proposition. The restoration options are thereby contained to restoration and closure of the facility, or restoration involving continuation as an operational landfill to support the ongoing remediation of the Teesworks site and the delivery of land for development. Either way, restoration is a costly undertaking, estimated at £15 million minimum.

13. Fundamentally, STDC needs to deliver to the Environment Agency, by March 2022, a timelined restoration plan for High Tip. In designing the restoration measures, and in consideration of the significant cost of their implementation, there is a clear benefit and rationale to embedding in the plan, future use of the facility as a repository for waste materials from Teesworks, as may be necessary. However, the imposition of Landfill Tax on material disposed to a landfill is prohibitive from a cost perspective. This is particularly pertinent in the case of the SLEMS.

14. The options available for the SLEMS exclude 'Do Nothing', in the context of the environmental liability that STDC has inherited, which needs to be addressed.

15. Therefore, there are two primary options available: (1) in situ treatment/stabilisation of the BOS Oxide as part of the necessary site remediation; or (2) site remediation involving excavation and disposal of the BOS Oxide and other contaminated materials to a licenced landfill (i.e., High Tip).

16. The timescale for delivery of an in-situ treatment and remediation solution is estimated at 4 to 5 years, when considering completion of ongoing geo-environmental analysis, design development, regulatory approvals, procurement, and implementation, where the in-situ treatment process is a slow one. A further consideration here is that such a solution is unlikely to realise an unencumbered development platform. There will potentially be constraints and limitations on the development options available and related cost impacts connected with the requirement for more onerous building foundation solutions. This could render the SLEMS site of limited attractiveness to the market. In addition to being timescale prohibitive, the cost for in-situ treatment, over and above other remediation costs, is of the order of £30 million to £40 million.

17. The best solution for the SLEMS, and one which works in terms of delivering land for development within the Freeport, and as a crucial part of the offshore wind development at South Bank, is remediation involving disposal of the BOS Oxide to High Tip, as an inherent part of the required restoration of this tip; realising significant tangible benefits from the money invested in delivering the restoration. However, this would attract a total Landfill Tax levy close to £150 million, on top of other remediation costs, making the proposition totally unviable, unless an exemption from the Landfill Tax levy can be secured.

18. The plan at page 4 defines in broad terms, and as an example, the operation that Teesworks is seeking to deliver in remediation of the SLEMS area.

19. The imminent construction of South Bank Quay Phase 1 is a further example of the challenges being faced by Teesworks. UK Government has provided financial support to the delivery of this project. However, due to the limitations governing the disposal of dredged earthworks materials at sea, there is a requirement to bring ashore approximately 0.5 million tonnes of unsuitable material, a major proportion of which is known to be contaminated and requiring of disposal to landfill. The Landfill Tax levy here could be as much as £10 million to £20 million, depending on the levels of contamination and actual quantities involved.

Summary

20. The core economic regeneration objective of Teesworks is to take major tracts of redundant, contaminated, former industrial land and return these to beneficial, employment generating uses, supported by significant public sector funding. The ability to achieve this objective in a timely, cost-effective manner is, when considering the major environmental liabilities involved, being compromised by key aspects of the regulatory framework governing the control of waste, to the extent that it is rendering development of certain land parcels, that are crucial to development outcomes, non-viable.

21. The critical point is that the optimal solution for resolution of all of these issues involves moving existing material from the relevant areas and disposing of them in a registered facility within the Teesworks site. However, because this solution brings with it a prohibitive cost, other sub optimal solutions are required which delay the redevelopment and still bring with them significant costs which need to be funded from the allocations provided by government to undertake the redevelopment.

22. Utilising public funding, that has been provided to support remediation, to pay Landfill Tax, when the materials in question are remaining on the Teesworks site, seems counterintuitive and not the best use of public money.

23. In the case of the SLEMS in particular, but for other Teesworks environmental liabilities also, this situation can only readily be addressed through the securing of an exemption from the Landfill Tax levy.

AGENDA ITEM 6

REPORT TO THE STDC BOARD

16TH MARCH 2023

REPORT OF DIRECTOR OF FINANCE AND RESOURCES

FINANCE UPDATE

SUMMARY

The purpose of this paper is to update the Board on financial performance for quarter three, being the nine months to 31 December 2022, and the forecast position for 2022/23.

RECOMMENDATIONS

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

FINANCIAL PERFORMANCE STDC GROUP 2022/2023

1. The financial information below for STDC, STDL and STSC covers:

    - Actual financial performance for the 9 months to 31 December 2022; and
    - Forecast financial position for 2022/23

ACTUAL FINANCIAL PERFORMANCE: GROUP

2. The table below shows the actual financial performance for the nine months to 31 December 2022.

Table 1

	Prior Year Spend 2021/22	YTD Total spend 2022/23	Q4 Forecast spend 2022/23	Forecast Total spend for 22/23
	£'000	£'000	£'000	
Overheads	4,289	5,658	4,431	10,089
Operating costs	**4,289**	**5,658**	**4,431**	**10,089**
Demolition	40,952	60,668	18,710	79,378
Site Preparation and Infrastructure	58,725	24,309	17,490	41,799
Enabling Studies and other	7,903	1,418	1,725	3,143
South Bank Quay	23,283	31,043	27,799	58,842
Project Expenditure	**130,863**	**117,438**	**65,724**	**183,162**
Land acquisition costs	**1,300**	**0**	**200**	**200**
Site Company	12,150	10,731	3,331	14,062
Ex SSI costs	**12,150**	**10,731**	**3,331**	**14,062**
Net Expenditure	**148,602**	**133,827**	**73,686**	**207,513**
Funded by: -				
BEIS RDEL	34,244	12,630	3,454	16,084
BEIS CDEL	11,688	4,979	0	4,979
MHCLG CDEL	36,769	0	0	0
BEIS WIND	0	20,000	0	20,000
Quay Borrowing	32,959	31,043	42,698	73,741
Other	32,942	65,175	27,534	92,709
Total	**148,602**	**133,827**	**73,686**	**207,513**

3. The financial performance for the prior year 2021/22, showed a delivered spend of £148.6m.

4. The financial performance YTD 2022/23 shows a delivered spend of £133.8m, being 65% of the total forecast spend for 2022/23. Delivery continues to be accelerated and significantly ahead of original plan.

5. **Project expenditure**
   The Project expenditure shows accelerated demolition and infrastructure activity to reflect current priorities. This has led to expenditure in this area of £248.2m to date of which £117.4m was incurred in 2022/23.

   Prioritisation of tax site locations on Teesworks West and East and the development of SeAH site and South Bank Quay continue at pace to meet incoming tenant requirements.

6. The main areas of spend in Q3 were:

   (a) **South Bank Quay** – Total spend on the Quay for 2021/22 and 2022/23 YTD was £54.2m, of which £31m was in 2022/23. Progress has been made on the South Bank Quay, with the Quay wall now complete.

(b) **Site preparation and infrastructure** – Total spend to date is £83m of which £24.3m occurred in 2022/23. Expenditure has occurred on the Eston road, the watercourse and SeAH utilities**.**

(c) **Demolition –** Expenditure in 2022/23 has reached £60m, with good progress site wide being achieved. Demolition of the South Bank Coke Ovens, Redcar Coke Ovens Battery and Redcar Sinter Plant are complete. On the BOS Plant, all demolitions have been concluded.

(d) **Land acquisition costs** – Land acquisition costs have predominantly completed following the Compulsory Purchase Order (CPO) vesting process. This has delivered within the previous forecast level.

(e) **Overheads** – Overheads have increased due to novation of contracts from STSC to STDL. Elements of this expenditure will form part of the Teesworks Estate Management Company service charge. A budget has been included as a separate agenda item.

7. **Financial commitments pipeline** – Since the previous meeting we can report successful procurement of modular buildings for staff and road resurfacing requirements.
8. **Site company expenditure** – Remains in line with budget for Invest to Save and Tier 3 reactive safety led works. Expenditure for electricity is lower than forecast due to the price of electricity being lower than we predicated. The market continues to be volatile, and we are continuously working with our provider to forecast the future costs.

TOTAL EXPECTED OUTTURN FOR 2022/23

9. The table above shows the forecast spend for 2022/23 of £207m, with £73m forecast to occur in Q4.

10. Expenditure in Q4 is forecast to be incurred on the following main areas:

    a) Construction of the 1.7km (1 mile) long South Bank Link Road, work commenced in January. This is a 34-week project, due for completion in September 2023;
    b) South Bank Watercourse Phase 1;
    c) Work on the demolition of Redcar Power Station will continue;
    d) Altrad decontamination project, with final expenditure concluding in March 2023; and
    e) Teesworks Park and Ride earthworks.

11. A detailed budget for STDC 2023/24 is included as a separate report.

FINANCIAL IMPLICATIONS

12. Financial implications are discussed in the body of this report.

LEGAL IMPLICATIONS

13. There are no legal implications associated with the recommendations of this report.

RISK ASSESSMENT

14. This is an update report and as such is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

15. Data reported in this paper has been considered by the STDC operational performance group and delivery group before being collated into this Board report

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

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TEESWORKS

AGENDA ITEM 7

REPORT TO THE STDC BOARD

16TH MARCH 2023

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

STDC BUDGET REPORT 2023/24

SUMMARY

The purpose of this paper is to present the budget for 2023/24 to the Board for approval.

RECOMMENDATIONS

It is recommended that the STDC Board:

i. Approves the budget for 2023/24

DETAIL

1. This report provides details of the financial progress of the Corporation's development obligations and provides the Budget for 2023/24 to the Board for consideration and approval.

