



Middlesbrough Development Corporation Board

Date: Wednesday, 28 February 2024 at 1.00pm

Venue: Spencer Room, Middlesbrough Town Hall, Albert Road, Middlesbrough, TS1 2QJ

Membership:

Mayor Ben Houchen (Tees Valley Mayor)
Paul Booth (Independent Member)
Mayor Chris Cooke (Middlesbrough Mayor)
Mieka Smiles (Independent Member)
Idrees Rashid (Independent Member)
Steve Turner (Independent Member)

Associate Membership:

Julie Gilhespie (Group Chief Executive, TVCA)
Clive Heaphy (Chief Executive, Middlesbrough Council)

Independent Advisor:

Mark Webster (Chief Constable, Cleveland Police)

AGENDA

1. Apologies for Absence

To receive any apologies for absence.

2. Declarations of Interest

To receive any declarations of interest.

3. Minutes of Previous Meeting

To approve as a correct record the minutes of the meeting held on Wednesday, 24 January 2024.

4. Chair's Update

To receive a verbal update from the Tees Valley Mayor on key matters in relation to MDC since the last meeting.

5. Chief Executive's Update

To receive a report from the Group Chief Executive providing an update on key matters in relation to MDC since the last meeting.

(Under the terms of paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information) of schedule 12a Local Government Act 1972, appendix four to this report is not for publication.)

6. Governance and Election update

To receive a report from the Acting Chief Legal Officer and Monitoring Officer providing an update on the pre-election period.

7. Planning Update

To receive a report from the Head of Planning providing an update on the position of planning service delivery and the status of planning applications.

8. Treasury Management Strategy

To receive a report from the Group Director of Finance and Resources presenting the Corporation's Treasury Management, Capital and Investment Strategies for the financial year 2024/25, for approval by the Board.

9. Budget 2024/25

To receive a report from the Group Director of Finance and Resources presenting the MDC budget for 2024-25 and the medium-term financial plan, for approval by the Board.

10. Projects Pipeline Update

To receive a confidential report from the Group Chief Executive on the pipeline for MDC.

(Under the terms of paragraph 3 information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12a Local Government Act 1972, the annexes to this report are not for publication.)

11. Property Acquisitions

To receive a confidential report from the Group Chief Executive on property acquisitions recommended for approval.

(Under the terms of paragraph 3 information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12a Local Government Act 1972, the report and annexes are not for publication.)

12. Date and Time of Next Meeting

Thursday, 14 March 2024 at 1.30pm



MIDDLESBROUGH DEVELOPMENT CORPORATION BOARD

Wednesday, 24 January at 2.30pm

Tees Valley Combined Authority (Teesside
Airport Business Suite, Teesside International Airport, Darlington, England, DL2 1NJ)

These minutes are in draft form until approved at the next Board meeting and are therefore subject to amendments.

<u>ATTENDEES</u>	
<u>Members</u>	
Mayor Ben Houchen (Chair)	Tees Valley Mayor
Mayor Chris Cooke	Middlesbrough Mayor (Elected Member of Middlesbrough Council)
Idrees Rashid	Independent Member
Paul Booth	Independent Member
<u>Associate Members</u>	
Julie Gilhespie	Associate Member
<u>Officers</u>	
Gary Macdonald	Group Director of Finance & Resources
Emma Simson	Acting Chief Legal Officer (Monitoring Officer)
Sarah Brackenborough	Head of Operations
Charlie Kemp	Head of Creative Place
Amy Jiggins	Governance Officer
<u>Others in Attendance</u>	
Josh Woollard	Nathaniel Lichfield and Partners
Neil Westwick	Nathaniel Lichfield and Partners
Justine Matchett	Nathaniel Lichfield and Partners
<u>Apologies</u>	
Mark Webster	Independent Advisor
Steve Turner	Independent Member
Mieka Smiles	Independent Member
Clive Heaphy	Associate Member

<p>MDC 30/23</p>	<p>CHAIR’S WELCOME AND APOLOGIES FOR ABSENCE</p> <p>The Chair welcomed Members to the Middlesbrough Development Corporation (MDC) Board meeting.</p> <p>Apologies for absence were submitted as detailed above.</p>
<p>MDC 31/23</p>	<p>DECLARATIONS OF INTEREST</p> <p>Chris Cooke (CC) declared a non-pecuniary interest on the basis that Middlesbrough Council was fund holder for part of the Auxiliary project.</p>
<p>MDC 32/23</p>	<p>MINUTES OF PREVIOUS MEETING</p> <p>The minutes of the meeting of 29 November 2023 were approved as a correct record.</p> <p>RESOLVED: That the minutes of the meeting held on 29 November 2023 were approved as a correct record.</p>
<p>MDC 33/23</p>	<p>CHAIR’S UPDATE</p> <p>The Chair advised that he had nothing to add that was not covered elsewhere in the agenda. Questions and comments were invited from the Board. No questions or comments were received on this occasion.</p> <p>RESOLVED: That the Board noted the Chair’s update.</p>
<p>MDC 34/23</p>	<p>CHIEF EXECUTIVE’S UPDATE</p> <p>Julie Gilhespie (JG) advised the Board she had nothing further to add. Questions and comments were invited from the Board. No questions or comments were received on this occasion.</p> <p>RESOLVED: That the Board noted the Chief Executive’s Update.</p>
<p>MDC 35/23</p>	<p>PLANNING UPDATE</p> <p>The Chair confirmed that no relevant planning applications had been received since the November 2023 MDC Board meeting.</p> <p>RESOLVED: That the Board noted the Planning Update.</p>
<p>MDC 36/23</p>	<p>THE AUXILIARY – INVESTMENT OPPORTUNITY C</p> <p>JG presented the Auxiliary report. Members were reminded by the Chair that any discussion regarding the detail contained within the confidential annex was not to be discussed in public as the procurement process had not yet concluded.</p> <p>At this point the Board discussed whether it was necessary for part of the meeting to be held in private session under the terms of paragraph 3 of schedule 12a Local</p>

Government Act 1972 (information relating to the financial or business affairs of any particular person (including the authority holding that information)). On the basis that the main report was public and only the annex contained exempt information, the Board agreed to remain in public session. Members considered that if there was specific information contained within the annex that needed to be discussed then the Board had the option to consider a motion to move into private session. On this occasion the Board did not consider it was necessary for any part of the item to be considered in private session.

JG explained that the station quarter was a key focus area which was perceived to be a physical barrier between the central and Middlehaven areas; it needs to become a gateway sitting alongside the digital sector and link to the Northern School of Art. The vision was to transform the Auxiliary into flexible studio space for artists to rent and enhance opportunities for the NSA. Students who graduated from the NSA could then build their career as artists from the Auxiliary area. The first two proposals A and B did not deliver additional value, whereas the third option C did. The aim was to attract a more diverse arts community. The scheme was a Middlesbrough Council scheme, utilising Arts Council Funding awarded to the Council, so MDC would be providing a grant to Middlesbrough to deliver the works. The update paper provided to the Board resolved confusion on how much the council had already spent as the original numbers were incorrect.

Scheme C was the only one that brought additionality and fundamentally transformed the look and use of the building as it has full accessibility throughout for artists and visitors alike, including levelling floors, lifts, and an overall more useable space. Scheme C also lends itself to the building becoming more operationally and environmentally sustainable. Community groups, event organisers etc. could use the space more readily throughout the year. Currently there was no heating and structural issues, meaning it can only be used as a public space in a limited capacity.

CC reiterated that the exterior was a key part, and the third scheme was the most transformative in terms of the external impressions.

JG reminded members that the procurement was still subject to due diligence, being carried out by Middlesbrough Council, and therefore if the conclusion of this process led to an increase in costs, then this decision would need to come back to the board.

The Chair added that there may be other ways to help Middlesbrough in terms of resolving cost issues.

Idrees Rashid (IR) IR asked whether all the schemes had the same brief as the first two as A and B were very different to C.

Charlie Kemp (CK) responded that when the funds were secured, Scheme C was the ambition. Due to inflation affecting the construction sector, the scheme had been reviewed and presented in different ways to accommodate a range of budgets. If no further income was forthcoming, Scheme A was the only one that was achievable. Scheme B did not add much more than Scheme A. Scheme C was the one that addressed the significance of the building in context of the Masterplan but did require additional resource.

	<p>The Chair agreed Scheme C was much more strategic from a development corporation point of view. The station upgrades and upgrades to the whole area were much more in keeping with what the masterplan was trying to achieve for the area.</p> <p>RESOLVED: That the Board notes the progress to date and unanimously approves the recommendations within the report for Scheme C.</p>
<p>MDC 37/2023</p>	<p>Project Pipeline Update</p> <p>Project Pipeline Update</p> <p>Members were provided with an update on the Project Pipeline.</p> <p>The Chair stated that since the Board agreed the confidential proposal for the Civic Centre building at the Board meeting on 29 November 2023, the Middlesbrough Town Deal Board had since reallocated £2m of Town Deal Funds allocated to this proposal and that as a result the proposal was now unviable. CC noted that Middlesbrough had submitted a change request to government for the Town Deal Funds and that he would investigate this. CC said some aspects of the change request were unlikely to be deliverable and he thought he would be able to reallocate the £2m back to the project.</p> <p>The Chair asked JG to pick up this issue with CC.</p> <p>PB sought clarification how this affected the timeline and how long was the potential delay. The Chair estimated the current delay was just over a month but would increase day by day if the funding gap was not resolved quickly.</p> <p>PB asked whether there was the creation of an underpass in relation to the area around the Northern School of Art (NSA). JG explained that reference was to an existing underpass near to the NSA. The key question was whether the industrial park businesses could be moved elsewhere to open up the area around the underpass to minimise security concerns. The Chair emphasised that it was important to note that the Police Chief Constable was an advisor to the Board to address these types of issues.</p> <p>The Chair recommended that there were areas of the project pipeline that linked to the masterplan and should be publicly discussed and therefore requested that the report be split into a public paper with any confidential information in an annex in future.</p> <p>RESOLVED: That the Board noted the update.</p>
	<p>DATE OF NEXT MEETING:</p> <p>Wednesday, 28 February 2024.</p>



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

AGENDA ITEM 5

REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION (MDC) BOARD

28TH February 2024

REPORT OF GROUP CHIEF EXECUTIVE

CHIEF EXECUTIVE'S UPDATE

SUMMARY

This report provides an update to the Board on key activity not covered elsewhere on the agenda.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation Board note the update.

DETAIL

Tees Valley Review Report

1. The Tees Valley Review was commissioned by the Secretary of State for the Department for Levelling Up, Homes and Communities on 7 June 2023 following allegations about Teesworks being made by the press and in the Commons.
2. The Secretary of State set out the scope for the review in the Terms of Reference (Appendix 1). A Review Panel was convened consisting of experienced public sector officials:
 - Angie Ridgwell, Chief Executive at Lancashire County Council (Chair of the Panel);
 - Richard Paver, Former Treasurer, Greater Manchester Combined Authority;
 - Quentin Baker, Director of Law and Governance at Hertfordshire County Council.
3. The Tees Valley Review panel has now concluded its work and has reported its findings to the Secretary of State on 29 January 2024. A full copy of the review and associated recommendations is attached at Appendix 2.

4. The Secretary of State has also written to the Tees Valley Mayor (Appendix 3) requesting a response to the report and the recommendations by 8 March 2024.
5. Tees Valley Combined Authority (TVCA) has set out a plan for responding to the Secretary of State, to detail its proposed response to the Tees Valley Review panel's recommendations. This incorporates extensive work with local authority representatives. The key stages are set out below:
 - Establish a cross-authority working group, including representation from all five constituent authorities (Chief Executives, Monitoring Officers and a S151 Officer) to consider and approve the response to report recommendations.
 - Appoint a South Tees Development Corporation (STDC) Board sponsor for the working group.
 - Provide a formal response to Secretary of State letter by 8 March 2024 to confirm the initial approach to recommendations.
 - Undertake a comprehensive review of the recommendations.
 - Submit recommended actions to TVCA Cabinet Annual General Meeting (AGM) 2024.
 - Submit recommended actions to STDC and TVCA Audit & Governance committees as well as TVCA Overview and Scrutiny committee for consideration.
6. As noted above, recommended actions will be taken to the TVCA Cabinet AGM. Any recommendations that effect Middlesbrough Development Corporation as a result, will be proposed to MDC Board for adoption, for consistency across development corporations.
7. It should be noted that some of the recommendations in the Tees Valley Review report have identified potential deficiencies in legislation which requires clarification from HM Government. Therefore, these recommendations fall outside of the remit of the working group referred to in par 5 above.
8. The Tees Valley Review report is also currently being reviewed by External Auditors to inform their Audit Completion work for the 2021-22 financial year.
9. Following publication of the report we are now discussing with government the process for the finalisation of the asset transfer process for the Middlesbrough Development Corporation.

Tees Valley Investment Zone (TVIZ)

10. Since the last update to MDC Board on TVIZ progress, the Chancellor announced an extension to Investment Zones at the Autumn Statement. The total funding available to each IZ is now £160m over 10 years (commencing April 2024), with an expectation of 60% match coming from private sector, third sector and local government. This funding can be used flexibly, including a five- year tax offer. Places can also receive 100% of the business rates growth in designated sites above an agreed baseline for 25 years.

11. The government published the Investment Zones (IZ) policy prospectus on 15th March 2023. Tees Valley Combined Authority (TVCA) has been identified as one of eight areas (in England) to work with government to co-develop proposals for a Tees Valley Investment Zone (TVIZ).
12. The TVIZ has been proposed by the Tees Valley Mayor and is being developed by TVCA. TVCA is working closely with Teesside University (as significant research institution/co-signatory) on the Tees Valley Investment Zone.
13. IZs are aimed at catalysing a small number of high potential clusters in areas in need of levelling up to boost productivity and growth. They will support the development and growth of clusters to increase local innovation capacity, attract investment and strengthen the private sector.
14. TVCA and TU continue to work with the Department for Levelling Up, Homes and Communities to co-develop the TVIZ. This is structured around a series of 'gateways' broadly covering vision, sector and economic geography, interventions, governance and delivery.
15. The TVIZ is focused on digital and technology as our priority sector, with identified high growth clusters in Middlesbrough, Hartlepool and Teesside International Airport.
16. TVCA is seeking fully flexible spend of the £160m funding plus Business Rate Retention for dedicated sites. Retained Business Rates will be over and above the £160m. Interventions are being developed from the full policy menu which includes infrastructure, skills, business support, planning and R&D.
17. Co-development of the TVIZ with government continues to move at pace and we are broadly in line with other areas in terms of progress against the 'gateways'. Following publication of the report we are now discussing with government the process for signing off the Tees Valley Investment Zone.

Gresham update

18. The master planning process for the strategic development of Gresham is on track and within budget for completion at the end of February. On 7th February 2024 the board had an informal briefing (confidential notes appended). This briefing provided the Board with an update on and the opportunity to input into the process.
19. The full masterplan, to be presented to Board on 14 March, will contain the complete suite of the urban design process documents and detailed technical studies, the construction procurement strategy, and feasibility studies into demand for Build to Rent, Student Accommodation and Hotel bed spaces.
20. In addition, the board meeting in March will receive the heads of terms for the development agreement, and a request for funding for the next phase of development, through to planning submission.

FINANCIAL IMPLICATIONS

21. This report is an update for information only therefore no direct financial implications.

22. This update is for information only therefore there are no direct legal implications.

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

24. This update is for information only therefore no further consultation and communication is necessary.

EQUALITY & DIVERSITY

25. This update is for information only therefore it does not impact on groups of people with protected characteristics.

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

[Home](#) > [Business and industry](#) > [UK economy](#) > [UK economic growth](#)
> [Independent review: Teesworks Joint Venture - reviewer appointment letters and terms of reference](#)

[Department for
Levelling Up,
Housing &
Communities](#)

Correspondence

Terms of reference

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Terms of reference: Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture

On 24 May 2023, the Secretary of State for Levelling Up, Housing and Communities wrote to Ben Houchen, Tees Valley Mayor, to confirm that he had taken the exceptional decision to support the commissioning of an independent review of the South Tees Development Corporation (STDC) and Teesworks Joint Venture. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks and a letter from Mayor Houchen to the Secretary of State on 16 May seeking an independent review of the matter by a 'relevant body', reflecting the Mayor's concern that continued allegations would undermine confidence in the site.

The department has seen no evidence of corruption, wrongdoing, or illegality, but recognises that the continued allegations pose a risk to the government's and the combined authority's shared ambitions to deliver jobs and economic growth in Teesside. The review will include consideration of these specific allegations made in relation to the Joint Venture, and ascertaining the facts is the primary basis for the Secretary of State seeking this independent review.

As part of that process, the review will focus on the following themes, reflecting the government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency and effectiveness:

- Governance - e.g. sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement.
- Finance - e.g. quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.

In view of the serious allegations of corruption, wrongdoing and illegality that have been made in relation to the Teesworks Joint Venture, the government has asked the review to specifically to respond on that issue. The following specific questions/issues have been identified for the review to explore:

1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.
2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of the STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between the STDC and its partners).

3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture.

4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.

5. An assessment of the level of confidence by which the government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence-based and taken appropriate consideration of value for money.

6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:

- The sale of the site now occupied by SeAH Wind.
- The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private.
- The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly-owned land or assets.
- The sale of land at the site to private sector partners.
- Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site.
- The evidence of investment from private sector partners in the context of significant public investment in remediation of the site.
- The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with and reporting to His Majesty's Government (HMG).

7. An assessment of the effectiveness of arrangements for external scrutiny of the STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from that process.

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Tees Valley Review

23rd January 2024

Panel Members: Angie Ridgwell (Chair)

Quentin Baker

Richard Paver

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1. Executive Summary

- 1.1. Teesworks is the local brand that represents the project to remediate and redevelop the former Redcar steelworks following the liquidation of the then steelworks owner SSI (Sahaviriya Steel Industries UK Ltd) in 2015. The Tees Valley Combined Authority (TVCA) requested that the Secretary of State create the South Tees Development Corporation (STDC) for the purposes of managing and keeping safe the site and, if possible, its redevelopment. This was granted on 1st August 2017.
- 1.2. Teesworks is one of, if not the largest, brownfield remediation projects in Europe. To date £560m of resources, including £246m in government grants and £257m prudential borrowing. This is planned for investment in the site by end of 2024/25 and has delivered¹:
 - 17% of the land under contract with a further 40% at Heads of Terms
 - 940 construction jobs plus a further 1,950 recently announced
 - 2,295 direct and 3,890 indirect jobs created once sites operational
 - 450 acres of land remediated or in remediation
 - £1.3bn business rate income potential over the next 40 years with a further £1.4bn at Heads of Terms
 - A new 450m Quay

A further £238m investment including £40m for Net Zero Teeside, is potentially to be incurred by STDC utilising prudential borrowing. Prudential borrowings are due to be repaid over the next 50 years from a combination of retained business rates, Teesworks Limited (TWL) profits from operating the Quay, and contractual commitments from TWL.

- 1.3. Delivery has been supported by a Joint Venture Company, Teesworks Limited (TWL), between STDC and two local businessmen: Chris Musgrave and Martin Corney.
- 1.4. There are many voices which articulate a positive view of the project, highlighting the work that has been done and the clear evidence of the achievements which have been made in regenerating an historic part of the UK's industrial heritage, the final demise of which, in 2015/16 had devastating results for a community that had been badly affected by the changing global patterns of industrial production. A significant amount of regeneration of the area has occurred and new businesses are moving in bringing jobs and other collateral benefits for the local area.
- 1.5. Consequently, there is good support for the redevelopment of the site. However, there has also been growing concern about the operations and delivery of the Teesworks project with allegations of corruption, wrongdoing, and illegality, which is impacting confidence in the project and putting future private sector investment at risk.
- 1.6. The Secretary of State of the Department for Levelling Up, Homes and Communities (DLUHC) commissioned a review into these allegations. The terms of reference for the review are attached at Appendix 1. They can also be found on the government website at <https://www.gov.uk/government/collections/independent-review-teesworks-joint-venture>.
- 1.7. The review Panel has now completed its work within the scope of the terms of reference. Based on the information shared with the Panel, we have found no evidence to support allegations of corruption or illegality. However, there are issues of governance and transparency that need to be addressed and a number of decisions taken by the bodies

¹ Quarterly BEIS/MHCLG report April-June 2023 and management evidence received 13/11/23

involved do not meet the standards expected when managing public funds. The Panel have therefore concluded that the systems of governance and finance in place within TVCA and STDC at present do not include the expected sufficiency of transparency and oversight across the system to evidence value for money.

- 1.8. It is important that local leaders work together to secure the much needed regeneration of the site. Securing permanent local jobs, economic growth and opportunity, as well as increased tax income for the local area that can be reinvested in local services and continued growth is a priority and shared endeavour. To this end we have made a number of recommendations for the Secretary of State, TVCA and STDC to consider.

2. Recommendations

Recommendation 1 – TVCA and STDC should develop a full understanding of the liabilities of both STDC and TVCA in relation to the activities of STDC and TWL and ensure appropriate management arrangements are in place to manage and mitigate the consequential financial risks to both organisations and the constituent authorities.

Recommendation 2 – TVCA and STDC should jointly agree the use of retained business rates over the 25 year period in support of both TVCA and STDC risks and liabilities and consider the funding strategy for liabilities that will exist thereafter. Such agreement to be agreed by TVCA Cabinet and STDC Board.

Recommendation 3 – STDC update and maintain its financial model to reflect its current business model including identified retained liabilities and business rates forecasts in line with recommendations 1 and 2 above.

Recommendation 4 - Government should clarify its proposals for landfill tax in terms of public sector land remediation, including timescales for legislation, as currently eligibility for the scheme and STDC's liability for tax are an ongoing, and increasing risk.

Recommendation 5 – DLUHC to clarify the regulations in respect of TVCA and STDC (and if necessary other combined authorities and development corporations) including oversight, reserve matters and consents as well as stranded liabilities.

Recommendation 6 –TVCA Cabinet review its current delegations and directions to STDC to ensure it meets its statutory obligations, including appropriate oversight by Overview and Scrutiny Committees, to enable value for money to be delivered and evidenced through effective scrutiny of significant decisions.

Recommendation 7 – TVCA and STDC invite the Centre for Governance & Scrutiny to undertake a review of the O&S function and produce recommendations as to improving it in line with the statutory guidance and new English Devolution and Accountability Framework 2023.

Recommendation 8 –TVCA and STDC should modify their constitutions to reflect any changes in delegations and directions that may arise from recommendations.

Recommendation 9 –TVCA should amend its constitution to give effect to TVCA's duty to keep STDC's existence under review, to provide guidance to STDC, and to assess its own financial risks relating to STDC. We would recommend this be at least annually.

Recommendation 10 – TVCA and STDC agree a protocol and code of conduct for shared statutory officers to ensure the boundaries between the two organisations are maintained, that advice is given in the best interests of the specific organisation, and that any and all communication is clear in terms of the organisation being represented.

Recommendation 11 – TVCA review the group statutory officer roles and consider, where allowable in law, whether having different officers, perhaps drawn from the Constituent Authorities, would provide a greater degree of checks and balance.

Recommendation 12 – TVCA and STDC review their Financial Regulations and schemes of delegation to satisfy themselves that control is enacted at the appropriate level to facilitate the value for money test and ensure the STDC Board and TVCA's duty of oversight, is met as well as provide appropriate protections for officers. This should include the recording and reporting to STDC Board/TVCA Cabinet of key decisions taken under delegation.

Recommendation 13 – TVCA should, in consultation with monitoring officers of Constituent Authorities, review and revise the local governance framework to ensure that greater degree of oversight over STDC and TWL is afforded to TVCA cabinet members and the Constituent Authority statutory officers.

Recommendation 14 – Constituent members should ensure they seek advice and guidance from their own statutory officers ahead of TVCA Cabinet meetings to ensure they get an independent view to inform their strategic decision making.

Recommendation 15 – Statutory officers of constituent members should ensure they inform themselves of the statutory context of STDC/TVCA and maintain an active and inquisitive engagement with both organisations to ensure they can effectively provide independent advice to their own organisations and fulfil their statutory obligations to them.

Recommendation 16 – Review the makeup of the Board, including the Chair and role of associate members, to ensure relevant expertise and knowledge is in place to support the Mayor in setting and delivering his strategic ambitions, under the current phase of delivery.

Recommendation 17 – Ensure the Board are provided with comprehensive and accurate reports, supported by appropriate advice in a timely fashion so they can properly consider and debate the decisions to be made.

Recommendation 18 – Any oral advice and supporting presentations should be made publicly available (where possible) to support the decision record.

Recommendation 19 – The monitoring officer should ensure training for all STDC /TVCA members and officers takes place on conflicts of interest and ensure proper declarations are made and individuals recuse themselves appropriately in meetings.

Recommendation 20 – A robust and comprehensive briefing arrangement be put in place between statutory officers of TVCA/STDC and the constituent members to ensure there is a collective and considered understanding of the opportunities and implications of proposed decisions.

Recommendation 21 – STDC should articulate and document the agreed arrangements with the JV partners in a single document.

Recommendation 22 - STDC should explore opportunities to influence when and how land is drawn down and developed and if possible, renegotiate a better settlement for taxpayers under the JV agreement.

Recommendation 23 – Once a final position is agreed with the JV Partners this should be formally shared with the STDC Board and TVCA Cabinet for approval.

Recommendation 24 – All STDC recruitment be subject to fair, open, and transparent processes.

Recommendation 25 – The STDC executive regularly review operations on site to ensure JV Partner activity is not incurring risks and liabilities for STDC.

Recommendation 26 – Monitoring Officer to review the approach to confidentiality and the handling of FoI to ensure that the public interest test is properly understood and applied. Devise a local protocol to clarify what information will be deemed confidential and on what basis and provide training for staff. This should include guidance on the disclosure of confidential information to TVCA Cabinet, Overview & Scrutiny and TVCA/STDC Audit Members who should have enhanced rights of access.

Recommendation 27 – Director of Finance and Resources review internal audit arrangements and provide advice to both TVCA and STDC Audit Committees as to how these can be strengthened. Consideration should be given to securing CIPFA or other external support to provide independent assessment of proposed changes.

Recommendations 28 – Director of Finance and Resources work with the external auditor to support the completion of their value for money arrangements work for 2021/22, including any additional risk-based work that may arise in light of the Panel's findings. The progress of this work should be reported to TVCA and STDC Audit Committees

3. Background

- 3.1. The **Tees Valley Combined Authority (TVCA)** was established on 1st April 2016 as a combined authority covering the geographical boundaries of the 5 local authorities in the area:
 - Darlington Borough Council
 - Hartlepool Borough Council
 - Middlesbrough Council
 - Redcar and Cleveland Borough Council (R&C)
 - Stockton on Tees Borough Council
- 3.2. The liquidation of the SSI steelworks in 2015 left a hazard that presented a real danger to human and environmental health and gave rise to around 3,000 redundancies as well as wider supply chain impacts. The Official Receiver took on responsibility for the orderly wind down, safety and security of the site on top of his normal duties of releasing any value for creditors. A Government funded task force supported impacted workers, supply chain company diversification and private sector stimulus.

- 3.3. An independent review by Lord Heseltine was commissioned in Autumn 2015 and his report '[Tees Valley: Opportunity Unlimited](#)' was published in June 2016. His key recommendation for the future of the site development is in 4.6.10:

“Recommendation. That the South Tees Development Corporation is established as quickly as possible, and that Government and local partners put the relevant resource in place in order to realise this goal. Also, that Government begins engagement with the Combined Authority on how and when ownership and management of the SSI site can be moved to the South Tees Development Corporation, including with relevant Her Majesty’s Treasury funding agreements, and the agreement of the Combined Authority.”

- 3.4. A shadow Mayoral Development Corporation (MDC) was set up by the Government pending mayoral elections in May 2017. The Board was made up of a number of professionals with relevant experience and chaired by the Leader of Redcar and Cleveland Borough Council (R&C).
- 3.5. The first Tees Valley Mayor, Ben Houchen, was elected in May 2017. He formally proposed the creation of the MDC and STDC was established in August 2017. The Mayor established a new board, with himself as chair, largely taking on the arrangements put in place for the shadow board.
- 3.6. In parallel government formed the South Tees Site Company (STSC) as an ‘intermediate body’. Its role was to continue to manage the safety and security of the site, bringing the costs down to around £18m per year, by removing the most unsafe and dangerous structures.
- 3.7. The key initial priorities for STDC were to:
- Develop a masterplan for the site.
 - Secure ownership of the site.
 - Ensure sufficient funding to manage the safety and security of the site, and
 - develop the site potential to create new jobs.
- 3.8. Very little of the site was in public ownership. The ex-SSI holdings had a charge by three Thai banks, and most of the rest of the land was owned by Tata Steel. The preference was to secure land through negotiation and the Tata land was acquired for a payment of £12m. However, the Thai banks refused to agree the sale of their interests and a Compulsory Purchase Order (CPO) was considered necessary.
- 3.9. The CPO process was not without risk, and an option secured on 70 acres of Redcar Bulk Terminal (RBT) land by local developers Chris Musgrave and Martin Corney was used as leverage to remove objections to the CPO raised by the three Thai banks. Following a Public Inquiry the CPO was approved by the Public Inspector without modification in April 2020.
- 3.10. The creation of the 50/50 joint venture partnership between STDC and Musgrave and Corney (the JV Partners) was part of the CPO negotiations and was agreed by the STDC Board in February 2020, with the TVCA Cabinet delegating powers to STDC to enable them to complete the transaction in March 2020.
- 3.11. Government funding was limited to the safety and security of the site (keepsafe functions), the establishment of STDC and limited land regeneration. There were no funded plans in place to remove all the redundant assets or start the regeneration programme. TVCA

developed a business case for this, which was signed off by the Government (the Department for Business, Energy, and Industrial Strategy – BEIS) in July 2020.

- 3.12. The business case was based on removing the potential long-term liability by transferring the site and STSC to local control and ownership. It also proposed limited redevelopment on part of the site, with receipts from partial sales/leases funding future remediation over a 35-year time scale. It was expected that this would generate up to 20,000 new jobs by 2035. The business case was clear that the public sector funding would not be sufficient to complete the remediation of the site and that a private sector partner would be required, referencing the then recently established Joint Venture Partnership Teesworks Limited (TWL).
- 3.13. After the announcement by Government in March 2021 of the Teesside Freeport, including 2 tax sites within the STDC area, and following his re-election in May, the Mayor made clear his intention to accelerate development on the site to maximise the time limited tax incentives available. The proposal indicated that an injection of new private sector capital and transfer of risk from the public to the private sector would be required to achieve this. Consequently, the JV Partnership was renegotiated and in August 2021 the STDC Board agreed to a 90/10 split in favour of the JV Partners.
- 3.14. In March 2023 in response to expected legislation to enable public sector bodies to secure landfill tax grants for remediation schemes that would not otherwise be viable, STDC Board agreed a new operating model whereby STDC will undertake the work funded by prudential borrowing and subsequently be reimbursed by TWL. The legislation remains outstanding and as such, STDC hold the risk for any landfill tax costs not met through grant.

4. Review methodology and constraints

- 4.1. Through this report we set out the findings from our review. These cover:
 - The structure and culture of the relationships between TVCA, the constituent members (the 5 local authorities), STDC, the statutory officers and the JV partnership
 - The decision-making processes in respect of the initial JV, and subsequent amendments
 - The funds flow between TVCA, STDC and the JV, including some of the individual land transactions
 - Some specific allegations around procurement and recruitment
- 4.2. The Panel undertook a desktop review of information provided by TVCA and STDC before calling for written submissions and following up with face-to-face interviews where appropriate. The Panel understand the complexities involved in the project; however, our experience has been that securing the information in a way that could be easily navigated was challenging. Initially, the Panel were overwhelmed with documents presented in an unstructured way and lacking a cohesive narrative. Subsequently, responses were limited to the specifics of the question posed. This has caused drift and delay in the process and reduced our confidence that we have been given access to all relevant materials. We have, however, confirmed to the Mayor and TVCA/STDC that we have received answers to all our questions and in turn received assurances from them that everything asked for has been provided if available.

- 4.3. In the time available to the Panel, we have not been able to pursue all lines of evidence or examine all transactions. We therefore chose to look at a number of significant decisions that have shaped the current arrangements. These being:
- Arrangements for the CPO
 - Establishment of the JV 50/50
 - Change to JV 90/10
 - Operations, including scrap and site management
 - Land transactions – specifically 3 transactions GE, which subsequently became the SeAH transaction, South Bank Quay and NTZ
 - Governance and structures, including how public money is controlled and how cash/benefits flow between organisations
- 4.4. A number of issues have been raised by third parties which are outside the scope of our review. We have not investigated issues raised in respect of wildlife die off (previously covered by Defra), Teesside Airport, or health and safety. We have also excluded the dispute with PD ports as this is a matter currently with the courts and will be a public record once determined.
- 4.5. As the report was being concluded we were made aware by a third party² that STDC were in the process of establishing a new JV company - Steel River Energy Company - with the same JV Partners. We have not reviewed this further development, but the findings of this report will be pertinent to that process.
- 4.6. The Panel had no means to compel anyone to engage with the review and while we were not overwhelmed with responses to our requests for evidence, we were able to get sufficient depth and breadth of knowledge and experience to reach our conclusions. A list of individuals who submitted written evidence and/or attended interviews is attached at Appendix 2.
- 4.7. A former TVCA/STDC Monitoring Officer whose tenure covered September 2020 – December 2022 and who advised TVCA and STDC in respect of some significant decisions including the move to the JV 90/10 and TVCA oversight of STDC, was invited to interview but declined because they felt their professional duties barred them from participating in the review. TVCA confirmed to the Panel that they had informed the individual that they had no objection to their participating.
- 4.8. Through the work we have done, we have reviewed over 1400 documents and held some 45 interviews. Notwithstanding the constraints, we have sufficient evidence and consistency of views to form our conclusions as set out in the report.
- 4.9. We would like to thank everyone who has supported us in the review. It is hugely complex, and we have sought much information and looked at issues from a number of angles in order to understand them and triangulate our evidence. This has required patience on occasion, both for the Panel and those being engaged.

5. Financial Overview

- 5.1. Planned public sector investment in Teesworks up to the end of 2024/25 is in excess of £560m, including keepsafe obligations but excluding any additional spend linked to the

² Evidence received 11/11/23

new operating model. This is funded as set out below, noting that TWL has obligations in respect of £113m of borrowing, linked to Quay profitability and throughput, and Business Rates income is anticipated to support the balance.

	£m	
Government/TVCA Grants	246	
Borrowing	257	Including £206m from TVCA as at 31.03.23
Commercial income	57	Scrap and repayments due from TWL
	<u>560</u>	

5.2. As of 31st July 2023 TWL had generated some £196m in income and retained £63m at bank against future liabilities. Of the £45m paid to STDC, £40m represents an advance on future dividends. TWL has future commitments to STDC in respect of tonnage fees, subject to profitability, estimated at £113m and potential site development agreements of £217m.

	£m	
Income	<u>197</u>	scrap, land deals and interest
Expenditure		
Tax and overheads	34	
Land transaction	10	TVCA SeAH land transaction
STDC	45	
JV Partners	45	
	<u>134</u>	
Cash at Bank	<u>63</u>	

5.3. The business model for the site is complex and fluid, evolving at pace. It was always assumed that private sector investment would be necessary. However the original financial model considered by TVCA for the CPO was based on a number of benefits aligned to the public sector such as borrowing rates, tax efficiencies and its covenant strength for possible income strips. This has fundamentally changed over time with the JV arrangements and subsequent amendments. These changes have not been reflected in the underpinning financial model, including the financial proposition in the BEIS business case. The Panel has sought to test how risk has transferred to the private sector through these arrangements and note STDC has a number of retained liabilities, as does TVCA. The Panel has been unable to quantify all risks but note they include:

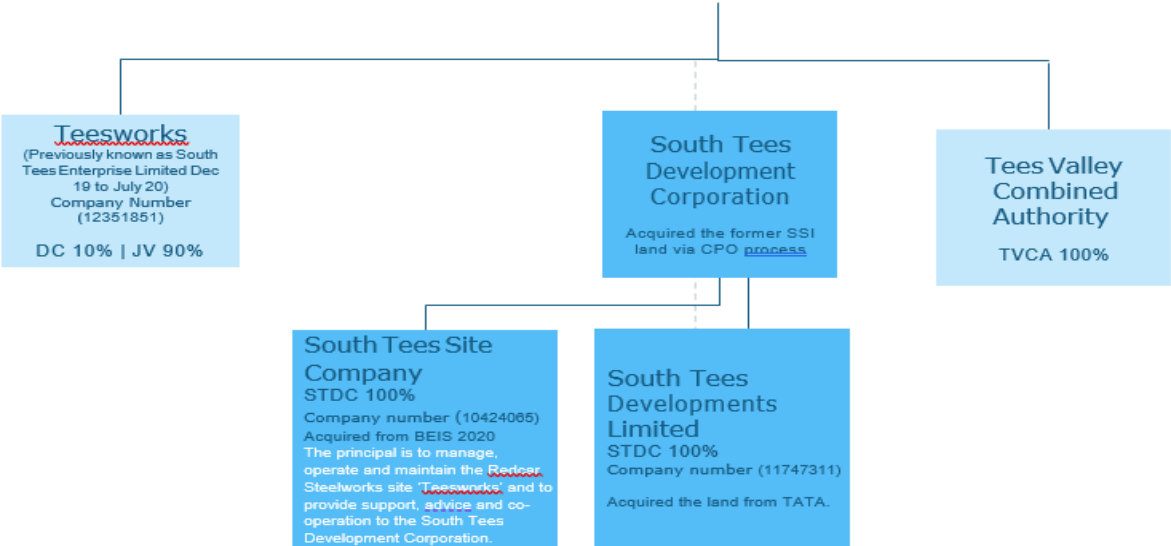
- Ongoing liabilities in respect of the site and land bank until such time as TWL exercises its options to drawdown and develop individual plots.
- Land fill tax risk on remediation work which is not recoverable from TWL.
- Borrower risk of £247m (of which £206m is long term borrowing by TVCA) in part if TWL does not meet its payments in respect of South Bank Quay. Further borrowings to be incurred post 31 March 2023.
- Infrastructure, park and ride and undevelopable sites.