DEVELOPMENT BUDGET

2. Following the successful business case to Government securing funding to support the development programme, an agreed accelerated scope of development was set out which focused on:
    - Completion of the site-wide demolition and decontamination programme, leading to subsequent removal of COMAH status on the former SSI site;
    - Completion of site preparation activities to create developable areas for new tenants; and
    - Construction of the South Bank Quay to facilitate operation of the offshore wind manufacturing hub.

3. The 2023 calendar year ahead represents the completion of STDC areas of responsibility on-site in terms of public sector remediation, decontamination and demolition activity and declassification of COMAH status.

4. The development phase of the site is progressing well with delivery ahead of any schedules previously considered in the original business case and this is enabling accelerated inward investment opportunities for the area.

5. Accelerated progress is being maintained on the site-wide demolition programme. Demolition of the South Bank Coke Ovens, Redcar Coke Ovens Battery and Redcar Sinter Plant are complete. On the BOS Plant, all demolitions have been concluded. The entire demolition programme is expected to be complete by July 2023, within a two-year timeframe, some two years ahead of the original four-year estimate.

6. Ground works at the Dorman Point area of the site has seen 65 acres of land remediated to date with a further phase under way. The Eston Road highway access scheme is fully complete and operational with construction of the watercourse under way.

7. Land remediation works on South Bank has resulted in 90 acres being completed to facilitate the construction of the SeAH Wind monopile manufacturing facility. Construction of the South Bank link road and watercourse have commenced with a completion dates of September 23 and December 23 respectively.

8. The construction of South Bank Quay is progressing at pace, with the quay wall having now been completed, the land-based works are focused on construction of the heavy lift platform and concrete pavement immediately behind the wall.

9. As the development has progressed, the scope of works has been updated to include emerging priorities that enhance the site for future tenants and have been deemed as financially beneficial to progress during the current development programme.

10. During construction of the Quay a review was undertaken in relation to the Quay requirements based on prospective tenants on the site. This led to private sector investment being secured to extend the heavy lift platform by 100 metres. This extension will significantly increase the capacity of the quay for heavy lift products allowing for multiple dock berths and simultaneous loading. It is essential that these works are carried out during the current development of the quay to ensure the works are to be complete by the contractual deadlines. In addition, if these works had been carried out as a separate project later the cost would have been significantly higher and would have required the Quay to be non-operational during that period, leading to loss of revenue.

11. The Park and Ride development, which will serve thousands of workers during construction phases initially, has been added to the programme following funding being secured. The progression of the development within the current programme is essential to ensure facilities are in place to host the large numbers of construction staff required for imminent developments such as SeAH and Net Zero Teesside.

12. Within the site infrastructure budget allocation was the construction of the South Bank road to provide two access points to the SeAH development. This scope was extended during the development to provide a further connection to an existing road which will result in a full link into the road network and onward connectivity to the East Wharf gate access point.

13. TEMCO Capex requirements previously reported to the board have been included within the development budget to ensure that the site infrastructure is maintained at a high standard.

14. Throughout the development, external market factors continue to cause cost pressures. These key market factors and their impact have been reflected in the forecast outturn below:
    - The market recovery from the construction materials shortage continues to result in price hikes, with material prices for the sector and for all works increasing by nearly 27.5% since the commencement of the programme.
    - The Business Department's monthly Building Materials and Components Statistics have published that since the commencement of the programme, repair and maintenance costs rose by 23.8%.
    - Labour costs continue to rise due to the tight labour availability in the market. The Office of National Statistics (ONS) has stated 25% of construction businesses in the UK are experiencing skilled labour shortages.
    - Wholesale energy prices continue to rise with suppliers passing on the costs.

15. The revised development programme covering 2021 – 2025 which incorporates the scope amendments and the latest cost projections is set out in the table below.

	Previous Forecast £'000	Revised Forecast £'000	Variance £'000
Overheads	14,000	15,878	1,878
Operating Costs	**14,000**	**15,878**	**1,878**
Demolition	131,333	141,790	10,457
Site Preparation and Infrastructure	128,286	151,837	23,551
Enabling Studies and Other	12,681	12,586	-95
Quay	98,186	112,792	14,606
Project Expenditure	**370,486**	**419,005**	**48,519**
Land Acquisition Costs	**1,500**	**1,500**	**0**
Ex SSI Costs	**44,088**	**44,088**	**10,088**
Net Expenditure	**430,074**	**480,471**	**50,397**
Funded By			
BEIS RDEL	51,084	51,084	0
BEIS CDEL	16,654	16,654	0
MHCLG CDEL	36,762	36,762	0
BEIS WIND	20,000	20,000	0
Quay Borrowing	106,700	106,700	0
Other	198,874	249,251	50,377
Total	**430,074**	**480,451**	**50,377**

16. The table above sets out a £50million increase in expenditure from the previously reported figures. This is comprised of £20million relating to the Park and Ride, £6.8million heavy lift platform, £2million Link Road with the remaining £21.2million relating to cost increases relating to decontamination works and inflationary pressures as described above.

2023/24 DEVELOPMENT BUDGET

17. The below table sets out the proportion of the overall development programme which is forecast for 2023/24.

	23/24 Budget £'000
Overheads	1,500
Operating Costs	**1,500**
Demolition	21,460
Site Preparation and Infrastructure	44,553
Enabling Studies and Other	1,540
Quay	29,717
Project Expenditure	**97,270**
Ex SSI Costs	**1,762**
Net Expenditure	**100,532**
Funded By	
Quay Borrowing	20,617
Other	79,915
Total	**100,532**

18. As set out earlier in the report, the demolition and decontamination programme – along with the South Bank and Dorman Point site preparation works including road infrastructure – will complete within the 2023/24 financial year. Works on the South Bank Quay and Park n Ride facility will continue into 2024/25.

2023/24 OPERATING COSTS

19. The completion of STDC areas of responsibility on-site – in terms of public sector remediation, decontamination and demolition activity – within the year will mark another major milestone. It continues the transitioning from the legacy “keep safe” focus activity, following the departure of SSI from the site, to a more progressive estate management arrangement that supports the various existing and planned tenants on site providing professional services across a range of activities.

20. The estate management operating expenditure incorporates all general operating costs across the site to ensure a secure and well-maintained development is provided for all current and prospective tenants. Elements of this expenditure will be recharged via an annual service charge to tenants. However in the short-term, until tenancy levels rise, these outlays will be financed from income received and retained during the development period.

21. To complete the development obligations, borrowing has been secured against future revenues from the quay and wider site, the expenditure associated with the financing of this borrowing will be required in advance of the revenues being generated. As with the estate-related expenditure, these costs will be financed from income received and retained during the development period.

22. The below table sets out the operational expenditure and income for 2023/24.

	23/24 Budget £'000
Estate Management Costs	5,542
Costs of Finance	6,996
Total Expenditure	**12,538**
<u>Funded By</u>	
Site Income	641
Other Retained Income	11,897
Total	**12,538**

FINANCIAL IMPLICATIONS

23. This report gives an update on the overall development budget and sets the 2023/24 Budget for the corporation.

LEGAL IMPLICATIONS

24. There are no legal implications associated with the recommendations within this report.

RISK ASSESSMENT

25. This Budget Report has been categorised as medium risk. The overall risk to the longer-term financial position of the Corporation revolves around securing of tenants. The financial risks of this in the short term have been mitigated from retention of income generated during the development stage to bridge the gap until tenancy levels increase.

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Teesside Freeport

AGENDA ITEM 8

REPORT TO STDC BOARD

10th MARCH 2023

REPORT OF THE DIRECTOR OF FREEPORT

FREEPORT DIRECTOR REPORT

SUMMARY

The Full Business Case (FBC) has been passed by the Treasury Approval Process and has Ministerial approval.

DLUHC have issued a final MOU which has been entered into by TVCA and RCBC following external review be legal counsel.

All English Freeports have all finalised their FBC's with 6 of the 8 Freeports approved. All 8 English Freeports are expected to be confirmed by April.

Following a competition in Scotland, 2 Green Freeports have been announced – Opportunity Cromarty Firth and Forth Green Freeport.

The International Chamber of Commerce (ICC) have commenced recruitment for the Centre for Digital Trade & Innovation within the region and appointed their first representative.

RECOMMENDATIONS

It is recommended that the Board note the content of the report.

DETAIL

Business Case & MOU

1. The FBC reached Treasury Advisory Panel (TAP) approval on 29th September and was then provided and received Ministerial approval.

2. DLUHC have provided a final MOU for review and sign off by TVCA and RCBC. The document was reviewed internally to confirm alignment with Freeport FBC and underwent external legal review prior to being approved.

3. The approval of the MOU will enable the first tranche of seed funding to be released to TVCA in March.

Freeports

4. The English Freeports have all finalised their FBCs and submitted to the Treasury Approval Process. 6 of the 8 Freeports have been approved with only Humber and East Midlands to complete. All 8 English Freeports are expected to be confirmed by April.

5. Following a competition in Scotland, 2 Green Freeports have been announced – Opportunity Cromarty Firth and Forth Green Freeport.

6. **Opportunity Cromarty Firth** (OCF) is a partnership of organisations exploring the opportunity for the Cromarty Firth to become a 'Free Trade Zone'. Partners of the project include the Port of Cromarty Firth and Global Energy Group, as well as other regional businesses, academia and the public sector.