- 5.4. TVCA and R&C will receive additional business rates income generated by the development which needs to be re invested for the benefit of the site. These business rates are assumed to be available to STDC to support the original business case and financial model and may be used to offset some of these liabilities, however it is unclear if this decision has been explicitly made by TVCA.
- 5.5. The whole Tees Valley area will also benefit from the jobs and growth that are already being delivered and the ongoing growth expected.
- 5.6. The financial arrangements in place are complex and are explored in more detail in chapter 19 of the report.

6. Company Structures

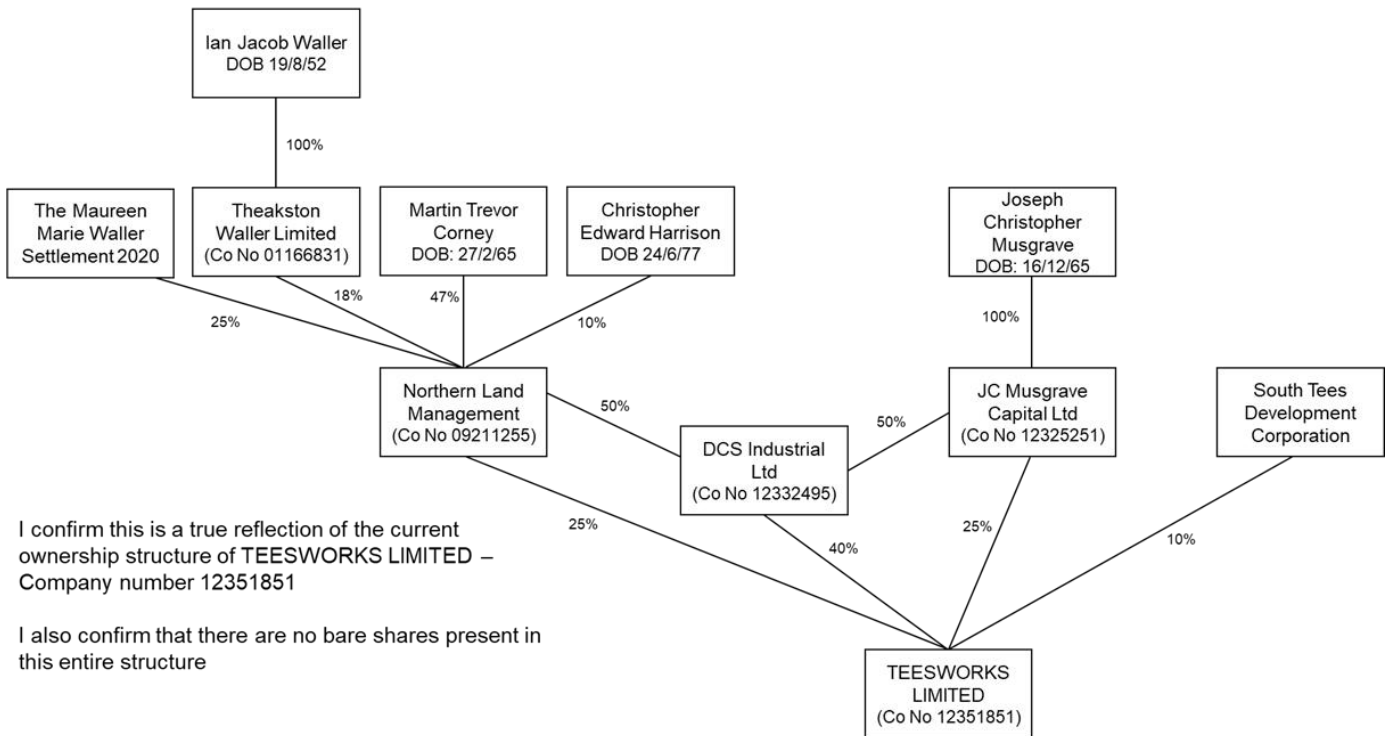
6.1. The Tees Valley Combined Authority Group is defined as set out in the structure below provided to the Panel by STDC/TVCA officers:

Tees Valley Combined Authority Group



6.2. Behind Teesworks Limited (TWL) there is a further structure as provided by STDC/TVCA officers and sets out the entirety of the JV partnership. For the purposes of this report, the term JV partners is generally limited to Chris Musgrave and Martin Corney.

Teeswork Structure 26.11.2021



- 6.3. The group consists of three companies, TVCA; The Mayoral Development Corporation, STDC, which is responsible for the master plan, decontamination, and redevelopment of the former SSI site; and TWL the Joint Venture Partnership, set up by STDC "to enable the comprehensive regeneration of the South Tees Development Area"³.
- 6.4. STDC has two wholly owned companies. South Tees Developments Limited which holds the land secured through the CPO or negotiation and subject to the comprehensive regeneration, as well as South Tees Site Company which is responsible for discharging the site "keepsafe" requirements.
- 6.5. Following a decision of STDC Board on 10 February 2020 to create the 50/50 JV, subsequently amended to 90/10 in August 2021, TWL was recognised in July 2020 through amendments to the company formally known as South Teesworks Enterprise Limited (STEL or STE), incorporated and owned by the JV Partners in December 2019.
- 6.6. As an MDC, STDC brings the opportunity to secure private sector management, give confidence to investors and drive delivery through a commercial approach to the complex project that is the remediation and redevelopment of Teesworks. It has the added benefits of working outside some of the local government statutory framework, enabling a different appetite for risk and reward.
- 6.7. Notwithstanding the relative freedoms afforded to STDC as a development corporation, it is still a public authority and has the same audit requirements and value for money tests as a local authority. This requires a higher level of openness and transparency than may be present in a private sector company. Governance therefore needs to be pitched at an

³ Report to TVCA Cabinet 13 March 2020

appropriate level to not compromise the pace of delivery or commercial consideration, whilst ensuring fundamental strategic decisions that impact on the risk and liabilities held by the public sector are balanced with the benefits secured. Decisions should also be subject to appropriate scrutiny.

6.8. In chapters 12 to 18 of the report we explore in some detail the legal structures that define the relationship between STDC and TVCA set alongside how they operate in practice. The legislation is a modification of the Localism Act 2011 and the mechanism by which it is applied to TVCA and the Mayor may have resulted in some confusion as to its interpretation.

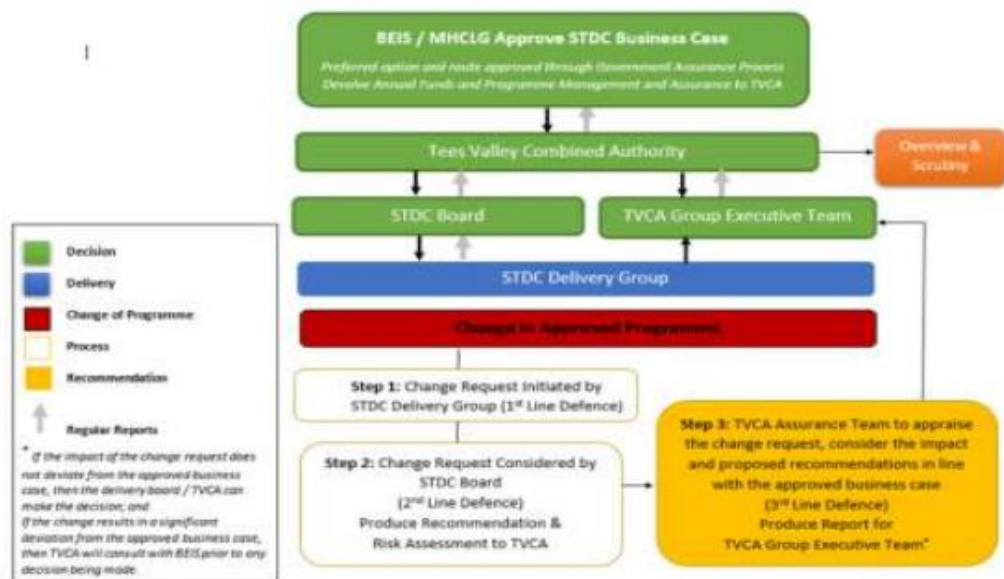
6.9. The legislation is clear however in its intent for TVCA to have an oversight/supervising function of STDC either directly or through the Mayor. It provides for TVCA to issue directions to STDC and sets out reserved matters requiring a Mayoral decision being:

- the disposal of land for less than best consideration,
- the formation of businesses and subsidiaries and the financing of them,
- the provision of financial assistance.

Where oversight is exercised by the Mayor this is complicated by the fact that he is also Chair of STDC and therefore this is not an independent function.

6.10. The final business case signed off by Government in July 2020 reinforces the need for TVCA oversight of STDC stating that "TVCA will effectively play the role of Government...." and latterly "The funding will flow from Government to TVCA as the lead accountable body for this programme." The business case also sets out the proposed assurance framework on decision making as follows:

Figure 6.2: Extract from STDC Assurance Framework on Decision Making



6.11. In practice, the current control exercised by TVCA over STDC is limited to a direction which requires the STDC Board to identify and refer "decisions or issues which results or may result in a significant risk of a financial liability, a statutory liability or an environmental or criminal liability"⁴ for approval by TVCA Cabinet prior to implementation.

⁴ TVCA constitution December 2022

- 6.12. The Panel have seen no evidence that any of the monitoring officers have advised TVCA that they can review their delegations and directions to STDC at any time. Nor have they reminded TVCA of their duty of oversight of STDC. Furthermore, a former monitoring officer advised TVCA Overview and Scrutiny Committee on 15th September 2021 that they had no jurisdiction to review STDC decisions.
- 6.13. The Group Executive have adopted a very narrow interpretation of the definition of a referral decision, which alongside the very clear steers from the former monitoring officer, means that TVCA have very little oversight of the actions and decisions of STDC. It is the view of the Panel that STDC should have referred more decisions to TVCA Cabinet and that TVCA Overview and Scrutiny Committee had a legitimate right to scrutinise STDC decisions. This is in relation to a relatively small number of significant decisions that have been taken which have fundamentally changed the delivery model proposed for STDC as signed off by TVCA. These referral decisions would have aligned with the supervision duty of TVCA and addressed the value for money test. STDC executive do not agree with the Panel's view.
- 6.14. While there is clarity in the legislation about TVCA duty of oversight of STDC, albeit directly or through the Mayor, there remains an issue of stranded (net) liabilities within STDC on which the legislation is silent. The Teesworks site is highly complex and, for some plots, there is no obvious viable commercial solution. It is accepted that this may change over time; however, the current construct of the JV, which allows the JV partners to choose which plots they develop and when, leaves a plausible scenario whereby STDC is left with stranded liabilities in addition to a number of ongoing site liabilities and debt servicing costs. While the STDC executive assure that these liabilities will only crystallise when the land is developed, the body or bodies that ultimately sit behind those liabilities would reasonably expect some influence and assurance on this point. In any case, it is the Panel's view that in the event of STDC being unable to service loans made by TVCA the debt servicing costs will automatically fall back on TVCA and be a charge on its revenues. In the 25 years during which TVCA will receive retained business rates it has a source of income to offset liabilities although STDC may also be dependent on some of the same monies. After 2046, TVCA and STDC will not have access to retained business rates.

7. Statutory Officers and the Scheme of Delegation

- 7.1. As public bodies, both TVCA and STDC are required to appoint three statutory officers. Since September 2020, these statutory officers have fulfilled their functions across the group of companies. For clarity, in this regard, the "group" does not include TWL which has its own arrangements. The three posts and postholders and the dates they took up their role jointly at STDCTVCA is set out below. Both the CEO and Acting Monitoring Officer were internal promotions so had longer experience with the organisations:
- Chief Executive (Head of Paid Service), Julie Gilhespie - appointed August 2019
 - Director of Finance and Resources (s 73 Finance Officer), Gary MacDonald - appointed September 2019
 - Acting Group Chief Legal Officer and Monitoring Officer, Emma Simson - appointed December 2022
- 7.2. In simple terms, the three officers between them have responsibility for ensuring the organisations are properly staffed to deliver their objectives and ambitions, that legal budgets are set and value for money obtained, that statutory obligations are fulfilled, and that appropriate codes of conduct are followed.

- 7.3. The group arrangement has the benefits of reducing costs and creates a clear line of sight across the group. However, we found evidence that it can lead to confusion outside of formal reporting arrangements whereby it is not always clear which body the officers are representing. Furthermore, conflicts of interest are not routinely recorded or articulated, particularly in the case of the Chief Executive and her role as a Director of TWL.
- 7.4. STDC Board members and constituent authority chief executives were relatively consistent in their confidence in the Group Chief Executive and the executive team who they felt were engaging, open and available. There is evidence however that the creation of group statutory officers is blurring boundaries and there is an opportunity to reconsider this practice for those statutory officer roles that are not in law required to be shared across TVCA and STDC. In any case consideration should be given to introducing strict protocols governing the conduct of these officers and bringing clarity to how they discharge their functions within, between and externally to both organisations.
- 7.5. The role and responsibilities of officers is determined by the scheme of delegation and financial regulations. These documents are designed to enable delivery by placing decision making at the right point in the organisation empowering officers to deliver at pace whilst giving senior executive, Board or political cover for those decisions that are significant, novel, or contentious.
- 7.6. The scheme of delegation is permissive. The Group Chief Executive has a very broad delegation⁵

"To take all action which is necessary or required in relation to the exercise of any of the Combined Authority's functions or the functions of the Mayor....."
- 7.7. The same delegation applies to her role within STDC and in both cases she can further delegate to other officers.
- 7.8. The scheme of delegation also includes the financial limits within which officers can operate. These appear, however, to be limited to procurement rules. Other than having regard to the budget there appears to be no constraint on legal and contractual matters that officers can determine.
- 7.9. Clearly it is important that officers are empowered to take decisions and deliver at pace. However, given the lack of oversight enacted by TVCA, the permissive scheme of delegation further dilutes the potential transparency of decision making and the protections afforded to officers.

8. Constituent Members

- 8.1. The 5 local authorities who make up the constituent members of TVCA are critically aware of the importance of the redevelopment opportunities of the site and the "halo effect" of the development. Jobs and income streams through increased tax base to support local services are welcomed and there are good examples of how the development, alongside the broader work within the TVCA ambit, is encouraging this. Local authority leaders clearly want these benefits to come forward as quickly as possible and at the same time

⁵ TVCA constitution 2023 v11

ensure the local impact is maximised, particularly to secure permanent, local jobs for local people.

- 8.2. The Leader of each constituent authority sits on TVCA Cabinet and will lead a portfolio on behalf of the Mayor. Furthermore, the Leader of R&C, and until recently Middlesborough, also sit on the STDC Board. Information is shared by way of formal committee structures and the aligned reporting arrangements as set out in the constitution. There are formal and informal briefing arrangements led by TVCA executive team. It is understood that Leaders and Chief Executives of the constituent authorities attend these meetings. We also understand that there are informal political meetings immediately ahead of Cabinet without officers present.
- 8.3. Between the constituent authorities, there is a mechanism to drive and shape the strategic and operational agenda for TVCA. This consists of monthly "management group" meetings of the 5 Development Directors together with TVCA, and the JV partners to discuss strategic development and regeneration including any recommendations for TVCA.
- 8.4. The 5 Chief Executives meet weekly for a telephone catch up and hold formal meetings monthly. The Chief Executive of TVCA/STDC attends these meetings and briefs Chief Executives on issues.
- 8.5. Evidence from the constituent authorities is that their Chief Executives, Finance Directors, and monitoring officers hold the view that they have a "firewall"⁶ between them and STDC/TVCA. Even those that acknowledge they may ultimately bear any liabilities which fall back on TVCA believe that the risks have been "covered off"⁷. This sentiment was echoed by the Leaders that we spoke to.
- 8.6. In the absence of any real or perceived liabilities transferring from STDC to TVCA and TVCA to the constituent members, the Leaders and statutory officers within the constituent authorities appear to have a limited understanding of what is going on within STDC and little curiosity to explore and understand the decisions being made. Given the strategic opportunities for the TVCA area, the constituent authorities should take an active interest in shaping the agenda and decisions in the best interests of the TVCA area and its residents. They should approach this with an independent mind, seeking advice from their own officers, and offering a constructive check and challenge into the system. In conversation between the Panel and Authorities' Chief Finance Officers they were unaware of both the long-term loans advanced by TVCA to STDC and the detail of specific deals that involve TVCA.

9. Decisions and the STDC Board

- 9.1. A fundamental part of the governance and assurance frameworks is the advice given to decision makers. These are captured in the published reports and ideally should be available 5 clear working days ahead of the decision. We found the quality of reporting to be variable and in some instances, reports were late, sometimes published on the day, and decisions rushed. A clear example of this would be the decision to proceed with the CPO and form the JV 50/50 partnership. We also found evidence of reports containing

⁶ Interviews 24/08/23

⁷ Interviews 23/08/23

incorrect and incomplete information, for example in respect of the landfill tax, and the SeAH income strip.

- 9.2. While the Panel accepts there may on occasion be good reason for lateness, the impact when these circumstances arise, is to impede a healthy check and challenge in the system as follows:
- The Board do not have access to good quality, considered advice.
 - The Board, who bring expertise and knowledge to the table, are unable to provide the Mayor with advice and guidance and help him to shape his decisions in the best interests of the residents of Tees Valley. Nor are they able to provide sufficient challenge and due diligence.
 - Local Authority Leaders who sit on the Board are unable to secure advice from their professional officers and discuss with them the strategic and local implications of proposals or provide a different perspective on the benefit and risk exposure.
 - The public are unable to see a clear rationale for the decisions taken.
- 9.3. STDC Board members, which include the Leader of R&C and until recently the Leader of Middlesborough, bring expertise and knowledge to the table. They help to shape strategy, provide constructive challenge to the executive, and support the Mayor in achieving his ambitions. Over time, the make up the board has reduced in number and moved away from industry experts to more local interest reflecting the shift from master planning and CPO preparations into delivery. It is entirely appropriate to change the Board to reflect the varying cycles within the Teesworks project and this intention was clearly set out in the final business case agreed by BEIS in June 2020.
- 9.4. A commercial Board is expected to support the Mayor and executive in their decision making including acting as a critical friend. This includes pertinent due diligence in terms of opportunity and risk of individual land transactions, as well as compatibility with strategy and delivery of outcomes. It is their responsibility to ensure they have sufficient and accurate advice and information to make the decisions being asked of the Board in support of the Mayor and STDC's objectives.
- 9.5. As STDC is a public authority, the Board, including associate members, also has a responsibility to ensure it is giving proper oversight to the management of the public assets and investments. They need to understand the risk and opportunities they are taking on behalf of taxpayers and how public resources are expected to flow through the system as a result of the decisions they take. The nature of reports to the Board are such that they do not always make this clear and while it may not have changed the decisions made, this is a key requirement to satisfy the value for money obligation.
- 9.6. As set out previously, the scheme of delegation may be an impediment to the Board being able to fulfil their functions and undertake appropriate due diligence. Examples of this include the two supplemental deeds to the JV 50/50 agreed under delegations by the executive in June and July 2020 which enabled TWL to remove minerals aggregates etc. for their "own benefit" and agreed the £15m compensation to SSI for the CPO.
- 9.7. In practice, given the degree of delegation and the reporting arrangements, information and oversight of the project sits with a small number of individuals, primarily the statutory officers and the Mayor. STDC Board members, TVCA Cabinet, both Audit committees as well as TVCA Scrutiny committee, together with the constituent authorities, are heavily reliant on those individuals to provide them with a full and accurate picture to enable decisions to be taken in the best interests of the public. This tight control of information

enhances the risk of misinformation and when aligned to late reports, a lack of detail and overt reliance on verbal reporting, this can undermine appropriate decision making.

- 9.8. Feedback from STDC Board members on the level of detail they receive ahead of decision making is understandably mixed; some believing it to be sufficient, others taking a contrary view. It is also clear to the Panel that for those Board members interviewed much of the information we shared around the sequence of the JV decisions and some land transactions was obviously new to them. In all cases in terms of the key decisions taken by the STDC Board, it is important to note that they were agreed unanimously; although some Board Members did caveat that they were sometimes rushed and they didn't have sufficient information or understanding.
- 9.9. The Panel is also aware⁸, that representatives of the JV Partners participate in STDC governance meetings on occasion to ensure that work is "joined up and effectively and efficiently delivered". We understand from Board member interviews⁹ that this includes confidential STDC Board discussions. Of course partnership working requires the JV Partners or their representatives to be involved appropriately in operational discussions. The Panel believes it is wholly inappropriate for the JV Partners or their representatives to be included in any confidential Board discussions. In all meetings it is important that conflicts of interest are managed, declared and observed.
- 9.10. The Panel are united in their view that we have not seen sufficient evidence that decision makers were properly informed. We fully appreciate that this is a fast moving situation underpinned by many complex arrangements, but in terms of managing public assets all information around key decisions should be fully documented, including advice from internal professionals and external experts as appropriate. Failure to do this could compromise the decisions and where an expert Board has been convened, as in the case of STDC, this prevents them from providing good advice and guidance to the Mayor.

10. Joint Venture Partnership

- 10.1. The 50/50 JV partnership was agreed by STDC Board on 10 February 2020 following a private agenda item "Compulsory Purchase Order (CPO) update". At this juncture, the only substantive objection to the CPO, which would enable the outstanding plots of land to be acquired, was from SSI/the Thai Banks. The objection was deemed by external advisers to be a credible risk to the CPO as there was development potential. The 50/50 JV was critical to being able to reach agreement with the Thai Banks to remove their objections.
- 10.2. On 29th November 2019, the JV partners acquired an option on 70 acres of Redcar Bulk Terminal (RBT) land. The JV partners¹⁰ advise that they approached the Managing Director of RBT to secure an option on the understanding RBT needed cash for the business which was "on the brink of collapse". Ultimately the sale of the option to the JV partners was a decision which British Steel signed off.
- 10.3. Having acquired the option, the JV partners were able to lever their position both with SSI and STDC, ultimately using this to secure SSI's agreement to withdraw their objection to the CPO in exchange for the 50/50 JV with STDC. These negotiations occurred between

⁸ evidence submitted by TVCA/STDC executive on 19 June 2023

⁹ 11 & 12 September 2023

¹⁰ Interview 03/10/23

December 2019 and February 2020. In the circumstances, removing the objection to the CPO was a clear rationale for STDC to enter into the JV agreement which can be summarised as follows:

- a 30-year option on all STDC owned land to the JV to draw down once remediated by STDC.
- JV to develop and market the site once remediated.
- a 50/50 share in the uplift on market value between the JV partners and STDC, and
- a deadlock company requiring shareholder approval on all material asset decisions.

10.4. The Group Chief Executive was STDC's nominated Director to the Board of the JV Company representing the shareholder. Directors have a legal duty to promote good governance of company affairs and act in the company's best interest.

10.5. The Panel understand that one of the risks explored by the Board in entering this agreement was the fact that there was no obligation on the JV partners to develop the land. The executive's advice was that this was mitigated by the commercial opportunity offered to the JV to proceed. In reality, under the JV, the JV partners bear no risk or liability if the site is not progressed, whilst STDC have a stated intent to secure the regeneration of the area and a local expectation that this will be delivered as soon as possible. Consequently, when the Freeport opportunity arose and there was a desire on behalf of the Mayor to accelerate delivery, there was very little leverage available to STDC in the subsequent negotiation. The land was already effectively under the control of the JV by virtue of the option and the deadlock arrangements which meant development could only progress with the partners' consent.

10.6. The Panel asked the JV Partners about the basis of the 50/50 JV negotiated⁸ and reference was made to the 50/50 partnership at the airport. The Panel asked the group Chief Executive for sight of the process used to select and agree the airport partners and any due diligence undertaken. We were given to understand¹¹ that TVCA were not involved in this process and did not rely on it to develop the Teesworks JV.

10.7. However, the Panel are aware through an external stakeholder¹², of a private agenda item "**Tees Valley International Airport Southside Business Park**" considered by TVCA Cabinet at its meeting of 20 December 2019 approving a commercial loan of £23.6m to Teesside International Airport and endorsing their plan to enter into a JV which involved the same JV Partners.

10.8. The 90/10 JV partnership was agreed by the STDC Board on 18 August 2021 following a private agenda item ""**Proposals for the delivery of site in light of Freeport Objectives**". This was a lengthy report setting out the implications and opportunities of Freeport status, the success of the existing JV arrangements, and proposals to amend the JV arrangements. The proposal was to:

"transfer significant risk and rewards to incentivise the required pace of delivery to maximise the Freeport tax and customs benefits within a five year time period."

And advised that

"STDC has therefore negotiated an increase of 40% share capital in Teesworks to the private sector partners in exchange for Teesworks taking on the future development of

¹¹ Evidence provided by chief executive 6 October 2023

¹² Evidence received 17/10/23

the site together with the estimated c£172m of net future liabilities in preparing the site for tenants."

- 10.9. The report delegated to the group Chief Executive and Director of Finance and Resources, in consultation with the Mayor, the authority to execute the decision in line with the independent reports and advice.
- 10.10. The negotiation for the 90/10 JV was always going to be constrained by virtue of the existing arrangements where the balance of power sat with the JV partners. The potential to apply for Freeport status was public knowledge in January 2020, STDC submitted its bid in February 2021 and was advised of success in March 2021. It is unclear how these constraints were considered before applying for Freeport status which received formal designation by Government on 31st October 2021.
- 10.11. The JV agreement has evolved overtime with successive "supplemental deeds". The form of decision making, and the financial implications are set out later in the report. However, the incremental approach means that the impact on the obligations of each party is less clear, and these could be rationalised into a single agreement to bring clarity to the situation and explore any opportunity to renegotiate the deal.
- 10.12. The JV partners are clearly astute, commercial businessmen. They have a clear business model whereby they support distressed businesses and do not accept liabilities until they are satisfied they can hedge investment against secure income streams. They have put themselves in a position where they were able to negotiate favourable terms and progress that through the ongoing developments. While the Panel would argue that any commercial venture with the public sector should reflect the Nolan principles in terms of openness and transparency as well as value for money and public returns, essentially it is the responsibility of the public authority - STDC and TVCA - to ensure the appropriate checks and balances are in place.
- 10.13. At this juncture, the JV partners have put no direct cash into the project and have received nearly £45m in dividends and payments, and hold £63m of cash from the SeAH income strip in TWL accounts. They have contributed their intellectual capacity and human resource from their own companies at no cost to the JV and there is little doubt they have bought pace to delivery that would not have been achievable by STDC alone. The JV partners see no prospect of renegotiating a deal that rebalances their relative advantage over STDC.
- 10.14. To the best of our knowledge, there is no formal partnership agreement that sets out the obligations of the JV partners, although it is clear that the JV Partners are heavily influential within the operations of the Teesworks site. Martin Corney has an office on site and describes¹³ that he "practically lives" there. The STDC executive describe the arrangements as follows¹⁴

"The role of Teesworks in the day-to-day STDC operational governance is through the STDC Delivery Group which includes senior members of all workstreams [both] public and private sectors".

- 10.15. This influence has clearly extended to recommendations in respect of a number of appointments and decisions that STDC made and which are set out later in this report

¹³ Interview 03/10/23

¹⁴ Evidence submitted 19/06/23

under chapter 21. Whilst using known contacts may be acceptable practice within parts of the private sector, and can have its role within the public sector, for short term resourcing, this does not accord with the principles of openness and transparency. In the circumstances this represents poor judgement on behalf of the STDC executive team.

- 10.16. With such close integration and engagement within STDC operations the executive has considered operational risks including health and safety should there be an issue on site. They are comfortable that they are not exposed to any tenant, contractor or sub-contractor taking instructions from the JV Partners that may latterly give rise to STDC liabilities. The Panel strongly recommend they keep this situation under close review.
- 10.17. The transactions and decision making in respect of the JV arrangements are covered in more detail later in this report.

11. Information and Transparency

- 11.1. Consistently throughout the review the Panel received concerns about openness and transparency. This extended to external stakeholders and FOI requests. The Panel themselves experienced some of the challenges in terms of securing the necessary information in an accessible way that contextualised the story of Teesworks, much of which is a positive story.
- 11.2. The need for commercial confidentiality is a valid reason for non-disclosure however that must be balanced with the public interest test. The limited access to information is a key factor in driving the concerns about the decision making process.
- 11.3. Internal and external audit also have a role to play in providing assurance and challenge into the system including to taxpayers. The Panel noted the largely positive assurances provided by internal audit. We also noted that external audit had not signed off the accounts in respect of value for money, pending this report. It is the Panel's view that internal audit could be more alert to assessing the risk factors held within STDC and TVCA. In line with their responsibilities outlined in the Code of Audit Practice, External Audit will need to take account of the Panel's findings when reaching a view on each bodies' value for money arrangements . The Panel note that following a procurement exercise the internal audit provider has recently changed.

12. Decision making and governance

- 12.1. This section of the review is intended to focus on the theme of 'Governance' and in particular the manner in which the project was and is being managed, how decisions were made and how the interests of the taxpayer were protected. The Teesworks project has to date been funded from the public purse and the organisations at the heart of the project are properly characterised as exercising functions of a public nature, albeit that the ultimate objective is the enablement of private enterprise to develop new forms of industry and wealth creation for this strategically important part of the UK's industrial landscape.
- 12.2. There are several decision making entities associated with the Teesworks project and the primary focus of this review has been on the following:
 - The Mayor of Teesside
 - Tees Valley Combined Authority (TVCA) (Combined Authority)

- South Tees Development Corporation (STDC) (Mayoral Development Corporation)
- Teeswork Ltd. (TWL) a company limited by shares and owned by public and private entities.

The Mayor and Combined Authority

12.3. TVCA and the Office of Teesside Mayor were established in 2016 as a result of a devolution deal and the first mayoral election was held in May 2017. The Mayor is the Chair of TVCA Cabinet and the Mayor's role is described in the TVCA Constitution¹⁵ as:

“...The Constitution therefore provides for the Mayor's role to be embedded in the Combined Authority's collective decision-making arrangements. The Mayor chairs a Cabinet made up of the Leaders of the five authorities, who together form the Combined Authority's collective decision-making forum.”

The Teesworks Project

- 12.4. The core aims of the Teesworks project are set out in 'Tees Valley Unlimited', the report authored by Lord Heseltine in 2016 which was the catalyst for the establishment of TVCA and the regeneration of the former Redcar Steelworks site and which was subsequently refined into a master plan for the Teesworks Project.
- 12.5. The project evolved over a number of years from 2017 through to the present day and during that time its structure evolved with the emergence of a Mayoral Development Corporation, STDC, designed to oversee the Teesworks project and subsequently the establishment of a public/private Joint Venture through TWL.
- 12.6. A key aspect of the review is the role played by STDC in the Compulsory Purchase of the land and the subsequent deployment of public money to remediate parts of the Teesworks site to enable its development into a major hub for modern industries such as wind power. Key events during the period from late 2019 to the present day include the grant of the CPO on the relevant land, the establishment of TWL between STDC and the JV Partners, the evolution of TWL and the associated underlying financial model.
- 12.7. The project is described as the largest regeneration project undertaken in the UK covering thousands of acres of land. The project is complex and the JV between the public and private sectors brings the inevitable cultural tensions between the desire to move at pace unencumbered by bureaucracy as opposed to the expectations of accountability and transparency due to the fact that it is the recipient of considerable amounts of public funding.
- 12.8. The project under consideration in this review is a hugely complex one. This is magnified by the dynamic nature of the evolving business relationship between STDC and the JV Partners which has repeatedly and significantly changed during the period from late 2019 through the present day. The detailed arrangements are captured in a range of legal documents and involving a number of legal entities. The arrangements were described by one of the lawyers involved as the most complex they'd seen in this type of arrangement. Appendix 3 contains a schedule of legal documents which were considered during the review, but it isn't an exhaustive list.

¹⁵ TVCA Constitution – P.3

- 12.9. It is noted that much of the detail was and continues to be treated as confidential on the basis of commercial sensitivity, and the absence of information appears to have fuelled the media speculation and generated adverse public comment.
- 12.10. Given the complexity of the project and the number of legal agreements etc, the absence of a detailed Joint Venture agreement, which clearly sets out the obligations of the parties to the JV, is significant and has given rise to some ambiguity from the external perspective as to the precise roles and responsibilities of TCVA, STDC and the JV Partners against which performance can be measured aligned to the rewards being provided.
- 12.11. The Localism Act 2011 provides a range of tools for TVCA to exercise oversight, influence, and control over STDC. TVCA and STDC also have in place comprehensive Constitutions which set out the governance requirements and processes. These are augmented by the Accountability Framework. On the face of it the combined effect of these controls would, if diligently followed, ensure appropriate accountability, scrutiny, and transparency.
- 12.12. However, discussions between the Panel members and TVCA/STDC officials revealed differing viewpoints on the interpretation of the provisions regarding the threshold at which the referral of decisions for TVCA approval was required. There were also differences of opinion regarding aspects of the legislative safeguards such as the extent of control/scrutiny TVCA was able to exert over STDC.
- 12.13. There was a lack of clarity as to whether and to what extent TVCA and the constituent local authorities were liable for the activities of the MDC which is the vehicle via which the Mayor is orchestrating the Teesworks project. A key question was whether, in the event that financial or other liabilities arose from STDC, the constituent authorities or ultimately HM Government would meet such losses. In any event TVCA has direct exposure to STDC and TWL through long term loans and SeAH income strip. At the STDC audit and governance committee in August 2022 the committee discussed the importance of the Going Concern assumption. The minute of the discussion incorrectly records that TVCA had provided a letter of support to STDC guaranteeing continued funding, in fact the letter related to STSC. It is not clear whether the Committee understood the accurate position regarding the Going Concern assumption.
- 12.14. In view of the mechanisms available for TVCA and the Mayor to exercise oversight and given the numerous significant decisions made during the years from 2020 to the present day, the almost complete absence of any referral decisions or evidence of any consents being sought is noteworthy. The underlying legislation is convoluted, and it may have been the case that there was a lack of awareness amongst TVCA members of the levers available to them and the range of STDC decisions which were subject to the requirement for TVCA/Mayoral consent.
- 12.15. As regards the quality and content of reports which were submitted to TCVA and to some extent STDC Board, the Panel noted the paucity of detail in some reports, the absence of the source of legal and other professional advice and the absence of full and clear explanations of the consequences arising from decisions. In addition, some of the more significant decisions were taken at short notice leaving little time for decision makers to fully digest matters. Although it isn't possible to conclude that any decisions would have been decided differently, it is appropriate to recognise the risk and highlight these areas of weak governance for future improvement.

- 12.16. The Panel members concluded that the level and nature of the transparency and accountability associated with this project hasn't always met the standard which they would consider appropriate for a publicly funded project of this scale and nature.

Relationship of STDC to TVCA and Role of Monitoring Officer

- 12.17. The Panel members and STDC Senior Officers also differed regarding the nature of the requirement, set out in the Tees Valley Combined Authority (Functions) Order 2017¹⁶, that the TVCA Monitoring Officer should also fulfil the role of Monitoring Officer for STDC as if it were a committee of TVCA.
- 12.18. Whilst it is clear that STDC isn't a 'committee' of TVCA in the legal sense and is a separate legal entity, the provision requires the type of legal scrutiny and oversight in respect of STDC as would be the case in respect of TVCA or one of its committees. When combined with the other measures of control and influence available to the TVCA it is clearly not intended to be an entirely autonomous entity. Advice commissioned by the Chief Executive of STDC confirms this as follows¹⁷:

"24. In summary a Mayoral development corporation is an independent legal body; it is not a committee of the Combined Authority. As a public authority it has a relationship with the Combined Authority that created it and exercises its functions within its aims and objects. Like other public bodies a corporation is reviewed and monitored by the Combined Authority and its monitoring officers. Despite having broad powers certain decisions are subject to consent (in effect supervision) by the Combined Authority. The corporation must also have regard to any guidance issued by the Combined Authority and must comply with any directions made by it."

- 12.19. It was a matter of some concern that one of the former Monitoring Officers described their involvement as 'peripheral'. According to the legislation and TVCA/STDC constitutions the Monitoring Officer and other Statutory Officers had a key role to play in advising both TVCA and STDC members of the relevant legal and governance provisions.