7. OCF is seeking to transition from a reliance on the Oil & Gas sector and develop Renewable and Hydrogen economies. The Moray East OWF is being delivered from OCF. **https://opportunitycromartyfirth.co.uk/about/**

8. **Forth Green Freeport** has the potential to create 50,000 high quality, green jobs in areas of local deprivation. Forth Green Freeport will act as a catalyst for new green technologies, alternative fuels and renewable energy manufacturing – accelerating the nation's just transition to net zero. Alongside major upgrades to infrastructure and technology backed skills development programmes for young people and harder to reach communities. Forth Green Freeport will stimulate the country's re-industrialisation and accelerate Scotland's industrial cluster's vital path to a cleaner future. **https://forthgreenfreeport.com/**

Marketing

9. The Freeport continues to market Teesside Freeport and provide thought leadership on Customs facilitation and progress leads.

10. The key activities of focus during Q4 2022 (January – March 2023):
    a. Tees Valley rebrand, including rebrand of Invest materials and new website
    b. Planning for key events, such as UKREiiF, Innovation Zero, CHEMUK
    c. Manage, support and facilitate Inward Investment visits
    d. Deliver Cluster Plan event, March 28 – including branded report, film and event at Mowden Park
    e. Increase Freeport marketing activity, developing a new film and advertising opportunities as well as opportunities to exhibit and speak.
    f. Deliver next TEN event in March.

Innovation

11. Centre for Digital Trade and Innovation (C4DTI) has constituted its Governance Board and commenced a programme of research and support of single trade window test pilots. Further information regarding C4DTI can be found at **https://c4dti.co.uk/**. An opening event for C4DTI at Teesside University is being planned.

12. Development of a 5G Digital Trade Testbed is being considered to deliver the benefits of frictionless trade and digital interoperability. The test bed will be technology agnostic, offering all systems within the sector to be trialled and evaluated prior to deployment and will lead to proven methodologies to move physical goods both nationally and internationally.

Risk

13. Teesside Freeport currently has a medium risk profile which is considered tolerable. The average residual risk score is 7.2 with the average threshold being 10.

FINANCIAL IMPLICATIONS

14. The revenue budget for 22/23 is funded by HMG and matched by TVCA.

15. Both the delay in the approval of the FBC and inflation continuing to run to double digit figures have the potential to increase costs in the 22/23 period however management of the budget, leveraged use of the HMG consultancy support and a continued use of the matrix organisation have ensured current costs have remained within budget.

LEGAL IMPLICATIONS

16. HMG have issued the draft document “Set-up Phase and Delivery Model Guidance: English Freeports”

17. Additional on Freeport legislation was published within “UK Government policy on freeports - BRIEFING PAPER Number 8823, 20 April 2021”.

18. The Government’s freeports policy will comply with various requirements on subsidy control:
    a. The UK’s domestic subsidy control regime.
    b. The UK’s subsidy control obligations at the WTO.
    c. State aid obligations in the Northern Ireland Protocol; and
    d. Subsidy control provisions negotiated in the UK’s free trade
    e. Agreements including the Trade and Cooperation Agreement (TCA) with the EU.

19. The MOU provides for the reporting requirements of the Freeport.

RISK ASSESSMENT

20. Provided at paragraph 13.

CONSULTATION & COMMUNICATION

21. Stakeholder engagement meetings continue both on an individual and reference group basis.

22. The workstream meetings have continue and focus on Assurance & Compliance, Strategy & Accountability, Inward investment and Innovation & Skills.

23. The DLUHC Freeport group meeting of all eight Freeports has commenced and is held monthly.

24. A monthly meeting between the Freeport team and HMRC continues to support the delivery of custom zones.

EQUALITY & DIVERSITY

25. Our aim is to ensure that the Teesside Freeport Governing Board and its workstreams will provide equal opportunity for everyone

LOCAL ENTERPRISE PARTNERSHIP

26. The LEP have representation within the Freeport Governance Structure.

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TEESWORKS

AGENDA ITEM 9

REPORT TO THE STDC BOARD

16th MARCH 2023

REPORT OF CHIEF EXECUTIVE OFFICER

COMMERCIAL PROPOSITION – CARBON CAPTURE UTILISATION AND STORAGE (CCUS)

SUMMARY
Net Zero Teesside is a collection of industrial, power and hydrogen businesses which aim to decarbonize their operations through the deployment of carbon capture utilisation and storage (CCUS).

The hub of Net Zero Teesside is Net Zero Teesside Power (NZT Power) - a first-of-a-kind gas fired power station with carbon capture. The 860MW CCGT generating station can provide low carbon power for around 1.3 million homes.
The Northern Endurance Partnership (NEP) will deliver the shared CO2 infrastructure (both onshore and offshore) to serve carbon emitting businesses across Teesside connect these projects to offshore CO2 storage sites.

The industrial clusters of Teesside (NZT) and the Humber together make up the East Coast Cluster – which was selected as a track-1cluster in phase-1 of the UK Government's Carbon Capture, Usage and Storage (CCUS) cluster sequencing process. A full summary of how all of these elements of the CCUS programme fit together is provided at **Appendix 1**.

The NEP is a partnership between bp, Equinor, National Grid Ventures, Shell, and Total Energies and ,brings together unrivalled expertise and experience in the delivery and operation of onshore and offshore energy infrastructure.

NEP offers access to the Endurance carbon store in the southern North Sea. Endurance is the name of a geological feature – a saline aquifer – which lies approximately 145km offshore from Teesside in the North Sea.

Endurance has the capacity to store: 450m tonnes of CO2 Other potential stores nearby take potential storage capacity to around 1 billion tonnes.

The Net Zero Teesside (Power) Project is a joint venture between BP and Equinor. This project is being led and coordinated by BP Exploration Operating Company Limited. BP Exploration Operating Company Limited is the holding entity for several of the exploration and production subsidiaries of energy giant BP. The company is one of the largest operators in the North Sea.

The purpose of this report is to request Board approval to enter into commercial and legal documentation with BP Exploration Operating Company Limited to enable BP to confirm its site requirements are in place as part of the Government's CCUS cluster sequencing process.

RECOMMENDATIONS

Board is recommended to note:

- Background to the NZT transaction set out at paragraphs 1-6; and
- Scope and timescales for the transaction; and
- Adoption of the agreed change to delivery model for development on the Teesworks site as a result of potential changes to landfill legislation set out at paragraphs 13-14; and
- Key features of the various stages of the transaction including legal agreements as set out in the report at paragraphs 15-21
- The necessary financial, risk and legal advice has been taken in relation to this transaction to ensure it is compliant with all necessary legislation and represents value for money.

Board is recommended to approve:

- Entering into an Option for lease agreement with Teesworks Limited and BP Exploration Operating Company Limited; and
- Entering into the necessary land transfer documentation with Teesworks Limited; and
- Entering into all necessary commercial agreements with Teesworks Limited to ensure that any STDC/L obligations are fully funded; and
- Approve delegation to the Group Chief Executive Officer, Group Director of Finance and Resources, Acting Monitoring Officer and the Mayor to ensure all necessary legal documentation is transacted in line with these approvals.

DETAIL

BACKGROUND

1. The Tees Valley has huge ambitions – to become the world's first Net Zero industrial cluster by 2040. Being home to one of the biggest industrial clusters in Europe, it is an obvious location to lead the UK's net zero ambitions.

2. Net Zero Teesside has several principal benefits for the region:
    - it helps existing industries to stay competitive – allowing them access to CCS reduces their carbon tax burden (through UK ETS);
    - it enables the new hydrogen economy and creates a UK centre for hydrogen production on Teesside;
    - it provides the opportunity for new businesses who want to capture their CO2 to invest in Teesside – these include, Sustainable Aviation Fuel, Energy from Waste, Chemicals from Waste, lithium production, and others.
    - Almost all the UK's hydrocarbon use – natural gas, petrol, diesel, heating oil, etc - needs to be displaced by either electrification or hydrogen. Electrification on its own is unlikely to achieve this as the UK does not have sufficient generation or infrastructure to deliver this. Hydrogen will be a large and important part of the UK's future energy mix

3. STDC Business Case to Government for remediation support was based on a complex large-scale regeneration programme that requires initial public intervention to remediate the site, demolish redundant assets and prepare the site for private investment.

4. SeAH Wind have already been secured to the site with significant private sector investment c£400m in what will be the largest monopile manufacturing facility in the world located at the South Bank area of the site as part of the Teesside Offshore Manufacturing Centre. This is in addition to the creation of 750 direct jobs and 1,500 in the supply chain.

5. The Net Zero Teesside project is the second significant private sector investment and tenant proposing to locate to the east of Teesworks at the Foundry (see **Appendix 2**). This is proposed to lead to c£1.5bn of capital investment in a Carbon Capture Utilisation and Storage (CCUS) facility and dedicated power plant etc. This will lead to c4,000 construction jobs in addition to the direct and indirect jobs associated with the facility.

6. Board are aware that this project will be a fundamental enabler for the roadmap to the Tees Valley having the first decarbonised Industrial Cluster. The key facts for the NZT project are: -
   - Estimated capital investment for the project is £1.5bn
   - NZT Power's proposed combined cycle gas turbine electricity generating station will have an electrical output of up to 860 megawatts (MW) of low carbon electricity, enough to power up to 1.3m homes per year – close to 5% of all homes in the UK.
   - NZT Power will provide dispatchable low carbon power - supporting the UK government's commitment to fully decarbonize the power system by 2035 - and complements increasing renewable energy deployment by providing back up to intermittent forms of energy such as wind and solar.
   - NZT Power can create and support up to 4,000 jobs during its construction and add up to £300 million to the economy each year.

SCOPE AND TIMESCALES FOR TRANSACTION

SCOPE

7. Net Zero Teesside Power (NZT Power) is a first-of-a-kind fully integrated gas-fired power and carbon capture project and a joint venture between bp and Equinor with bp leading as operator.

8. Board are aware that this project will be a fundamental enabler for the roadmap to the Tees Valley having the first decarbonised Industrial Cluster. The Tees Valley Net Zero Cluster Plan project has determined the following key metrics that Net Zero Teesside and decarbonisation in the industrial cluster will bring:
   - Over £10 bn of investment in decarbonising industries, and new industries coming to Teesside
   - Over 30,000 new jobs in the region
   - Around £35 bn cumulative additional GVA by 2040

- 2030 – NZT will capture CO2 equivalent to today's emissions in the region, creating the world's first low-Carbon industrial cluster
- 2040 – NZT will become the world's first Net Zero industrial Cluster capturing enough CO2 of biogenic origin to offset any residual CO2 emissions from hydrocarbons.
- 2040 - NZT will capture over 180% of the cluster's current CO2 emissions, indicating both the growth in regional output and the ability to be fully decarbonised.

9. The scope of the transaction under consideration is for two options for two separate areas of land at the Foundry area of the Teesworks site. The primary purpose of each option are as follows: -
    - Phase 1 Option – Transportation and Storage (T&S) and Generation & Capture (G&C) components of the NZT project
    - Phase 2 Option - Expansion of future power train solutions

10. The transaction encompasses four key legal transactions as follows :-
    a. Land Transfer (TP1) document in agreed form for Teesworks Limited to enter into with STDC/L
    b. Option for BP Exploration Operating Company Limited (BP) to enter into with STDC/L and Teesworks Ltd on successful completion of BP's development consent order (DCO) process
    c. Lease for BP Exploration Operating Company Limited as Tenant and it's Guarantor to enter into with Teesworks Limited
    d. Commercial agreement between Teesworks Limited and STDC/L to ensure the total project costs for NZT are fully funded by Teesworks Limited and the BP Project Contributions

TIMESCALES

Land Transfer (TP1) – Part of completion documents – March 2023

11. The land registry transfer document between Teesworks Limited and STDC/L is the legal document that deals with the practical implications of Teesworks Limited exercising its option over the NZT land area.

12. The key provisions in the land registry documentation have been reviewed and agreed with STDC/L legal advisers.

STDC/L Delivery Model – Immediate following Board approval

13. The CEO Update paper earlier on this Agenda set out the requirement for a change in the delivery model on the Teesworks site due to Government legislation changes in respect of landfill tax.

14. The NZT transaction will follow the same recommended process in respect of STDC/L delivery model proposals that were set out in the CEO update paper. Therefore STDC/L will undertake remediation works as landowner. When work is completed on the NZT site and all costs are accounted for (including landfill tax reliefs) Teesworks Limited will exercise its option. All development activity and costs will be fully funded by Teesworks Limited and/or BP Project Contributions as required.

Pre-option contracting – Immediate following Board approval

15. There are time sensitive issues for the NZT Development Consent Order process and subsequent land preparation requirements to demonstrate to Government that the CCUS cluster sequencing project is at an advanced stage in terms of site preparations. Therefore BP are required to demonstrate they have appropriate land arrangements in place, relevant permissions and a deliverable project plan that will meet Government timescales and deadlines.

16. The procurement of the remediation contract is in place to commence following agreement signature. All necessary funding arrangements will be in place to facilitate the signing of contracts and agreements with all relevant parties following Board.

Option agreement – Timescales in Table 1 below for each Option Phase

17. The Option Agreement is an Option for BP to trigger on successful completion of the Development Consent Order Process (DCO).

18. The Option agreement is split into two phases to reflect the potential increased requirements of BP following the initial implementation of their CCUS and Power Plant capabilities. The summary of the purpose of each phase of the Option agreement and their purpose is set out in the table below: -

Option area	Purpose	Key risks for STDC/L	Target dates
Phase 1	Transportation and Storage (T&S) and Generation & Capture (G&C) are the two components of the NZT project Two parcels of land totalling c100acres	• BP option live from signing of agreement • BP can only exercise the option once they have the DCO in place • STDC obligations for remediation live from signing of agreements • Non-remediation enabling works (e.g. Utilities) have further period of time to confirm BP requirements and associated costs • Teesworks Limited and BP Project contributions for funding in place for above costs at time of signature • Construction lease for 4 years to support the T&S and G&C site and upon expiration of this there is a further option for use of this land area for Phase 2 (see below)	3year option period 4year construction lease
Phase 2	Expansion of future power train solutions Trigger for Phase 2 is expiration of the Construction lease after 4years	• Obligations for remediation managed by commercial agreements funding costs • Delivery of obligations by STDC	

	Total of c90 acres of land		

19. STDC/L have a series of obligations associated with each Option Phase where activities are required to be completed to a satisfactory standard meeting the Landlord/Tenant specifications. These activities are predominantly surrounding land remediation, utilities provision and key enabling development activity to bring the NZT site into operational use. STDC/L legal teams have detailed the exhaustive list of obligations in this regard for senior management who are in turn satisfied that they can meet these obligations within the timescales specified in the option agreement. As with all transactions of this nature full project and risk management controls will e in place to manage the project from beginning to end with key accountable owners for actions.

20. All obligations are funded through a combination of BP "Project Contributions" and any other funding requirements being met by Teesworks Limited via a direct commercial agreement with STDC/L. The combination of the option agreement project contribution from BP and Teesworks Limited direct funding will cover 100% of all project costs including management costs and interest.

Lease – Longstop date 5TH Anniversary of agreements – March 2028

21. The lease agreement is between Teesworks Limited and BP (Tenant) and BP's guarantor and therefore does not have any requirements or obligations on STDC/L to fulfil once the commercial transaction reaches the stage of a lease being signed between the parties.

22. STDC/L will receive full funding for the development costs during the option period on the successful execution of the lease triggered specifically from the Teesworks Limited exercising of its option over the Teesworks land area for NZT.

23. STDC/L will also cease to be accountable for the NZT land area service charge at this point in time and therefore reduce the requirement for funding of maintaining the estate for this area. In addition STDC/L will receive 50% of the business rates for the NZT project once it is operational enabling the leveraging of such business rates to service borrowing. The other 50% will be received by Redcar and Cleveland Borough Council. The current headline estimate for business rates per annum is £6m (£3m to STDC/RCBC respectively) as assessed by our advisors at this point in time. This may change once fuller details of the contractor costs for the NZT development are known. The first call for any business rates will be to service borrowing required for completion of STDC obligations on site.

FINANCIAL IMPLICATIONS

Expenditure

24. The landfill tax relief scheme is expected to require a public sector body to be the recipient for landfill tax reliefs from eligible schemes, and therefore whilst the original model of private sector funded delivery going forward still stands, the actual delivery model will need to change to reflect the public ownership of the land during remediation phase up until options are exercised by Teesworks Limited for future tenants.

25. STDC have set out the work being conducted in the following paragraphs to ensure that all relevant costs and funding requirements are captured to implemented this change to the delivery approach across the site. It should be noted that this change not only applies to the NZT site but also to any future inward investment tenants coming to the site aswell.

Commercial agreements with Teesworks Limited

26. The STDC Senior Management Team will work with Teesworks Limited to produce initial **cost estimates** of the proposed works required under the NZT legal agreements where STDC is obligated to deliver activities funded by Teesworks Limited and/or BP as applicable.

27. The costed proposals will clearly set out the range of cost items expected to be incurred by STDC in delivering these obligations that are to be funded by Teesworks Limited. Whilst every effort has been made to provide accurate initial cost estimates the final actual project cost calculations on completion of all STDC obligations will be the figure funded by Teesworks Limited rather than the estimates. The costs will also include all project management and incidental costs for delivery of STDC obligations and will also include interest calculated on a subsidy control compliant interest rate. Commercial agreements will be entered ensuring the full range of costs are covered for funding purposes.

28. The expected timescales for the NZT Power Project have been set out earlier in this report. All STDC financial obligations have **costs profiled** alongside existing commitments and funding is provided by a combination of BP and Teesworks Limited (i.e.100% private sector funding) with **cashflow requirements** being managed by STDC/L normal treasury Management arrangements.

29. There is an assessed low risk of NZT not being selected by the Government for CCUS sequencing in the current round. Should this occur and this lead to the NZT project no longer progressing alternative tenants will be sought. In this low-risk scenario full project costs of remediation and development costs (including subsidy control compliant interest costs) factored into the funding arrangements with Teesworks Limited in the event that NZT are not selected.

Funding

30. The commercial agreements with Teesworks Limited will ensure that all of the expenditure items covered above are funded by a combination of Teesworks Limited and BP's Project contributions.

31. The cashflow requirement for the project is assessed as a low-risk scenario where NZT are unsuccessful with their Government bid to the cluster sequencing process. STDC Board are acknowledging this risk as part of this approval process with the necessary mitigation measures in place. The commercial agreement between STDC/L and Teesworks Limited will ensure that any cashflow risk is mitigated in terms of key dates for implementation of funding arrangements with Teesworks Limited.

32. TVCA Group Treasury Management arrangements will manage any intervening period whereby an alternative is required to be secured. The current estimated likelihood is low that BP and NZT would be unsuccessful in their bid given the strategic importance of the cluster and the location of the proposed site. Government are expected to

announce the preferred cluster for sequencing in its procurement process imminently and therefore this risk is expected to be mitigated by this announcement.