Decision Makers and Potential for Conflict of Interest

- 12.20. On the basis of interviews with key persons involved, including TVCA Officers and members of the STDC Board, the Panel gained the impression that there was a relatively small group of people who had full accessibility/awareness of information regarding the key business decisions being made in relation to the project. The core group of officers and the Mayor held senior appointments in a number of relevant corporate bodies which in some cases gave rise to potential conflicts of interest, in particular those between TVCA, The Office of Mayor, STDC/STDL and TWL. The restructuring of the joint venture, with the effect of dramatically reducing the STDC ownership and role, increased the potential for conflicts because the STDC Chief Executive remained a Director of TWL, (and shareholder representative for STDC) and continued to participate in decision making. When questioned about potential conflicts, the Chief Executive didn't acknowledge the potential and confirmed that they hadn't registered any interests in the accordance with the TVCA/STDC officer conflicts requirements.

Teesworks Ltd (TWL) – Governance

¹⁶ Tees Valley Combined Authority (Functions) Order 2017 art. 6(7)

¹⁷ Leo Charalambides 9th October 2023.

12.21. TWL, originally named South Tees Enterprise (STEL), is the company which was used as the vehicle for the 50/50 Joint Venture between STDC and the JV Partners and which continued as the 90/10 JV following changes in share ownership in 2021. It was acknowledged by senior TVCA officers that there is limited formal governance and decision making within TWL, which given the large sums of money arising from public investment which flow through and are controlled by TWL, much of which is necessary to meet obligations to STDC, is a concern. The Chief Executive for TVCA and STDC, has been a director of TWL since 2020. The interests of TWL haven't always been aligned with those of either TVCA or STDC, particularly after the re-distribution of share ownership and this gives rise to potential/perceived conflicts of interest which could be avoided by another TVCA, or an officer from a constituent authority, undertaking the TWL director role in place of the chief executive. The Panel was only made aware of two records of TWL meetings that were formal in the sense of being minuted.

Transparency vs Confidentiality

12.22. The key officers and the Mayor hold the view that much of the information relating to the Teesworks project is commercially sensitive and warrants a relatively high level of confidentiality. Significant amounts of information remain confidential. Freedom of Information requests have regularly been refused by TVCA on the basis of commercial confidentiality and in some cases with weak public interest justification. FoI requests in respect of information concerning TWL have been refused on the basis that it is not wholly owned by a public authority. It is understood that recent changes to the FoI processes have been implemented by TVCA which may have brought the process into compliance but the Panel have not had the opportunity to assess that.

12.23. Members of TVCA Overview & Scrutiny Committee expressed frustration at the lack of information provided which they felt undermined their ability to scrutinise the activity of STDC and TWL. The Panel feel that this information vacuum serves to encourage the speculation and may create a distraction from the positive outcomes arising from the project. Members of the TVCA Audit Committee expressed similar concerns.

12.24. In the context of public private joint ventures, finding the right balance between the prevailing cultural norms relating to matters such as transparency, public accountability and governance is often a challenge and the Teesworks project isn't immune from that.

Significant Decisions

12.25. The review has considered a large amount of information covering the period from the inception of TVCA in 2017 up to the present day. In reviewing the decision-making process, the following decision points have been of primary focus for the Panel because they have had a particular level of importance or impact upon the project:

- The decision of the Mayor and STDC in Feb 2020 to enter into a public/private 50/50 JV partnership between STDC and the JV Partners, which included granting options to the JV Partners over land comprising the entire Teeswork site as held by STDC/STDL.
- The Decision of the Mayor and STDC in March 2020 to agree a settlement with SSI and the Thai Banks regarding land subject to the CPO process whereby they would withdraw objections to the CPO in return for some of the CPO land being transferred and demolition works provided by TVCA/STDC.

- The subsequent decision of the Mayor/STDC officials in June 2020 to withdraw from the first settlement and enter a second settlement agreement (SA2) with the Thai banks regarding the CPO land which involved incurring costs of £16m for land purchase.
- The decision of the Mayor and STDC in Aug 2021 to alter the ownership and control of the JV Co from 50/50 to 90/10 in favour of the JV Partners and associated changes including amendment of the land options with the effect of reducing the cost of exercising the options.
- The decisions of the Mayor, STDC, TVCA and TWL relating to the GE/SeAH Wind Turbine Production Facility including the receipt by TWL of the proceeds of an 'income strip' valued at £93m.
- Decision of the Mayor and STDC regarding the funding and construction of and subsequent sale on deferred terms of the South Bank Quay Development including TVCA taking on a £106m loan from the UK Investment Bank. Whilst TVCA agreed the original business case there has been no further reference back regarding TVCA undertaking the borrowing or subsequent "sale".
- Decisions of STDC regarding the changed operating arrangements as a result of potential changes to landfill tax.

13. TVCA and STDC – Governance Architecture

Tees Valley Combined Authority (TVCA)

- 13.1. Part 6 of the Local Democracy, Economic Development and Construction Act 2009 ("the 2009 Act") provides for the establishment of Combined Authorities. As a result of a Devolution Deal in 2015, Tees Valley Combined Authority (TVCA) was established by Order on 1st April 2016¹⁸ (the TVCA Order). The role of Teesside Mayor was established by Order on 19 July 2016¹⁹.
- 13.2. Article 5 of the TVCA Order provides that the constituent councils, Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland, and Stockton-on-Tees, shall be responsible for meeting the costs of TVCA reasonably attributable to TVCA's exercise of its functions as set out in the Order. The order stipulates a scheme of apportionment of the costs which shall be followed in the absence of any agreement between the constituent councils.
- 13.3. On the 3rd March 2017 a further order came into force which made detailed provisions as to the specific functions conferred on TVCA²⁰. It also contained a variety of other provisions including the following 'Incidental Provisions' which had the effect of imposing elements of the Local Authority regulatory framework in the context of Mayoral Development Corporations, for example:

7. Section 5(25) of the 1989 Act (designation and reports of monitoring officer) shall apply in relation to the Combined Authority as if a Corporation were a committee of the Authority.

¹⁸ The Tees Valley Combined Authority Order 2016 SI2016 No. 449

¹⁹ The Tees Valley Combined Authority (Election of Mayor) Order 2016 No. 783

²⁰ The Tees Valley Combined Authority (Functions) Order 2017 SI 2017 No. 250

- 13.4. The second Order also provides that the constituent councils must meet the costs of the expenditure reasonably incurred by the Mayor in connection with the exercise of his functions. (Art 10(2)).
- 13.5. The underlying legislative architecture of TVCA and the Mayor is based upon the Greater London Assembly Mayoral model with a directly elected Mayor. The Order operates to transpose that legislation into the TVCA context with appropriate textual changes regarding references to the London Mayor and Greater London Assembly etc. The Governance arrangements for TVCA are contained in its Constitution and supplemented by the Tees Valley Assurance Framework 2019-29.
- 13.6. The Mayor is the Chairman of TVCA Cabinet which is comprised of the Council Leaders of each Constituent Authority. The Cabinet is a part of the democratic TVCA decision making mechanism and operates collectively with the Mayor although it should be noted that the Mayor is directly elected and has decision making powers in his own right.

Status of TVCA

- 13.7. The legal status of TVCA is that of a principal local authority in most circumstances and consequently it must operate within the legal and regulatory regimes and guidance applicable in that context. Of particular relevance to this review are the obligations on transparency of decision making and accountability for ensuring best value is achieved as regards the expenditure of public funds. The Nolan principles of conduct in public office apply and are contained as a preamble to the TVCA Councillors Code of Conduct at Appendix VII of the TVCA Constitution.
- 13.8. The Order confers a range of functions on TVCA²¹ many of which are deemed to be general functions ‘exercisable only by the Mayor’²²
- 13.9. S.73 of the Local Government Act 1985 provides the requirement that an officer be designated to make arrangements for the proper administration of TVCA financial affairs. TVCA must also designate a Scrutiny Officer, Monitoring Officer and Head of Paid service and these roles carry the relevant statutory obligations.
- 13.10. All meetings of TVCA are subject to the access to information rules under Schedule 12A of the Local Government Act 1972.

Overview & Scrutiny Committee

- 13.11. TVCA is obliged to establish an Overview and Scrutiny Committee²³ whose members must be empowered to review and scrutinise decisions and or actions of TVCA or the Mayor.
- 13.12. The TVCA Overview and Scrutiny (O&S) Committee is composed of 15 councillors (3 from each of the Constituent Authorities), reflecting the political balance across all 5 Constituent Authorities. The purpose of the O&S Committee is set out in the TVCA Constitution (Appendix II para 2.1) as follows:

“...in order to scrutinise and support the decision-making of the Combined Authority Cabinet (“the Cabinet”) and the Tees Valley Mayor (“the Mayor”).”

²¹ Article 3(1) Tees Valley Combined Authority (Functions) Order 2017

²² Article 5(1) Tees Valley Combined Authority (Functions) Order 2017

²³ Local Democracy, Economic Development & Construction Act 2009 Schedule 5A

13.13. This is generally acknowledged to include the right to access documents in the possession or control of the Mayor or TVCA and which relates to any decision of TVCA or the Mayor.

13.14. The Panel aren't aware of any of the significant decisions under review having been shared with the TVCA O&S Committee for review or potential Call-in. In fact the former Monitoring Officer had, in a report dated 15th September 2021, provided written advice to the O&S Committee to the effect that the Committee's reach didn't extend to bodies such as the STDC.

13.15. The following is an extract from Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009

9.

"1. (1) A combined authority must arrange for the appointment by the authority of one or more committees of the authority (referred to in this Schedule as overview and scrutiny committees).

(2) The arrangements must ensure that the combined authority's overview and scrutiny committee has power (or its overview and scrutiny committees have power between them)—

(a) to review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the authority;

(b) to make reports or recommendations to the authority with respect to the discharge of any functions that are the responsibility of the authority;

(c) to make reports or recommendations to the authority on matters that affect the authority's area or the inhabitants of the area.

(3) If the combined authority is a mayoral combined authority, the arrangements must also ensure that the combined authority's overview and scrutiny committee has power (or its overview and scrutiny committees have power between them)—

(a) to review or scrutinise decisions made, or other action taken, in connection with the discharge by the mayor of any general functions;

(b) to make reports or recommendations to the mayor with respect to the discharge of any general functions;

(c) to make reports or recommendations to the mayor on matters that affect the authority's area or the inhabitants of the area.

.....

(8) Any reference in this schedule to the discharges of any functions includes a reference to the doing of anything which is calculated to facilitate, or is conducive or incidental to, the discharge of those functions."

13.16. Subsequent regulations made in 2017 have reiterated the role of the Overview and scrutiny functions within the context of a combined authority²⁴.

²⁴ The Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017

13.17. STDC is a public authority created and wholly owned by TVCA, albeit a separate legal entity, and which has been established as a vehicle for delivering the objectives of TVCA i.e. STDC operates in connection with the discharge of TVCA functions and or its existence/role is calculated to facilitate, or is conducive or incidental to, the discharge of TVCA functions. As such, the activities of STDC would fall within the remit of the TVCA Overview and Scrutiny Committee.

13.18. However, the approach adopted by TVCA on advice from its Monitoring Officer, limited the remit of the O&S Committee by excluding the activity of STDC and TWL. The following is an extract from a report authored by the TVCA Monitoring Officer dated 15th September 2021. It was submitted to the TVCA O&S Committee to provide guidance on the extent of the committee's remit.

5. It is also important to consider the scope of the remit of the O&SC in the context of the role, in relation to the decision making of the Combined Authority. Whilst the remit extends to the decisions of the Combined Authority including the decisions in relation to funding given by the Combined Authority and its role the Combined Authority takes to funding given by the Combined Authority and its role the Combined Authority takes in monitoring those investments, the O&SC's reach ends with the Combined Authority's decisions and does not extend inside some of the principal funding recipients such as the South Tees Development Corporation and Teesside International Airport.

15. Whilst the remit of the Committee is not constrained to Key Decisions, it is constrained to examining only the decisions of the Combined Authority. The role of the Committee does not extend to the decisions of other bodies, even when they are significantly funded or closely related to the Authority. As such, it is legitimate for the Committee to examine TVCA's decisions in relation to its funding and the monitoring of its funding of those organisations. However, these organisations have their own organisation and governance, and the remit of the Committee does not extend beyond the decisions of the Combined Authority.

13.19. It is noteworthy that TVCA has provided over £200m of long-term loans to STDC including from UKIB for the construction of the Quay, together with access to business rates income. As such the finances of STDC are fully reliant on continued financial support from TVCA and these arrangements alone should merit review by both TVCA overview and scrutiny and audit and governance committees.

13.20. This advice is at odds with the provisions of the TVCA Constitution and legislation as set out above which describes the remit as extending to any action or decisions made in connection with the discharge of any functions that are the responsibility of the authority.

13.21. STDC is itself directly undertaking functions of TVCA, and TWL is also a key element in delivering against those functions and at the time the advice was provided, was 50% owned by STDC. Attempts were made to explore the basis for the advice, but the former Monitoring Officer refused to have any contact with the Panel or contribute to the review stating that their professional duties barred them from this despite receiving assurances from TVCA that they had no objection.

13.22. Another important mechanism for overview and scrutiny is Call-In under paragraph (4).
(4) The power of an overview and scrutiny committee under sub-paragraph (2)(a) and(3)(a) to review or scrutinise a decision made but not implemented includes—

- (a) power to direct that a decision is not to be implemented while it is under review or scrutiny by the overview and scrutiny committee, and
- (b) power to recommend that the decision be reconsidered.

13.23. These provisions are reflected in Paragraph 72 of the TVCA constitution and in Appendix II of the procedure rules.

13.24. The following is the definition of 'Key Decisions' which are required to be included in the TVCA's Forward Plan copies of which are required to be circulated to the Members of O&S in order that they are enabled to 'Call-In' decisions.

13.25. Paragraph 18.2 TVCA Constitution

18.2 (b) For the purposes of the Forward Plan, a "key decision" means a decision of a decision maker, which in the view of the Combined Authority's Overview and Scrutiny Committee, is likely to:

- *result in the Combined Authority or the Mayor incurring significant expenditure, or making significant savings, having regard to the Combined Authority's budget for the service or function to which the decision relates; or to be*

- *significant in terms of its effects on persons living or working in an area comprising two or more electoral wards or divisions in the Combined Authority's area.*

13.26. However, it is understood that many of the decisions which have been taken by STDC or TVCA haven't been recorded as Key Decisions because they were deemed to fall outside of the definition or were considered to be confidential due to commercial sensitivity. This combined with the Monitoring Officer's overly restrictive interpretation of the O&S remit has fundamentally undermined the ability of the O&S committee to exercise its functions in respect of decisions relating to the Teesworks Project. The Panel would also question whether confidentiality is a valid reason for decisions not to be seen as Key as they should still be open to scrutiny albeit confidentially.

Audit & Governance Committee

13.27. Paragraph 84 of the TVCA Constitution provides for an Audit and Governance Committee:

"..for the purposes of assuring sound governance, effective internal control and financial management of the CA, and that the CA observes high standards of conduct in public office."

13.28. The Panel noted that the TVCA Audit and Governance Committee had, on a number of occasions, requested regular assurance reports be brought relating to STDC but the reports seen on agendas were more information giving rather than assurance. It was also noted that the Committee meetings do not follow a regular cycle with sometimes lengthy gaps of 6 months or more between meetings. At its July 2023 meeting the Committee recognised that it needed an additional meeting each year and to adopt a regular cycle.

Office of Tees Valley Mayor

13.29. TVCA held its first mayoral election in May 2017 at which Ben Houchen was elected as its first Tees Valley Mayor. He was subsequently re-elected Mayor on 6th May 6, 2021, for a further 3-year term. The mayoral model is based on that of the Mayor of London Mayor and Greater London Assembly but with some fundamental differences.

South Tees Development Corporation (STDC)

- 13.30. The legislation establishing Mayoral Development Corporations is found in Chapter 2 of the Localism Act 2011²⁵ (as amended/modified the Tees Valley Combined Authority (Functions) Order 2017) and was originally drafted for application to the Mayor of London. The adaption of the legislation is achieved in a convoluted way which requires that the original text is, in places, read so as to substitute different text. For example, 'TVCA' is substituted for 'Mayor of London' and 'Development Corporations' (DC's), are read as 'Mayoral Development Corporations'²⁶.
- 13.31. This approach isn't user friendly and includes an additional convolution in Article 5 of the 2017 Order which lists functions of TVCA which are '**exercisable only by the Mayor**'.
- 13.32. Development Corporations are established under S.198 Localism Act 2011 (LA 2011) which requires that the Secretary of State must establish a DC if they receive notification of designation from a Combined Authority Mayor under S.197(1) (LA). The STDC (Establishment) Order came into force on 1st August 2017.
- 13.33. The object and powers of a DC are found in S.201 LA 2011 and include:
- 1) The object of a DC is to secure the regeneration of its area.
 - 2) The DC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes.
- 13.34. DCs are used by CAs as vehicles to deliver projects initiated by the Mayor and CA associated with specific geographical areas. DLUHC officials advise that it was never the intention of the legislation that the Mayor would Chair the MDC but acknowledge that the legislation does not preclude this.
- 13.35. Amongst other things, DCs may:
- Acquire, develop, or regenerate land. S.206 LA 2011
 - Provide infrastructure or buildings. S.205 LA 2011
 - Take on the role of the planning authority for the area that it covers. S.202 LA 2011 (The function is that of the CA but reserved to the Mayor)
 - Adopt private roads
 - Make compulsory purchase orders. S.207 LA 2011 (with consent from the Secretary of State and the CA)
 - Carry on any business or acquire interests in bodies corporate. S.212 LA 2011 (with consent of CA)
 - Provide financial assistance to any person. S.213 LA 2011 (with consent of the CA)

STDC Governance Provisions Including Relationship with TVCA

- 13.36. The governance arrangements of STDC are derived from a number of sources including statute, regulations and in both TVCA and STDC Constitutions; there is some duplication of references. Collectively, they provide a comprehensive framework but in places it lacks clarity and is subject to different interpretations. The STDC is a corporation but doesn't

²⁵ Localism Act 2011 S.198.

²⁶ See Article 4 and Schedule - Tees Valley Combined Authority (Functions) Order 2017

fall within the category of bodies to which the TVCA may delegate its functions under S.101 Local Government Act 1972

Statutory Officers

- 13.37. According to Addleshaw Goddard advice²⁷, it is the requirement that STDC appoint a Group Chief Executive and the TVCA Director of Finance shall fulfil the role of STDC Director of Finance and Resources, although the Panel note this is not common practice in all CAs. The designation of Monitoring Officer for the TVCA shall apply as if STDC were a Committee of TVCA²⁸. It is noteworthy that although STDC isn't a 'committee' of TVCA the statutory provision requires that the TVCA's Monitoring Officer shall act as though the STDC was a committee of TVCA and accordingly have the same powers and obligations as would be applicable in the context of a Local Authority, i.e., oversight of decision making to ensure legality and the promotion of ethical conduct.

STDC Board Membership

- 13.38. The Chair, Vice Chair and Board of STDC shall be appointed by TVCA following a proposal by the Mayor. (STDC Constitution para 10)
- 13.39. Board members shall be appointed following an open and transparent process in accordance with best practice in public appointments. (STDC Constitution Para 12).
- 13.40. Paragraph 97 of the TVCA Constitution provides that the Mayor shall make proposals to TVCA Cabinet to appoint the Chair and Members of DCs. Amendments to the STDC Constitution must be approved by TVCA Cabinet. (para 98 TVCA Constitution).

Statutory Powers of Oversight

- 13.41. S.202-221 LA 2011 and Schedule 21 of the LA 2011 set out various powers/functions which STDC may potentially exercise, some of which are subject to the requirement for '**consent**'. The legislation was originally drafted for application in the context of the Mayor of London but it is 'modified' by the TVCA (Functions) Order 2017 for application in the context of the TVCA, its Mayor and the STDC. There has been some confusion as to whether the 'consents' required under S.209, 212 and 213, should be granted by the TVCA or the Mayor and this may have arisen from the mechanism by which the original legislation is modified by the Order to apply to TVCA and Mayor.

In 2018 STDC received advice from Addleshaw Goddard on the nature of these powers and the requisite 'consents' confirming that the TVCA was the relevant 'consenting' body. (N.B. In Oct 2023 STDC sought counsel's advice on the extent to which STDC's autonomy was limited by the oversight of the TVCA and amongst other things this advice reiterated the view of Addleshaw Goddard i.e. the power of 'consent' in this context lay with the TVCA).

However, at different points during the passage of decision-making it appears that TVCA/STDC have adopted different interpretations of the 'consent' provisions. For example, in respect of the JV 50/50 decision, the following extract from the report to the TVCA Cabinet states that the TVCA is the body which is empowered to grant consent.

²⁷ Project Herrington – Addleshaw Goddard Advice 24 August 2018 Michael O'Connor Partner

²⁸ STDC Constitution Para 24-26 and s.7 of the Tees Valley Combined Authority (Functions) Order 2017.

“The Schedule to the Tees Valley Combined Authority (Functions) Order 2017 modified the provisions of the Localism Act for STDC, as the Act was originally drafted to provide powers to the London Mayor. Paragraph 1(3) of the Schedule provides that whenever the Localism Act states “the Mayor”, for STDC it should read “the Combined Authority.

These provisions mean that when, for example, STDC wants to form a body corporate or grant financial assistance “..with the consent of the Mayor..”, for STDC it means consent of the Combined Authority to do so.”

Report to TVCA Cabinet 13th March 2020

Whereas in contrast, the decision in 2021 to restructure the JV into a 90/10 configuration appears to adopt the alternative interpretation that the Mayor is the relevant body empowered to give ‘consent’. The following extract from the decision notice dated 30-11-21 confirms the alternative interpretation.

Decision 2: Mayoral decision to dispose of CPO land

Localism Act 2011 prescribes certain restrictions in the disposal of land by a Mayoral Development Corporation. Specifically, Section 209(3) may not dispose of compulsorily purchased land without the express consent of the Mayor. Accordingly, the Mayor’s consent is specifically requested to allow the transaction to proceed.

Decision 3: Mayoral decision to dispose of land at an undervalue (if applicable)

Localism Act 2011 prescribes certain restrictions in the disposal of land by a Mayoral Development Corporation. Specifically, Section 209(1) may not dispose of land for less than best consideration which can reasonably be obtained unless the Mayor consents. The Mayor will note the valuation set out at Annex A.

Delegated decision No. STDC04-2021 30-11-21

The Panel note that there have been different interpretations of this important legislation and whilst the Panel does not purport to provide legal advice, it has formed the view that the Mayor and TVCA should reassure themselves that their interpretation in this regard is legally sound and consistently applied. The Panel also concluded there would be a benefit from the issue by DLUHC of guidance as to its interpretation.

- 13.42. The following are the key provisions relating to "Relevant Consents" for specific types of decisions:
- S.219(1) LA 2011, imposes a requirement of ‘consent’ for disposing of land at less than best consideration.
 - S.212(2)(b) LA 2011, requires consent to acquire interests in a company.
 - S.213(1) LA 2011, requires consent to give financial assistance to any person.
- 13.43. A TVCA Officer with delegated authority via the scheme of delegation would in appropriate circumstances be able to give ‘consent’ on behalf of the Mayor.
- 13.44. The purpose of the consent provisions is to provide some oversight on the actions of STDC. However, in the context of TVCA, due to the fact that the same officers occupy the

senior roles in both TVCA and STDC and the Mayor is the Chair of the TVCA and STDC Board, the Mayor may find themselves in the position of providing consent for their own proposals.

13.45. The Panel have found only limited evidence of formal adherence to the consent requirements, as there is generally no audit trail of consents having been given.

13.46. The view of the Statutory Officers is that STDC had a high degree of autonomy from TVCA and for the large part there was no requirement to seek approval from the TVCA. There were also concerns expressed about the wider dissemination of information which was regarded as commercially sensitive.

Provision for the Oversight of STDC by TVCA

13.47. The following is an extract from advice received by STDC/TVCA from Addleshaw Goddard solicitors in August 2018²⁹ which advises on powers available to the Mayor and STDC but also the extent by which the powers are intended to be ‘curtailed’ by the oversight of TVCA and the provisions in TVCA and STDC Constitutions.

4.6 All of STDC's powers are subject to:

a) the provisions of its constitution, including the overriding objectives contained therein, which are:

(i) to further the economic development and regeneration of the South Tees area, so that it becomes a major contributor to the Tees Valley economy and the delivery of the Tees Valley's Strategic Economic Plan;

(ii) to attract private sector investment and secure new, additional, good quality jobs, accessible to the people of the Tees Valley;

(iii) to transform and improve the working environment of the Corporation area, providing good quality, safe conditions for the workforce and wider community; and

(iv) to contribute to the delivery of the UK Industrial Strategy, by supporting the growth of internationally competitive industries with access to global markets, taking a comprehensive approach to redevelopment at a scale that enables the realisation of an international-level investment opportunity; and

(b) any directions to STDC as to the exercise of its functions issued by TVCA (see section 220 of the Amended Localism Act). STDC must comply with any such directions for the time being in force. We understand that there are no such directions currently in force.

4.7 Under section 219 of the Amended Localism Act, TVCA may also issue guidance to STDC on the exercise of its functions. STDC must, in exercising its functions, have regard to any such guidance for the time being in force. We understand that there is no such guidance currently in force.

.....

4.19 The Finance Director of TVCA must also fulfil the role of Finance Director of STDC (as such, see provisions relating to the Finance Director as set out above).

4.20 The responsibilities of the Finance Director include:

²⁹ Project Herrington – Addleshaw Goddard Advice 24 August 2018 Michael O'Connor Partner

(a) overseeing the interface between the financial responsibilities of TVCA and STDC, to ensure the financial integrity of both organisations;

8 Discussion

8.1 The governance regime and framework relating to TVCA and STDC is comprehensive and highly regulated. The powers of TVCA, the Mayor and STDC are wide ranging and, in the case of STDC, contain specific powers designed to support STDC's key objective of securing the regeneration of the South Tees area.

However, the exercise of STDC's powers, are curtailed by the requirement for referrals to TVCA in respect of any matter which:

(a) involves a CPO;

(b) involves acquiring an interest in or forming a body corporate (this would include the acquisition of the Shares); or

(c) may result in a significant risk of:

(i) a financial liability;

(ii) a statutory liability; or

(iii) an environmental or criminal liability to TVCA or its constituent authorities.

Most of the options referred to in this Report would involve some element which would require TVCA consent and/or referral before STDC could make a final decision.

13.48. The advice confirms that the consent requirements also apply to a number of other actions including the provision of 'financial assistance' and the disposal of land at less than best consideration.

13.49. The advice confirms that, although STDC is a distinct legal entity, the legislative framework within which it operates provides that it should be subject to close oversight by TVCA through a variety of controls.

Annual Reporting

13.50. Legislation³⁰ also imposes a requirement on STDC to produce an annual report on how it has exercised its functions during the year including an audited statement of accounts, to be provided to TVCA. In order that TVCA can properly undertake its oversight function this report should include all the key decisions undertaken in order that TVCA members are fully and formally informed about the detailed activities of STDC. However, the reports as reviewed by Panel members give only general information as to progress and do not identify key decisions.

TVCA Constitution -

Matters to be Referred Back to TVCA Cabinet³¹

The TVCA Constitution includes specific requirements relating to financial implications for the TVCA arising from an STDC proposal:-

³⁰ Localism Act 2011 Schedule 21 S.10(1)

³¹ Para 93 TVCA Constitution December 2020/para 85 TVCA Constitution September 2023

“Any financial implications for the TVCA arising from a DC decision shall require Cabinet agreement through the arrangements for financial decision-making set out in the TVCA constitution.”

In addition³², it further provides:-

“Referral Decisions by the Development Corporation (defined as any decision or issue at the Development Corporation which may result in a significant risk of a financial, statutory, environmental or criminal liability to the Combined Authority or to any or all of its Constituent Authorities) shall require approval by the Cabinet prior to the implementation of any such decision by the Development Corporation.”

STDC Constitution³³

Paragraph 34

The STDC Constitution provides as follows:-

“The Combined Authority may give the Corporation general or specific directions or guidance in relation to the exercise of any of the Corporations functions. The Corporation must comply with any directions given by the Combined Authority that are in force (s220 Localism Act 2011) and must have regard to any guidance issued (s219 Localism Act 2011).”

There is no evidence that TVCA members were informed of or otherwise aware of this provision which could, in theory, enable TVCA to require more detailed information about the activities of STDC.

Paragraphs 30-38 – Referral Decisions

The following extract from the STDC Constitution reflects the TVCA Constitution by implementing a requirement that any proposed decision of STDC which gives rise to potential liability for TVCA or any of its constituent authorities must be referred to TVCA for consideration.

“30. The STDC Board shall be responsible for identifying any decision or issue which may result in a significant risk of:
a. A financial liability; or
b. A statutory liability; or
c. An environmental or criminal liability
to the Combined Authority or to any or all of its Constituent Authorities (“a Referral Decision”) and shall refer such decisions or issues to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision.”

The decision to refer is one for STDC Board members but the statutory officers are obliged to advise STDC Board as to when a Referral Decision may be required. From discussions with the Chief Executive and the Monitoring Officer it was apparent that there was a difference of opinion between Panel Members and TVCA Officers as to the circumstances which would warrant referral to TVCA for approval. The decision to change the 50/50 JV to 90/10 provides an example. The Decision Notice records that the “Statutory Officers” advised that it didn’t meet the threshold for Referral. The Panel reached a different conclusion. N.B. The decision notice wasn’t signed off by the

³² Para 99 TVCA Constitution December 2020/para 91 TVCA Constitution September 2023

³³ V9 September 2023

Monitoring Officer and instead the letters “N/A” were printed in the relevant signature box.

Tees Valley Assurance Framework (TVAF)

- 13.51. The TVAF is an overarching document produced by TVCA which provides additional detail about the governance arrangements for TVCA and amongst other provisions, includes the following:

“The Constitution therefore provides for the Mayor’s role to be embedded in the Combined Authority collective decision-making arrangements.” (TVAF Para 3.10)

“The Processes and procedures will:-

- Ensure an appropriate separation between project development and project appraisal.

- “

(TVAF Para 4.1)

- 13.52. The TVAF sets out a rigorous and disciplined approach to the assessment of proposals by requiring business cases to be provided for each proposal and in a set format. (See TVAF Paras 4.14 – 4.23).

“4.29 The key objective of the TVAF is to support the Combined Authority to make judgements about the VFM of potential investments and to accept or reject investments accordingly.” (TVAF para 4.29)

- 13.53. The Tees Valley Management Group comprises the TVCA Senior Leadership Team (Chief Executive and Directors) and the Directors of Economic Growth/Regeneration of the Constituent Authorities. The group meets twice a month and has an oversight role of the work of TVCA. It is unclear whether the initial JV or subsequent 90/10 proposal was shared with this group.

English Devolution and Accountability Framework 16 Mar 2023

- 13.54. The Devolution and Accountability Framework was published by DLUHC in March 2023 sets out how mayoral combined authorities will be scrutinised and held to account by the UK Government, local politicians, business leaders and by the residents of their area. It provides a clear steer on the importance of openness and transparency in the context of Mayoral Combined Authorities and reiterates the requirement for effective Overview and Scrutiny Committees. It is a benchmark against which TVCA, The Mayor and STDC should assess themselves. The following extracts provide an indication of the aspirations contained within.

“Foreword

The accountability system described in this framework acts as a safeguard against unethical behaviour, inadequate performance and poor value for money for the local taxpayer by placing a focus on transparency and scrutiny. It will ensure that local councillors are empowered to provide effective scrutiny through a new Scrutiny Protocol. And that local media and residents are able to hold leaders and institutions to account with accessible information about their role and performance of the leaders through plain English guidance and published outcomes showing the progress areas have made. It will improve the decision-making process and allow greater progress in delivering levelling up to all areas that have agreed devolution deals.”

"The English Devolution Accountability Framework is structured around the 3 key forms of accountability:

- *local scrutiny and checks and balances*
- *accountability to the public*
- *accountability to the UK government"*

"Providing Appropriate Scrutiny

"2.20. The Scrutiny Protocol will focus on ensuring that each institution has a sustained culture of scrutiny. Membership on committees should be prized and competed for. Retention of members for several years should be common. Members should be able to devote the time to the role. And the committees should have the profile and cachet to ensure that their findings are brought to the attention of the public wherever necessary.

2.21. Committees should have easy access to relevant data to support their role. They should be supported by a well-resourced team of clerks, regular training opportunities and access to research and analysis capability."

Confidentiality

- 13.55. An extract from the Local Government Transparency Code 2015 which is cited in the Tees Valley Assurance Framework.

"Commercial confidentiality

20. The Government has not seen any evidence that publishing details about contracts entered into by local authorities would prejudice procurement exercises or the interests of commercial organisations, or breach commercial confidentiality unless specific confidentiality clauses are included in contracts. Local authorities should expect to publish details of contracts newly entered into – commercial confidentiality should not, in itself, be a reason for local authorities to not follow the provisions of this Code. Therefore, local authorities should consider inserting clauses in new contracts allowing for the disclosure of data in compliance with this Code."

TVCA Scheme of Delegation to Officers

- 13.56. As with other organisations it is essential for local authorities to provide for the exercise by its officers of decisions on behalf of the authority and schemes of delegation are the instrument through which this is recorded. They form a key part of the governance architecture and usually provide broad delegations to the most senior officers but set limits by way of reservations, requirements to consult and/or financial thresholds. Due to the nature of local authority functions it is also common to find reservations on the basis of potential impact upon local communities or likelihood of political controversy.
- 13.57. TVCA's scheme of delegation for officers is found at Appendix iii of the TVCA Constitution and contains much that is familiar in this context including broad delegations to senior such as the following to the CEO:

"HPS4: To take all action which is necessary or required in relation to the exercise of any of the Combined Authority's functions or the functions of the Mayor (other than those functions which by law can be exercised only by the Combined Authority or by the Mayor), having regard to the Combined Authority's or Mayor's approved plans, policies or strategies and the Combined Authority's budget, and all enabling legislation."

13.58. However, there is an absence of financial thresholds or reservations for politically sensitive or controversial matters. Although this may facilitate agility/ease of decision-making it risks undermining the necessary and appropriate political oversight/accountability for decisions. There is a risk that officers will, for reasons of expediency, be tempted to use the permissive delegations to the full extent whereby scrutiny of decisions would be significantly reduced. When combined with a culture of unwarranted levels of confidentiality, transparency and therefore accountability, will be impaired.

Consideration whether the governance provisions met in reality

13.59. As confirmed by Addleshaw Goddard and Counsel, the combination of the legislative requirements and the provisions arising from TVCA and STDC Constitutions makes it clear that the intention is for TVCA and the Mayor to have close oversight of STDC and its activities with the ability to issue mandatory guidance and/or directions to STDC and requirements that STDC shall seek the Mayor's (or TVCA's) consent before acting.

13.60. The expectation of such levels of governance and accountability is understandable given the large sums of public money being put at the disposal of STDC and the risk profile of its activities. Any liability arising from STDC is, in default, likely to sit with TVCA which is another reason why access to information for TVCA members is an important democratic safeguard and this is certainly the case if STDC is unable to repay the long term loans advanced by TVCA.

13.61. At the time of the 50/50 JV and 90/10 JV decisions the legal advice under which STDC was operating identified the requirement for TVCA consent for specified actions by STDC. In the event TVCA consent wasn't specifically sought for the 50/50 JV nor for the move to 90/10. The need to enable wider democratic scrutiny of the actions it was proposing to take. This is particularly important given the small group of senior officers and the Mayor, who were required to wear several hats due to their multiple appointments. This gives rise to a risk of 'group think' due to the absence of challenge. The Panel members formed the opinion that the practice of decision-making around the significant decisions fell short of what was envisaged in the governance framework and what would be considered best practice in the context of this project.

13.62. TVCA/STDC Officials commissioned legal advice in respect of the above matters and the related issue of where ultimate liability rests. The following are some extracts from that advice³⁴.

15. A Mayoral development corporation is a public authority.

16. A corporation is given a very broad power to do anything it considers appropriate for the purposes of its object (the regeneration of its area) or for purposes incidental to these purposes (s 201). Specific powers of a corporation are in ss 206 – 210 of the 2011 Act. The specific powers are also to be exercised for the purposes of its object and for purposes incidental to its purposes. Some specific powers are qualified and need in certain circumstances, the consent of the Combined Authority. For example, disposal of land for less than best consideration (s 209(1)), formation of business and subsidiaries and the financing thereof (s 212) and the provision of financial assistance (s 213). Consent by the Combined Authority may be given unconditionally or subject

³⁴ **Leo Charalambides** Counsel - 9th Oct 2023

to conditions and may be given generally or specifically (s 221(1)) and may be varied or revoked (s 221(2)).

18.I am of the view that the effect of these amendments is to support and enhance the review and guidance of the Corporation by the Combined Authority and assist in the reporting of the actions of the Corporation to the Combined Authority. (The statutory monitoring is bolstered by the Constitutional arrangements for a Referral Decision (see below)).

23. In summary a Combined Authority creates a Mayoral development corporation; it keeps the existence of the corporation under review and ensures that the corporation is assigned a monitoring officer who reports thereon. The Combined Authority has a supervisory function in that certain functions of the corporation need the consent of the Combined Authority. The Combined Authority gives guidance and may issue directions which must be followed. The Corporation is monitored by the Monitoring Officer of the Combined Authority.