33. The primary financial obligations for STDC are: -
    - the remediation of the NZT site;
    - provision of park and ride spaces;
    - maintenance of professional indemnity (PI) insurance in respect of the wider estate;
    - the demolition of the Pellet Sinter Substation (if BP exercise an option over the land containing that substation);
    - agreement of supply contracts with BP (or its nominee) for the supply of standard utilities (including LV electricity, water, sewerage and telecoms); and
    - installation of those agreed utilities.

34. A full exhaustive list of obligations is being managed and tracked by STDC/L legal advisers alongside detailed project and risk management controls and plans with clear owners for delivery.

35. In terms of statutory officer assurance BEIS/MHCLG require that the s73 Officer with responsibility for the financial affairs of TVCA as grant recipient ensures that TVCA and STDC have discharged best value responsibilities ensuring no direct private sector profit from public funding. To provide additional reassurance on this matter separate legal advice has been sought on all public sector funding matters associated with the NZT transaction. The subsidy control element of this advice builds on the advice that TVCA and STDC have already secured on all prior transactions. Reliance is placed on this advice to discharge the s73 responsibilities. The Monitoring Officer has also confirmed that this advice meets the requirement for state aid/local subsidy control measures.

36. The STDC Medium Term Financial Plan will be updated to reflect all recommendations contained within this report. The plan has increased borrowing requirements to the previous version as the borrowing required by STDC to meet its obligations and objectives within this report and going forward will be linked to incoming tenants and the necessary development work required for those tenants.

37. All STDC obligations are backed off onto contractors in terms of collateral warranties and therefore all risks associated with the competency and quality of contractor work sit with the contractors for the NZT as tenant. The only risk that remains with STDC (and always would for any future transaction) is the risk of historic contamination on a “polluter pays” principle if historic contamination is the cause of an event. STDC have always had this risk since taking the site into local control and have project and risk management processes in place to mitigate.

LEGAL IMPLICATIONS

38. STDC has taken legal advice from Womble Bond Dickinson (WBD) regarding the NZT option for lease agreement and lease documentation in terms of STDC obligations and requirements. The proposals set out in this report and associated

obligations are provided in detail by WBD to STDC/L senior management to ensure full control and management of all delivery activity.

39. Addleshaw Goddard are advising on the land transfer arrangements and associated subsidy control advice. The subsidy control position has been assessed in terms of any incremental implications from previous subsidy control clearance advice and following a detailed review of the NZT transaction AG have concluded that the transaction remains compliant with the Subsidy Control regime. The risks associated with all legal documentation are captured in the risk assessment section below along with mitigation and management activity.

40. The timeline section above details the different legal contractual positions at different points in the timeline. The diagram below summarises at each point in the timeline how STDC/L obligations change.

RISK ASSESSMENT

41. The delivery of this transaction and the associated activity is being actively risk managed with senior Executive Officers. The Net Zero Teesside delivery is being managed with its own programme management arrangements and dedicated team including relevant external advisers.

42. The headline risks and associated mitigation for this transaction are set out below: -

Risk Category	Risk	Risk Mitigation
Strategic	Failure to secure key anchor investment that is aligned to the purpose of the site and wider TVCA Net Zero Strategy	To become the UKs first decarbonised industrial cluster NZT is an absolute requirement. Key stages in this process are: - NZT to secure DCO approval imminent NZT to win the Governments cluster sequencing round of bidding STDC/Teesworks Ltd negotiations with NZT to reach conclusion to ensure NZT meet the requirement to demonstrate feasible project with one major element being securing the land assembly area to deliver the project and having the relevant land area fully remediated and available for use to meet the delivery timelines required.
Strategic	Failure to secure the necessary progress on the site post transaction once NZT are signed to complete all option obligations	Detailed risk plans and associated mitigation and management plans being developed and iterated to meet NZT requirements and timescales. Clear owners for critical deliverables in the project plans. Cost of remediation managed to appropriate levels and securing landfill tax grant support

		scheme due for progression in legislative process in March 2023
Financial	Failure of NZT to secure Government cluster sequencing priority through the latest Government procurement process	Full remediation and development costs to meet NZT requirements would leave a site "shovel ready" for any inward investor should NZT not be successful and fail to meet the requirements to enter into a lease. Full project costs of remediation and development costs (including subsidy control compliant interest costs) factored into the funding arrangements with Teesworks Limited.
Financial	Failure to demonstrate value for money from the transaction	All STDC obligations and works will be publicly procured in line with public procurement processes. Total project costs will be covered including project management, administration, support service costs required to deliver STDC obligations will form part of the total costs attached to the funding agreement with Teesworks Limited.
Financial Reputational	Failure to secure STDC share of any future business rates in line with STDC financial forecasts and plans.	STDC financial forecasts have cautious financial planning assumptions that drive the overall funding position. Interim cashflow facilities to be provided via TVCA Group Treasury Management Practices. Regular reporting on Treasury and Operational KPIs is produced and reported to key governance forums (STDC Board and TVCA Cabinet).
Financial	Failure to secure appropriate funding for total development costs	Government landfill tax legislative changes lobbied with Government and passed in March 2023 Finance bill to optimise development budget. Commercial agreement in place with Teesworks Limited in addition to BP Project Contributions within the Option agreement for lease to fully fund the project.
Operational	Failure to establish safe, secure, and efficient and effective operational capability for the Teesworks site.	The arrangements for future Estate Management are being developed for implementation during 2023-24 financial year The arrangements for safe and secure operation of the site are not altered by the proposed transaction changes.
Operational	Failure to ensure the delivery of the key projects post transaction	All NZT project activity and key milestones are tracked through dedicated project management resources to ensure delivery to budget and timescales.

		Clear ownership and accountability of project milestones and activity is assigned via the overall project controls.
Legal	Failure to ensure the proposed transaction remains compliant from a state aid and subsidy control perspective	Specialist legal advice from Addleshaw Goddard is in place with a summary of the subsidy control advice confirming compliance with UK subsidy control requirements.
Legal	Failure to put in place the necessary legal documentation to protect STDC interests in delivering to its obligations.	Specialist legal advice from Womble Bond Dickinson is in place with a detailed schedule of the key obligations and risk management plans provided by advisers. STDC/L senior management ensuring appropriate project and risk management controls in place to deliver obligations. Commercial agreement in place with Teesworks Limited in addition to BP Project Contributions within the Option agreement for lease to fully fund the project.

CONSULTATION & COMMUNICATION

43. The TVCA Cabinet have been fully consulted on the requirements for the Tees Valley to hit Net Zero by the Government target of 2050 and the ambitions of the Tees Valley to be the home of the UKs first decarbonised industrial cluster.

44. The Net Zero Strategy has been considered and approved by TVCA Cabinet. The strategy set out that “Tees Valley will be a global leader in clean energy, low carbon and hydrogen. The area will achieve a net zero carbon industrial cluster by 2040, providing good jobs with long term prospects that local people can access…”. This strategy and the associated evidence report highlighted the importance of the Net Zero Teesside project in achieving this goal.

45. The STDC Masterplan and CPO production processes provided extensive consultation on the overall strategic priorities for the site including an offshore wind element within them.

46. These proposals have also included consultation with the STDC Board Members and do not constitute a referral decision to Tees Valley Combined Authority. The Net Zero Project itself is also subject to a formal Development Consent Order (DCO) process that requires extensive consultation with all key stakeholders by NZT themselves.

EQUALITY & DIVERSITY

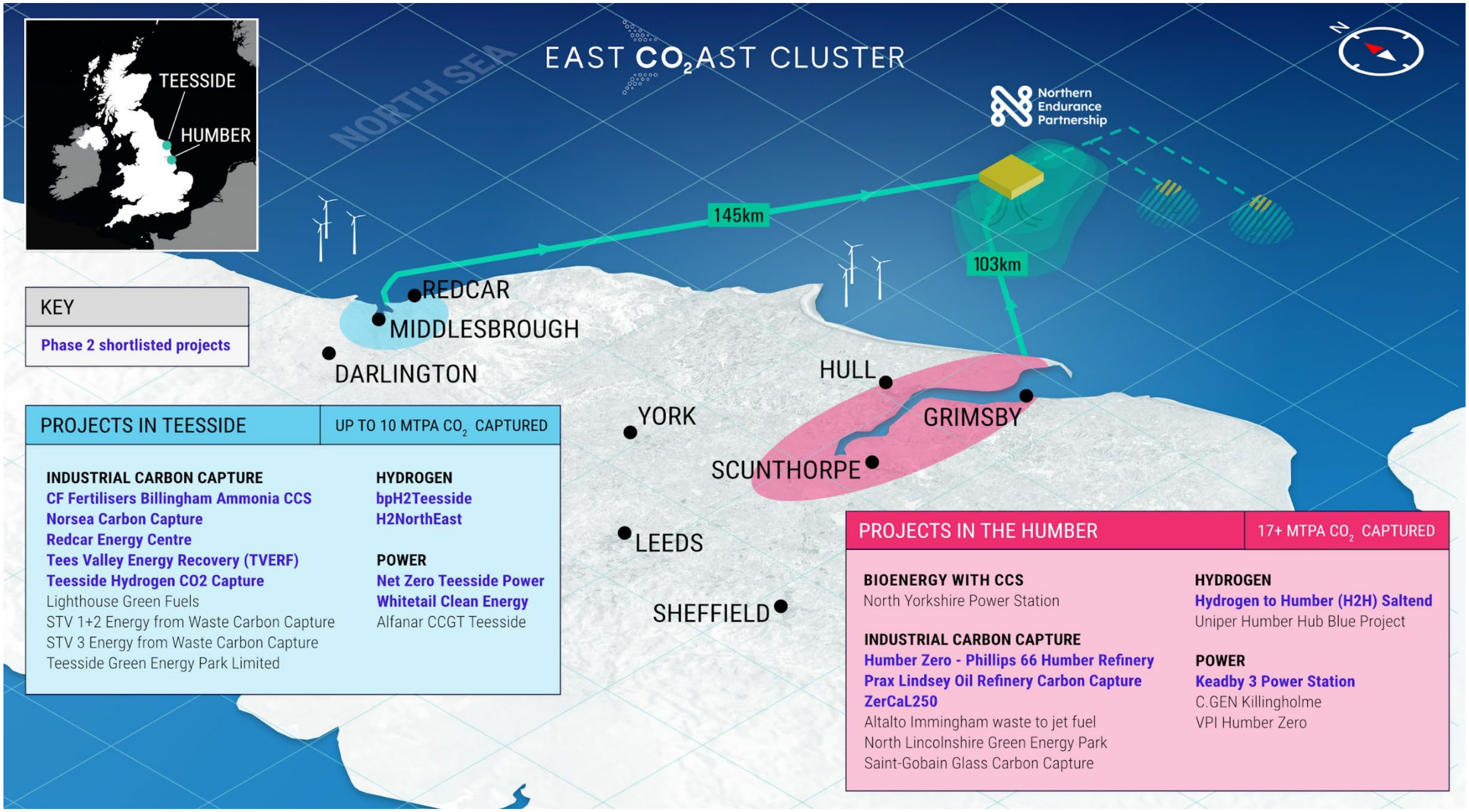
47. There are no direct implications in terms of equality and diversity associated with this report.

Name of Contact Officer: Gary Macdonald

Post Title: Group Director of Finance and Resources
Telephone Number: 01642 527707
Email Address: gary.macdonald@teesvalley-ca.gov.uk

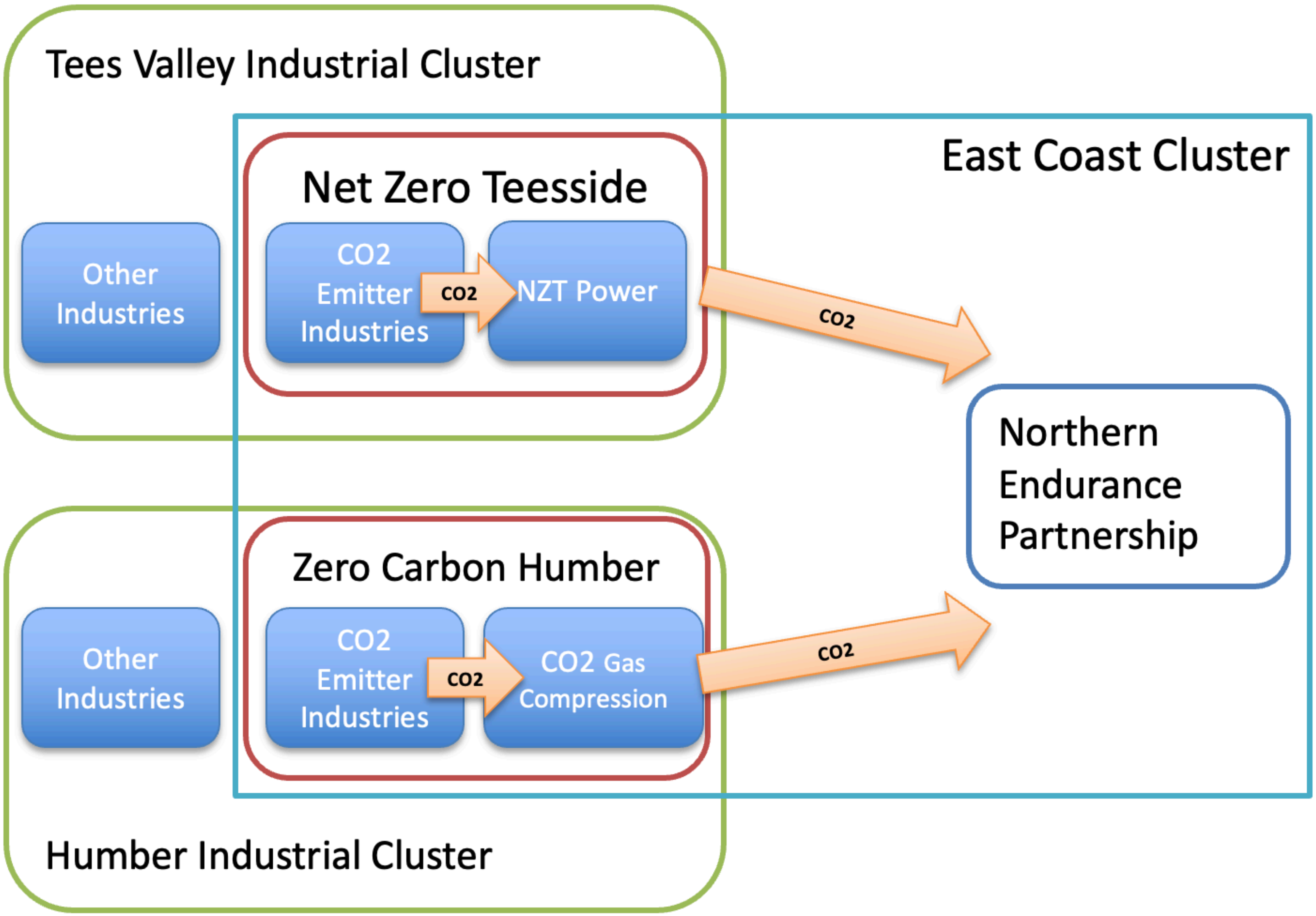
Appendix 1

East Coast Cluster, Northern Endurance Partnership and Net Zero Teesside Background Information



Appendix 1

East Coast Cluster, Northern Endurance Partnership and Net Zero Teesside
Background Information



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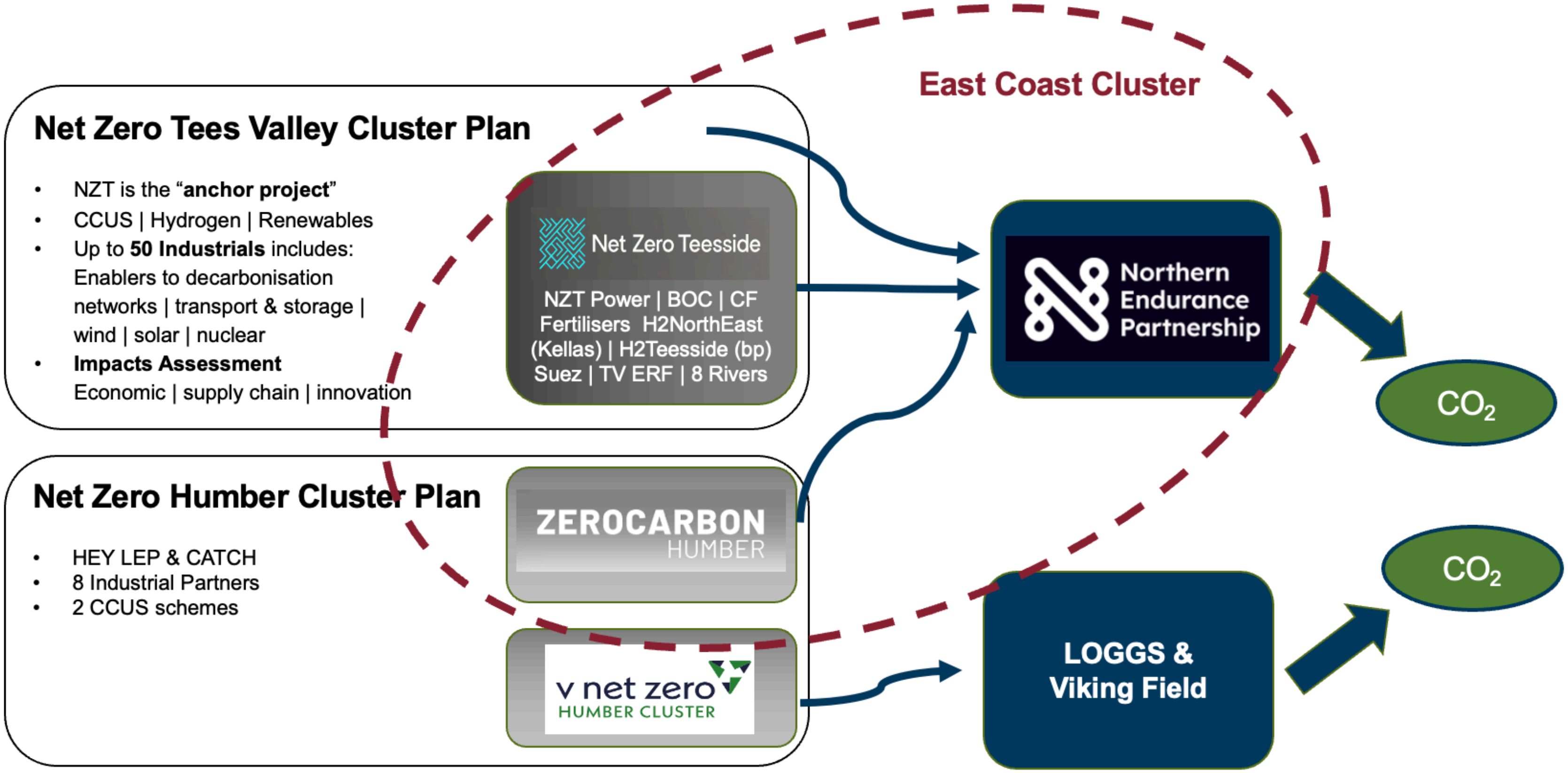