24. In summary a Mayoral development corporation is an independent legal body; it is not a committee of the Combined Authority. As a public authority it has a relationship with the Combined Authority that created it and exercises its functions within its aims and objects. Like other public bodies a corporation is reviewed and monitored by the Combined Authority and its monitoring officers. Despite having broad powers certain decisions are subject to consent (in effect supervision) by the Combined Authority. The corporation must also have regard to any guidance issued by the Combined Authority and must comply with any directions made by it.

36. There is significant overlap between the members of the TVCA and the board of the STDC; the STDC constitution requires collaboration and co-operation between it, the TVCA and its constituent members. There is evidently scope for a blurring of boundaries where persons and bodies overlap. It is, therefore, essential, that the clear legal independence of the STDC is clearly understood and observed.

13.63. During the evidence gathering the Panel members have sought to compare the governance framework as envisaged with the reality of what happens in practice. There is little evidence of STDC referring to or seeking consent from TVCA Cabinet on matters that would appear to fall within the relevant categories or due to their nature might reasonably be regarded as of legitimate interest to TVCA members.

13.64. This was reflected in concerns raised by some interviewees as to what they perceived as the lack of information made available to them regarding the detailed activities of STDC and TWL. There was no evidence of advice having been provided to TVCA members regarding the extensive powers available to TVCA to compel STDC to share information. In contrast the evidence indicates a lack of information being shared with TVCA and a collective view that STDC may act largely independently of TVCA and without public accountability. There was a view amongst officers and Councillors of the constituent authorities that there was no risk of liability to them and as such the level of scrutiny afforded was aligned with the perceived risk.

13.65. An example of what appears to be a persisting theme or culture of excessive confidentiality/lack of transparency is highlighted by the stances adopted with the Overview and Scrutiny Committee which was advised by the Monitoring Officer in 2021 that the committee's remit didn't extend to STDC. The examples of declined Fol requests has also provided further evidence of a tendency towards unwarranted levels of

confidentiality. We also understand that scrutiny members do not have access to confidential cabinet reports so are unaware of when cabinet is taking decisions relating either to TVCA itself or STDC.

14. Decision making in respect of the JV

Summary of the initial proposed JV Deal between STDC and the JV Partners

- 14.1. The JV Partners proposed a deal with the Mayor whereby in return for STDC entering into a 50/50 JV agreement with the JV Partners (involving a 50% stake in the value to be derived from the subsequent re-generation/development of the Teesworks site and the grant to JV Partners of options over the land), the JV Partners would use their RBT Option as leverage to negotiate a Settlement Agreement with SSI whereby it would withdraw its objection to the Compulsory Purchase Order in return for 300 acres of its land and surrender of the RBT Option.
- 14.2. Although not specifically obliged to do so, the JV Partners also offered their knowledge and expertise in support of the project.
- 14.3. The potential benefit/value for the JV Partners was to be derived from the following sources:-

- i) The increase in the value of the land resulting from demolition and remediation and identifying potential tenants – i.e. the difference in the cost of STDC acquiring the land and the sale price/income stream of the land when sold/leased. Under the Option Agreement TWL were granted options to purchase covering all the land within the site.

N.B. The mechanism for distributing this value to the Partners initially involved a Commission Agreement which provided for the payment of a fee to the partners via a separate company amounting to 50% of the uplift in land value from the 'Base Value' to the 'Market Value' at point of exercise of their option. TWL would then realise its profit through onward sale of the land the payment for which would constitute a profit. As part of the change to the JV 90/10 arrangement, (August 2021), this mechanism was changed in that the Commission Fee Agreement was removed but the land was transferred to the Partners at Nominal value, i.e. £1, thereby enabling the transfer of the uplift but at a minimal transaction value. Counsel had advised that the Commission fee payment as drafted was a breach of Subsidy Control requirements because part of the uplift arose from public sector investment in remediation and demolition and this should be discounted in any Commission fee calculation.

- ii) The value of recyclable materials on the land, (e.g. steel, aggregates estimated at £120m)

N.B. It should be noted that the establishment of new industrial premises on the regenerated land would also give rise to Business Rate income to the public purse.

14.4. TWL, (originally named South Tees Enterprise Ltd STEL) was the corporate vehicle to be used to encapsulate the JV between STDC and the JV partners. Initially, the risk/reward mechanism was a 50/50 division of shares.

14.5. The functional purpose of TWL is described as follows:-

“The role of STEL/Teesworks is to direct the deliverability of the land, to accelerate the process whereby the land becomes development and market ready rather than unsaleable as at present and to drive up the realisable value of the land from what are low or nominal base values.”

(Para 1.7 Lytollis)

Establishment of Joint Venture between STDC and the JV Partners

JV Arrangement

14.6. As regards the JV Partners engagement on the Teesworks project, there was no formal procurement process, the rationale being that the JV Partners were in a unique position due to their having an option over the RBT Land. Both the Mayor and the Chief Executive explained that there was no negotiation as the JV Partners proposal was ‘take it or leave it’.

14.7. The JV partners were already parties to an existing joint venture with TVCA which related to the development of the land surrounding the Teesside Airport. It is understood that the process of selection and appointment as JV partner for the Airport project was similar in that it didn’t utilise a public procurement methodology or process.

14.8. The structure of the Teesworks JV arrangement was straightforward in that it involved the use of a company owned by the JV Partners, South Tees Enterprise Ltd (STEL), which issued and transferred shares to STDC in order to create a 50/50 shareholding between STDC and the JV Partners. A shareholder agreement between the JV Partners and STDC was entered into which amongst other things noted that the business of the JV Company was³⁵:-

2.1 The business of the JVC is the development and commercial exploitation of land south of the River Tees broadly contiguous with the South Tees Development Corporation boundary.

2.2 Each party shall use its reasonable endeavours to promote and develop the business to the best advantage of the JVC.

14.9. For completeness, it is noted that in 2019 the Mayor/STDC had been approached by another developer with a joint venture proposal, Able Ports Limited - a large land-owner with interests in ports along the North Coast. The offer was considered by the STDC board on several occasions on one of which KPMG presented a summary of Able Ports financial robustness as part of the STDC process of due diligence. However, ultimately, the STDC board rejected the proposal because they weren’t convinced that Able Ports had access to sufficient finance to deliver a project of this nature. The Panel is not aware that TVCA

³⁵ Extract from Shareholder Agreement 2020-03-13

were at any stage made aware of this alternative proposal or advised of the decision not to pursue.

- 14.10. The Mayor considered the proposal and weighed up the options of pursuing the CPO or negotiated settlement with SSI, facilitated by the leverage of the JV Partners' Option. The Mayor took account of the following factors:-
- The risk that CPO would be unsuccessful in whole or part.
 - If the CPO was successful the valuations may prove unaffordable for TVCA.
 - The CPO process might take too long to enable maximum exploitation of the available public funds or concessions.
- 14.11. Against that there were the following factors arising with the JV:-
- Loss of control by TVCA/STDC.
 - Reduction in financial reward for TVCA/STDC which would offset the significant amount of public money spent to make the site viable and attractive.
 - Loss of potential long term income stream from tenants.
- 14.12. In light of the above, the Mayor concluded that the balance of risk fell in favour of the 50/50 JV and related Settlement Agreement approach. The proposal was considered by the STDC Board at a meeting on 10th February 2020 which gave approval for the Chief Executive to conclude both the JV and the Settlement arrangement. These were separate agreements signed off at different times during February and March 2020.

15. Settlement Agreement between STDC and SSI/Thai Banks SA1 & SA2

- 15.1. As a result of negotiations in late 2019 and early 2020 between the Mayor, STDC Officers, JV Partners and SSI, the basis of a settlement was formulated whereby SSI would withdraw its objections to the CPO in return for STDC transferring to it 330 acres of the CPO land and the JV Partners RBT Option land to enable it to pursue development of the Redcar Bulk Terminal. The agreement, referred to as SA1 was prepared and signed on 20th February 2020.
- 15.2. SA1 didn't come to fruition because the Thai Banks, SSI's creditors, didn't agree to the deal. In its place a second agreement (SA2), was hastily negotiated and completed on 14th July 2020. This was a more straightforward settlement which didn't involve the JV Partners RBT Option and provided for the transfer of all of SSI's land to STDC at the cost of £15m.
- 15.3. The key differences between SA1 and SA2 were as follows³⁶:-

"(1) The consideration for the SSI land under the SA1 is a nominal amount whereas STDC pays to the Thai Banks £15m under SA2.

(2) Under the SA1, SSI PCL has options to purchase the Plot 1b and Lackenby land each for the sum of £1. There are no such option agreements under the SA2. This means that under the SA2, STDC receives 100% of the uplift in the Market Value of Plot 1b and the

³⁶ (Lytollis para 3.50)

Lackenby land which together aggregate to 177 hectares (437.8 acres). DCS is paid the 50% commission.

(3) Under the SA1, STDC undertakes to complete the ground remediation and restoration works of Plot 1b at a cost to STDC of £24m. There is no such obligation under the SA2 and whilst it will still fall upon STDC to remediate Plot 1b the Corporation will receive 50% of the uplift in the Market Value of 133.5 hectares (330 acres) of land for which it would otherwise have received a nominal £1 under the SA."

Decision Making – Joint Venture Arrangement and Settlement Agreement 1 (SA1)

- 15.4. The proposed CPO of Tata and SSI land and its regeneration for development had emerged in 2017 and on the 25th July 2018 the STDC Board had resolved to make one or more CPO for this purpose.
- 15.5. On 24th January 2019 the TVCA Cabinet approved £56m funding for land acquisition and investment plan support for STDC.
- 15.6. On 29 January 2020 the Chief Executive verbally reported that an alternative approach had emerged which might mitigate some of the risks identified in respect of the CPO process such as the potential for delay and objections such as that raised by SSI/Thai Banks.
- 15.7. The new approach had arisen following a proposal from Chris Musgrave and Martin Corney to the Mayor and the Chief Executive, suggesting that they may have commercial leverage over SSI which would enable a mutually agreeable settlement to be reached.

16. STDC Board Decision Regarding JV Agreement and First Settlement (Agreement SA1)

- 16.1. On 10th February 2020 the STDC Board considered a written report and purported to grant its approval to the following recommendations:-
 - Approves the CPO Compromise Agreement proposed with Sahaviriya Steel Industries UK Limited (in liquidation) and Sahaviriya Steel Industries Public Company Limited and DCS Industrial Limited and DCS Industrial (South) Limited and [Redcar Bulk Terminal Limited]
 - Approves the Shareholder and Subscription Agreement for South Tees Enterprise Limited ("the Joint venture" or "STE") and the associated purchase by South Tees Development Corporation of 50% equity stake in STE and approves all necessary related documents that give effect to the operation of the Joint Venture;
 - Approves the Shareholder and Subscription Agreement for DCS industrial (South) Limited (DCSIS) and the associated purchase by South Tees Development Corporation of 100% equity (this entity will hold the former SSI land/assets) and approve all necessary related documents that give effect to the operation of this acquisition;
 - Approves the option agreements in respect of all STDC owned land in favour of STE;

- Approves the land transfer of all freehold land interest currently within South Tees Developments Limited (former Tata Steel Land) to STE;
- Approves the move towards transition and local ownership of the STSC once the financial details of the relevant business cases are finalised and subject to the confirmation from the Secretary of State that BEIS will retain responsibility for funding the decontamination project that removes the Top Tier COMAH status from the site;
- Approves the entering into the Management Agreement with STSC in substantially the same form at the current Agreement;
- Approves the initial development costs up to £2.3m in respect of South Bank Wharf to conduct the preparatory work to support obtaining the necessary consents, permissions and approvals from external parties to develop quay facilities and associated land requirements. Any further proposals on the financing of the Quay and associated Business Case would be brought back to Board for consideration and approval; and
- Delegates authority to the Chief Executive Officer, Director of Finance and Resources and the Chair of the Board to complete all the necessary approvals to give effect to the transactions set out in this report.

16.2. In this context there are a number of concerns regarding the content of the report and the nature of the proposed approach to the decision-making process. The approvals being sought from STDC concern the settlement agreement SA1 and the Joint Venture arrangements which between them have significant implications for STDC, its future revenue streams and land it holds as a public authority for public benefit. These agreements require the transfer of ownership of CPO land and the acquisition by STDC of company shares.

16.3. The report itself, which is comprised of 14 pages including appendices, didn't include any specific legal advice regarding the proposed arrangement and in particular the potential for State Aid and the implication of the Public Contract Regulations which were binding on STDC as a public body. The potential for these issues had been raised by the then current legal advisors to STDC. The report noted that legal agreements were in the process of being drafted and would be made available to STDC Board Members if requested.

16.4. As the extract from minutes of the meeting record show, the STDC Board purported to have 'Approved' both of these transactions.

"RESOLVED that: The Board agreed unanimously to the Compromise Agreement, Joint Venture and related documents and delegated authority to the Chief Executive, Director of Finance and Resources and Chair of the Board to finalise negotiations of these agreements and enact them as required."

16.5. In 2018 Addleshaw Goddard advised STDC that, in respect of certain types of decision, including acquiring an interest in a company, its powers were conditional on obtaining the consent of the TVCA. (See para 13.46 above). This view was reiterated by Leo Charalambides, counsel who advised STDC in October 2023. The relevant part of his advice is found at paragraph 16, (09-10-23), as follows

"Some specific powers are qualified and need in certain circumstances, the consent of the Combined Authority. For example, disposal of land for less than best consideration

(s 209(1)), formation of business and subsidiaries and the financing thereof (s 212) and the provision of financial assistance (s 213). Consent by the Combined Authority may be given unconditionally or subject to conditions and may be given generally or specifically (s 221(1)) and may be varied or revoked (s 221(2)).”

- 16.6. The effect of the advice is that, without the consent of the TVCA, the STDC Board itself, doesn't have the power/authority to agree the SA1 settlement agreement or the Shareholder Agreement and associated documents. As such the Board's purported decision on the 10th February 2020 was only provisional in nature.
- 16.7. As explored more fully below, at its meeting on 13th March the TVCA Cabinet was asked to consider a report relating to the issues mentioned above. The Officer recommendation was for the TVCA to relinquish its power of 'consent' by delegating it to the STDC in respect of the acquisition of shares by STDC.
- 16.8. However, there is a further development in this aspect of the review which arose late in the day due to clarification being sought by the Panel from DLUHC as to its interpretation of the relevant 'consent' provisions arising from the 'modified' Localism Act 2011. On 7th December 2023 DLUHC officials confirmed the department's view that it was in fact the Mayor who held the power of 'consent' and not TVCA. There was agreement that the method by which the legislative framework for this Mayor and Combined Authority is created by 'modifying' legislation on which the Mayor of London is founded, is convoluted and prone to differing interpretations, as to which the present circumstances attest. It is far from user friendly and would benefit from revision to improve its clarity.
- 16.9. As regards the content of the report to STDC Board there is no mention of the alternative offer from Able Ports although discussions with them had been ongoing for some months. Nor does it contain any analysis of the estimated value that will be transferred to the JV Partners as a result of the establishment of the JV. There is no reference to the potential value of scrap and other recyclables on the land which have subsequently yielded over £100m of value to date. There was no reworking of the financial model to recognise the impact of the JV.
- 16.10. The explanation of the JV omits to cover important details such as the absence of any obligation on the part of the JV partners to input any funding or deliver any outcomes. There is no Partnership Agreement setting out the obligations of the partners.
- 16.11. There is no explanation of the land options to be granted to the JV Company (TWL) as part of the Joint Venture arrangement. These are of fundamental importance for the deal because they grant an exclusive right for the JV partners to acquire all or parts of the site over a 30 year period. The Options were granted at nominal cost and as originally drafted were exercisable at market value. These options are significant in their extent and effect. The intended outcome was that any uplift in value of the land would be shared 50/50 between STDC and the JV Partners.
- 16.12. Entering a Joint Venture Deal of this nature and potential value was a very significant step for STDC which would have long term financial implications due to the fact that 50% of any value to arise from the project would be diverted from STDC to the JV and/or the JV Partners separately. Remediation work would still be funded by STDC and as such TWL would benefit from the substantial amounts of publicly funded assistance which would be deployed to clear and remediate the site and make it more developable and therefore more valuable.

- 16.13. This is not to say that there weren't credible reasons for taking such a course of action but in a situation where there is such a significant change in plan at a relatively short notice it would have been appropriate to provide a more detailed explanation/analysis of the impacts and assurance in the form of clear and full legal and financial advice as to the risks and safeguards. The report notes that the legal documents were being prepared and copies could be made available in due course if requested.

TVCA Cabinet

- 16.14. On 13th March 2020, the Director of Finance and Resources, submitted a report to the TVCA Cabinet described as a 'Compulsory Purchase Order and Joint Venture Partnership for South Tees Development Corporation'. In contrast to the report on a similar subject submitted to the STDC Board on 10th February, the report to the TVCA Cabinet occupies just two sides of A4 and states that it has been produced to 'update' the TVCA Cabinet notwithstanding that this was the first time the TVCA had formally been made aware of this proposal.
- 16.15. The recommendations on page 2 of the TVCA report as set out below seek approval for STDC to enter the JV by subscribing to shares of the JV Company and secondly recommends that TVCA delegate to STDC, its 'consent' powers under the Localism Act 2011, in respect of STDC. As noted above the accepted interpretation at that time was that TVCA held the power to consent. As such this was a counterintuitive approach because if agreed, STDC would have the power of consenting to its own proposals and this would have had the effect of limiting TVCA oversight of STDC. However, under the recently shared DLUHC interpretation the power of consent sits with the Mayor and as such it is the Mayor who should have formally consented to the STDC's acquisition of shares and other aspects of the JV 50/50 arrangements such as disposal of CPO land via grant of options and granting financial assistance to TWL via sale of scrap.
- 16.16. The recommendations were that Cabinet approves as follows:-
- i. Cabinet hereby grants approval to STDC to subscribe to shares to give effect to the Joint Venture arrangements designed to enable the comprehensive regeneration of the South Tees Development Area. This shall include consent to exercise the relevant necessary powers within Part 8, Chapter 2 of the Localism Act 2011, including but not limited to the power to provide financial assistance under s213 of the Localism Act 2011, and any other associated necessary actions under s201(2) general powers.*
 - ii. Cabinet is requested to note that there are no financial implications to TVCA as a result of this deal.*

Paragraphs 2 and 3 state:

"An agreement has been reached involving multiple parties that sees some of the land being purchased through a pre-agreed value at CPO and other parts through direct agreement. This will allow acquisition of the land to come forward much more quickly than through a standard CPO process, reduce the risk of challenge and ensure the acquisition price at a level well within the budget allocated to STDC.

Consequently, this is not a referral decision by STDC and there are no financial implications to TVCA in the deal."

- 16.17. Due to the nature of the joint venture arrangements, it is hard to see how the conclusion that these decisions didn't fall within the referral criteria was arrived at. Entering into the 50/50 JV arrangements had a number of significant implications not least of which was the fact that future financial returns to STDC from the site would be reduced by 50% with the other 50% going to the JV and JV Partners and partly paid as tax. In addition, options to purchase all or any of the land comprised in the site were granted to TWL and the JV Partners were entitled to 50% of any land value uplift.
- 16.18. Under the 'Consultation & Communication' section of the report it states that;
"7. This report provides the consultation and communication with TVCA to support the delivery vehicle aspects of the CPO decision."
- 16.19. The overall tenor of the report implies that the shift to a JV/settlement model, as opposed to CPO/Settlement, isn't significant but merely part and parcel of the envisaged regeneration project. Given the significant and material impacts arising from the move to a JV/Settlement approach, including that of financial impact due to the sharing of value with external partners, the Panel members were surprised that the report contains so little detailed explanation and implies that there aren't any material implications directly arising from this change in approach.
- 16.20. The report contains no reference to legal or financial advice and no detailed explanation as to the mechanism by which the JV arrangement/vehicle would operate or how this will affect governance of the project and the distribution of value between the JV Partners.
- 16.21. A key practical result of entering into the JV is that two or three privately owned companies would likely receive significant financial returns arising from uplift in land value and income from the sale of recyclable materials both of which are directly enabled by publicly funded remediation works. The report would have been more useful in governance terms if it had set out the basis on which the 50/50 surplus share was deemed to constitute value for money and provided a clear statement of the obligations being undertaken by the JV partners in return for their likely financial rewards. It would also have been appropriate to include consideration of any potential State Aid/subsidy control implications.
- 16.22. The Mayor and senior officers argue that it was a commercially advantageous and astute arrangement which ultimately benefited the public but, in terms of openness, transparency and informed decision-making the process fell short of what would reasonably be expected in the context of local authority decision making and significant public expenditure. The lack of transparency and scrutiny of this nature may have a corrosive effect on public trust which lead to less robust decision making.
- 16.23. The recommendation as recorded in the minutes and the decision notice is different to that in the report. It purports to provide an extensive delegation of powers to STDC which effectively removes the checks and balances which were understood to be provided by the legislative framework. It isn't clear from the minutes if the changes arose from an amendment but there is a note confirming that the Monitoring Officer proposed an amendment which appears to be seeking to narrow the extent of delegation from TVCA. The result is an ambiguous record which lacks clarity as to the precise extent of the delegation. Additionally, there is doubt as to whether the TVCA was lawfully able to 'delegate' powers to STDC as set out in the minute of the TVCA meeting.
- 16.24. Approving a recommendation of such significance without any written legal, governance and financial advice isn't good practice because it isn't clear that the decision-makers were properly informed of the consequences of their decision. The Monitoring Officer and

other statutory officers should have intervened with a view to ensuring that the decision was clarified and the decision makers properly informed.

- 16.25. Turning to the TVCA's other checks and balances which included the Overview and Scrutiny Committee, there is no evidence of any scrutiny of this material change in approach by the Overview and Scrutiny Committee. This is at odds with what would be expected for a decision of this nature and scale.

Decision Making – Second Settlement Agreement SA2

- 16.26. It transpired that the Thai Banks didn't conclude the first settlement agreement SA1 and on 15th May 2020 STDC served a notice of termination.
- 16.27. In its place a second settlement agreement (SA2) was prepared which was simpler in that it involved a single payment of £15m to SSI/Thai banks to transfer their remaining land holding. The option over RBT land held by the JV Partners became obsolete at this point because SSI/Thai banks no longer had any plan to develop the RBT land and the CPO had been granted.
- 16.28. The SA2 deal which involved new expenditure of £15m was agreed by written resolution on the basis of a 3-page report circulated to STDC Board Members on 14 July 2020. The second settlement agreement was signed the same day. During interviews, it was apparent that there was a lack of awareness of the second agreement and at least one STDC Board member confirmed they were unaware of a second settlement agreement.
- 16.29. The Chief Executive's report to the STDC Board held on the 3rd June 2020 makes no mention of the default and termination of SA1 nor the negotiation of and signing of SA2 which had a number of key differences to SA1 including the £15m cost of land purchase.
- 16.30. The Chief Executive and the Mayor were asked whether any consideration was given to reviewing the 50/50 JV at that point, but they indicated there was no appetite to review. There is no evidence of any discussion or review either formal or otherwise amongst the wider STDC Board Members or TVCA members.

Supplemental Deed V3

- 16.31. On the 11th June 2020 a Deed entitled 'Supplemental Deed' was signed by the STDC Chief Executive and the JV Partners. The innocuous title and diminutive page count contrasts with the practical impact of this legal document which amends the three option agreements signed in March 2020 which granted options to the TWL over the entire Teesworks site.
- 16.32. The amendments added wording which provided express permission for the TWL to enter any of the option land and to remove all minerals, aggregates, metals and, equipment and structures and that title to such items passes to TWL on removal from the Property. The effect of this was to transfer to the JV Partners 50% of the value of the recyclable materials.
- 16.33. The significance of this change isn't fully apparent until the full value of the recyclable materials is known. The indications from the cash flows moving through the TWL which it is understood arise from the sales of the recyclable materials, show the value is in excess of £100m. This is considered to be a conservative estimate of the full value but precise figures haven't been available. Estimates within STDC documents have indicated the full

value to be £150m, which means that the Deed had the effect of transferring £75m to the JV Partners.

- 16.34. In addition, amendments provide that the 'Owner' (STDC) shall not remove from the property or dispose of any of the recyclable materials without the prior consent of the TWL or as directed by the TWL. This is a notable provision because it has the effect of preventing the land-owner (STDC), from removing their own recyclable material from their land without first obtaining the consent of the TWL. On the face of it such a clause is at odds with the spirit of a 50/50 Joint Venture.
- 16.35. The impact is magnified by the changes to the beneficial ownership of TWL which were set in train in August 2021 and which resulted in STDC transferring 80% of its shares to the JV Partners leaving the ownership as follows STDC: 10% - JV Partners: 90%.
- 16.36. There is no evidence of any formal decision-making process regarding the signing of the Supplemental Deed and given its financial impact alone (£75m) it should have been taken to the STDC Board for consideration and decision. It is arguable that a referral back to TVCA under the referral mechanism or for consent as Financial Assistance pursuant to S.213(1) LA 2011, was appropriate.

17. Decision-Making re JV 2

- 17.1. During the summer of 2021, the Chief Executive brought forward a proposal to the STDC board initially by a presentation followed by a report shortly after. In summary, it was proposed to change the ownership of the TWL from 50/50 deadlock company to a 90/10 division of shares in favour of the private sector partners. This proposal, if implemented, would result in a significant change in the JV arrangement to such an extent that it must be characterised as a new arrangement.
- 17.2. The 50/50 joint venture status was fundamentally altered with STDC relinquishing 80% of its stake in TWL with corresponding reduction in the financial benefits both in terms of revenue and asset value. STDC lost all meaningful control over the running of TWL as it could be outvoted by the JV Partners on all decisions within TWL. The proposed 90/10 model cannot reasonably be characterised as a JV Company in the same sense as the initial JV arrangement.
- 17.3. Conversely, the proposal resulted in a significant improvement in the financial outcome for the JV partners and they also achieved effectively absolute control of the company to the extent that the JV partners would be able to take almost any decision without the necessity of obtaining the agreement of STDC.
- 17.4. In addition to the change in ownership and control, the revised model included a change to the valuation of land in the land options granted to TWL in 2020. As originally drafted and agreed, the options provided for a land value based on market value formula. The amended options substituted the market value for a fixed value of £1. On the face of it this has the potential to significantly increase the financial returns available to TWL and the JV Partners and conversely reduce the proceeds realised by STDC on sale of the land to the JV Partners.
- 17.5. Due to the variations in the value of parts of the Teesworks sites this fixed valuation is likely to result in sales at less than best consideration. This is acknowledged in the STDC Decision notice dated 26th November 2021 which records that the Mayor provided

approval pursuant to S.209(1) LA 2011, for disposal at less than best consideration. However, the legal advice previously received by STDC³⁷ advised that the TVCA was the consenting body for such transactions for such disposals. As mentioned above, on 7th December 2023 DLUHC confirmed their view that the power of consent for such transactions rests with the Mayor. The question remains as to whether the proposed decision was entered on the TVCA forward plan and whether a decision notice was issued to enable the Overview and Scrutiny Committee to review and potentially exercise Call-In.

- 17.6. Other related changes include the Commercial Deed re Land Value dated 26th November 2021 which amongst other things provides for the payment to DCS (a JV Partners company), of a fee for unspecified 'marketing services' of up to 50% of the net land value of the GE site. This is to be paid within 7 days of the receipt of the net land value.
- 17.7. The Commercial Deed re Land Value also provides that in the event TWL undertakes, prior to disposal, any works to make the GE site Development Ready, the Disposal payment shall be reduced by the amount which TWL incurred. This would have the effect of reducing the value paid to STDC for the sale of remediated land to TWL.
- 17.8. Taken as a whole, the combined changes which comprise what we refer to as JV2 were wide ranging and significantly improved the position of the JV Partners to the detriment of STDC. Because of the obvious potential for this to become a controversial decision it is the Panel's view that in the interests of good governance, transparency and accountability TVCA should have been involved to a greater extent in scrutinising this decision to assess whether it constituted value for money.
- 17.9. The proposal had been brought to the STDC Board as a presentation on 12th August 2021 and as a report for approval at an extraordinary meeting of the STDC Board on 18th August 2021. The key reason given as the driver for JV2 was the stated need to accelerate the remediation process in order to more fully exploit the tax concessions associated with the Freeport status which had been announced in March 2021. In turn the consequence of acceleration would be a faster depletion of the available public funds for regeneration and, due to the finite nature of public funding, the only source of further funding would be from the private sector.
- 17.10. The report³⁸ is based on the assumption that continuing with the existing approach isn't an option and focuses solely on the need to accelerate and transfer to private sector partners option as the following extract demonstrates.

"25. It is clear, therefore that to move the site forward, equity rather than debt capital is required and consequently discussions have been had with the JV partners as to their appetite to either bring in new equity partners or move the site on themselves. Any such decision can only be made with their agreement and their preference is to take the site forward themselves as they believe that they have the skills to do so, and our experience with them to date supports that view."

- 17.11. There is little by way of substantive evidence to support the necessity for changing the structure or for the extent to which it is amended. The result of the changes significantly benefits the JV Partners and there is little in the way of contractual obligations impacting

³⁷ Addleshaw Goddard LLP 2018

³⁸ Report to STDC Board dated 18th Aug 2021 para 25

on the JV Partners in consideration of the additional shareholding and future revenue stream.

- 17.12. The counsel's opinion attached to the report is based on the 50/50 JV which is materially different from the 90/10 JV particularly in the context of applying the "market economy investor" principle. A further opinion was subsequently obtained in October 2021 which, subject to the caveat that Counsel hadn't been provided with any financial modelling, advised that a court would be more likely than not to find that the arrangements didn't constitute unlawful state aid³⁹. Counsel's opinion was also based on the premise that the whole site was to be transferred to the JV whereas, the reality TWL is able to drawdown individual plots (minimum 1 acre) and under no obligation to draw down any particular plot. This enables TWL to "cherry pick" the sites which impacts on the valuation of the land and may, depending upon site drawdown, give rise to a positive valuation.
- 17.13. In terms of wider scrutiny of the decision to re-negotiate the TWL JV from 50/50 to 90/10, it appears that, notwithstanding the significant financial implications arising to both TVCA and STDC from this decision, it wasn't regarded as warranting any referral back to TVCA either for consent, referral or for their information. There is no evidence of any formal referral to Overview & Scrutiny or Audit & Governance committee.

N.B. Para 93 of the TVCA Constitution states;

"Any financial implications for the Combined Authority arising from a Mayoral Development Corporation shall require Cabinet Agreement through the arrangements for financial decision-making set out in this Constitution."

- 17.14. The Panel felt that when other key details of the change are considered A decision of such magnitude warranted wider scrutiny. For instance, one of the related changes was to re-value the option land at £1. This was explained to be in return for the commitment of TWL to undertake future remediation and development activity. However, the legal documentation doesn't impose any such obligation on TWL to undertake remediation and there is no evidence that TWL has yet done so.
- 17.15. It is noteworthy that at the point when the JV 90/10 was enacted and up to the present day, it is understood that the JV Partners have yet to introduce any equity or loan funding into TWL. They have received at least £45m from the sale of recyclables. TWL has received £93m from the sale of an Income Strip investment relating to the SeAH wind farm facility. TWL has made payments to TVCA and STDC as well as HMRC for tax due. £63m is retained to fund development works and future commercial obligations.
- 17.16. The Monitoring Officer has a key role to play in advising as to the legal/constitutional requirements for proposed decisions and whether they should be regarded as 'Referral Decisions'. The decision notice contains a box for the signature of the Monitoring Officer but there is no signature and in its place are the letters 'N/A'. Given the significance and complexity of this decision it would have been appropriate for the Monitoring Officer to sign this off.
- 17.17. A significant amount of remediation work had already been undertaken funded by the public purse and this had undoubtedly improved the value of the site and more particularly some individual plots within the whole. The absence of any contractual requirement for TWL to undertake further remediation/development on any particular plot gives rise to the

³⁹ Opinion of Hugh Mercer QC - Essex Court Chambers – 26th October 2021 -

risk that they might cherry pick the readily developable sites and neglect the others. This risk isn't mentioned in the report.

N.B. Para 3.8 of TVCA Financial Regulations App III of the TVCA Constitution;

“3.8 The Director of Finance and Resources shall also be responsible for overseeing and identifying any risks to the Combined Authorities finances which may arise from the creation or operation of Mayoral Development Corporations. This responsibility shall be reflected in the constitution and financial arrangements of any Mayoral Development Corporation.”

- 17.18. Throughout the period during which this proposal was being considered, its existence and nature was confidential and there was apparently no formal consultation within TVCA Cabinet. This level of confidentiality regarding a decision with such significant consequences both in terms of public finances and wider control of the Teesworks project, appears at odds with the Constitution, legislation and guidance and with the benefit of hindsight may be seen as an omission which has exacerbated the extent of public scepticism about the value for money of the project.
- 17.19. As a final point on the JV2 decision making it is noted that the Delegated Decision Notice contains a section headed 'Actual or Perceived Conflict of Interest by any of the Decision Makers'. The decision makers were:
- Julie Gilhespie – Chief Executive of STDC and TVCA and Director of TWL
 - Gary Macdonald – Finance Director and resources of STDC and TVCA
 - Mayor Ben Houchen – Chair of TVCA and Chair of STDC.
- 17.20. In the case of the Chief Executive, their Directorships of TVCA and STDC and TWL give rise to a perception of conflict due to the fact that the decision involves the significant benefit to TWL to the detriment of STDC and by extension TVCA. This should at least be recorded to demonstrate awareness of that potential conflict. However, when asked about this, the Chief Executive confirmed that she hadn't recorded any potential conflict because she didn't recognise there was any. The Panel were of the opinion that amongst other things, the Nolan Principles would require the acknowledgement of such potential conflicts.

18. Proposed Amendments to the Relationship Between STDC and TWL

- 18.1. Following requests for legal advice provided to STDC regarding the Teesworks Project an opinion of Hugh Mercer KC emerged. The advice is dated 20th October 23 and concerns proposed new contractual arrangements or amendments which may have a significant financial impact on STDC and indirectly on TVCA.
- 18.2. The proposals relate to the following:
- i) **Remediation Amendment**
An amendment to the process by which land remediation is carried out in respect of parcels over which TWL enjoys an option to purchase. In simple terms, the parties wish to take the benefit of new legislation (not yet in force) that will provide certain tax incentives for public authorities to remediate contaminated land (“**the Remediation Amendment**”).

ii) The Infrastructure Amendment

TWL has stated that it will not exercise its option to call off the trunk roads, bridges and other major access infrastructure within the Site. It wishes to amend the agreements between the parties to provide that responsibility for maintaining that infrastructure will lie with STDC and to make provision for how STDC will fund the necessary works (“**the Infrastructure Amendment**”).

iii) The Quay Operating Facility Amendment

TWL and STDC have already entered into an agreement relating to a quay at the Site. That agreement omitted to make express provision for the construction of a Quay Operating Facility. The parties now wish to amend the terms of their agreement to include the construction and delivery of a Quay Operating Facility before transfer to TWL is completed (“**the Quay Operating Facility Amendment**”).

iv) The ongoing Contamination Amendment

TWL have proposed that STDC take responsibility in the future for the economic (and other) consequences of any contamination on plots of land that after they have been called off and purchased by TWL (“**the Ongoing Contamination Amendment**”).

- 18.3. Due to the likely financial liabilities and the proposed risk transfer, these proposals are likely to trigger consent requirements and/or the referral requirement and it is recommended that STDC officials seek guidance from appropriately qualified/experienced advisors as to the appropriate mechanisms to use to ensure engagement of the TVCA Cabinet in the decision-making process.
- 18.4. The advice itself indicates that some of the proposed amendments may constitute a breach of the Subsidy Control provisions and other comments suggest that they may not represent Best Value for the taxpayer due to the risk distribution as between STDC and the JV Partners.
- 18.5. The Panel are advised by the executive that these were exploratory conversations and are not now being pursued. This is positive, however we were surprised to learn that the Board or Mayor had not been made aware of these discussions. It may have been helpful to get a steer from the Board before pursuing the matter in detail.

19. Financial transaction and cash flows

JV 50/50

- 19.1. At the time the JV was considered a degree of due diligence was done regarding the JV partners’ other companies, but it has been confirmed that none of the standard checks relating to proof and source of funds, credit rating and money laundering were carried out. The lack of proof of funds for investment contrasts with the Board having previously had in depth discussions as to the ability of Able Ports to fund a development on the site, ultimately not being persuaded as to their ability to do this.
- 19.2. The report to STDC Board in February 2020 proposing the CPO and the JV arrangement as a new delivery model had an inadequate description of the financial consequences, particularly in relation to the need for separate financial modeling for STDC itself and the JV company, subsequently established as TWL.