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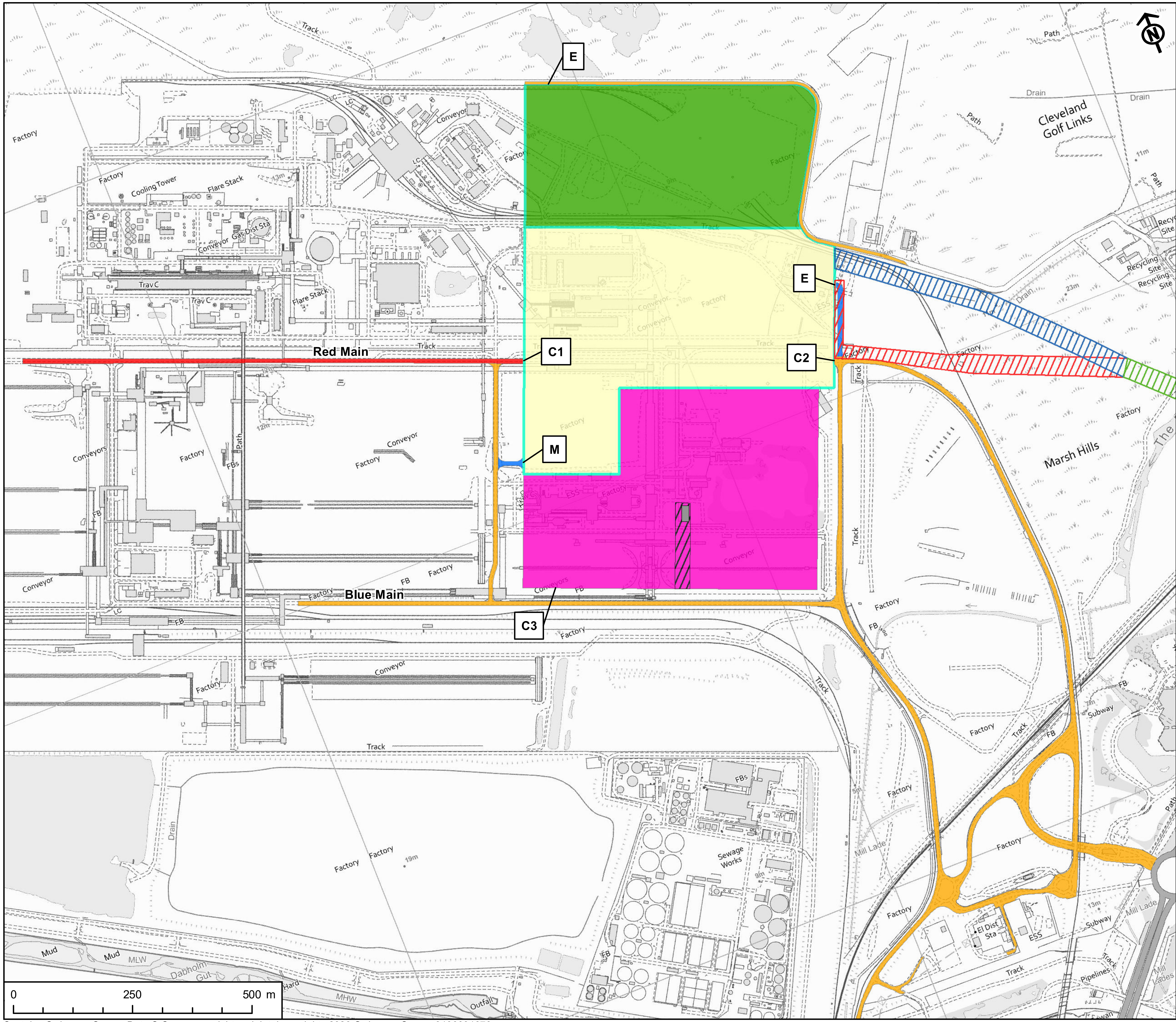

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AECOM

PROJECT

NET ZERO TEESSIDE PROJECT

Net Zero Teesside

APPLICANTS

NZT POWER LTD. AND NZNS STORAGE LTD.

KEY

- Main Site Boundary - Permanent Land (G&C)
- Main Site Boundary - Permanent Land (T&S)
- Temporary/Expansion Land (T&S and G&C)
- Pellet Sinter Easement Strip
- Pellet Sinter Substation
- Access Route
- Access Route - Red Main
- Tenant Connecting Road
- Water Connection
- Water Connection - North Option
- Water Connection - South Option
- C# - Construction Entrance/Exit
- E - Emergency Exit
- M - Main Entrance/Exit

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T&S AND G&C

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SHEET NUMBER 1 of 4

DATE 08/02/23

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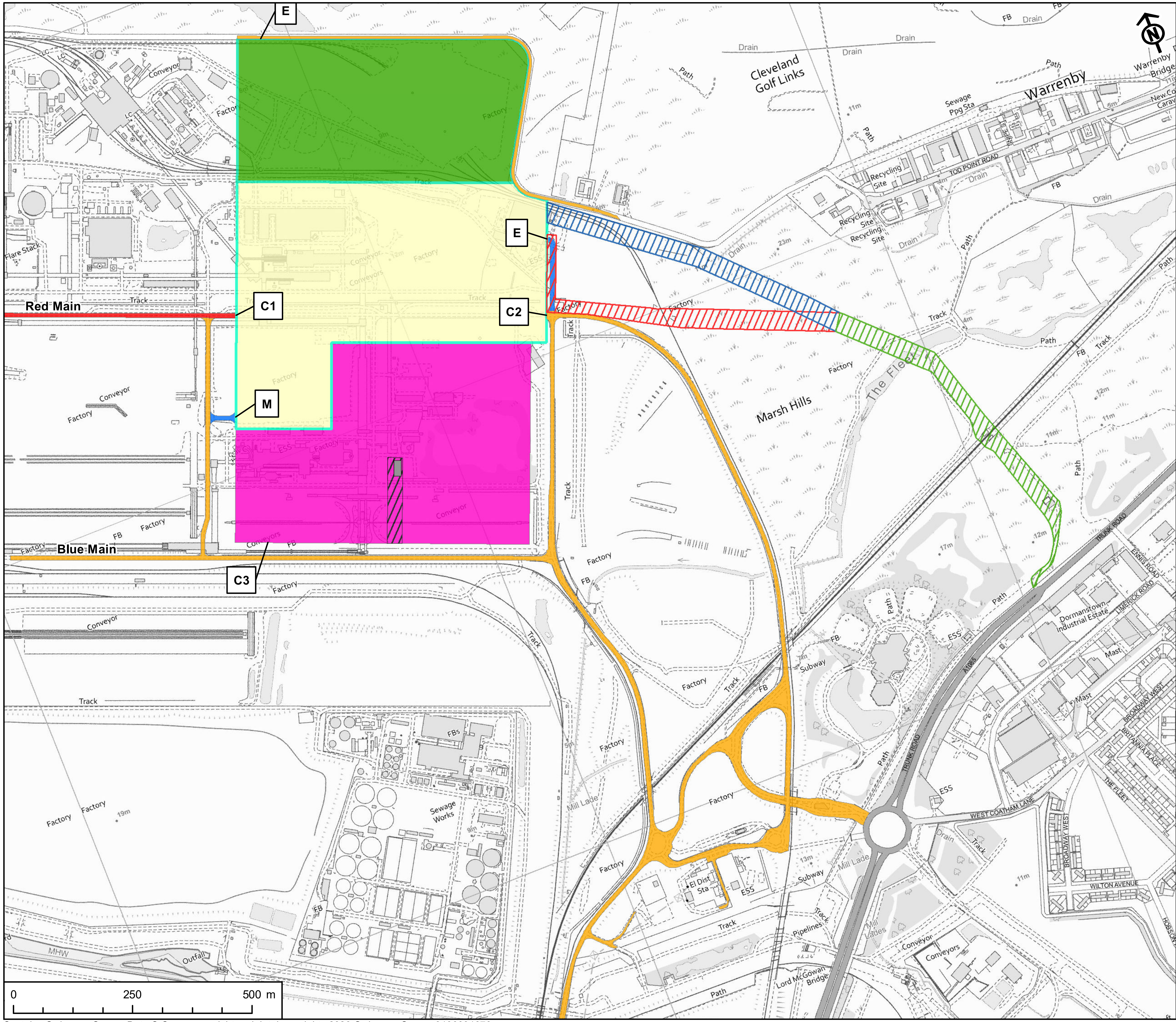

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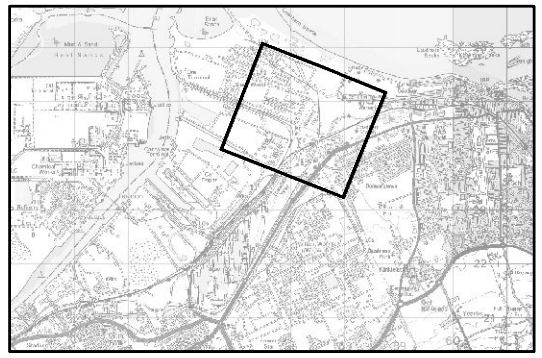