- 19.3. So far as STDC was concerned, in addition to public sector funding, they would receive capital sums from the sale of land at market value and this would be their main source of 'commercial income' together with any dividends from TWL which were not known or secure. In turn they would be required to pay 'commission payments' to a third party (DCS Ltd. – a company jointly owned by the JV partners) and it isn't clear whether advice had been taken as to whether this would have been a revenue or capital payment. If the former, STDC would not have had resources available to make such payments until any dividends had been received.
- 19.4. The removal of 300 acres of land to be retained by SSI would equally have an impact on future income and whilst there would be avoided costs of remediation, the agreement committed STDC to £24m to demolish the Redcar Coke ovens.
- 19.5. The arrangement required TWL to fund the purchase of land from STDC post remediation and then fund development prior to receiving any income from leases. The STDC board report assumed TWL could lever the rental streams to fund development. However, this was unlikely to be available as a source of initial funding at least in the early stages, given TWL would have no credit history. This proved to be the case as subsequent investors required public sector covenants for lease wraps as evidenced with GE/SeAH developments.
- 19.6. The Panel has seen legal advice from STDC external lawyers suggesting that TWL would likely need to fund the land acquisitions by borrowing from STDC itself. Income received by TWL would be subject to taxation thereby further reducing any retained revenues and payments of any dividends would likewise lead to 'leakage' of monies available to TWL to fund developments.
- 19.7. Whilst the Panel has questions about the subsequent 'scrap agreement', we understand that at this early-stage scrap income on an annual basis was assumed to be low and wouldn't have significantly impacted either STDC or TWL financial models at that time.
- 19.8. It is the Panel's view that remodeling of the finances of both STDC and TWL at this stage would have shown the increased financial risk to the redevelopment of the site plus the need for either capital injections by the JV partners which they were not committed to (alongside equivalent contributions from STDC) or effective funding of TWL activities through loans from STDC itself which would have represented additional public sector borrowing at risk. Whilst the Panel acknowledges that there was limited time to undertake sophisticated modeling in the run up to the Board decision, it is clear that a full description of the significant change in the financial structure and increased risks should have been given. At least one STDC Board member reflected that inadequate financial information had been made available to the Board at the time the 50/50 JV was agreed.
- 19.9. The Panel understand that at no stage has there been any financial modeling of TWL nor any updated model for STDC in the JV scenario.
- 19.10. The Shareholder agreement signed on 13th March 2020 provided that TWL should be financed, as far as practicable, from external funding sources with any security provided, as far as possible by TWL. It provided that there was no obligation on the parties to provide extra funding, but it referenced that the first approach for external funding should be to TVCA.
- 19.11. The scrap and aggregates agreement was not reported to STDC Board at the time it was entered into, and some Board members only became aware of the significance of scrap

income at the time of the 90/10 JV. In the subsequent counsel's advice sought by STDC on the ownership of scrap and aggregates by the JV, the instruction did not identify that the existence of scrap largely flowed from estimated spend of £142m on demolition and an unquantified spend on initial remediation entirely funded by the public sector. Whilst the Panel have received an explanation that ownership of scrap and aggregates was vested in the TWL, by virtue of their option, we have seen no legal advice on this. The advice subsequently received only dealt with it being reasonable in Subsidy Control terms.

- 19.12. Despite the scrap agreement being in place the Panel understand that the subsequent tender for demolition contractors asked them to consider how scrap should be dealt with.
- 19.13. In March 2020 when the Commission Agreement with the JV Partners was entered into, it reflected a 50/50 share of the uplifted market value compared to the baseline valuation being £1 per acre apart from the ex-Tata Steel land at £7536 per acre. The subsequent legal opinion obtained by STDC referenced that, to avoid Subsidy Control concerns, the uplifted value should exclude the uplift arising from public sector funded remediation and demolition. This latter also became a condition required by BEIS as part of signing off the Final Business case for additional Government Funding and was restated in subsequent MoUs agreed between Government and STDC, including the 2022/23 agreement signed in November 2022. A subsequent Counsel's opinion referenced that STDC was intending to disregard the BEIS requirement and indicated that they should notify BEIS. The Panel is not aware that this was ever drawn to the attention of BEIS.
- 19.14. The initial proposal for the GE investment land transaction identified a market value of £30m and proposed a commission payment to the JV Partners of £15m. This was outside of the advice and BEIS requirement, and we are given to understand that the JV Partners would not accept either the Subsidy Control requirement or the base value adjustment (ex-Tata land) although we do not know whether they were aware of the detailed Subsidy Control /BEIS position. Whilst the GE proposal fell away, the 50/50 split of the GE site value was reflected in the 90/10 JV agreement and the subsequent SeAH land transaction.
- 19.15. At the STDC Board on 29th July 2020, a transition update was presented including STDC's business case to take STSC land into local control and secure £71m of Government funding. The BEIS full business case incorporated financial models which continued to reflect the same basis as in the original CPO model although including different scenarios based on different levels of Government funding. In particular it ignored that Commission payments would be made to the JV partners (outside of TWL), JV taxation and potential JV dividends were not referenced as 'leakages' from the model, nor the fact that the overall finances needed to be restated to cover STDC and TWL separately. The narrative continued to describe the position where STDC would receive lease income and borrow against these income streams which was clearly incorrect as lease income would accrue to TWL.
- 19.16. At the TVCA meeting on 11th September 2020, the proposal to take STSC land to local control and receive £71m of new Government funding was accompanied by a very detailed report including financial and operational due diligence by KPMG. However, the narrative of the report continued to promote the CPO financial model unamended with STDC as remediating the site and securing leasehold income with strong covenants. The report said "STDC will obtain value through income strips or accessing secured borrowing". It also assumed that all non-Government/non-TVCA funding would be obtained through borrowing and referenced that TVCA borrowing limits as set out in a private appendix included sufficient headroom.

- 19.17. Under the risks section of the report, the role of TWL in commercialising regeneration sites and negotiating lease finance arrangements is included, but it didn't explain the TWL finance arrangements which introduced a new risk. The report did recognise that there would be private sector investment, but it isn't explicit whether this is the JV partners or other investors linked to commercial developments.
- 19.18. The report also refers to the original business case utilising the TVCA 50% split of business rates, and this has been taken by STDC as sufficient approval to proceed to utilise those monies without further reference back regarding individual proposals as to how the flow of funds would be deployed. There has been no specific TVCA Cabinet resolution to give effect to this substantial future flow of funds from TVCA to STDC. TVCA and STDC should agree, and keep under review, the future split of Business rates which each might use for the benefit of the Red Line area including retained risks both pre and post the ending of the Business Rates retention period.

JV 90/10

- 19.19. The move to the JV 90/10 had significant financial implications. In the interviews with some STDC Board members about the move, there were concerns about the speed with which decisions had been required and the lack of understanding of both the structure and the consequences. These latter points are exemplified by the following examples about the treatment of specific projects in flight at the time of the transfer to the JV90/10.

The GE transaction was to be 'novated' into the 90/10 JV. Under these arrangements, STDC were now due to receive £15m for the land rather than the JV partners. In turn, STDC now had obligations to remediate the land for the GE inward investment and in one part of the report it extends this obligation to providing enabling infrastructure. The figure quoted for GE and the Energy Recovery Facility (ERF) remediation including infrastructure was over £40m and formed part of the overall public sector funding committed in the 90/10 JV model. The model also included an ongoing obligation for TVCA to provide a "lease wrap⁴⁰" agreement to enable TWL to provide the headlease to GE. The detail of the various transactions is unclear, not least how TWL would obtain value from the transaction given the lease wrap covered the GE funders development costs rather than provide a payment (ongoing or capital) to TWL. The Supplemental deed signed to give effect to the potential GE deal under the 90/10 JV had TVCA as a party although there was no referral decision to TVCA at that time to authorise this.

- 19.20. The Quay – the report detailed ongoing obligations on STDC including the appointment of the Quay operator, to maintain the Quay. It is suggested that all revenue flows from the £450m Quay are to flow to STDC. There is no clear approval to enter into any form of deferred purchase of the Quay to TWL or to give them access to the full operating profits (subject to there being sufficient operating profits paying to STDC the tonnage amounts linked to the costs of borrowings taken out for its construction) although that is now what has occurred. In the briefing provided to Board members in the previous week it referenced that the Quay would remain in 100% public ownership although it did reference that TWL would have an option to purchase at market value providing the debt could be repaid.

⁴⁰ A lease wrap is a contract whereby a third party (TVCA) buys the asset to be leased and then leases it back to the leasing company (TWL) who then leases it on to the user (GE).

- 19.21. Future liabilities - the land valuation included in the report quotes £172m of net future liabilities in preparing the site for tenants and is explicitly based on the full site passing to TWL, including responsibility for infrastructure and service charge incurred until plots were let. A 50% discount had also been reflected in the valuation by virtue of the transfer being of such a significant scale that the market would demand such a discount. This was the basis of the Board report although it was clear it was never the intention for the whole site to be drawn down by TWL in that way.
- 19.22. A separate valuation report based on the ability to draw down individual plots and not taking responsibility for infrastructure gave a positive valuation of £23m.
- 19.23. Counsel's opinion sought at the time regarding the land disposal was based on transfer of the whole site and was silent on benefit obtained by TWL from GE or Southbank Quay.
- 19.24. Scrap - the arrangements for sharing scrap income continued to mirror the 50/50 JV with the payment to STDC of up to £60m (their expected income under the 50/50 JV) in the form of a service fee rather than dividend. This is effectively a cash flow process, enabling STDC to benefit from the expected cash flows under JV50/50 and has been treated as an advance of their 10% dividend in term of future profit shares.
- 19.25. The Panel are aware that a question was asked by the BEIS representative at Board as to whether value for money and appropriate risk transfer were being achieved. The Panel have not been provided with any written notes which underpin the S73 officer's assurance and given that there continued to be no obligation on the JV partners to draw down land and invest their own funds (which was clear to the Board), the degree to which risk transfer and value for money could be achieved could only be justified by future developments being progressed at risk by the JV.

GE Deal

- 19.26. As part of the Teesworks Offshore Manufacturing Centre (TOMC) development the STDC Board on 29th July 2021 approved a long leasehold interest to GE (BDL) as anchor tenant. The report provided a detailed explanation of the proposal including:

The site in question covered initial 65 acres option for further 47 acres and preemption of 55 acres

- 19.27. There were obligations on STDC to provide site capabilities. At this stage it was a public sector transaction with a £15m commission payment to JV partners under the JV50/50 arrangement. As referenced previously, it is evident that the calculation of the Commission payment ignored the baseline price of the (ex-Tata) land and the Subsidy Control/BEIS requirement that part of the uplift arising from public sector spend should not be part of the Commission calculation. The land valuation of £30.7m was in respect of the initial 65 acre area and the option agreements were to be the subject to independent report. The enabling infrastructure was estimated at this stage to be £26m.
- 19.28. Apart from payment of the Commission to DCS, the scheme was a wholly public sector scheme.
- 19.29. A full report to the TVCA Cabinet on 2nd July 2021 set out the 'requirement for TVCA to enter into headlease'. It fully exposes the risks of GE break clauses and addresses the value for money in quantifying the retained rental monies. It also considers whether PWLB might be a viable funding route. Whilst the report records that TWL have an option to draw

down the site there is no other mention as to how TWL's interest affects the transaction. The reported margin to TVCA is 15% of the gross lease payment, namely £1.1m pa over a 35-year period and it was proposed to set this aside to manage future void risk. The report makes it clear that the involvement of TVCA in providing the headlease was essential to securing the anchor tenant as the funder required a public sector covenant given GE's lease allowed several break points.

- 19.30. The resolution of TVCA specifically covers taking the headlease from STDL. It is the Panel's view that the recommendations were specific to the GE transaction and were not a general delegation to officers to enter further lease wraps. The report makes it clear that this is a wholly public sector undertaking with ownership of the site reverting to TVCA at the end of the lease.
- 19.31. The Executive have confirmed that the TVCA Cabinet received a briefing on the transaction a week ahead of the meeting which would have given cabinet members the opportunity to seek advice from their own and/or STDC officers had they had any questions.

SeAH deal

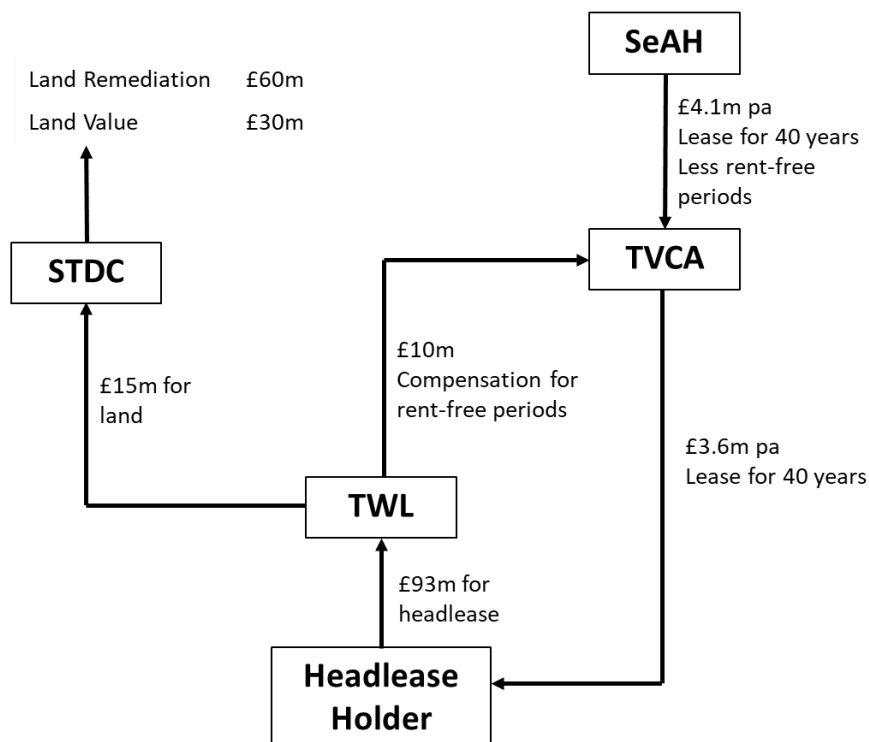
- 19.32. At the STDC Board on 7th July 2022, under the JV 90/10, information on a proposed transaction with SeAH Wind Investments was considered. The GE deal had not progressed as planned and the site had been offered to other prospective tenants.
- 19.33. The arrangements for the SeAH transaction were that there would be a sale by STDC of the freehold to TWL for £15m "as per previous valuation and commercial agreement". The appropriateness of this description of the disposal is unclear given the site had a valuation of £30m excluding the added value of the enabling infrastructure.
- 19.34. It was reported that STDC obligations were largely the same as the proposed GE transaction, including site remediation and provision of utilities. However, the total bill had increased from £26m to over £60m including £15m of additional costs specifically associated with SeAH. There was no suggested revision to the land value or other recompense to STDC for the substantial increase in costs falling on the public sector. It has been explained that the £60m cost was an obligation on STDC in preparing the anchor site and whilst this may be a reasonable interpretation of the JV 90/10 obligations for the 60 acres for GE it isn't clear why that logic would extend to the SeAH increased site acreage or specific cost increases linked to SeAH specific requirements. The Panel is not aware that legal advice covering subsidy control has been sought on the overall transaction.
- 19.35. The report didn't reference what the commercial arrangements were with SeAH, the return TWL would make from the transaction nor suggest that TVCA would be involved in a subsequent lease wrap. The minutes record that the SeAH deal was to be signed immediately after the meeting.
- 19.36. At the TVCA Cabinet on 28 October 2022, the Treasury Management mid-year update report sought approval for the change from GE to SeAH as anchor tenants at Teesworks.
- 19.37. The text of the report gave no details but stated that borrowing limits in January 2022 included amounts to provide a headlease for an offshore wind anchor tenant. It also reported that other headleases may be required within the total cap agreed by Cabinet and within the risk profile agree. It is unclear why this approval was sought as the STDC

report in July 2022 didn't reference any TVCA involvement, and the Teesworks/SeAH deal had assumedly been signed in July. There was insufficient detail of the changed structure between GE and SeAH and no explanation why TVCA involvement was necessary to warrant the decision. The March 23 report (see below) concerning SeAH included reference to Cabinet at the October meeting approving further leases subject to the financial envelope and risk allocation agreed for GE but there was no such authority minuted and the body of the report itself only referenced that other headleases may be required.

- 19.38. In January 2022, the TVCA Cabinet received a report on the Treasury Strategy. The Strategy states "PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans."
- 19.39. It wasn't possible to identify in the report what allowance had been made for entering headleases as the detailed Treasury indicators were not broken down into that level of detail.
- 19.40. On 17th March 2023, an urgent report was presented to the TVCA Cabinet on the SeAH Headlease, and it is not clear whether the report was presented at or very shortly before the meeting. It has been confirmed that Cabinet received no prior briefings.
- 19.41. The stated reason for the urgency was that a Third Party was investing in the SeAH income stream and had requested specific approval for the SeAH headlease. This suggests that officers might otherwise have relied on perceived delegations from earlier report rather than seeking specific Cabinet approval. The report leads on from the previous approval to provide the GE headlease on 2nd July 2021 and "incorporated a 'headlease' wrap by TVCA for the GE lease to support the anchor tenancy coming to Teesworks". It recommended "Approves granting of SeAH Headlease".
- 19.42. The report advised that the STDC board had received detailed proposals on 7th July 2022 and that TVCA had approved the switch to SeAH in the October 2022 Treasury Management report. However as set out above, there was no adequate explanation given to either meeting as to the need for TVCA involvement.
- 19.43. There is some indication in the report that the nature of the SeAH lease wrap is different and would generate a capital receipt for TWL and notes that they are not obliged to invest it. The scale of the capital receipt to TWL, in excess of £90m is not explicitly reported but could be seen in the attached Colliers report which is a technical valuation paper and Cabinet members would not easily have seen the detail. The report states that there are no financial implications outside of those agreed in previous cabinet decisions, but this is incorrect. The scale of retained income from the lease wrap is reduced by over £0.5m pa as the overall size of lease payments are roughly 50% of GE and the lease from TVCA to SeAH provides for rent free periods which, on enquiry, are covered by a 'reverse premium' from TWL to TVCA of over £10m but are not referenced or explained in the report or the attached Colliers technical paper.
- 19.44. The legal implications are also stated as no different, but the rationale for the headlease had changed from being crucial to delivering the anchor tenant where the funders required a public sector wrap to a purely funding transaction taking place several months after the agreement had been signed. The proposed headlease was designed to give TVCA an income stream in return for accepting the SeAH covenant risk and, more significantly, a substantial capital sum to TWL.

- 19.45. The report states that previous cabinet decisions delegated authority to officers to progress with SeAH but it is hard to conclude that such a delegation existed and relying on the October 2022 Treasury Management report, in which no relevant information was provided, is unsound.
- 19.46. The legal justification for entering the headlease is unclear in the Cabinet report and arguably could be read as an investment solely or mainly for profit which is contrary to CIPFAs Prudential guidelines and TVCA’s own Treasury Strategy. The fact that the Investor had required £50m of the proceeds received by TWL to be set aside for future investment in TWL was not referenced in the report despite the fact that it might have provided a legal basis for TVCA entering into the arrangements. However, when the Panel discussed with the JV Partners why TVCA needed to provide its covenant strength, they felt that the JV would have been in a place to undertake such a transaction once construction of the SeAH facility had been completed and that TVCA’s early provision of the facility was to generate income for itself to replace that assumed under the GE lease wrap.
- 19.47. The transaction is complex and the flow of funding is represented below alongside the overall financial dimensions of the transaction from a public and private sector perspective, as the Panel understands it.:

SeAH Transaction



	£m	Comment
Investment by public sector		
Land Valuation	30	
Site remediation and provision of enabling works & Utilities	<u>60</u>	
Total Expenditure	<u>90</u>	
Net receipt by TVCA of lease wrap margin/TWL compensation	-24	Annual net receipt of £0.6m pa for 40 years (indexed)
Receipt by STDC re land	<u>-15</u>	
Total Income	<u>-39</u>	
Net Contribution/(receipt)	<u>51</u>	
Investment by TWL		
Land payment to STDC	15	
Compensation to TVCA for rent free periods on lease	<u>10</u>	
Total Expenditure	<u>25</u>	
Sale of Lease wrap to Investor	<u>-93</u>	
Total Income	<u>-93</u>	
Net Contribution/(receipt)	<u>-68</u>	

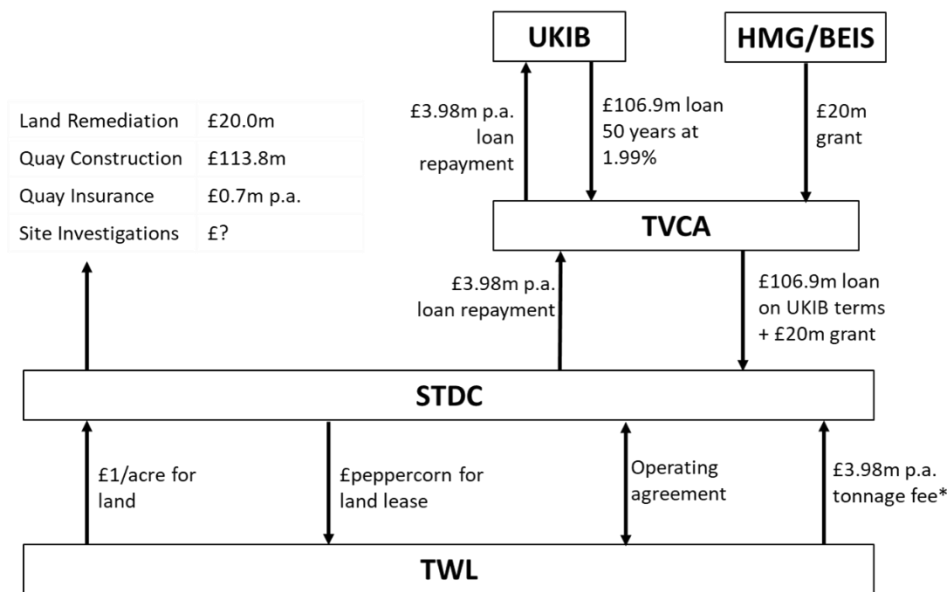
South Bank Quay

- 19.48. The business case seeking £20m of Government funding for South Bank Quay was approved by TVCA Cabinet on 2 July 2021. It was based on public sector funding and operation, with the revenues, after operating costs, being used to repay the debt. Likewise the initial report to STDC to progress the scheme was a solely public sector proposal. Initial borrowing by TVCA for £106m was undertaken from PWLB on or about 1st November 2021 but this was subsequently novated to UK Infrastructure Bank (UKIB). TVCA then entered into an equivalent loan agreement with STDC to allow the latter to fund the construction of the Quay. The terms of the loan from TVCA to STDC signed 1st November 2021 recognised that the repayment profile may be modified due to operational performance and the repayment period may be extended. There is provision for premature repayment, and STDC indemnifies TVCA for any costs arising.
- 19.49. After the 90/10 JV approval by STDC Board, an agreement was entered into with TWL to sell the Quay on deferred purchase terms with payments on an annual and cumulative basis capped at the capital cost plus interest calculated as per the UKIB loan. On an interim basis, STDC are bearing the capital financing costs estimated as £2m in STDC's 2023/24 budget. The payments from TWL are linked to the tonnage throughput at fixed rates and if this is lower than the specified level then the balance rolls forward to be paid in subsequent years.
- 19.50. A supplementary agreement dated 16 December 2022 included a possible deduction from the tonnage payments in respect of operating profits not being sufficient. All operating profits, after the tonnage linked payments, accrue to TWL. Documentation suggests that STDC retain responsibility for insuring the Quay and this could amount to £700k pa initially but will change as replacement value varies and insurance rates fluctuate. Likewise, the position as to who bears the annual service charge isn't clear. In the event that any

insurance and service charge costs fall on STDC it would represent a subsidy to TWL as would the benefit of public sector borrowing rate. This would need to be considered as part of the Subsidy Control position as well as reflected in ongoing liabilities of STDC. It is apparent that £20m of Government grant has been received to support the development of the Quay and associated facilities, and there is an obligation linked to the grant that it should not benefit any particular private sector body. The precise use and beneficiaries of the grant are not clear to the Panel but given TWL are to receive all operating income from the Quay and all value leases on adjoining land it is likely that they are the direct beneficiaries.

- 19.51. The agreement between STDC and TWL provides that TWL may make earlier repayment of the debt but doesn't provide that they would meet any breakage costs. As the UKIB loan can only be used for the purposes of the Quay and requires TVCA to notify UKIB of any disposal or potential disposal it would likely trigger a premature repayment to UKIB with any breakage costs falling on STDC. In the event that premature repayment was not required by UKIB, TVCA might be left with monies it couldn't utilise elsewhere.
- 19.52. The UKIB loan to STDC via TVCA has a predetermined repayment schedule and interest is at a fixed rate over its life. This matches the tonnage-based payments from TWL to STDC, but this is dependent on the utilisation of the Quay reaching specified levels and a possible reduction linked to sufficient profitability in accordance with the supplementary agreement. As a result of the supplementary agreement there has been no financial risk transfer to the JV and TWL will accrue operating profits which exceed the financing payments to STDC whilst STDC are providing direct financial benefits to TWL through meeting insurance costs and site maintenance obligations. The Panel recognise that TWL has commercial obligations and incentives to make the operation of the Quay a success.
- 19.53. Access to public sector borrowings is fixed at 1.99% for 50 years. Both the 50-year loan life and fixed interest rate represent terms that would not have been available to TWL. Indeed it is clear that TWL would have been unable to obtain any finance for the project given the uncertainties surrounding its commercial success.
- 19.54. The Panel is aware that recent Counsel's advice questions whether the deferred purchase by TWL on the terms agreed represent a commercial decision. This situation is exacerbated as counsel was apparently unaware of the short-term financing costs and ongoing insurances falling on STDC.
- 19.55. Given that TVCA approved the business plan representing public sector ownership and full operational income flowing to STDC, the deferred sale and transfer of all operating profits after financing costs to TWL should have been recognised as a Referral Decision. Whilst Cabinet agreed the business plan, it isn't clear that they appreciated TVCA would be undertaking the borrowing in the first instance and the District Chief Finance Officers the Panel spoke to were not aware of the situation.

19.56. This is an incredibly complex deal and we set out below a funds flow diagram of the deal as we understand it.



*tonnage fee of £3.98m p.a. is a maximum, subject to volume change and available profit.

Landfill Tax and NZT

19.57. Whilst discussions have taken place with Government about the landfill tax trap and whether a solution will be forthcoming, the March 2023 budget did not provide this nor any timescale within which proposals would be brought forward but did record that it was under consideration.

19.58. The March 2023 STDC board was scheduled for the day after the Budget and considered a report to review the implications of the tax and the need for a different delivery model for NZT and other future deals. The report presented advised that there was a proposal in the Finance Bill, which turned out not to be the case. It is clear from the minutes that the Board were made aware that the detailed proposals and legislation were still outstanding.

19.59. The proposal regarding changed operating methodology was based on the understanding that a remediation scheme undertaken by the public sector would be eligible to access the landfill tax grant if the scheme was not viable without it. From discussions, given the environmental license available to STDC for the NZT scheme, landfill tax was not a material factor in its viability although the need for TWL to acquire its own environmental license if undertaking the works directly would be an additional risk. However, the STDC Board report relied on the landfill tax rationale to explain the change in operating approach both for NZT and future schemes and there was no reference to the favorable environmental license which the NZT scheme held.

19.60. The essence of the change in methodology whereby STDC would undertake the work and be reimbursed by TWL leads to a number of costs and risks which should have been addressed. The effective lending of monies to TWL carries with it a high level of credit risk as the rating given by STDC's Treasury advisers was equivalent to Moody's Ba3 which is not investment grade, considered speculative and are therefore subject to high credit risk. It sits one grade above junk bond status. This rating was assessed based on full security being maintained on the land. Whilst this was reflected in the margin being applied to the

loan it was a material factor that should have been reported to the Board in making any decision.

- 19.61. The contracted interest rate is to be applied on a 'simple interest' basis and tied to a margin over a 10-year gilt as of March 23 which was 3.5%. Gilt yields increased thereafter and as at the date of signature had increased to 3.76%. Likewise accruing interest on a simple interest basis is not consistent with referencing a margin over gilts as the latter have twice annual interest dates. To mirror a normal commercial agreement interest should be compounded on a semiannual basis. The NZT agreement also applies a shorter longstop date which is unlikely to be 10 years from signature date which makes reference to a 10-year gilt rate questionable. Linking the appropriate margin to a loan rate at the time of each drawdown would seem more appropriate given the volatility in rates at the current time and the length of time over which monies would be advanced.
- 19.62. It is also noted that the NZT agreement leaves STDC responsible for the service charge on the land until drawdown by TWL and this should have been included in the costs to be recovered as this represents a direct cost to STDC in undertaking the work which they should be recovering alongside the agreement to recover incidental costs. Likewise, the agreement leaves STDC responsible for any landfill costs incurred.
- 19.63. The report to STDC Board includes no commercial detail including the possible up-front funding by BP and the extent to which the scheme might qualify for landfill tax support (which it is understood is not likely given the environmental permit in place) and hence any likely landfill costs to be met by STDC, the scale of the investment and assessment of TWL's credit worthiness. It was also noted that STDC was committed to carrying out Phase 2 if required by TWL.
- 19.64. The provision of a Park and Ride facility is a contractual requirement for NZT to be delivered by STDC at a cost of £20m. At that stage funding via TVCA Transport funding hadn't been agreed and the obligation wasn't referenced in the STDC Board paper nor to TVCA as a referral decision.
- 19.65. A substantive consideration to any commercial lending agreement is understanding the means by which the lender will repay the loan, and this wasn't addressed in the Board report. Clearly if the NZT lease had been finalised and the JV able to securitise the lease payments, this would have provided a route but in the absence of this, STDC would need to rely on the £50m income received from the Investor retained by TWL, assuming this had been achieved and not committed to other projects. It was noted that the TVCA decision to enter into the transaction was after STDC decision on NZT and hence that source of income couldn't be relied upon at the time of agreeing the revised operational approach for NZT.

Summary financial position of STDC and TWL

- 19.66. Planned public sector investment in Teesworks up to end 2024/5 (excluding keepsafe) will have amounted to circa £500m. As at 31/3/23 substantial financial liabilities exist for STDC (£257m of prudential borrowing undertaken of which £206m has been borrowed long term

from TVCA). This latter is held as loans by TVCA from external lenders along with liability assessed in the accounts as £103m under the SeAH lease agreement.

£m	Pre 20/21	20/21	21/2	21/3	21/4	21/5	Total
Operating costs		3.2	4.3	10.7	0.9	0	19.1
Demolition		2.1	41	83.5	17.4	0	144
Site preparation and infrastructure		30.5	58.7	34.7	52.1	6.3	182.3
Enabling studies			7.9	1.9	2.7		12.5
South Bank Quay			23.2	65.7	22.9	1	112.8
PROJECT EXPENDITURE		32.6	130.9	185.8	95	7.3	451.6
LAND ACQUISITION COSTS	11.2	15.9	1.3	0.2			28.6
KEEPSAFE ex SSI		14.9	28.3	17.1	1.8		62.1
TOTAL EXPENDITURE	11.2	65.6	164.7	213.8	97.7	7.3	560.3
FUNDED BY							
Beis RDEL		11.4	34.2	16.8			62.4
Beis CDEL		5.4	11.7	5			22.1
MHCLG CDEL		4.2	36.8				41
MHCLG Prairie		10					10
TVCA Investment Plan		30.8					30.8
Beis WiIND			20				20
Quay Borrowing			33	64.3	9.5		106.8
Other	11.2	3.9	29.1	127.7	88.2	7.3	267.4
							560.5
Other will include balance of £56.6m Investment Fund, Scrap circa £60m, GE land sale £15m							
Prudential borrowing included in "other" derived from CFR statement	11.2	25	44	70.7			

19.67. From the above analysis it is apparent that STDC has substantial treasury transactions, including borrowing £206m from TVCA as at 31/3/23. The STDC constitution requires that the Board receive an annual Treasury Management Strategy (which would include Minimum Revenue Provision (MRP) policy) together with mid-year review and Annual Report. To date the Panel have been unable to identify any such reports over the period from 2020. Such reports would have highlighted that STDC has undertaken £247m of prudential borrowings of which £96m relates to the Quay development. Whilst the Quay borrowing might arguably be seen as approved by TVCA, when it approved the Quay business case to Government there is no evidence that the remainder has been approved by TVCA and it appears to be merged within 'other funding' in the periodic financial updates provided to STDC Board such they are unlikely to be aware of the scale. Whilst it is reported in the draft Annual accounts for 2022/23, these have not yet been reported to the STDC Audit and Governance Committee nor to the Board although they are published on the TVCA web site. Studying the draft accounts would also identify that there are unexplained differences in the cumulative funding statement presented to the STDC Board in July 2023 (table at above) and the draft annual accounts.

19.68. TVCA receives the required Treasury Strategy reports which identify loans to subsidiaries in total but does not give further detail. Apart from the possible agreement to lend monies to STDC for the construction of the Quay, it is not apparent that any other specific approval

for on-lending has been agreed by Cabinet nor that Districts are aware of the overall exposure to STDC. The Panel note that the constituent authorities receive copies of the various Treasury Management reports and that they are publicly available, however there does not seem to be any recognition of such Treasury activity. The TVCA Audit Committee do not receive the various Treasury Management reports, although they are publicly available, and do not provide any scrutiny of TVCA lending to STDC. Whilst an astute reader of the accounts would identify such lending activity it seems unlikely that most Committee members would scrutinise in that level of detail.

19.69. To date the JV partners have received circa £45m through TWL with a further £63m held as cash in TWL. There has been no direct financial investment by the JV partners in TWL and nonapparent in the near future given the new operating model agreed.

	31/07/23	Comment
	£m	
Income		
Scrap	98.3	
Land deals	97.5	
Interest	1.0	
	<u>196.8</u>	
Expenditure		
TVCA reverse premium (SeAH)	10.0	Reverse premium payment re SeAH transaction
Overheads	4.7	
Tax	29.3	
STDC	44.8	Includes £5m for GE land Transaction + £39.8m scrap
JV Partners	44.6	
	<u>133.4</u>	
Cash at Bank	<u>63.4</u>	
Liabilities	10.0	Due to STDC re GE land Transaction
Assets	39.8	Due from STDC through dividend deferral as part of the £60m advance on scrap

20. STDC Retained Liabilities

20.1. The Panel has sought to identify the liabilities currently sitting with STDC through review of the financial plans and other documents provided to it. It will, inevitably, not be a comprehensive list and some of the values allocated to individual items will be 'best estimates' which STDC may be able provide more accurate assessments for. The Panel are aware of the report to the April STDC Board covering some aspects of ongoing site liabilities, but this did not cover the full range of liabilities for STDC over the short, medium and longer term.

Outstanding Debt

20.2. As at 31st March 2023 STDC had utilised Prudential borrowings to the tune of £247m, which included £206m of long-term external borrowing from TVCA. The remainder may be funded from shorter term loans from TVCA or STDC's own cash flows.

- 20.3. The STDC financial plans for 2023/4 to 2024/5 show further funding required to complete the capital programs. This amounts to £105m and will undoubtedly include further borrowings as scrap income has been fully utilised.
- 20.4. Capital financing costs budgeted in 2023/24 amount to £7m and this figure will increase as more borrowings are undertaken and MRP starts to be charged on later years capital spend. Income from the South Bank Quay agreement with TWL will be planned to cover the Quay financing costs but financing costs of £135 to 200m of borrowings will fall to be met from other income sources. In the absence of STDC Treasury Management annual policies including MRP, it is not possible to determine the periods over which MRP is to be applied.

Estate Management costs

- 20.5. The 2023/24 budget includes net costs of £4.9m and whilst this would be expected to diminish as TWL draw down individual plots there will be a remaining profile of unrecovered costs. Under the proposed new operating methodology STDC would continue to bear site costs for plots being developed under direction from TWL until such plots are drawn down.

Quay residual costs

- 20.6. The Quay agreement provides that STDC is responsible for insuring the Quay and, based on figures included in STDC documents this could initially amount to £0.7m pa. It is unclear whether STDC continues to bear related estate management costs.

High Tip and SLEMS

- 20.7. These sites are unlikely to be developed in the short term and ongoing site maintenance and estate management costs will continue. Should the areas be brought forward for remediation, costs of up to £50m might be incurred and it is unlikely these would represent commercial propositions at the present time.

Proposed Infrastructure Amendment

- 20.8. Panel are aware that Counsel's advice has been sought on a proposal for STDC to take responsibility for Roads, Electricity apparatus associated with roads, foul water mains, gas appliances and amenity areas. Under the amendment TWL would serve notice on STDC to construct, upgrade, repair and maintain these to specified standards and to solely use business rates income from the site for this purpose. Panel have seen no estimate of the capital costs of such investment by STDC nor the ongoing cost of meeting ongoing obligations. Counsel's initial opinion is that this could be a breach of Subsidy Control regime.

Business Rates

- 20.9. The Regulations provide for TVCA to receive 50% of the business rates uplift from the designated areas to support TVCA medium term financial strategy and the Business Plan as approved by BEIS in 2020. The Regulations specify the time period being 25 years from 1 April 2021. Both the Regulations and the signed MoU with R&C are with TVCA as the accountable body. Although STDC have assumed they have sufficient approval to access the full amount of business rates, TVCA should review the liabilities which would

potentially fall to them. Subsequently TVCA should explicitly agree the amount and usage of Business Rate income to pass to STDC and receive assurance from STDC as to their application in line with the Business plan.

Park and Ride

- 20.10. Under the NZT agreement STDC are required to provide a Park and Ride facility at a capital cost of £20m and to maintain thereafter at its own cost. It is understood that the capital cost will be met by TVCA Transport allocation, although in theory it could be met from retained business rates.

Conclusion

- 20.11. STDC retain substantial liabilities on the site which are largely unquantified. Whilst it is no doubt the intention to utilise business rates income to cover these costs, that income source has a finite life whilst many of the obligations extend beyond that period. Should the Infrastructure Amendment, in its suggested form, be agreed it would remove from STDC any flexibility to meet costs other than those specified in the Agreement from business rates income. STDC should model financial flows which should extend beyond the life of the Business Rates Regulations to better understand its net liabilities.

21. Specific issues

- 21.1. There have been a number of specific allegations that have been in the media. These have been put to the Statutory officers and they advise as follows:

The appointment of Teesworks Operations Manager

- 21.2. The Teesworks Operations Manager is employed by STDC and commenced work on 1st September 2020.
- 21.3. The post holder was approached directly by the Chief Executive for the role, following discussions between her, the Director of Finance and Resources, and the JV partners.
- 21.4. The post holder was approached due to his "very unique experience with both ports and Teeside" as he was known to be available and an expert in ports.
- 21.5. The post holder was formerly the Managing Director of Redcar Bulk Terminal and involved in selling the land option to the JV Partners which was pivotal to the 50/50 JV arrangements.

The appointment of Teesworks Site Development Manager

- 21.6. The Teesworks Site Development Manager is employed by STDC and commenced work on 7th December 2020
- 21.7. The post holder was recommended by the JV Partners and interviewed by The Director of Finance and Resources and the Teesworks Operations Manager. There was no advert or competition for the role as the detail required "a known and trusted person".
- 21.8. The post holder is the son in law of one of the JV Partners.

The resignation of Former Group Chief Legal Officer

- 21.9. The post holder was employed as Group Chief Legal Officer from 3rd September 2020 to 25th November 2022.
- 21.10. The post holder resigned to take up a new position and served his contractual notice period.

The procurement of NE Security Limited

- 21.11. NE Security Limited were appointed through an open OJEU process to deliver Teesworks core security. The contract commenced on 13th December 2021.
- 21.12. There were 7 bids received of which 2 were compliant. The evaluation was scored by the Head of Security and his deputy and overseen by the Procurement Manager. It included a pass/fail question requiring bids to be within the financial envelope set by STDC.
- 21.13. CRB checks whilst a standard term in STDC procurement were not taken up as the individuals involved in the contract have to be SIA (Security Industry Association) licensed and the bidders made the appropriate disclosures in this regard⁴¹.
- 21.14. No interviews took place, in line with standard practice, and no references were taken. There was no assessment of the credibility of costings where the financial envelope appeared to be met despite a fully detailed pricing schedule being a requirement.
- 21.15. NE Security Limited provide services to one of the JV Partners.

The role of TCC Plant Limited

- 21.16. STDC have no contracts with TCC. TCC have not tendered for any STDC opportunities.
- 21.17. TCC may have a presence on site through sub-contracts with STDC direct contractors. TCC hire plant to SeAH.
- 21.18. TCC is owned by the son of one of the JV Partners.

Withholding monies from Redcar & Cleveland BC

- 21.19. There has been significant coverage and speculation about the withholding of monies from R&C pending the movement of the South Road roundabout which it is said encroaches on preserved rights over land held by PD Ports and subject to current court proceedings.
- 21.20. Early in the review, third parties shared copy correspondence, with redactions, on this matter. The main e-mails are sequenced and summarised below. The final document, a text, was not made available until 3rd October 2023:

⁴¹ JG e-mail 30/10/23

Date/time	From	To	Commentary
06/03/23	Julie Gilhespie	John Sampson	Roundabout Referenced conversation Friday (3/3/23) Asked if R&C can subcontract the roundabout project. Reference sub-contractor already on site who can do it quickly and easily Offer to fund if a constraint
06/03/23	John Sampson	R&C staff	TVCA Funding - Redcar Town Deal Referenced conversation with JG Friday (3/3/23) JG has confirmed Mayor has "...put hold on a range of funds coming to us – the TVCA contribution is one such sum" Discussed unlocking log jam Asked if funding delayed until May, would cause a problem
06/03/23	R&C staff	John Sampson	TVCA Funding - Redcar Town Deal (RTD) Confirms funding delay will have a big impact on a few projects Need RTD money by 20 March or £100k cost exposure Other project funding at risk as listed
09/03/23	John Sampson	Julie Gilhespie	Roundabout Hold on funding – RTD assurance statement to Government due 20 March. Need position by then so scheme not derailed.
16/03/23	Julie Gilhespie	John Sampson	"Ben will release town deal Money as soon as he has confirmation that you have instructed the contractor on the roundabout"

21.21. John Sampson, Managing Director, Redcar and Cleveland BC (R&C) was interviewed on 23rd August 2023. He was asked about TVCA or STDC putting the council under pressure to undertake highways works or make planning applications; the so called "blackmail e-mail". John confirmed there was no such e-mail. There was discussion about the South Bank roundabout progress and reluctance on the part of developers (STDC) to progress planning permission considering the land dispute. R&C used their highways development rights to change the location.

21.22. At the same time, R&C were "chasing some funding" from TVCA in respect of a costal scheme. This was a separate issue and they required confirmation of funding. The confirmation was not received, and the council placed orders at risk. They have subsequently received permission for some £600,000 from TVCA. John advised that the two issues had "entangled themselves" with some internal e-mails putting the two issues together. They were not blackmailed, he felt people had "put two and two together and come up with three...".

- 21.23. On 12th September 2023 the Panel received two e-mails. The first from the Leader of R&C advising that John Sampson had "... disclosed to me that he would be sharing with your investigation a WhatsApp message from Julie Gillespie directly to him stating that Ben had indeed threatened to withhold funds until the roundabout issue had been resolved.". The second was from The Chair of the Regulatory Committee of R&C stating, "You have been sent evidence of Houchen using Gillespie to blackmail Redcar and Cleveland Council."
- 21.24. John Sampson was interviewed again on the 2nd November 2023, where it was put to him that there was evidence that monies had been withheld from R&C. John confirmed that he did believe this to be the case, although this was not included in any email. The genesis was conversations with Julie Gilhespie and the Mayor. John advised that there was a text that linked the two and arranged for a copy to be shared with the Panel. He had not previously shared it as the Panel had asked about e-mails and he had treated the request in the same way as an FoI, which in his view entitled him to exclude the text.
- 21.25. We met with the Mayor on 3rd November 2023 and asked him about the allegations of withholding funds. He set out a position whereby STDC had agreed to assist and even pay for the roundabout, whilst separately R&C had sought additional funds from TVCA for the Town Fund project. The two items had been misrepresented. In any case the roundabout was, in the end, never delivered.
- 21.26. In conversation with Julie Gilhespie on 10th October 2023, she was advised that we had seen her text and asked if the Mayor was aware. She had a different perspective that R&C Leader had told officers not to proceed with the roundabout, on the back of a view that R&C were receiving less than their fair share. This arose from the "deal" in July 2022 to secure 2 further Development Corporations (DC) in Hartlepool and Middlesborough. Each new DC was to receive £10m from TVCA and in order to secure agreement from the TVCA Cabinet a further £10m was set aside for non-DC areas, being split £6m for Stockton and £4m for Darlington.
- 21.27. The former leader of R&C, Mary Lanigan, was interviewed on 3rd November 2023. She too referred to the deal with Stockton and Darlington, in the context of TVCA cabinet being asked to agree to borrow £20m for the Airport at short notice and with no supporting paperwork.
- 21.28. There are clearly different perspectives on this issue and equally some consistencies. What is clear is that based on the text from Julie Gilhespie of 16th March 2023 R&C would have good reason to conclude that the release of monies by TVCA for the Town Deal was dependent on them contracting the works on the roundabout. Ultimately though, the monies were released, and the roundabout did not progress.
- 21.29. This is an example of how unhelpful relationships across the region are impeding the delivery of significant regeneration in Tees Valley that go beyond the boundaries of the Teeswork site.

22. Conclusions

- 22.1. Teesworks and the regeneration of the former Redcar Steelworks is a vast and complex project. The area desperately needs, and welcomes, the opportunities the site can offer and much has been achieved in a relatively short space of time. We do not underestimate the challenges posed by the site and the circumstances within which much of the current

work has taken place. These include a worldwide pandemic, a number of geopolitical shocks and economic instability.

22.2. The Panel have not been able to follow every single lead provided or answer every question posed by stakeholders and interested parties. We have however secured sufficient, consistent evidence to support our conclusions. We have found no evidence of corruption or illegality. We have identified a need to strengthen governance and increase transparency which can be done with limited impact on pace of delivery.

22.3. In terms of the specific questions set out in the terms of reference our summary responses are set out below:

1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.

STDC Board members and constituent authority chief executives expressed confidence in the current group executives. The Board largely feel engaged and make unanimous decisions. The quality and timing of reports is mixed and often supplemented by informal briefings, although the Panel has not always seen the content of these. Much of the detail is delegated to the executive and we found evidence of inaccuracies and omissions in reports which undermines decisions. The high degree of confidential reporting and opacity in report titles compromise transparency. We did not see sufficient information provided to Board to allow them to provide effective challenge and undertake the level of due diligence expected of a commercial Board.

2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between STDC and its partners).

TVCA effectively has no oversight of STDC Board or TWL. The Cabinet receive routine updates from the Chief Executive, however they are not sighted on or engaged in significant decisions. The former monitoring officer advised TVCA oversight and Scrutiny Committee they had no remit to scrutinise STDC decisions. Since then, despite concerns being raised, there has been no advice to TVCA that they can issue or revoke directions, including referral decisions, that STDC must follow. They can also amend delegations issued. The executive has been robust in applying a narrow definition to referrals.

TVCA seems unaware of the direct liabilities it faces as a result of its interface with STDC and it is questionable whether there has been substantive approval to the degree of long-term lending to STDC or their access to business rates income.

There is no oversight of TWL, despite requests from various TVCA members and Committees. It is the responsibility of STDC as the public authority to ensure that appropriate conditions and oversight of TWL is in place.

3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture?

Operations of TWL are not visible beyond the published accounts at Companies House. While TWL is a private sector company, albeit one where STDC had a controlling influence at one time, it would have been the Panel's expectation that STDC would have set some conditions aligned to managing public funds on how the public assets and resources were defrayed once drawn down.

Whilst the JV Partners have undoubtedly brought their skills and experience to bear on the project and have been critical to progressing at pace, there has been no private finance invested to date whilst over £560m of public funds have been spent or committed. The JV Partners and TWL have received substantial income as a result of the public sector investment.

A further £238m investment including £40m for Net Zero Teeside, is potentially to be incurred by STDC utilising prudential borrowing, to be repaid over the next 50 years from a combination of retained business rates, Teesworks Limited (TWL) profits from operating the Quay, and contractual commitments from TWL.

Outcomes are reported quarterly to Government (BEIS/BAT) in line with the agreed criteria. However, these do not record the cumulative position on either costs or benefits, nor do they compare the current overall position in respect of costs and benefits with those set out in the approved business case.

- 4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.**

The risk and reward between the public and private sector was set out in principle to the STDC Board at the agreement of the JV 50/50. Detail was left to statutory officers and developed over time, including 2 supplemental agreements that were not notified to the Board. The JV 90/10 equally was discussed at the principal level. Each land transaction shifts the balance of risks and rewards, and these have never been discussed holistically.

TVCA has no sight of these decisions other than specific deals where they may act to provide financial covenants or instruments.

The quality and timing of reports are variable. In many instances the reports omit much of the detail and on occasion have been incorrect e.g., advising that Government had agreed a solution to the Landfill tax legislation. While external specialist advice is sought, often the advice is narrow e.g., subsidy control advice was limited to the commission payments with the JV partners, not the overall deal, and instructions are often limited and on occasion incorrect. The lack of challenge from the Board and wider professional officers within TVCA constituent authorities mean that there is ineffective check and challenge in the system.

The absence of detailed commercial financial advice on all but one transaction (transfer of STDC to local control) is notable and undoubtedly would have led to a fuller understanding of financial consequences to inform major decisions.

5. An assessment of the level of confidence by which the Government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence based and taken appropriate consideration of value for money.

The lack of transparency in the decision making and the very permissive scheme of delegation undermines the confidence Government can place on the evidence base and systems to secure value for money. The evidence base is constrained with risks not being fully understood and value for money cannot be assured without the checks and balances in the system. There appears to be significant verbal briefing of decision makers but the detail of this is not available as evidence. Given the tight control of information, the relatively small number of officers involved and breadth of experience of decision makers, this limits the added value Board members are able to bring to the decisions in respect of the JV arrangements.

The confidence in statutory officers is good but conversely reduces the curiosity of those in positions of influence, who take reports and briefings at face value without providing an independent check and challenge.

6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:

- a. **The sale of the site now occupied by SeAH Wind**
- b. **The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private**
- c. **The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly owned land or assets**
- d. **The sale of land at the site to private sector partners**
- e. **Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site**
- f. **The evidence of investment from private sector partners in the context of significant public investment in remediation of the site**
- g. **The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with, and reporting to HMG.**

While there is much that does follow due process, the ceding of control by TVCA, under the oversight of successive former monitoring officers and the permissive scheme of delegations within STDC and TVCA mean that most decisions are vested in a small number of individuals. This together with the limited reporting means that there is not a robustness within the system. Inappropriate decisions and a lack of transparency which fail to guard against allegations of wrongdoing are occurring, and the principles of spending public money are not being consistently observed. Examples of this would be the appointments of officers without an open and transparent process, and the agreement of transactions that may breach subsidy control requirements.

Conflicts of interest are not observed. The appointment of group statutory officers, some of which is a legal requirement, causes confusion and many stakeholders do not know in what capacity the statutory officers are advising. While there is an implicit role in formal meetings, beyond this it can be unclear.

We are pleased to see that the group Chief Executive has updated her register of interests to record her role as a Director of TWL and other bodies. Better control needs to be enacted to ensure representatives of the JV partners do not attend private meetings of the STDC Board.

7. An assessment of the effectiveness of arrangements for external scrutiny of STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from the process

There is no independent scrutiny of TWL by STDC or TVCA. Internal audit do however talk in positive terms about their audit findings in relation to STDC. External audits are awaiting the outcome of this report before comment. The Panel's view is that independent scrutiny through the audit process could have been stronger in identifying governance weaknesses in support of the Mayor and executive team in meeting their statutory duties.

It is the Panel's view that audit could have raised some of the issues identified in the report. External audit now need to finalise their audits for 2021/22 onwards, including their work on value for money arrangements, making any necessary adjustments to their risk assessments and work programmes moving forward.

As part of that process, the review will focus on the following themes, reflecting the Government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency, and effectiveness:

- **Governance - e.g., sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement**
- **Finance - e.g., quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.**

Based on the evidence from the review the governance and financial management arrangements are not of themselves sufficiently robust or transparent to evidence value for money.

23. Glossary

Able – Port operator. Potential development partner, not being pursued.

BEIS – Department for Business, Energy and Industrial Strategy

CA - Combined Authority. TVCA is a combined authority.

CEO/Chief Executive/Head of Paid Service – statutory responsible for proper coordination of all functions as well as organising staff and appointing appropriate management.

Constituent authorities – the 5 local authorities that make up the Tees Valley geographical area of the combined authority.

Constituent members – the Leaders of the 5 local authorities that make up the Tees Valley geographical area of the combined authority.

CPO – Compulsory Purchase Order

DC – Development Corporation

DCS/DCS Ltd. – DCS Industrial Ltd. a company jointly owned by the JV Partners. Holds 40% shares in TWL

DLUHC – Department for Levelling Up, Homes and Communities

ERF – Energy Recovery Facility

FoI – Freedom of Information

GE – General Electric. A potential leaseholder, no longer in active discussion.

JV – Joint Venture

LA 2011 – Localism Act 2011

MDA – Mayoral Development Areas

MDC – Mayoral Development Corporation. STDC is an MDC

Monitoring Officer – statutory officer responsible for the operation of the

constitution, matters of legality and the conduct of councillors and officers

MoU – Memorandum of Understanding

MRP – Minimum Revenue Provision. Monies set aside to repay debt.

NES – North East Securities. a service provider.

NLM – Northern Land Management Limited. Company owned in part by one of the JV Partners and holds 25% shares in TWL.

NZT – Net Zero Teesside Power. Leaseholder - proposed combined cycle gas turbine electricity generating station.

O&S - Overview and Scrutiny

RBT – Redcar Bulk Terminal – owner of land and operator within the Teesworks site. Subject to CPO.

R&C – Redcar and Cleveland Borough Council

RTD – Redcar Town Deal

SA1 – Basis of a settlement between the Mayor, STDC Officers, JV Partners and SSI whereby SSI would withdraw its objections to the CPO in return for STDC transferring to it 330 acres of the CPO land and the JV Partners RBT Option land to enable it to pursue development of the Redcar Bulk Terminal. The agreement, referred to as SA1 was prepared and signed on 20th February 2020.

SA2 - The subsequent decision of the Mayor/STDC officials in June 2020 to withdraw from the first settlement and enter a second settlement agreement with the Thai banks regarding the CPO land which involved incurring costs of £16m for land purchase.

SeAH – SeAH Steel Holdings. A leaseholder on the Teesworks site.

SIA – Security Industry Association

South Bank Quay - a plot of land on the Teesworks site to be developed and operated as a port

SSI – Sahaviriya Steel Industries. Landholder on Teesworks site, subject to CPO.

Statutory Officers - the officers a local authority/public body is required to have in law

STDC – South Tees Development Corporation

STEL/STE – South Teesworks Enterprise Limited. The company owned by the JV Partners that later became TWL.

STSC – South Tees Site Company. The company now owned by STDC and responsible for the keepsafe of the Teesworks site.

S73 Officer/Finance Officer – statutory officer responsible for the arrangements for the proper administration of financial affairs.

TCC – TCC Plant Limited. A provider of services.

Teesworks – the generic term that represents the project to remediate and redevelop the former Redcar steelworks following the liquidation of the then steelworks owner SSI (Sahaviriya Steel Industries UK Ltd)

The Executive – refers to the three statutory officers.

The JV Partnership – refers to structure of individuals and companies that sit behind TWL.

The JV Partners – Joint venture partners Chris Musgrave and Martin Corney

TVAF – Tees Valley Assurance Framework

TVCA – Tees Valley Combined Authority

TWL – Teesworks Limited. The JV Partnership between STDC and the JV Partners.

VFM - Value for Money

UKIB – UK Infrastructure Bank. Has loaned monies to TVCA.

24. Appendix

Appendix 1

Terms of reference: Independent Review into the Tees Valley Combined Authority's oversight of the South Tees Development Corporation and Teesworks Joint Venture

On 24 May 2023, the Secretary of State for Levelling Up, Housing and Communities wrote to Ben Houchen, Tees Valley Mayor, to confirm that he had taken the exceptional decision to support the commissioning of an independent review of the South Tees Development Corporation (STDC) and Teesworks Joint Venture. This followed allegations of corruption, wrongdoing and illegality around the operations of Teesworks and a letter from Mayor Houchen to the Secretary of State on 16 May seeking an independent review of the matter by a 'relevant body', reflecting the Mayor's concern that continued allegations would undermine confidence in the site.

The department has seen no evidence of corruption, wrongdoing, or illegality, but recognises that the continued allegations pose a risk to the governments and the combined authority's shared ambitions to deliver jobs and economic growth in Teesside. The review will include consideration of these specific allegations made in relation to the Joint Venture, and ascertaining the facts is the primary basis for the Secretary of State seeking this independent review.

As part of that process, the review will focus on the following themes, reflecting the government's existing approach for assurance reviews of local authorities and general principles of economy, efficiency and effectiveness:

- Governance - e.g. sense of strategic vision and direction; adequate internal processes and scrutiny; key senior posts filled with permanent appointments; effectiveness and transparency of decision making and external scrutiny arrangements (including independent audit); relationships between organisational leadership and officers; openness to challenge; focus on improvement.
- Finance - e.g. quality and robustness of financial management and accounting, arrangements, ability to deliver value for money with public money; effective management of financial and commercial risks.

In view of the serious allegations of corruption, wrongdoing and illegality that have been made in relation to the Teesworks Joint Venture, the government has asked the review to specifically to respond on that issue. The following specific questions/issues have been identified for the review to explore:

1. An assessment of the governance arrangements at the STDC, including how decisions are made and the transparency of those decisions.
2. An assessment of the arrangements through which the Tees Valley Combined Authority (TVCA) meets its responsibilities for effective and appropriate oversight of the activity of the STDC (the Mayoral Development Corporation responsible for the Teesworks site) and the Teesworks Joint Venture (the public-private partnership between the STDC and its partners).
3. An assessment of the processes, systems and delivery mechanism in place to deliver the expected value and benefits of the Teesworks Joint Venture.

4. An assessment of the arrangements and capacity in place to ensure that decision making across the TVCA, including STDC and Teesworks Ltd (the Joint Venture vehicle), is evidence-based (where practical), takes full consideration of value for money, and reflects an appropriate balance of risk and reward between the public and private sector.

5. An assessment of the level of confidence by which the government have that key decisions to date in relation to the Teesworks Joint Venture have been evidence-based and taken appropriate consideration of value for money.

6. An assessment of the robustness of local systems and operations in place to guard against any alleged wrongdoing, in particular in relation to:

- The sale of the site now occupied by SeAH Wind.
- The change in the Teesworks ownership structure in August 2021 from 50% public to 90% private.
- The extent to which correct procurement rules have been followed in relation to the site and any disposal of publicly owned land or assets.
- The sale of land at the site to private sector partners.
- Potential conflicts of interest between various parties, and contractors carrying out remediation or other works at the site.
- The evidence of investment from private sector partners in the context of significant public investment in remediation of the site.
- The adequacy of transparency and accountability underpinning key decisions, including ongoing engagement with and reporting to His Majesty's Government (HMG).

7. An assessment of the effectiveness of arrangements for external scrutiny of the STDC and Teesworks Joint Venture (including Teesworks Ltd), including independent audit, and of the relevant parties' response to any findings or recommendations from that process.

Appendix 2

A list of individuals who submitted written evidence and/or attended interviews is below:

Name	Role	Organisation	Submitted Evidence – E Interviewed - I
Julie Gilhespie	Group Chief Executive	TVCA	E + I
Gary MacDonald	Group Director of Finance and Resources	TVCA	E + I
Emma Simson	Acting Group Legal Officer and Monitoring Officer	TVCA	E + I
Ben Houchen	Mayor	TVCA	E + I
Neil Schneider	Board Member Former Chief Executive	STDC Stockton on Tees Council	E + I
John Sampson	Managing Director Board Member (associate)	Redcar & Cleveland Council STDC	E + I
Sue Jeffrey	Board Member Cabinet Member Overview & Scrutiny Audit Committee Leader	STDC TVCA TVCA STDC Redcar & Cleveland Council	E + I
Simon Clarke MP	Member of Parliament	Middlesbrough & South East Cleveland	E + I
Andy McDonald MP	Member of Parliament	Middlesbrough	E + I
Graham Robb	Board Member	STDC	E + I
Margaret O'Donoghue	Overview & Scrutiny Councillor	TVCA Redcar & Cleveland Council	E + I
Jonathan Munby	Audit Committee	TVCA	E + I
Chris Cooke	Cabinet	TVCA	E + I
David Smith	Board Member	STDC	E + I
Paul Booth	Board Member Audit Committee Former Acting Chief Executive	STDC STDC STDC	E + I
Cllr Bob Cook	Cabinet Leader	TVCA Stockton on Tees Council	I
Chris Musgrave	Joint Venture Partner		E + I
Martin Corney	Joint Venture Partner		E + I
Steve Gibson	Board Member Audit Committee	STDC STDC	I

Name	Role	Organisation	Submitted Evidence – E Interviewed - I
Mary Lanigan	Board Member Cabinet Former Leader	STDC TVCA Redcar & Cleveland	I
Vicky Davis		National Audit Office	I
Cath Andrews	External Audit	Mazars	I
Cameron Waddell	External Audit	Mazars	I
Tim Cares	Partner	Ward Hadaway Solicitors	I
Victoria Pescod	Lawyer (Observer)	TVCA	I
Dr Tom Smyth	Board (associate) Deputy Head, Yorkshire, Humber & Northeast Areas Directorate	STDC BEIS	E + I
Ian Williams	Chief Executive	Darlington Council	I
Mike Greene	Chief Executive	Stockton on Tees Council	I
Paul Rowsell	Head of Governance Reform and Democracy Unit	DLUHC	I
Matthew Storey	Audit Committee Overview & Scrutiny Deputy Leader	TVCA TVCA Middlesbrough Council	I
Lord Heseltine			I
Elizabeth Davison	S151 Officer	Darlington Council	I
John Baker	Board Member Audit Committee	STDC STDC	E + I
Phil Winstanley	S151 Officer	Redcar & Cleveland Council	I
Richard Brooks	Reporter	Private Eye	E + I
Garry Cummings	S151 Officer	Stockton on Tees Council	I
Denise McGuckin	Managing Director	Hartlepool Borough Council	I
Andrew Nixon	Monitoring Officer	TCVA & STDC 2017 – Sep 2020 Redcar & Cleveland Council	I
Charlotte Benjamin	Monitoring Officer	Middlesborough Council	I
Robert Cuffe	Board Member	STDC	E
Jacob Young MP	Board Member Member of Parliament	STDC Redcar	E
Councillor Tony Riordan	Councillor	Stockton on Tees Council	E
Iain Robson	Group Finance Director	ADL Developments Ltd	E

Dave Budd	Mayor of Middlesbrough Board member	TVCA and STDC	E
Reverend Paul Cawthorne	Specialist Researcher		E
Sally Bunce	Councillor	Loftus Town Council	E
Leigh Jones	Investigative Reporter	Yorkshire Post	E
Scott Hunter	Reporter	Tees Valley Monitor Ltd	E
Tristan Learoyd	Councillor & Chair of R&D Regulatory Committee	Redcar and Cleveland Council	E

Appendix 3

Timeline of Key Events

Date	Activity
September 2015	The Sahaviriya Steel Industries (SSI) Steelworks in Redcar closed with the loss of more than 3,100 jobs.
April & June 2016	Devolution Deal agreed to establish TCVA and Mayor
June 2016	Lord Heseltine's report Tees Valley: Opportunity Unlimited is published
October 2016	STSC established to manage and keep safe the SSI land
February 2017	Discussions commence with major landowners
March 2017	Tees Valley Combined Authority (Functions) Order comes into effect
April 2017	Formal Without Prejudice offer of 'gain share' delivery proposal made to Thai Banks
May 2017	Ben Houchen Is elected as the first Mayor of the Tees Valley Combined Authority (TVCA).
May 2017	Thai Banks reject gain share proposal due to timing uncertainties
August 2017	STDC formally established
September 2017	STDC Board resolved to begin preparations for the making of a CPO pursuant to sections 201 and 207 of the Localism Act 2011 and the Acquisition of Land Act 1981
November 2017	STDC Board updated on progress with private treaty negotiations and preparations for making a CPO and resolved to appoint land referencing agents to confirm land interests
February 2018	STDC proposed an in-principal resolution to make a CPO
May 2018	STDC Supplementary Planning Document approved with R&C
July 2018	STDC resolved to proceed to make one or more CPOs and to refer the consent to TVCA to submit the CPO(s), once made, to the Secretary of State for confirmation
September 2018	STDC endorsed the land area required for development
January 2019	TVCA Cabinet approved the funding for the land acquisition and Investment Plan support STDC (£56.5m);

March 2019	TVCA Cabinet and STDC Board consented to the submission of the CPO
Late 2019	Three Thai Banks (Siam Commercial Banks, TISCO and Krung Thai), who were SSI UK's main creditors, object to the Government's plans for the compulsory purchase of the Steelworks in Redcar.
November 2019	JV Partners acquire option on 70 acres of Redcar Bulk Terminal Land
December 2019	TVCA approves commercial loan to Tees Valley International Airport and endorses their plan to enter into a JV with the JV Partners.
December 2019 – February 2020	Negotiations between JV Partners, SSI, STDC and Mayor on leverage of RBT land option.
February 2020	STDC agree settlement with SSI and the Thai Banks ("SA1"), to proceed with the CPO, and establish to 50/50 JV with the JV Partners. Delegated authority to CEO to conclude the JV and SA1.
March 2020	TVCA agree to proceed with CPO and delegates its reserve powers to STDC for the purposes of forming the JV.
March 2020	STDC establishes the joint venture company (initially known as South Tees Enterprise Ltd) with a 50/50 split between STDC and the JV Partners.
April 2020	Inspector Philip Ware, acting under powers delegated to him by the then Secretary of State confirmed the CPO without modification.
June 2020	STDC Chief Executive and JV partners agreed "Supplemental Deed" effectively transferring 50% of value of recyclable materials to JV partners
June 2020	Government approves STDC business case for remediation and development of Teesworks site
July 2020	STDC withdraw from first settlement agreement and enter into second settlement agreement ("SA2")
July 2020	Teesworks Limited established by amendment of the company formerly named as South Tees Enterprise Limited.
Summer 2020	Government agreed funding of £125.75m to TVCA between 2020 and the end of 2022/23 financial year.

January – March 2021	An additional £20m provided by BEIS to support the development of an offshore wind manufacturing centre.
March 2021	Government announcement of Teesside Freeport
July 2021	TVCA agrees Headlease for GE for Teesworks site
August 2021	STDC Board agreed 90:10 JV Partnership in favour of the JV partners
November 2021	Mayor's decision to approve disposal of parts of Teesworks site at less than best consideration
November 2021	TVCA agrees borrowing of £106m for development of South Bank Quay
July 2022	STDC Board agree proposed transaction with SeAH Wind Investments
October 2022	TVCA Cabinet agree change from GE to SeAH as anchor tenants
March 2023	TVCA Cabinet approved granting of SeAH headlease
March 2023	STDC agreed delivery model for NZT

Appendix 4

Teesworks Project - Schedule of Key Legal Documents

2020	
2020-02-20	<p>First Settlement Agreement (SA1) An agreement between STDC, Official Receiver (OR), SSI UK, SSI PCL, DCS Industrial Ltd, DCS Industrial (South) Limited.</p> <p>Title:- Settlement Agreement relating to the South Tees Development Corporation (Land at former Redcar Stee Works, Redcar) Compulsory Purchase Order 2019.</p> <p>This agreement was intended to reflect the negotiated settlement between the various parties which relied upon the RBT Option Land owned by the JV Partners which provided leverage over SSI/Thai Banks because the land was necessary to enable the SSI/Thai Banks proposal for a Bulk Terminal.</p> <p>The settlement also provides for a second piece of land to be allocated to SSI/Thai Banks for the purpose of an Electric Arc Furnace. (Lackenby Land)</p> <p>Provides for various transfers of land with a view to enabling the land assembly for Teeswork project and for the SSI/Thai bank proposals. In return, SSI/Thai banks agree to withdraw their objections to the CPO which will enable the bulk of the land assembly.</p> <p>A key condition is that Within 12 weeks of the signing of the SA1 agreement the Thai banks must submit to the OR a release of security on the Site 1a. The 'Condition'. The deadline for the Thai banks to comply was 5th May 2020. In the event they didn't submit the release and the SA1 agreement didn't crystallise.</p> <p>The agreement includes the surrender of the RBT option held by the JV partners to enable SSI PCL to develop their Bulk Terminal proposal.</p> <p>It also includes the obligations on STDC to release the Lackenbury land to SSI PCL in order that they can pursue an electric arc steel facility with Jangyre Ltd.</p> <p>N.b. there is a requirement for the Thai banks to submit a Deed.</p>
	50/50 JV
2020-03-13	<p>Shareholders Agreement (JV1) Between:- Northern Land Management (NLML); JC Musgrave Capital Ltd; STDC; STEL</p> <p>The Shareholder Agreement is the basis on which the Joint Venture is established. There is no separate JV agreement setting out in detail the basis and purposes of the JV.</p> <p>Relates to a newly formed company described as JVC with the shareholding:-</p>

	<p>STDC 2 shares NLML 1 JCM 1</p> <p>Para 2.1 and 2.2 describe the ‘Business of the JVC’ as follows:-</p> <p style="padding-left: 40px;"><i>2.1 The business of the JVC is the development and commercial exploitation of land south of the River Tees broadly contiguous with the South Tees Development Corporation boundary.</i></p> <p>3.3.3 Provides for the appointment of David Allison (Former CEO of TVCA & STDC), M Corney and J Musgrave as Directors.</p> <p>Clause 5 refers to matters requiring the consent of shareholders – Reserved Matters – and these are listed in Sched 2 of the agreement.</p> <p>6.11 Provides that the Quorum at a meeting is all three Directors. A B & C.</p>
2020-03-13	<p>Option Agreement relating to land on the South Bank of the River Tees at Redcar. STDC – STEL Option Agreement Relating to Land on the South Bank of the River Tees at Redcar. DCS Industrial (South) Limited. – STEL Option Agreement Relating to Land on the South Bank of the River Tees at Redcar. STDL – STEL</p> <p>These three option agreements provide the mechanism by which Teeswork land assembled by various means, would be drawn down by TWL (Formerly STEL).</p> <p>The cost of the option (Option sum) is £1 The Purchase Price is the ‘Market Value’ as defined by the option agreement and if they can’t agree an expert will be appointed to determine. 30 year option period The costs of draw down (for Tata land £7,536 per acre within 6 months after which it’s) the market value.</p> <p>Para 3 The Option agreements specifically provides a licence for the Developer to enter the land and undertake demolition, remediation etc. within the option period.</p> <p>Para 3.3 provides for payments to be made to the Developer for undertaking particular types of work such as maintaining the site.</p>
2020-03-13	<p>Put and Call Option Agreement in respect of the entire issued share capital of DCS Industrial (South) Limited.</p> <p>STDC; DCS Industrial Ltd, (DCS)</p> <p>Agreement for the option for STDC to buy 100% shares of DCS Ind (South) Limited which was intended to be the recipient of various parcels of land.</p>
2020-03-13	<p>Commission Fee Arrangement</p>

	<p>Between DCS Ind Limited; DCS Ind (South) Limited; STDL; STDC;</p> <p>This provides that when land is drawn down by TWL under the options, DCS shall be entitled for a Commission Fee on that sale. This was intended to align with the 50/50 JV p/ship which arose in March 2020.</p> <p>Para 2.1 provides that DCS will be paid 50% of the 'Uplift' which is defined as the difference between the 'Base Value' and the Market Value.</p> <p>Base Land Value is either £1 or (£7536 for Tata Land).</p> <p>Clause 3.2 imposed a restriction on the sale of any land without the express permission of DCS.</p>
2020-05-15	<p>Notice to Terminate the First Settlement Agreement (SA1).</p> <p>STDC served the above notice due to the default of the Thai Banks – they didn't submit consent by the deadline.</p>
2020-06-04	<p>STDC Published confirmation of the CPO</p>
2020-06-11	<p>Supplemental Deed v3 STDL; STDC; DCSIS; STEL (TWL); MLML; JCML</p> <p>Para 1 of The Deed variations adds provisions to the 3 option agreements (2020-03-20), which clarify that:-</p> <p>the Developer may remove scrap, minerals, aggregates etc. and the title to such materials shall pass to the Developer on removal from the property.</p> <p>Para 2 imposes a requirement that the Owner may only remove materials etc. with the permission of the Developer.</p> <p>It also makes changes to the Shareholder Agreement including the removal from the list of Matters Reserved for Shareholder Approval – 16. 'Declaring or Paying a dividend'</p>
2020-06-30	<p>STDC made the General Vesting Declaration in respect of the CPO land.</p>
2020-07-14	<p>Second Settlement Agreement relating to the South Tees Development Corporation (Land at Former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019</p> <p>Between:- STDC; SSI UK; Kenneth Beasley; SSI PCL;</p>

Recital O:-

The intended outcome of this agreement is to enable the regeneration of the former Redcar Steelworks site and to compensate the Thai Banks for the loss of their interest in the CPO land in full and final settlement of all claims.

2.1 SSI agrees not to challenge the CPO.

3.2 STDC will pay £15m to Thai Banks

3.2.2. SSI PCL relinquishes all claims against STDC arising for the CPO including the First Settlement Agreement

7.1 SA1 shall be set aside and have no further effect.

**2020
-09-20**

First MoU MHCLG; BEIS & TVCA

MHCLG; Dept, for Business, Energy & Industrial Strategy (BEIS); TVCA

Sets out the terms principles and practices that will apply to the working relationship between MHCLG; BEIS and TVCA to redevelop the SSI Site. Covers FY 20-21 only.

Financial Year	Total (£m) BEIS	Total (£m) MHCLG	Total (£m)
20/21	16.827	4.242	21.069
21/22	46.1	10.006	56.106
22/23	21.819	25.662	47.481
Total 20/21-22/23	84.746	39.910	124.656

The MoU states that S.31 grant money will be paid to TVCA to enable STDC and STSC to progress the work on the SSI site.

3.4. TVCA will ensure that in using this funding all necessary legal requirements are complied with, including State aid. In particular, in relation to the Commission Agreement dated 13 March 2020 between STDC and STDC's Joint Venture (JV) Partners it will be ensured that any commission payments paid to the JV Partners under the Commission Agreement are not calculated on the basis of any increase in land values as a result of work done by STDC using this funding.