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SHEET NUMBER

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08/02/23

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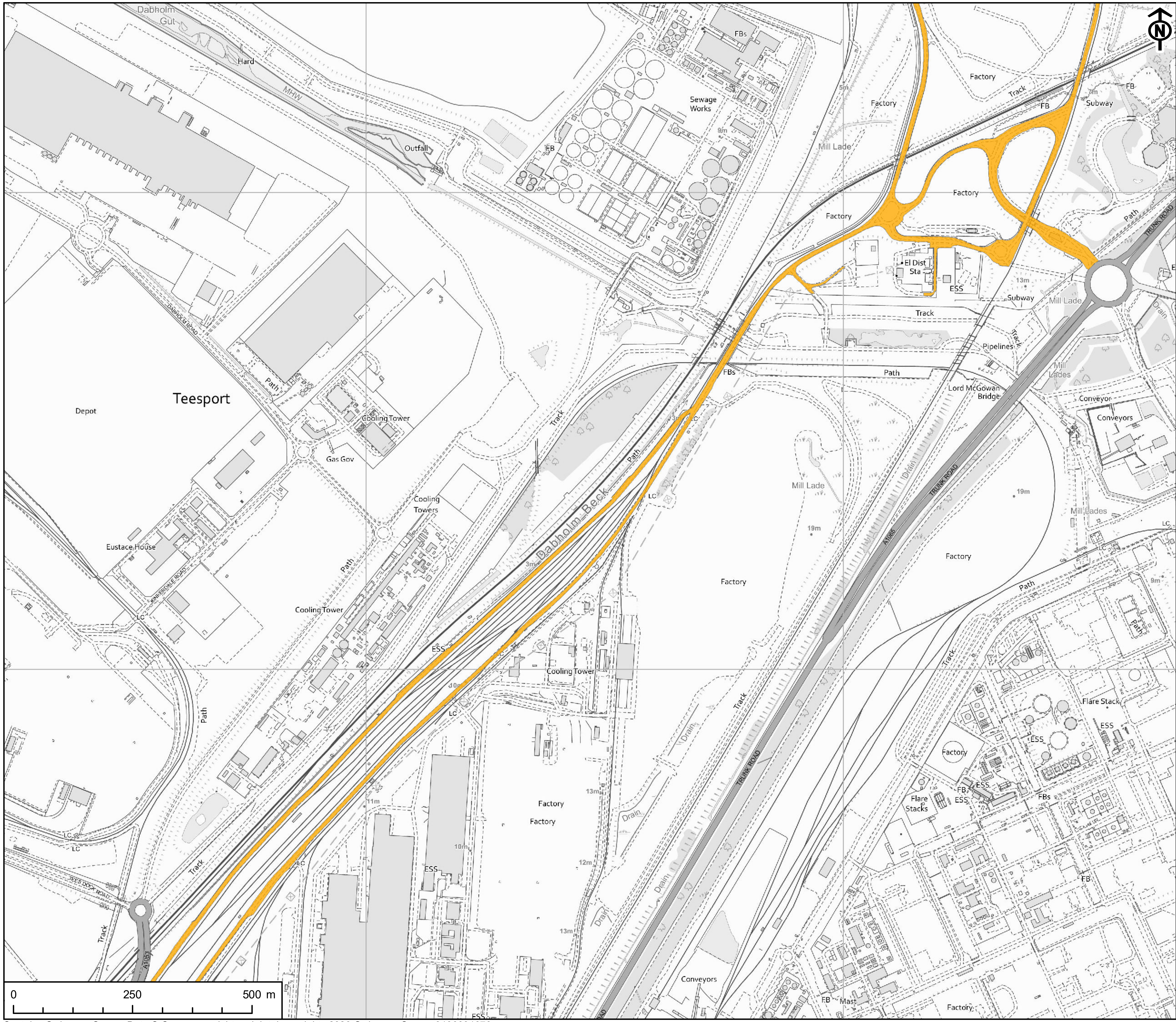

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PROJECT
NET ZERO TEESSIDE PROJECT

Net Zero Teesside

APPLICANTS
NZT POWER LTD. AND NZNS STORAGE LTD.

KEY
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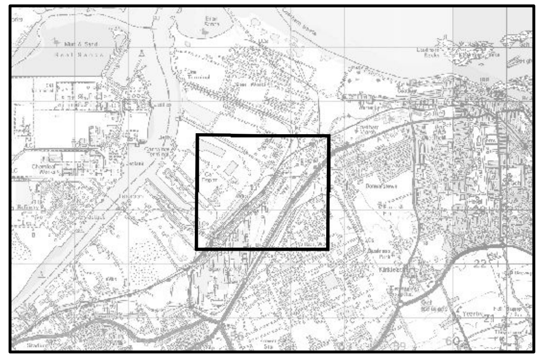

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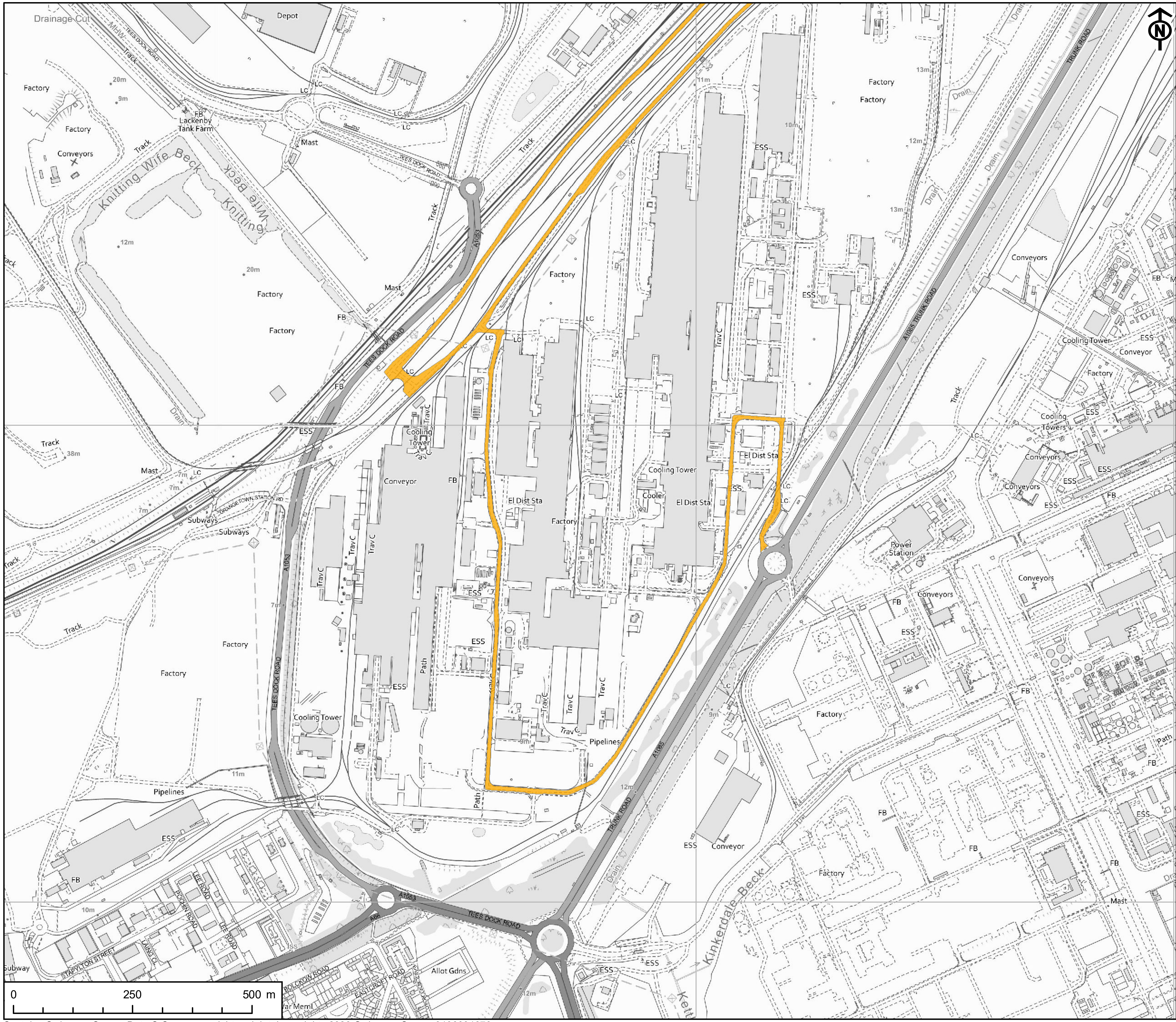

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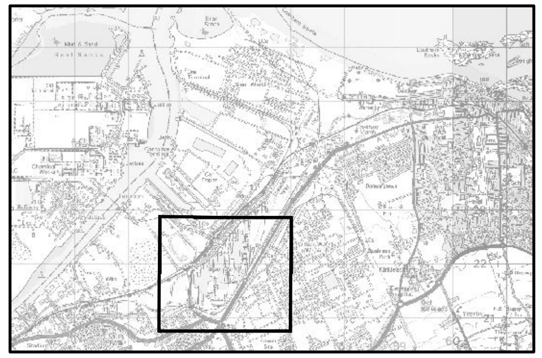
PROJECT
NET ZERO TEESSIDE PROJECT

Net Zero Teesside

APPLICANTS
NZT POWER LTD. AND NZNS STORAGE LTD.

KEY
Access Route



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DATE
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