The above imposes obligations on TVCA to ensure that the grant funding is used in a lawful manner and the MoU specifically identifies the Commission Fee arrangement for particular scrutiny.

	<p><i>4.5.1. There is an expectation that TVCA will provide regular project, financial and risk reporting in an agreed format to MHCLG and BEIS, in such format as they reasonably require from time to time, demonstrating that the previous funding has been spent and outcomes are being met, in line with the agreed business case.</i></p> <p><i>7.1. MHCLG and BEIS will provide grant funding subject to TVCA hereby agreeing to full transparency, open book working and a duty of good faith in regard to all matters relating to the project, TVCA, and this MOU.</i></p>
2021	
	90/10 JV
2021-11-26	<p>Deed of Adherence and Variation – (90/10 JV)</p> <p>Between: TWL; DCSIL; NLML; JCMCL; STDC</p> <p>The Deed notes that STDC has transferred 40 of its 50 TWL shares to DCSIL.</p> <p>This is supplemental to the Shareholders Agreement of 2020-03-13 (SHA) which is amended as provided by Schedule 2 of the Deed.</p> <p>Clause 4. The revised SHA changes the Quorum requirement for Board meetings to enable a quorum of the 2 JV Partner Directors and doesn't provide for and STDC Director but instead under Cl 4.4 Provide that STDC may send a non-voting observer to Board meetings.</p> <p>Cl. 5.2 Provides that there is no obligation on the parties to provide any further finance to the JVC but if they do so, the parties shall each provide the same amount on the same terms unless they agree otherwise in writing.</p> <p>The reserved matters list was reduced to 11 matters</p>
2021-11-26	<p>Supplemental Commercial Deed</p> <p>TWL; STDC; DCS Ind Ltd (DCS); DCS Ind Devs Ltd. (DCSID)</p> <p>Concerns the GE Land development.</p> <p>Provides for a fee to be paid by TWL and DCSID to STDC for the provision of demolition and extraction of scrap services. The payment will be a sum of up to 50% of the Net Land Value. To be paid within 7 Days of receipt of money by TWL.</p> <p>Provides for a fee to be paid to DCS for Marketing Services in respect of the GE Land Disposal. Up to 50% of the Net Land Value</p>

	<p>If the above don't happen by 26-11-2022 they fall away and leave a obligation on TWL to pay £15m to STDC on disposal of the site. To be paid within 5 days of TWL receiving the disposal payment.</p> <p>Cl 15 obliges STDC to procure that the GE site is development ready within 18months of the date of the agreement.</p> <p>Cl 3 concerns Dividends and Other Payments and provides that STDC shall not be entitled to any dividends and/or distributions of of profits until such time that the amounts paid by TWL to STDC pursuant to the Scrap Agreement are equal to 10% of the cumulative distributable profits of TWL commencing from the Effective date. (01-08-21)</p>
2021-11-26	<p>Commercial Deed: Scrap TWL; STDC; DCS</p> <p>Clause 2. Provides for the payment by TWL to STDC, from the effective date (1st August 2021), of up to 50% of the proceeds of the sale of scrap recovered from the site in consideration for the demolition and extraction works provided by STDC – up to a maximum of £60m. Subject to the cashflow needs of TWL.</p> <p>Clause 3. Provides the same provision for payments from TWL to DCS of up to £60m from the proceeds of the sale of scrap in consideration for marketing services provided by DCS, but without the 'subject to the cash flow needs' provision.</p>
2021-11-26	<p>Commercial Deed re PD Ports</p> <p>TWL; STDC; DCS;</p> <p>Relates to the dispute between PD Ports and STDC regarding access to PD land across the Teeswork land.</p> <p>Clause 2. In the event that PD Ports pay cash consideration for access rights TWL shall be entitled to 50% of any sum up to a limit of £54m (50% of the Remediation Sum), to assist within TWL business.</p> <p>2.2 TWL undertakes to use reasonable endeavours to expend that within 5 years.</p> <p>Clause 3. Provides that DCS shall be entitled to a fee for consultancy services in connection with the dispute up to £54m – to be paid within 7 days of the invoice.</p>
2021-11-26	<p>Commercial Deed re Land Value</p> <p>TWL; STDC; DCS; DCSID</p>

	<p>CI 2. Makes provision for the payment by TWL and DCSID of a fee to STDC of up to 50% of any Net Land Value in connection with the GE Site. (Presumed to be approx £15m at the time). In consideration of STDC managing and funding the demolition and remediation of the site.</p> <p>It is suggested that this was intended to compensate STDC for the fact that the GE project had been initiated during the 50/50 JV but would not complete until in the 90/10 and as such would have reduced the share going to STDC.</p> <p>CI 4. It also provides for a payment of a fee to DCS for the provision of Marketing Services in connection with the GE site, of up to 50% of the Net Land Value.</p> <p>CI 4.3 Provides that in the event TWL undertakes, prior to disposal, any works to make the site Development Ready. The Disposal Payment shall be reduced by the amount which TWL incurred.</p>
2021-11-26	<p>Option Agreement – Rights of Emergency Access for PD Ports</p> <p>STDL; TWL; STDC</p> <p>Grants an option to the Developer to require the Owner to grant access rights to the benefit of certain PD Ports land.</p>
	<p>Agreement/Lease with SeAH Wind No Copy</p> <p>Agreement with SeAH wind for the Sub-lease of the land on which the Wind Turbine factory will be located.</p>
2021-11-26	<p>Deed of Release of Commission Fee Arrangement</p> <p>DCS; DCSIS; STDC; STDL.</p> <p>In consideration of the transfer by STDC to TWL, of 40 TWL shares DCS releases STDC; DCSIS; STDL from the obligation to pay the Commission Fee.</p>
2021-11-26	<p>Second Supplemental Deed relating to land on the South Bank of the River Tees</p> <p>STDL; STDC; TWL;</p> <p>Supplemental and collateral to the Option Agreements and varies the terms of those options. (N.b. the DCS option had become redundant because it didn't hold any land on the site).</p> <p>References a valuation by Knight Frank which assessed the notional land value of the Property as £1 on the basis of the inherent funding shortfall of approximately £109,466,500 associated with remediating and providing the necessary infrastructure of the Property.</p>

	<p>CI 6.1 In the event STDC creates an estate management co CI 6.1 Creates an option for TWL to acquire that company at market value upon serving written notice to STDC.</p> <p>CI 6.2 – In the event of service of a notice STDC shall transfer any rent charge and assign the benefit of any covenants.</p> <p>Amends the purchase price under the Option Agreements to £1 (Indexed) to reflect the agreement that the market value was effectively a negative amount.</p> <p>To provide that if TWL exercised its option over any part of the Quay Land it would immediately grant STDC a lease of that land. This was because STDC/TVCA were funding the construction of the Quay from a UKIB loan which would need to be funded from income generated by the operation of the Quay.</p> <p>A form of lease is appended and</p> <p>A form of Quay Operating Agreement which provides that once STDC completes the construction of the Quay, inconsideration of the fees in Clause 5, it will appoint Teeswork Quay Limited (TWQL) to operate the Quay.</p> <p>Clause 5 provides that any fee paid by TWQL shall not exceed the annual cap of £3,602,416 subject to a cumulative cap of £170m.</p> <p>N.b. Also appended is the NEC contract between STDC and John Graham Construction Ltd for the construction of the Quay. (N.b. Query whether there was a tender competition for this?).</p>
2022-10-11	<p>Transfer of Title – South Quay</p> <p>STDC; TWL</p> <p>HM Land Registry Document Recording Transfer of the title of the Quay land from STDC to TWL for the sum of £16.27.</p>
2022-10-11	<p>Lease of South Bank Quay</p> <p>TWL; STDC</p> <p>TWL grant a lease of the South Bank Quay Land to STDC with a term of 99 years.</p>
2022-10-11	<p>Quay Operating Agreement</p> <p>STDC; TWL; TWQL</p> <p>STDC appointed TWL as the operator of the new South Bank Quay</p>

2022-12-16	<p>Deed of Variation relating to South Bank Quay</p> <p>Payment to STDC to cover costs of additional works on the Quay.</p> <p>TWL; STDC; TWQL</p> <p>A deed which makes changes to the Quay Operating Agreement and to the Lease held by STDC over the South Quay.</p> <p>Increased the rate to be paid by TWQL to STDC (£3602416 - £3936884) in recognition of the additional £6.5m they had to spend on an additional aspect of the Quay.</p>
2022-12-16	<p>Supplemental Land Value Deed</p> <p>TWL; STDC; TVCA; DCS; JCML; NLML; DCSIDL.</p> <p>This replaced both the Commercial Deed re GE Transaction and the Commercial Deed re Land Value, because the original deal had fallen through and had been replaced by an arrangement with SeAH Wind.</p> <p>This new agreement required TWL to make a payment of £15m to STDC by no later than the 3rd anniversary of the agreement. (2025/12/16)</p> <p><i>CL2.1 TWL shall make a Disposal Payment (£15m) to SRDC by no later than the longstop date. (16-12-2025).</i></p> <p><i>CL2.2. Provides that STDC acknowledges the TWL's ability to pay the Disposal Payment may depend upon its ability to generate an appropriate level of cash or capital receipt which is anticipated will be realised if TVCA enters in to a TVCA Lease or Leases and accordingly TVCA shall enter into a TVCA Lease or other Commercial Arrangements promptly following written request by TWL.</i></p> <p>The Deed also imposes a requirement on TVCA to enter into up to 3 leases (Including the first SeAH lease), and TVCA must act 'promptly' following a written request to do so from TWL.</p> <p>The Schedule to the Supplemental Land Value Deed also varies the Scrap and Supplemental Commercial Deed.</p>
2023-03-23	<p>Draft Third Supplemental Deed</p> <p>Draft prepared by Ward Hadaway – no copy of final version provided.</p>
2023-04-23	<p>Deed of Variation No copy provided.</p>



Department for Levelling Up, Housing & Communities

Rt Hon Michael Gove MP

Secretary of State for Levelling Up, Housing & Communities

Minister for Intergovernmental Relations

2 Marsham Street

London

SW1P 4DF

Mayor of Tees Valley Combined Authority
Teesside Airport Business Suite
Teesside International Airport
Darlington
DL2 1NJ

29 January 2024

Dear Lord Houchen,

On 16 May 2023 you approached Government regarding an independent review of the South Tees Development Corporation (STDC) and Teesworks. You raised concerns regarding the allegations made in parliament by Andy McDonald MP of ‘dubious dealings’ and ‘industrial-scale corruption’. You were particularly concerned about the damaging effects that these allegations could have on investment and job creation across Teesside. I wrote to you on 24 May 2023, noting that the exceptional circumstances meant I would establish such a review. I appointed an independent Panel to report to me, with the Terms of Reference published on [gov.uk](https://www.gov.uk).

Today, I have published the independent panel’s report into the Tees Valley Combined Authority’s (TVCA) oversight of the STDC and Teesworks Joint Venture. My colleague, Lee Rowley, is also making a statement to Parliament setting out our assessment of the report and its recommendations. I am grateful to the Panel for their work and to you, your members and officers, and other partners, for your cooperation with the review, providing the Panel with information requested, and meeting with them to aid their investigation.

Their report makes clear that the panel found no evidence of corruption or illegality. I know you will strongly welcome this conclusion. They also note that the pace and scope of the regeneration has had wide-reaching positive impact on the local economy, which we all welcome. The panel report identifies a ‘need to strengthen governance and increase transparency which can be done with limited impact on pace of delivery’ and makes recommendations as to how to address these by strengthening scrutiny and improving public accountability to the residents of Teesside. There are some specific areas for improvement and lessons to be learned, which I know you will also welcome. I am grateful for your assurance that you stand ready to accept in principle the recommendations, while recognising that the panel also made recommendations to Government which will be carefully considered and to which I will respond in due course.

I ask that you now engage with the panel’s recommendations, working with the Combined Authority and partners as appropriate, and provide me with an initial report by 8 March on how you intend to respond to the Panel’s recommendations. I will not take decisions on further action until you have responded. My officials stand ready to support yours, with your response to these recommendations.

A copy of this letter will be placed in the House libraries.

With every good wish,

A handwritten signature in black ink that reads "Michael Gove". The signature is written in a cursive, slightly slanted style.

RT HON MICHAEL GOVE MP

Secretary of State for Levelling Up, Housing and Communities
Minister for Intergovernmental Relations



AGENDA ITEM 6
REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION BOARD

28TH FEBRUARY 2024

REPORT OF ACTING MONITORING OFFICER

GOVERNANCE & ELECTION PERIOD UPDATE

SUMMARY

On 6 May 2021, Ben Houchen was re-elected as Mayor of the Tees Valley for a second term of three years.

On 2 May 2024, voters in the Tees Valley (Darlington Borough Council, Hartlepool Borough Council, Middlesbrough Council, Redcar & Cleveland Borough Council and Stockton on Tees Borough Council) will go to the Polls to elect the next Mayor of the Tees Valley.

In advance of the Mayoral Election, the Tees Valley Combined Authority and its constituent authorities will enter a 'Pre-Election' period (formerly known as 'Purdah').

Members of the Middlesbrough Development Corporation will need to be cognoscente of the Pre-Election Period. For this purpose, this report sets out Guidance in relation to the Pre-Election Period.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation Board:

Note's the Guidance in the Appendix to this Report.

DETAIL

On 6 May 2021, Ben Houchen was re-elected as Mayor of the Tees Valley for a second term of three years.

On 2 May 2024, voters in the Tees Valley (those Darlington Borough Council, Hartlepool Borough Council, Middlesbrough Council, Redcar & Cleveland Borough Council and Stockton-on-Tees Borough Council) will go to the polls to elect the next Mayor of the Tees Valley.

Following approval by TVCA Cabinet on 30 June 2023 Mike Greene, Chief Executive of Stockton-on-Tees Borough Council, was appointed as Returning Officer for the 2024 Mayoral Election. As such, Stockton Council will deliver the election.

In advance of the Mayoral Election, the Tees Valley Combined Authority and its constituent authorities will enter a 'Pre-Election' period (formerly known as 'Purdah').

Members of the Middlesbrough Development Corporation will need to be cognoscente of the Pre-Election Period. For this purpose, this report sets out Guidance in relation to the Pre-Election Period.

Attached to this Report in the Appendix, is guidance for Members in relation to that Pre-Election Period.

FINANCIAL IMPLICATIONS

There are no financial implications as a result of the content of this Report.

LEGAL IMPLICATIONS

There are no direct legal implications as a result of the content of this Report.

Members are reminded that they are able to take advice from the Monitoring Officer or the Governance Team in respect of the Pre-Election Period and contact details are at the foot of this Report for that purpose.

RISK ASSESSMENT

There are no risks identified as a result of this Report.

CONSULTATION & COMMUNICATION

There has been no consultation in respect of the content of this report.

EQUALITY & DIVERSITY

It is not expected that the subject of this report will have an effect on groups of people with protected characteristics.

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Post Title: Acting Monitoring Officer
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Agenda Item 6 - Appendix

Pre-Election Period (PEP) of Sensitivity



Guidance for Members and Officers

Mayoral Election 2024

Introduction

1. Officers and Members will be aware that the Tees Valley Mayoral Election will be taking place in The Combined Authority's Constituent Authorities on Thursday 2 May 2024, and if you've been in Local or Central Government in a previous election, you will be aware that in advance of the election, as with any other, we will enter the Pre-Election Period – formerly known as 'purdah'.
2. Following approval by Cabinet on 30 June 2023 Mike Greene, Chief Executive was appointed as Returning Officer for the 2024 Mayoral Election. As such, Stockton Council will deliver the election.
3. The Pre-Election Period for the Combined Authority will commence on the date of the publication of Election Notice. Therefore, the **Pre Election Period will commence on 19 March 2024.**
4. Officers and Members are reminded that at all times care must be exercised to ensure that the political neutrality of officers is maintained with specific restrictions on publicity and the use of Combined Authority resources for political purposes.
5. The period immediately before an election has historically been informally called "purdah" or the "purdah period". The current terminology used is 'Pre-Election Period of Sensitivity' or 'PEP' for short. The phrase helps define the period of extra political sensitivity before an election but does not have a precise legal definition. For local government it reinforces the existing restrictions outlined in Section 2 of the Local Government Act 1986 (the 1986 Act). In addition, a Code of Recommended Practice on Local Authority Publicity (the Publicity Code) published in 2011 makes clear that particular care should be taken in periods of heightened sensitivity, such as in the run up to an election.
6. The basic principle is not to undertake any activity which could call into question the political impartiality of officers or could give rise to the criticism that Combined Authority/Development Corporation resources are being used for party political purposes.
7. The principles of this guidance apply where an election or referendum affects some or all of the Tees Valley's residents. The election of the Tees Valley Mayor, is an example of just that.

8. The presumption is that normal combined authority/development corporation business will continue over the election period unless there are very good reasons why this should not be the case. Meetings of the Combined Authority, South Tees Development Corporation and Middlesbrough Development Corporation Statutory Committees can continue as normal.
9. Although the Combined Authority or the Development Corporations are not prevented from taking decision in the pre-election period, it is important that any decisions that are taken would be seen as fair and reasonable by the public and those standing for office. Officers mindful of the election should adopt a common-sense, even-handed and pragmatic approach to their work and be guided by the principle of fairness. Officers and members should act with caution to reduce the risk of a challenge that a decision has been made on party political grounds rather than on its merits. This means that most routine decisions can be taken, but some decisions may need to be postponed where a particular initiative, proposal, consultation or publication could be regarded as giving a candidate or their supporters/political party an advantage in the election.

Publicity

10. Publicity produced by the Combined Authority and the Development Corporations is governed by the 1986 Act and by the Publicity Code. The 1986 Act prohibits the Combined Authority or the Development Corporations from publishing any material which appears in whole or in part designed to affect public support for a political party. The 1986 Act requires the Combined Authority and the Development Corporations to have regard to the Publicity Code at any time when a decision is taken about proposed publicity.
11. The Code says that Combined Authority/Development Corporation publicity should comply with the following principles, and should:
 - a. be lawful
 - b. be cost effective
 - c. be objective
 - d. be even handed
 - e. be appropriate
 - f. have regard to equality and diversity, and
 - g. be issued with care during periods of heightened sensitivity.
12. Publicity not only includes press releases issued to print, broadcast and social media, but also:



Middlesbrough
Development
Corporation

press releases, which are sent to a wide audience;

- b. newsletters;
- c. information added to websites during the period;
- d. posters and leaflets;
- e. badges, t-shirts and other 'giveaways';
- f. advertising;
- g. exhibitions;
- h. conferences;
- i. consultation

13. In general, the Combined Authority of the Development Corporation should not issue any publicity which seeks to influence voters. Factors to be taken into account when considering whether or not the material appears in whole or in part designed to affect public support for a political party include:

- a. the content and style of the material;
- b. the time and circumstances of publication;
- c. the likely effect of the material on those to whom it is directed;
- d. whether the material promotes or opposes a point of view on a question of political controversy which is specifically identifiable as the view of one political party but not another;
- e. references to a political party or to persons identified with a political party;
- f. where the material is part of a campaign, the effect which the campaign appears to be designed to achieve.

14. In summary:

- a. no publicity will be given to matters which are politically controversial;
- b. the general presumption will be that no references will be made to individual politicians/candidates in press releases (except where there is a valid emergency);
- c. extra caution will be exercised before undertaking any significant media exercise unless it can be demonstrated that this was pre-planned before the election was called. In some cases, it may be necessary to defer publicity and announcements until after the election. This will need to be carefully balanced against any implication that deferral itself could itself influence the election.
- d. no photographs of candidates in the election will be issued;
- e. we will not supply Combined Authority/Development Corporation photographs or other materials to members unless they are required for official Combined Authority/Development Corporation business and we have verified that they will not be used for campaigning or political purposes;

- f. Combined Authority/Development Corporation events arranged in this period should not involve candidates likely to be standing for election.
- g. the Combined Authority can still issue media releases on factual matters provided that these do not identify individual members or groups of members.
- h. members are still free to respond to enquiries received from the media in a personal capacity
- i. individual members can issue their own statements, write letters to the local newspaper(s) for publication, contact the media directly or say what they like in a personal capacity, but must not use Combined Authority/Development Corporation resources to do so.
- j. it is still permissible for the Combined Authority/Development Corporation to issue statements on behalf of a member holding a key political or civic position provided it relates to significant events or circumstances (such as an emergency) which are outside the Combined Authority's control and where a member response is justified. These instances are likely to be very exceptional.

Social Media

15. Officers and members who blog or use social media in their official capacity should take extra care during the purdah period and comply with the following guidance when undertaking member or officer duties:

- a. Do not tweet, post or share updates from political parties, politicians or political opinion;
- b. Do not tweet or post on matters which are politically controversial;
- c. Do not tweet, post or share images of political parties, politicians or subjects which are politically controversial;
- d. Do not stage a significant online campaign unless it can be demonstrated that this is both necessary and non-political;
- e. Monitor your page and delete any content which is politically controversial with an explanation that this has been done because of the rules that govern the pre-election period linking to this advice;
- f. For officers whose posts are politically restricted, note that the legal restriction on "publishing any written work with the intention of affecting public support for a political party" includes writing, sharing or retweeting content.

Communications Team

16. It is important that all officers take care to ensure that all matters relating to publicity and press releases are referred to the Communications team for proper consideration.

Use of Combined Authority facilities and resources

17. Candidates are legally entitled to use publicly funded schools and other public meeting rooms for public election meetings, free of hire charge. Note - it must be for a meeting which is open to the public. The entitlement takes effect from the date they officially become a candidate. Further guidance is set out in the information for candidates and agents issued on behalf of the Returning Officer.
18. Except for the use of public premises as outlined above, candidates, have no additional rights to any other member of the public. Reasonable use of facilities and information available to the general public should be available to them, and at the rates chargeable to the general public if applicable.
19. Combined Authority/Development Corporation premises should not be used in any way to promote or signify any favour or support for any individual candidate or political party.
20. No political posters or similar campaign material should be displayed in any Combined Authority office or establishment or on cars used by officers for official business or which are parked in Combined Authority car parks that are not open to the public.
21. No political/election material should be displayed by any contractor working on behalf of the Combined Authority/Development Corporation. Officers should make this clear in any relevant contracts with the Combined Authority/Development Corporation.
22. Combined Authority/Development Corporation resources include, but are not limited to: premises, staff time, printing, photocopying, stationery, telephones/fax, transport, postal services, ICT equipment and web facilities.

Political Campaigning by Members

23. The restrictions mean the Combined Authority/Development Corporation as a corporate body must not inappropriately make resources available for political purposes or publish material which in whole or part appears designed to affect support for a political party or a candidate.

24. The restrictions are not intended to prevent members from engaging in political activity in their individual capacity. Members are free to campaign in the normal way during an election, including talking to the media, issuing press releases, using social media and so on, but must not use Combined Authority/Development Corporation resources to do so. Members remain bound by the Members Code of Conduct and should ensure their conduct is in compliance with it.
25. The inappropriate use of resources for the purposes of a candidate's election as well as being unlawful in itself, may amount to an unlawful donation which will need to be repaid. There may also be issues over compliance with the Members Code of Conduct.

Officers and Political Restrictions

26. Officers should continue to discharge their normal duties during the pre-election period but need to be mindful of election sensitivity.
27. All officers, particularly during the pre-election period, must act apolitically and in an even-handed manner in their dealings with candidates, agents, members and the press/public.
28. When fulfilling their official duties, officers at all levels must not engage in party political activity that compromises their neutrality and objectivity at work. In particular officers should:
 - a. not be seen to promote an individual (e.g. any candidate) or a political group or party associated with a candidate when fulfilling their duties, nor in any publicity they produce. This includes accepting any invitations to political meetings, photo calls, or being included in any campaign publicity e.g. leaflets;
 - b. not arrange or accept any requests for public visits or meetings by candidates, agents or associated political groups or parties;
 - c. not circulate, or put on display, any election campaign material within Combined Authority/Development Corporation premises. This includes posters and leaflets;
 - d. not give any opinions, comments or endorsements as a Combined Authority/Development Corporation officer which can be seen to promote a candidate, a political party, or a political view;
 - e. not endorse or promote any Government scheme, policy, project or initiative, which is linked to or which may be regarded as promoting a candidate, political party or political view associated with the elections.

29. The restrictions above apply to officers acting in their office capacity, in addition a number of officers are in politically restricted posts (either because of the level of seniority or because of the regularity of involvement with elected members) and have greater restrictions about their involvement in politics outside of work.
30. Officers who hold politically restricted posts, or who are likely to be involved or employed in connection with an election, may not take part in a political campaigning on behalf of a political party or candidate.

Emma Simson
Acting Monitoring Officer.



AGENDA ITEM 7

REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION BOARD

28TH February 2024

REPORT OF THE HEAD OF PLANNING

PLANNING UPDATE

SUMMARY

Responsibility for the determination of planning applications within the Middlesbrough Development Corporation boundary lies with the Middlesbrough Development Corporation [MDC]. In a transitional arrangement, planning functions were initially delivered by Middlesbrough Council [MBC], these have since transferred under the responsibility of the MDC appointed Head of Planning with functional delivery provided by Lichfields.

In accordance with the approved Scheme of Delegation, there are no planning applications due to be reported to Board for determination. A summary of delegated decisions since the last MDC Board on 21st January is attached as an appendix.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation Board note the updated position of planning service delivery and the status of planning applications submitted for consideration.

DETAIL

1. A transition agreement was reached with Middlesbrough Council [MBC], whereby it temporarily delivered the planning function on behalf of MDC.
2. MBC are currently managing 13 planning applications on behalf of MDC. It is not anticipated that any of these applications will need to be reported to Board for determination, as required by the approved Scheme of Delegation.
3. Delivery of planning service functions relating to town and country planning and development control within the Middlesbrough Development Corporation area is now overseen by the Head of Planning with operational services delivered through Lichfields.
4. Since the transition period ended there have been 2 planning applications which have required determination by the Middlesbrough Development Corporation Board, as required by the approved Scheme of Delegation. These 2 applications were approved at Board.

5. 33 planning applications have been submitted to the MDC since the end of the transition period.
6. 21 of these applications have been determined, with 18 decisions made in line with the statutory determination period and 3 decisions within a short and agreed extension of time with the Applicant. Extensions of time were required as additional information or minor amendments to the plans were required to enable officers to determine the application.
7. 1 application remains invalid due to lack of plans.
8. Of the remaining 11 applications, 8 applications are within the statutory determination period and an extension of time has been agreed with the Applicant on the remaining 3 applications due to the need for amended plans to be submitted. It is anticipated that 1 application will need to be reported to Board for determination by virtue of the application being submitted by MBC, as required by the approved Scheme of Delegation.
9. Local planning authorities in England are required to submit quarterly returns to central government to provide summary information relating to the number and status of planning and related applications in each quarter. Access to complete this process for the Middlesbrough Development Corporation was provided in October 2023 and January 2024 and future quarterly returns have been submitted as required.
10. The Head of Planning has received 3 communications relating to planning enforcement during the period. One matter has been investigated and no action is required. The second matter has been investigated and it is considered expedient to request that a formal planning application is submitted to regularise the works which have taken place to a listed building. A letter has been sent to the occupier of the building in question. The third matter has been investigated and it is considered expedient to issue a formal enforcement notice. The notice has been issued and officers are engaging with the owner of the building.

MDC Design Code Update

11. The draft design code for the MDC has been out for public consultation, however, recent queries regarding existing planning approvals have highlighted issues that were not highlighted in the original draft document. Work is being undertaken to address these in an amended draft design code and officers consider these to be significant changes that will require further public consultation. The amended draft will be brought to a future MDC Planning Board for approval to consult.

Middlesbrough Local Plan

12. Middlesbrough Council, as the local planning authority with plan making powers, has opened its draft local plan for consultation from 1 February to 15 March 2024. The draft local plan includes the area of the MDC. Officers are currently reviewing the draft local plan documents and will provide a draft response for the Board to consider at its next meeting, prior to submission.

FINANCIAL IMPLICATIONS

13. There are no financial implications.

LEGAL IMPLICATIONS

14. Planning Powers were conferred on to MDC on 1 June 2023 giving MDC the power to determine planning applications within the redline boundary.

RISK ASSESSMENT

15. This subject matter of this report is categorised as low risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

16. The subject of this report is a matter for MDC Board information only therefore no additional consultation and communication has been undertaken.

EQUALITY & DIVERSITY

17. This report does not impact on groups of people with protected characteristics.

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Middlesbrough Development Corporation

Delegated Planning Decisions since Board Meeting on 21st January 2024

Application Number	Address	Summary of Development	Delegated Decision
23/5065/FUL	96-98 Corporation Road	Conversion of roof space to create 3 additional bedrooms associated with the existing HMO, 4no. dormer windows to front, 2no. dormer windows to rear and conversion of outbuilding to form additional living accommodation	Approved 23 rd January 2024
23/5066/FUL	16-18 Marsh Road	Erection of 2no. industrial units (Use Class B2) with associated parking and infrastructure	Approved 24 th January 2024
23/5070/ADV	60 Albert Road,	Replacement of existing signage with new brand standard	Approved 31 st January 2024
23/5071/PNR	58 Linthorpe Road	Prior approval for the conversion of existing upper floors and new single storey and 2 storey extension to form 5 No. 1 Bedroom flats and 3 No. 2 Bedroom flats.	Refused 1 st February 2024
23/5074/FUL	64-66, Linthorpe Road	Replacement shop front, including roller shutter	Approved 13 th February 2024
23/5075/ADV	64-66, Linthorpe Road	Signage	Approved 13 th February 2024

Current Applications

Application Number	Address	Summary of Development	Status
23/5067/FUL	Deltic House, 11-13 Zetland Road	Change of use from offices, beauty salon, nightclub to hotel with internal alterations and minor changes to rear elevation	Validated 19 th December 2023 Under consideration
23/5068/LBC	Deltic House, 11-13 Zetland Road	Change of use from offices, beauty salon, nightclub to hotel with internal	Validated 19 th December 2023

Application Number	Address	Summary of Development	Status
		alterations and minor changes to rear elevation	Under consideration
23/5069/FUL	60 Albert Road	Removal of three existing self-service machines and installation of one new machine on southern elevation , installation of 2No. vents on eastern elevation.	Validated 7 th December 2023 Under consideration
23/5077/DIS	Stack	Discharge of conditions 5, 10, 11, 12, 14, 15, 16 and 17 of planning permission 22/0795/FUL	Validated 22 nd December 2023 Under consideration
23/5079/FUL	Centre North East, Albert Road	Replacement glazing and re-decoration of existing building, re-cladding of Unit 3 frontage and construction of glazed entrances to Albert Road and Corporation Road	Validated 29 th January 2024 Under consideration
23/5082/FUL	34-36 Borough Road	Conversion of existing retail and residential units to form 10no. Studio flats (sui generis) and 2no. retail units (Class E) with associated alterations to front, rear and side elevations including installation of 2no. dormer windows.	Validated 30 th January 2024 Under consideration
23/5083/ADV	Natwest, 106 Linthorpe Road, Middlesbrough	Replacement of 2No existing ATM collars with new Natwest branding	Validated 29 th January 2024 Under consideration
23/5086/ADV	17 Captain Cook Square	6 No. illuminated fascia signs	Validated 13 th February 2024 Under consideration
23/5087/FUL	17 Captain Cook Square	Installation of roller shutters	Validated 8 th February 2024 Under consideration
23/5088/ADV	Double 11. Boho X, Lower Gosford Street	Exterior signage for company name and logo on south elevation (individually illuminated lettering and logo)	Pending validation

Enforcement Register

Address	Unauthorised Works	Requirements
Bloom, 1 Albert Road	External lighting, artificial foliage and signage	14 th December 2023 – letter sent requesting submission of retrospective planning and listed building consent applications for external lighting and foliage and advertisement consent application for signage.
12-14 Borough Road	Development not in accordance with planning permission	14 th February 2024 Enforcement Notice served requiring breaches to be rectified. Takes effect 18 th March 2024 unless appeal lodged.

AGENDA ITEM 8

REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION BOARD

28TH FEBRUARY 2024

REPORT OF GROUP DIRECTOR OF FINANCE & RESOURCES

TREASURY MANAGEMENT STRATEGY 2024/25

SUMMARY

This report presents the Corporation's Treasury Management, Capital and Investment Strategies for the financial year 2024/25. The Capital Strategy incorporates within it the Minimum Revenue Provision Policy.

RECOMMENDATIONS

It is recommended that the Development Corporation Board approves the Treasury Management, Investment and Capital Strategies for 2024/25.

DETAIL

1. The Chartered Institute of Public Finance and Accountancy Treasury Management Code was updated in 2021. This report fulfils the Corporation's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
2. The code defines Treasury Management as, the management of the organisations borrowing, investments and cash flows, banking, money market and its capital market transactions. The effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.
3. To meet with these requirements the following three strategies have been produced:
 - i. Treasury Management Strategy (Appendix 1) - the management of the Corporation's cash flows, borrowing, investments, and the associated risks.
 - ii. Capital Strategy (Appendix 2) - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Corporation. Including an overview of how associated risk is managed and the implications for future financial sustainability.
 - iii. Investment Strategy (Appendix 3) – investments held by the Corporation that are not managed as part of normal treasury management processes.

FINANCIAL IMPLICATIONS

4. None

LEGAL IMPLICATIONS

5. None

RISK ASSESSMENT

6. The Treasury Management Strategy is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

7. None.

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Telephone Number: 01325 792600

TREASURY MANAGEMENT STRATEGY 2024/25

1. Introduction

Treasury management is the management of the Corporation's cash flows, borrowing and investments, and the associated risks. The Corporation will invest sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Corporation's prudent financial management.

Treasury risk management at the Corporation is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Corporation to approve a treasury management strategy before the start of each financial year. This report fulfils the Corporation's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Corporation is supported by Tees Valley Combined Authority (TVCA) who engage with professional advisors Arlingclose Limited, in order to ensure that up to date market advice and information on the most appropriate investment / borrowing options are obtained.

Through a service level agreement, TVCA group contracts with Stockton Borough Council (SBC) who provide a treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

2. Economic Context

Economic Background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Corporation's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions.

Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Credit Outlook

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest Rate Forecast

Although UK inflation and wage growth remain elevated, the Groups treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England’s Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3. Local Context

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Corporation’s proposed strategy is to maintain borrowing and investments equal to or below their underlying levels, sometimes known as internal borrowing. Forecast changes in these sums are shown in the analysis in table 1 below.

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the Corporation’s total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Corporation expects to comply with this recommendation during 2024/25.

	31.3.24 Estimate £'000	31.3.25 Forecast £'000	31.3.26 Forecast £'000	31.3.27 Forecast £'000
Capital financing requirement (cumulative)	0	25,000	50,000	75,000
Less: External borrowing	0	25,000	50,000	75,000
Internal Borrowing	0	0	0	0

Liability benchmark: To compare the Corporation’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £0.1 million at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Corporation is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Corporation must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.3.24 Estimate	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast

	£m	£m	£m	£m
Loans CFR (Cumulative)	0.0	25.0	50.0	75.0
Less: Balance sheet resources	0.1	0.1	0.1	0.1
Net loans requirement	-0.1	24.9	49.9	74.9
Plus: Liquidity allowance	0.1	0.1	0.1	0.1
Liability benchmark	0	25.0	50.0	75.0

4. Borrowing Strategy

In January 2024, TVCA Cabinet approved a borrowing facility that allows the Corporation to access up to £75 million in borrowing from Public Works Loan Board (“PWLB”) via TVCA. Proposals to access this funding will be brought to Corporation Board meetings to consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Corporation’s Final Investment Decision(s) including any debt finance requested from TVCA.

As the details of the proposals are still to be developed an assumption has been made within the Treasury Management and Capital Strategies that all investments will be borrowing via PWLB and will take three years until they are operational and that all interest will be capitalised during this period. Alongside each Investment proposal the treasury management indicators will be updated and presented to Board.

The Corporation’s chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Corporation’s long-term plans change is a secondary objective.

The Corporation’s borrowing strategy will address the key issue of affordability without compromising the longer-term stability of the debt portfolio. By following the borrowing strategy, the Corporation will be able to reduce net borrowing costs and reduce overall treasury risk.

The Corporation intend to raise the majority of its long-term borrowing from TVCA who will access the PWLB. PWLB loans are no longer available to buy investment assets primarily for yield; the Corporation intends to avoid this activity in order to retain its access to PWLB loans via TVCA.

Alternatively, the Corporation may arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- Tees Valley Combined Authority
- UK Infrastructure Bank
- any institution approved for investments
- any other bank or building society authorised to operate in the UK

- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Corporation bond issues.

Other Sources of Debt Finance

Capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- sale and leaseback

The Corporation when borrowing will investigate all available sources of finance to achieve the most favourable rates.

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other.

The Prudential Indicators which the Corporation will follow, and the minimum revenue provision statement are set out in the capital strategy report (Appendix 2)

5. Investment Strategy

The Corporation does not currently hold any invested funds, however if funds are invested in the future, they will comply with Corporations proposed Investment Strategy which is set out below.

The CIPFA Code requires the Corporation to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Corporation's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Corporation will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Corporation aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Corporation expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still

developing and therefore the Corporation’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Corporation will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Surplus cash of the Corporation will be invested in short-term unsecured bank deposits, with other local authorities and money market funds.

The Corporation may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 10 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 10 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000 3 years	£15,000,000 4 years	£15,000,000 10 years	£7,500,000 4 years	£7,500,000 10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000	£5,000,000	£7,500,000

	10 years	5 years	5 years
Pooled funds and real estate investment trusts	£15m per fund		

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Corporation to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined

maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Corporation's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Corporation may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Corporation maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Corporation's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Corporation understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Corporation's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The Corporation is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Corporation will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit

quality are available to invest the Corporation's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£15,000,000
Any group of pooled funds under the same management	£37,500,000
Negotiable instruments held in a broker's nominee account	£37,500,000
Foreign countries	£15,000,000
Registered providers and registered social landlords	£37,500,000
Unsecured investments with building societies	£15,000,000
Loans to unrated corporates	£15,000,000
Money Market Funds	Unlimited
Real estate investment trusts	£37,500,000

Liquidity management: The Corporation uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Corporation being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Corporation's investment plan and cash flow forecast.

6. Treasury Management Indicators

The Corporation measures and manages its exposures to treasury management risks using the following indicators.

Liquidity: The Corporation has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£0.1m

Interest rate exposures: This indicator is set to control the Corporation's exposure to interest rate risk. Based on the current level of investments held, the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
One-year revenue impact of a 1% <u>rise or fall</u> in interest rates	£0

Maturity structure of borrowing: This indicator is set to control the Corporation's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

The limits will be reviewed and amended as the Corporation takes out further borrowing.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Corporation's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£1m	£1m	£1m

7. Related Matters

The CIPFA Code requires the Corporation to include the following in its treasury management strategy.

Financial Derivatives: Public Sector entities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 113A of the Local Democracy,

Economic Development and Construction Act 2009 removes much of the uncertainty over the use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Corporation will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Corporation is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Corporation will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Group has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Corporation's treasury management activities, the Groups Director of Finance believes this to be the most appropriate status.

The CIPFA Code does not prescribe any particular treasury management strategy for entities to adopt. The Groups Director of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

<p>Borrow short-term or variable loans instead of long-term fixed rates</p>	<p>Debt interest costs will initially be lower</p>	<p>Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain</p>
<p>Reduce level of borrowing</p>	<p>Saving on debt interest is likely to exceed lost investment income</p>	<p>Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain</p>

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the timelier PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects have diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

CAPITAL STRATEGY 2024/25

1. Introduction

The capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of the Corporation's Masterplan along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure and Financing

Capital expenditure is where the Corporation spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

The capital programme will be looked at on an individual project basis and a review of the programme will take place in advance of individual project approval. The assurance process in place for all capital investments will ensure that each meets the requirements of the prudential code that they are prudent, affordable, and sustainable.

Any opportunities that arise will be appraised and reviewed individually assuring they also meet the requirements of the prudential code and fit in with the Corporations' Masterplan. The current working assumption is that all investments will be borrowing via PWLB and will take three years until they are operational and that all interest will be capitalised during this period. Alongside each Investment proposal the prudential indicators will be updated and presented to Board.

In 2024/25, the Corporation is planning capital expenditure of £38.2 million as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Expenditure	2,719	38,224	32,001	20,000	5,000

Governance:

For the Corporations capital investment decisions the Board will consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Development Corporation's Final Investment Decision(s) including any debt finance requested from TVCA. The Board will be kept apprised of any terms agreed with TVCA and obligations placed on the Corporation, wherever applicable, as part of loan agreements with TVCA and will ensure appropriate approvals are in place to consider and, as required, accept the loan agreements

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Corporation's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Grants	2,719	13,224	7,001	0	0
Borrowing Required	0	25,000	25,000	20,000	5,000
Total	2,719	38,224	32,001	20,000	5,000

Debt is only a temporary source of finance, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). MRP is only charged in the year following the related asset becoming operational, Planned MRP is as follows:

Table 3: Replacement of debt finance in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Revenue Streams	0	0	0	0	0

Department for Levelling Up, Housing and Communities (DHLUC) Guidance requires the Corporation to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The recommended statement is attached at schedule 1 for approval.

The Corporation's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, loan fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Corporation's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
CFR (cumulative)	0	25,000	50,000	70,000	75,000

3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Corporation's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Borrowing strategy: The Corporation's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and therefore when borrowing the Corporation will seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Corporation does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board via TVCA.

Projected levels of the Corporation's total outstanding external debt are shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Debt	0	25,000	50,000	70,000	75,000
CFR	0	25,000	50,000	70,000	75,000

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 5, the Corporation expects to comply with this in the medium term.

Affordable borrowing limit: The Corporation is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
Authorised Limit	0	75,000	75,000	75,000	75,000
Operational Boundary	0	75,000	75,000	75,000	75,000

Further details on borrowing are included in the Treasury Management Strategy included at Appendix 1.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Corporation’s policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, Local Authorities or selected high-quality banks, to minimise the risk of loss.

Further details on treasury investments are included in the Treasury Management Strategy included at Appendix 1.

Risk Management. The effective management and control of risk are prime objectives of the Corporation’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Group Director of Finance & Resources and finance staff, who must act in line with the treasury management strategy and TVCAs treasury management practices. Mid-term and annual reports on treasury management activity are presented to the Board.

4. Investments for Service Purposes

The Corporation makes investments to assist in delivering the Masterplan, including the ability to provide loans to special purpose vehicles.

Governance: Decisions on such investments have to adhere to parameters approved by the Corporations board.

Table 7: Prudential Indicator: Proportion of income from investments to net revenue stream £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Total Income from Investments	0	0	0	0	0
Proportion of net revenue stream	0%	0%	0%	0%	0%

Further details on service investments are included within the Investment Strategy included at Appendix 3.

5. Liabilities

As set out in table 6 above, the Corporation forecasts to hold no long-term debt at 31st March 2024.

Governance: The risk of liabilities crystallising and requiring payment is monitored by the Group Finance team and reported appropriately.

6. Revenue Budget Implications

Capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount of revenue funding available for investment excluding specific grant schemes. As it is assumed interest costs are capitalised and MRP is not due until the investment becomes operational there are no revenue budget implications currently forecast until 2028/29.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24	2024/25	2025/26	2026/27	2027/28
Financing costs (£'000)	0	0	0	0	0
Proportion of revenue	0%	0%	0%	0%	0%

7. Knowledge and Skills

The Group has professionally qualified staff across a range of disciplines that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The skills available from internal resources allow the Corporation to assess business cases for capital investment and external professional advice is taken where required.

Through a service level agreement Stockton Borough Council (SBC) provides TVCA with the treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

Schedule 1 – Annual Minimum Revenue Provision Statement 2024/25

Where the Corporation finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Corporation to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Grants, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Corporation to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- Where borrowing occurs to directly support projects, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset determined on an annuity method. MRP will commence from the 1st April of the year following the asset becoming operational.
- Where Capital Expenditure is incurred on capital loans, which are not an investment for commercial purposes, MRP will be charged to the equivalent of the expected credit loss which has

been recognised in the year. Capital loan repayments received will be used to reduce the CFR on that loan.

- Finance Lease principal repayments are used to reduce the CFR on the leased asset on an annual basis.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until the following year.

INVESTMENT STRATEGY 2024/25

1. Introduction

The Corporation invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
- to assist in delivering of the Corporations Masterplan by lending to or investing in other organisations (investments)

This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003) and focuses on the second of these categories.

The statutory guidance defines investments as “all of the financial assets of a Development Corporation as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Corporation interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Corporation’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2. Treasury Management Investments

The Corporation activities, plus the timing of borrowing decisions, could lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Contribution: The contribution that these investments make to the objectives of the Corporation is to support effective treasury management activities.

Further details: Full details of the Corporation’s policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix 1.

3. Investments – Loans

The Corporation can lend money to its subsidiaries, associates and joint ventures to deliver the Corporations Masterplan. Loans are not issued by the Corporation for purely financial return, they are provided if the proposal meets the priorities set out in the Masterplan and related strategies.

Applications for financial support are received from various sources relating to a range of investments. As part of the assessment process a full financial, legal, and commercial evaluation is carried out. This evaluation will assess and recommend the nature of the Corporation’s proposed investment into the project.

Details of the loans provided as at 31 December 2023 are shown in table 1 below, with proposed approved limits.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to loans remains proportionate to the size of the Corporation, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. The limits are set as follows;

Table 1: Loans in £'000

	Balance at 31.12.24 £'000	2024/25 Approved Limits £'000
Subsidiaries / JVs	0	75,000
TOTAL	0	75,000

Risk assessment: In making loans the Corporation is exposing itself to the risk that the borrower defaults on repayments. The Corporation therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Corporation is proportionate and prudent.

The Corporation will ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

4. Proportionality

Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Corporation is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

Table 2: Proportionality of Investments

	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue Expenditure £'000	452	417	423	474	456
Investment Returns £'000	0	0	0	0	0
Proportion	0%	0%	0%	0%	0%

5. Borrowing in Advance of Need

Government guidance is that Development Corporation's must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Corporation has not borrowed and has no plans to borrow in advance of need.

6. Capacity, Skills and Culture

Elected members and statutory officers: For all investment decisions the Corporation follows the constitution. Due Diligence is carried out on all investments by internal and external resources depending on the type of investment. Internal Group resources available cover economic, legal and financial issues but external expertise is drawn on when required. Internal Group members of staff carry out regular professional development through training courses and conferences. The input from the above resources results in a comprehensive appraisal of all investments which is consulted on and provided to the Board for a decision.

Commercial deals: Within the Corporation there is experience in both Public and Private Sector deals. Where required external support is drafted in to assist in these deals.

Corporate governance: The Corporation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

The Corporation had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

7. Investment Indicators

The Corporation has set the following quantitative indicator to allow Board members and the public to assess the Corporation's total risk exposure as a result of its investment decisions.

Total risk exposure: The indicator shows the Corporation's total exposure to potential investment losses. This includes amounts the Corporation is contractually committed to lend but have yet to be drawn down and guarantees the Corporation has issued over third-party loans.

Table 3: Total investment exposure in £'000

	31.03.23 Actual £'000	31.03.24 Forecast £'000	31.03.25 Forecast £'000
Treasury Management Investments	0	100	100
Investment – Loans	0	0	0
TOTAL INVESTMENTS	0	100	100
Commitments to Lend	0	0	0
TOTAL EXPOSURE	0	100	100



AGENDA ITEM 9

REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION (MDC) BOARD

28 FEBRUARY 2024

REPORT OF GROUP DIRECTOR OF FINANCE & RESOURCES

BUDGET 2024-25 AND MEDIUM-TERM FINANCIAL PLAN

SUMMARY

The MDC constitution requires that the Corporation annually sets out a financial budget, which must be formally approved by the board each year. The Budget provides the financial framework within which the Corporation will operate in the forthcoming financial year (2024-2025) and over the medium term.

This report provides the budget for 2024-25.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation Board:

- i. Approves the Budget for 2024-25;
- ii. Delegates authority to the Chief Executive, Director of Finance & Resources and the Monitoring Officer for expenditure on initial project development up to £1m.

DETAIL

1. This report sets out the Budget for 2024-25 and the medium-term financial plan (MTFP) for the period to March 2028. The Budget presents all forecast funding and expenditure for the plan period.
2. For the MTFP period the Corporation will have a total of £102m available funding resources. This comprises £20m grant funding from the TVCA investment plan, £5m grant funding allocated directly from government and £75m of borrowing.

Economic Outlook

3. UK inflation remained high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the

period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

4. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.
5. Following the September MPC meeting, Arlingclose, the Group's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.
6. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.
7. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%.
8. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.
9. The Authority has been working closely with our treasury management advisors to establish the short- and long-term rate forecasts. This work has enabled various models to be produced with sensitivities conducted to inform a borrowing strategy which has informed the rates built into this budget.
10. Senior management have set parameters for accessing future borrowing to allow the Corporation to be agile in reacting to market changes in order to secure the most cost-effective rates.

DEVELOPMENT BUDGET

11. The objective of the Development Corporation (DC) is to bring forward the regeneration of a defined area.
12. Following the success of the locally-led model to accelerate regeneration, secure private investment and create jobs – the Tees Valley Mayor created the Middlesbrough Development Corporation. This will drive transformation in the local economy, reshape the area, attract investment, support business, increase productivity potential and enhance the overall offer for residents, businesses, and visitors.
13. MDCs priorities are to unlock untapped potential and opportunities in key sector growth and to develop vacant land and accelerate the regeneration and development of significant

assets.

14. In July 2022, TVCA Cabinet approved an allocation of £10m to MDC in the TVCA Investment Plan, to support the Development Corporation and £10m from within the Town Centre Accessibility Investment package for spend on eligible transport projects within the DC area. TVCA received £5m directly from government and this has been allocated for spend on the Gresham project.
15. An advanced delegated decision was approved to allocate £250k to the MDC area for development work to establish the DC and create the Masterplan.
16. A masterplan was developed and approved by the board in 2023, it provides guidance to enable the creation of detailed proposals for development sites whilst ensuring flexibility to respond to changes in economic and social conditions.
17. Public sector funding is required to address the financial viability gap caused by the high risk that the private sector will not invest due to the underlying market failures of:
 - Commercial Viability: Low rents and high capitalisation yields in office markets compromise the viability of programmes and discourage investment.
 - Availability of Development Finance: Bank Lending terms are restrictive due to the other market failures and high level of risk attached to contaminated sites.
 - Developer Financial Ability and Appetite for Risk: There are very few local developers with the level of equity required to commence a development and the returns that developers with equity could receive from other investments/developments outside Tees Valley may be more attractive or represent a lower level of risk.
 - The public sector is also required to coordinate the scale of intervention and funding required. The programme therefore includes provision for Project funding/grant funding/loans etc to unlock such investments wherever possible to stimulate growth and opportunity for all.

Budget and MTFP

18. The below table summarises the projected funding and expenditure across the medium term:

Heading	Rev/Cap	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
Expenditure								
Operational Costs	Revenue	145	167	173	180	187	194	1,046
Planning Preparatory Costs	Revenue	80	-	-	-	-	-	80
Master planning	Capital	161	-	-	-	-	-	161
Planning Services	Revenue	227	250	250	268	268	270	1,533
Initial project Development	Capital	558	1,224					1,782
Project Investments	Capital	2,000	32,000	27,001	20,000	5,000	-	86,001
Transport Investments	Capital	-	5,000	5,000	-	-	-	10,000
Evaluation	Revenue	-	-	-	25	-	25	50
MRP	Revenue	-	-	-	-	-	600	600
Interest	Revenue	-	-	-	-	-	1,161	1,161
TOTAL		3,171	38,641	32,424,	20,473	5,455	2,250	102,414
Funding			-	-	-	-	-	-
TVCA Investment Plan ("IP")	Revenue	452	292	298	339	321	354	2,056
TVCA IP	Capital	2,179	3,224	2,001	-	-	-	7,944
TVCA IP – Gresham			5,000					
Tees Valley Investment Zone	Revenue	-	125	125	134	134	135	653
CRSTS 1	Capital	-	5,000	5,000	-	-	-	10,000
Borrowing	Capital	-	25,000	25,000	20,000	5,000	-	75,000
Other Investment Returns	Revenue	-	-	-	-	-	1,761	1,761
TOTAL		3,717	38,641	32,424	20,473	5,455	2,250	102,414

Expenditure

19. Master planning – following a procurement process, Arup were commissioned to develop a Masterplan for the DC area. The masterplan sets out a plan to drive investment and support accelerated regeneration of the town.
20. Planning Development - Planning Powers were conferred on to MDC giving MDC the power to determine planning applications within the redline boundary. A transition agreement was reached with Middlesbrough Council whereby it temporarily delivered the planning function on behalf of MDC until 8 September 2023. Lichfields have then been procured to provide day to day planning services for MDC. The annual cost for MDC to run the planning function will partially be recovered through the fees collected for planning applications.
21. The regeneration of the 2ha Gresham site has been identified as a key area in the master plan. To progress the development professional fees have been incurred with Corstorphine

and Wright on a stage 2 concept design. A competitive procurement process was conducted to seek a private sector development partner. In November 2023 the board appointed Tarras Park Properties Limited (TPPL), as lead development partner with iMpeC Developments Limited providing development management services. Negotiations to reduce the developers fee levy, and developers profit, were concluded, with a reduction agreed to both the management fee and developers profit, better value for money has been achieved.

22. Project investment funding to invest in strategically aligned projects within the DC redline boundary at the discretion of the individual DC board.
23. Initial project development expenditure is required to bring projects forward and will ensure the required information is available for informed decisions to be made by the board. The board is asked to delegate authority for initial project development expenditure up to a maximum balance of £1m to the Group Chief Executive, Group Director of Finance & Resources & Monitoring Officer in their capacity as statutory officers for MDC to facilitate project development.
24. If development costs are directly attributable to a project, they will be included in the costs of the full project when proposed to the Board and the Initial project development expenditure will be returned.

Funding

25. The table above reflects secured funding. TVCA Cabinet approved an allocation of £10m to MDC in the TVCA Investment Plan, £5m specifically for Gresham and £10m from within the Town Centre Accessibility Investment package for spend on eligible transport projects within the DC area.
26. In January 2024, TVCA Cabinet approved a borrowing facility that allows the Corporation to access up to £75 million in borrowing from Public Works Loan Board (“PWLb”) via TVCA. This is detailed in the borrowing section below and Treasury management paper.
27. MDC will stimulate the market with the first phase of projects and will explore funding opportunities to assist with the delivery of this plan. The masterplans identify a number of different funding sources to add value to the DC programmes, such as:
 - Tees Valley Investment Zone - £160m funding from DLUHC for 10 years to develop digital and tech sector
 - UK Shared Prosperity Fund (UKSPF) - Tees Valley have £46.3m between 2022-25 to invest in communities & place, people & skills and supporting local business
 - Brownfield Housing Fund
 - City Region Sustainable Transport Settlement 2022/23 - 2026/27 (CRSTS1) - £20m from within the Town Centre Accessibility Investment package has been identified for spend on eligible transport projects within the DC areas.

Cost of Borrowing

28. The arrangements for Corporation borrowing are set out in the annually agreed Treasury Management Policy.
29. In January 2024, TVCA Cabinet approved a borrowing facility that allows the Corporation to access up to £75 million in borrowing from Public Works Loan Board (“PWLB”) via TVCA.
30. As the details of the proposals are still to be developed an assumption has been made within the Treasury Management and Capital Strategies that all investments will be borrowing via PWLB and will take three years until they are operational and that all interest will be capitalised during this period.
31. The Corporation intend to raise the majority of its long-term borrowing from TVCA who will access the PWLB.
32. In 2024/25, the Corporation is planning capital expenditure of £38.2 million as summarised below:

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Expenditure	2,719	38,224	32,001	20,000	5,000

33. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Corporation’s own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £’000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Grants	2,719	13,224	7,001	0	0
Borrowing Required	0	25,000	25,000	20,000	5,000
Total	2,719	38,224	32,001	20,000	5,000

34. The borrowing strategy will be developed on a project basis and will includes a range of maturities, short and long term, with ability to refinance built in. These are all driven from the latest interest rate forecasts from Arlingclose which are set out in the table below.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.38	4.50	4.50	4.40	4.25	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.27	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.67	4.65	4.60	4.55	4.45	4.35	4.25	4.20	4.20	4.20	4.20	4.20	4.20
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.25	4.25	4.20	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

35. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility. In line with this advice the interest rate for future borrowing has been updated based on Arlingclose's forecasts.

FINANCIAL IMPLICATIONS

36. This report provides the budget for the Corporation and the Medium-Term Financial Plan.

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

38. This Budget Report has been categorised as medium risk to reflect the updated work on the implementation of our group risk management strategy. The group corporate risk register

has been updated to reflect funding uncertainty. The existing management systems and daily routine activities are sufficient to control and reduce risk.

39. The risk of increased costs through economic factors is closely monitored and is being managed through the revised borrowing strategy put in place. A robust business case development process reduces the risk of cost pressures of investments by ensuring sufficient contingencies are built in resulting in no additional asks of Corporations funds.

CONSULTATION & COMMUNICATION

40. The subject of this report is a matter for MDC Board approval therefore no additional consultation and communication has been undertaken.

EQUALITY & DIVERSITY

41. This report does not impact on groups of people with protected characteristics.

Name of Contact Officer: Gary Macdonald

Post Title: Group Director of Finance and Resources



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

AGENDA ITEM 10

REPORT TO THE MIDDLESBROUGH DEVELOPMENT CORPORATION BOARD

28TH February 2024

REPORT OF GROUP CHIEF EXECUTIVE

PROJECT PIPELINE UPDATE

SUMMARY

This report provides an update on projects in the Masterplan pipeline for Middlesbrough Development Corporation.

RECOMMENDATIONS

It is recommended that the Middlesbrough Development Corporation (MDC) Board notes the update.

DETAIL

1. The pipeline is made up of projects that were identified in the Masterplan and further enquiries received from the private sector. The projects are led by MDC unless stated otherwise. The report is broken down into Focus Areas plus cross cutting transport / connectivity projects that will improve access to and from the MDC area.
2. When enquiries are received an immediate assessment of strategic fit with the Masterplan will determine the approach taken.
3. If proposals fit with the Masterplan, the Investment Development team contacts the relevant parties to gather information on the proposal.
4. As proposals are developed an assessment is undertaken based on HM Treasury Green Book Principles, considering the strength of the strategic fit, value for money and economic impact, commercial, financial and management arrangements.
5. Priority developments since the last update are as follows:
 - Live procurement is underway to strengthen the evidence base including demand analysis for the Town Centre Focus Area.
 - The plan for the Gresham site is developing at pace and is expected to come to the next Board meeting in March. A Structural survey for the Crown has been commissioned to inform development.

Middlesbrough Development Corporation (MDC) Project Pipeline

Focus Area – Gresham: A new mixed-use development for Middlesbrough, supporting the growth of the university and creating local facilities for the existing community.

Masterplan			Description	Proposal (Cost & DC Ask)	Status (Due Diligence / Development / Concept / Enquiry)	Next Steps
Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
1.1	Gresham	S	Deliver a “high-quality mixed-use scheme which will deliver professional living and student accommodation which moves away from the traditional town centre terraced housing offer with improved pedestrian and green linkages to the Teesside University campus.	No update	Due Diligence	<ul style="list-style-type: none"> Private sector development partner TPPL appointed, Pre-Development contract signed. Masterplan due to complete end February 2024. Business case being developed. Full update to come to Board in March.
1.3	The Crown Restoration	S	To give a derelict building a new life through a mixed-use development focused on business and leisure linked to the Gresham regeneration.	No update	Development	<ul style="list-style-type: none"> Asbestos survey received from MBC. Procured structural survey and valuation. To be considered alongside wider Gresham development plans.
1.4	Improved pedestrian and green linkages to university	S	Improved pedestrian and green linkages to university	No update	Development	<ul style="list-style-type: none"> Linked to 1.1
1.5	Improved connectivity	L	Improved connectivity through Borough Rd + Union St/Hartington Rd	No update	Concept	<ul style="list-style-type: none"> Prioritise 2025/26 development

Focus Area – A Town Centre Neighbourhood: Integrating urban living at the heart of Middlesbrough, this Focus Area draws upon the creativity and dynamism of the university and existing business located within the town.

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Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
2.1	High Street Skills and Employment Hub	S	Bring employment and career development to the high street.	No Update	Concept	<ul style="list-style-type: none"> • Prioritise 2024/25 development
2.3	House of Fraser Renovation	S	Renovate an iconic retail building to deliver high quality commercial / cultural space, business accommodation focused on the digital and creative sector and high-quality accommodation. Linked to the emerging Investment Zone cluster development.	No update	Development	<ul style="list-style-type: none"> • Procuring demand study • IZ programme Government approval required. • Ongoing collaboration with MBC and TU to ensure fit for purpose and to maximise funding opportunities and impact.
2.4	Cleveland Centre Improvements	S	Middlesbrough Council (MC) Lead Improvements to open the Cleveland Centre creating more public space.	No update	Development	<ul style="list-style-type: none"> • Options developed by Atkins. • MDC/MC to review options. • MC developing extended uses beyond retail for the Centre, merging with community services. • Bring proposal to future Board meeting.
2.5	Linthorpe Road and Albert Road enhancements	S	Improved attractiveness of Town Centre, with 1.4km of public realm enhancements, street tree planting and biodiversity enhancements.	No update	Development	<ul style="list-style-type: none"> • Active travel and public realm enhancements are being explored.
2.6	Former Debenhams	M	Explore opportunities for development of this significant	No update	Concept	<ul style="list-style-type: none"> • Sale concluded. • MDC has engaged with new owner.

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Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
			asset in the Town Centre. Private Sector Ownership			
2.7	Dundas House	M	Explore opportunities for development. Private Sector Ownership	No update	Concept	<ul style="list-style-type: none"> • MDC has engaged with owner. • Assessing demand for business space, retail space and residential sites to inform future developments / Town Centre property. • Prioritise 2024/25 development.
2.8	Gurney House	M	Renovation of vacant town centre building to provide modern office accommodation. Private Sector Ownership	No update	Concept	<ul style="list-style-type: none"> • MDC has engaged with owner. • Assessing demand for business space, retail space and residential sites to inform future developments / Town Centre property. • Prioritise 2024/25 development.
2.9	Fry Street	M	Explore opportunities for development. Private Sector Ownership	No update	Concept	<ul style="list-style-type: none"> • Assessing demand for business space, retail space and residential sites to inform future developments.
2.10	Potential Teesside University Creative Campus	M	Puts skills and learning at the heart of the town. Increased mix of uses around key open space in the town.	No update	Development	<ul style="list-style-type: none"> • Working with Teesside University to explore opportunities and potential sites. • Linked to emerging Investment Zone and cluster development. • Prioritise 2024/25 development
2.11	Civic Centre Redevelopment	M	Explore opportunities for development.	No update	Development	<ul style="list-style-type: none"> • Undertaking due diligence on a proposal from the Private Sector. • Valuation procurement in progress.

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Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
						<ul style="list-style-type: none"> Discussions with Middlesbrough Council on the availability of Town Deal Funding are ongoing.
2.12	Development of CNE Building	M	Renovation of iconic building. Private Sector Ownership	No update	Enquiry	<ul style="list-style-type: none"> MDC has engaged with owner. Assessing demand for business space, retail space and residential sites to inform future developments / Town Centre property. No viable solution identified to date.
2.13	Town Gateway Redevelopment (Bus station and Broadcasting House)	L	Delivery of new gateway opportunity site including new homes in town centre setting within mixed-use development.	No update	Concept	<ul style="list-style-type: none"> Prioritise 2024/25 development. Assessing demand for business space, retail space and residential sites to inform future developments / Town Centre property. £15million from the TVCA Transport Plan has been dedicated to Bus Station improvements. Develop options for Broadcasting House.

PARTNER LED PROJECTS						
1.2	Thirteen: Union Village Development (Gresham)	S	Thirteen delivering 145 high quality homes for affordable rent with a mix of houses, apartments, and bungalows on land between diamond Road and Union Street.	No MDC Ask Total Project £20.7m	Delivery Phase 2 Development	<ul style="list-style-type: none"> Consider phase 2 proposals within wider Gresham development plan. First phase homes complete by December 2024.
2.2	Middlesbrough Council: Captain Cook Square Redevelopment	S	Redevelopment of existing retail space for new used. 19,000 sqm of leisure, 5,000 sqm of retail.	No MDC Ask	Delivery	<ul style="list-style-type: none"> IGF Business case submitted and in appraisal with TVCA. Level X is open. Good Progress with food court restaurant and aiming for April / May opening

Focus Area – Station Quarter: This Focus Area improves this important gateway to the town, the underutilised corridor from Exchange Square past the Station Gateway, Zetland Road through to Marsh Road and includes space under the A66 and Wilson Street.

Masterplan			Description	Proposal (Cost & DC Ask)	Status (Due Diligence / Development / Concept / Enquiry)	Next Steps
Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
3.1	The Auxiliary expansion	S	Provision of improved and accessible artist's studio space, events space, gallery, and improved façade.	Total £1.4m MDC £400k	Due Diligence	<ul style="list-style-type: none"> • Complete due diligence • Finalise contracts. • Progress into delivery
3.2	Heritage Quarter Development	S	Support the growth of high-quality, mixed-use development within a heritage setting, creating a new destination for the town.	No update	Due Diligence	<ul style="list-style-type: none"> • Undertaking due diligence on a proposal from the Private Sector. • Proposal to come back to future MDC Board meeting.
N/A	Rail: Regeneration of the Middlesbrough Station Undercroft	S	Redevelopment of the redundant station undercroft to provide a new entrance from Zetland Road into the station subway and create two new units.	No MDC Ask Funding allocated from Get Building Fund	In Delivery	<ul style="list-style-type: none"> • Delivery of this project is being led by Network Rail. Completion is currently scheduled for spring.
N/A	Rail: Public realm improvements to Zetland Road (MBC led as part of Station enhancement package)	S	Improvements to create a wider area of public realm in front of the undercroft by widening the pavement and refreshing the materials.	No MDC Ask Funding allocated from MBC and Historic England's High Street HAZ	Approved	<ul style="list-style-type: none"> • Work is due to commence in mid-January and completed by the end of Q4 2023/24. • Linked to wider ambition to increase pedestrianisation of Station Quarter Focus Area.
N/A	Rail: Additional rail infrastructure / new platform at Middlesbrough Station	M	Additional platform, track and signalling at the station.	No MDC Ask Funding allocated from the TCF / CRSTS Transport Programme	Development	<ul style="list-style-type: none"> • TVCA Cabinet agreed to an additional £40m allocation from the CRSTS2 funding programme which will enable the project to be delivered and the delivery of benefits accelerated. Further development work now being commissioned with a view to investment decision in the summer.

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Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
3.3	Wilson Street Arches	S	To remove the physical barrier and improve perception of safety from Middlehaven to the town centre through redevelopment of the archways giving them a new purpose. Private Sector Owner	No update	Development	<ul style="list-style-type: none"> • MDC has engaged with owner. • Explore options for Station Quarter Focus area to inform asset redevelopment. • Assessing demand for business space, retail space and residential sites to inform future developments. • Prioritise 2024/25 development.
3.4	Wilson Street Creative Lighting	S	Improved and safer connectivity	No update	Concept	<ul style="list-style-type: none"> • Prioritise 2024/25 development alongside above.
3.5	Wilson Street Crossing	S	To improve integration between the railway station and other modes of transport and better connectivity between Boho and the town centre.	No update	Development	<ul style="list-style-type: none"> • Transport modelling underway to inform options.
3.6	Mobility Hubs	S	Delivery of a mixed transportation facility.	No update	Concept	<ul style="list-style-type: none"> • Explore options. • Prioritise 2024/25 development.
3.7	Improvements to the existing underpass from the Zetland Car Park to the Northern School of Art	S	Improved and safer north-south connectivity between town centre and Middlehaven. Skills led public realm linking key facilities to each other.	No update	Development	<ul style="list-style-type: none"> • Explore options for Station Quarter Focus area to inform asset redevelopment. • Prioritise 2024/25 development. • Engage with business owners in Focus Area.
3.8	The Auxiliary Park	M	1.2 ha of new park space for existing and new communities, providing recreation value in the heart of the town. Activation of a forgotten area of the Town Centre.			
3.9	Marsh Road	M	Explore opportunities to redevelop this under-utilised part of town into vibrant mixed use employment			

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			district. Delivery of new destination within area and improved footfall.			
3.10	New Live/ Workspaces	L	Transformation of under-utilised part of town into mixed use creative district.			
3.11	Station Street New community	L	Delivery of 140 homes in town centre setting. Increased mix of uses in and around the station area, which improves sense of safety.			

Focus Area – Middlehaven and St. Hilda’s: Deliver a major new internationally recognised cultural attraction within Middlehaven to create an entertainment destination together with the stadium and riverfront.

Masterplan			Description	Proposal (Cost & DC Ask)	Status (Due Diligence / Development / Concept / Enquiry)	Next Steps
Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
4.1	Middlehaven education buildings	S	Education provision for this part of town.	No MDC Ask	Development	<ul style="list-style-type: none"> Initial pre-application planning meeting has taken place with DfE and Project team. Pre-application advice provided to project team.
4.7	Anchor Leisure Site	M	Delivery of new leisure attraction at Middlehaven that reinforces this area as an international leisure destination. Ambition to deliver a digitally enhanced arena / venue.	No Update	Development	<ul style="list-style-type: none"> Potential for a private sector led transformational project to come forward of a scale that would require significant land on Middlehaven. Linked to Investment Zone cluster development. Prioritise 2024/25 development
4.4	Housing Development	S	New housing destination, creating high quality urban living.			<ul style="list-style-type: none"> On hold whilst anchor leisure attraction project considered due to land implications. Prioritise 2024/25 development
4.5	Expanding the Boho Cluster	S	Middlesbrough Council Lead New office accommodation to support the digital cluster			<ul style="list-style-type: none"> Linked to Investment Zone cluster development. Exploring options.
4.8	Mixed use residential and commercial dock-side development	L	Waterfront living and working.			<ul style="list-style-type: none"> Interest shown from the market. Prioritise 2024/25 development when pipeline confirmed.
4.2	Middlehaven Park	S	Enhance and upgrade existing park with planting. Improved pedestrian connectivity and green linkages to the public realm.			<ul style="list-style-type: none"> Prioritise 2024/25 development when pipeline confirmed.
4.3	Cleveland Street Plaza	S	Improved setting at Middlehaven that encourages people to spend time here.			

Masterplan			Description	Proposal (Cost & DC Ask)	Status (Due Diligence / Development / Concept / Enquiry)	Next Steps
Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
4.6	Teesdale Way	L	Enhanced long distance walking and cycling link using grey to green principles.	No Update	Concept	<ul style="list-style-type: none"> Prioritise 2025/26 development.

Cross Cutting – Transport & Connectivity to and from MDC area

Masterplan			Description	Proposal (Cost & DC Ask)	Status (Due Diligence / Development / Concept / Enquiry)	Next Steps
Ref	Project Name	Development Timescale <i>S = 0-2yrs</i> <i>M = 3-5yrs</i> <i>L = 5+</i>				
Middlesbrough Active Travel Improvements						
Changes to the highway and public realm to create new off-road cycling infrastructure compliant with LTN1/20 standards; a safer environment for pedestrians and improve accessibility for persons of reduced mobility.						
N/A	Middlesbrough Town Centre to Newport Bridge	S/M	Enhancement of walking, wheeling, and cycling links to enhance connectivity from the town centre heading west	No MDC Ask Funding allocated from the LUF2 Programme	Development	<ul style="list-style-type: none"> • Design work underway • Public engagement on this project to begin in February. • Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.
N/A	Middlesbrough Town Centre to South Bank	S/M	Enhancement of walking, wheeling, and cycling links to enhance connectivity from the town centre heading south	No MDC Ask Funding allocated from the LUF2 Programme	Development	<ul style="list-style-type: none"> • Design work underway • Public engagement on this project to begin in February. • Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.
N/A	Middlesbrough Town Centre to Transporter Bridge	S/M	Enhancement of walking, wheeling, and cycling links to enhance connectivity from the town centre heading north connecting the Linthorpe Road scheme with the Station and Middlehaven developments	Potential to be funded from the CRSTS Transport Programme allocation for DC interventions	Development	<ul style="list-style-type: none"> • Further development of initial outline concept designs • Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.

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Middlesbrough Bus Priority Improvements						
Project development work to date has identified these locations as causing performance issues for buses. Identifying and implementing improvements will lead to reduced journey times and better service reliability, improving connectivity to and between Middlesbrough Town Centre and the other MDC areas.						
N/A	<ul style="list-style-type: none"> Wilson Street / Albert Road junction 	S/M	Changes to physical road infrastructure and / or the implementation of digital assets at a number of location / junctions.	No MDC Ask Funding allocated from the CRSTS Transport Programme	Development	<ul style="list-style-type: none"> Design work underway Public engagement on this project to begin in February. Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.
N/A	<ul style="list-style-type: none"> Corporation Road / Albert Road junction 	S/M		No MDC Ask Funding allocated from the CRSTS Transport Programme	Development	<ul style="list-style-type: none"> Design work underway Public engagement on this project to begin in February. Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.
N/A	<ul style="list-style-type: none"> Borough Road (all junctions from Union Street to West Terrace) 	S/M		No MDC Ask Funding allocated from the CRSTS Transport Programme	Development	<ul style="list-style-type: none"> Design work underway Public engagement on this project to begin in February. Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.
N/A	<ul style="list-style-type: none"> Newport Road (from bus station to A66 roundabout) 	S/M		No HDC Ask Funding allocated from the CRSTS	Development	<ul style="list-style-type: none"> Design work underway Public engagement on this project to begin in February.

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				Transport Programme		<ul style="list-style-type: none"> Consider opportunities to enhance schemes to achieve Masterplan principles such as green space, improve public realm within the delivery of the transport scheme 'dig once'.

FINANCIAL IMPLICATIONS

6. This report is an update for information only therefore no direct financial implications.

LEGAL IMPLICATIONS

7. This update is for information only therefore there are no direct legal implications.

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

9. This update is for information only therefore no further consultation and communication is necessary.

EQUALITY & DIVERSITY

10. This update is for information only therefore it does not impact on groups of people with protected characteristics.

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