Teesside Freeport Governance Board

Date: Friday, 8 March 2024 at 10.30am
Venue: TVCA Offices – Teesside Airport Business Suite, Teesside International Airport, Darlington DL2 1NJ

Membership:

Ben Houchen (Tees Valley Mayor)
Alec Brown (Leader of Redcar and Cleveland Council)
Siobhan McArdle (Chair of Tees Valley Business Board)
David Smith (STDC Board Member)
Andrew Koss (Private landowner representative)
Julie Gilhespie (Operator representative of Customs Zones and Tax Sites)
Jerry Hopkinson (PD Ports)
Gary Dawson (Port of Middlesbrough)
Bill Scott (Port Clarence)
Neil Etherington (Seaton Port)
Shaun Casey (Redcar Bulk Terminal)
John Coxon (Department for Levelling Up, Housing and Communities (DLUHC) (observer))

AGENDA

1.	**Apologies for Absence** Any apologies for absence.	Verbal	Chair	Information
2.	**Declarations of Interest** Any declarations of interest.	Verbal	Chair	Information
3.	**Minutes of Previous Meeting** Minutes of the meeting held on 1st December 2023 to be approved as a correct record.	Attached	Chair	Approval
4.	**Senior Responsible Officer Update** To receive a report from the SRO presenting a general update on Freeport activity and wider Group matters.	Attached	Julie Gilhespie	Information
5.	**Freeport Delivery Plan Update** To receive a report presenting an update on key delivery plan activity in the period.	Attached	Siobhan McArdle	Information
6.	**Inward Investment and Marketing Workstream Update** To receive a verbal update from the Chair of the Inward Investment and Marketing Workstream on progress.	Verbal	Siobhan McArdle	Information
7.	**Risk and Accountability Workstream Update** To receive an update from the Chair of the Risk and Accountability Workstream on progress.	Attached	Alec Brown	Information
8.	**Tax Extension** To receive a report from the SRO on the Tax Extension Delivery Plan process and the return submitted by Teesside Freeport.	Attached	Julie Gilhespie	Approval

9.	**Compliance Report including Risk Register and Finance Report** To receive a report from the Group Director of Finance and Resources on compliance activity, finance and risk. *Appendices 1 and 2 are exempt from publication by virtue of paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12A of the Local Government Act 1972.*	Attached	Gary Macdonald	Information
10.	**Date and Time of Next Meeting** To be confirmed.		Chair	Information

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: TVCAGovernance@teesvalley-ca.gov.uk

TEESWORKS

Freeport Board

TVCA Offices – Teesside Airport Business Suite, Teesside International Airport, Darlington, DL2 1NJ

Friday, 1 December 2023 at 2.30pm

Attendees		**Apologies**	
Members		**Members**	
Ben Houchen (BH) (Chair)	Tees Valley Mayor	Gary Dawson (GD)	AV Dawson
Julie Gilhespie (JG)	Operator Representative of Custom Zones and Tax Sites	Jerry Hopkinson (JH)	PD Ports
Bill Scott (BS)	Port Clarence		
Councillor Alec Brown (AB)	Leader of Redcar and Cleveland Borough Council		
John Coxon (JC)	DLUHC		
David Smith (DS)	STDC Board Member		
Andrew Koss (AK)	Sembcorp		
Neil Etherington (NE)	Able Seaton Port		
Shaun Casey (SC)	Redcar Bulk Terminal		
Siobhan McArdle (SM)	Chair of Tees Valley Business Board		
Non-Members		**Non-Members**	
Brian Archer (BA)	Executive Director for Growth, Enterprise and Environment, Redcar and Cleveland Borough Council	Emma Simson (ES)	Acting Monitoring Officer, TVCA
Gary Macdonald (GM)	Group Director of Finance and Resources		
Helen Kemp (HK)	Group Director of Business and Skills, TVCA		
Craig Walton (CW)	Chief Digital Officer, TVCA		
Natalie Robinson (NR)	Head of Performance and Risk, TVCA		

Elizabeth Hutchinson (EH)	Project Development Manager, TVCA		
Guy Close (GC)	Governance and Scrutiny Manager, TVCA		

No.	Agenda Item	Summary of Discussion	Actions Required	Responsibility
	Welcome and Introductions	BH welcomed all in attendance. It was reported that agenda item 9 'Compliance report including Risk Register and Finance report' was not available. The report was to be submitted to the next meeting in March 2024. The Board noted the importance of updating the Risk Register as soon as practicable and requested that it be reported into the next available Risk and Assurance workstream meeting for review and feedback to the next Board.		GM/NR
1.	Apologies for Absence	Apologies for absence were submitted by Gary Dawson (GW), Jerry Hopkinson (JH) and Emma Simson (ES).		
2.	Declarations of Interest	AK declared an interest in agenda item 8, 'Freeport Seed Funding Business Case' in relation to Sembcorp's involvement in the development of 5g Digital Test Beds.		
3.	Minutes of Previous Meeting	The minutes of the meeting held on 28 September 2023 were approved as a correct record.		
4.	Freeport Update - Senior Responsible Officer Update	The Board noted the following key updates: • HM Government announced on 21 November 2023 that tax incentives for Freeports had been extended for a further 5 years until September 2031; • MP Jacob Young had been appointed as a minister in the Department for Levelling Up, Housing and Communities		

		and as a result had stepped down from his role on the Teesside Freeport Board; and • The independent review panel's report in relation to Teesworks was due in the coming weeks. **Resolved:** That the Board noted the update report.		
5.	Delivery Plan Update	The Board was provided an update on key activity since the last meeting. The update included: • Tax Site Development; • Teesworks East; • Teesworks West; • Wilton International; • Custom Zone development; and • Key milestones. **Resolved:** That the Board noted the update report.		
6.	Governance / Workstream Review	Board members were provided with an update on a refresh to the governance structure to reflect the move from business case development into pragmatic delivery. **Resolved –** • That the Board approves the two workstream structure proposed in the report; and • Appoints the workstream Chairs and TVCA secretariat leads for the workstream.		

7.	Investing Business Rates from Freeport – Decision Making Progress	A report was presented which advised the Board about its local decision-making role in reviewing and approving investments funded by additional Freeport generated business rates income. Retained business rates from Teesside Freeport was a key financial lever provided by Freeport status and funded by HM Treasury, where rates relief were granted to occupying business. JG presented the report and responded to questions and comments. **Resolved –** That the Board notes the content of the report.		
8.	Freeport Seed Funding Business Case	**It was resolved** to exclude the press and public during the consideration of the appendix to the report as it contained confidential information under the terms of paragraph 3 of Schedule 12a of The Local Government Act 1972. The Board was provided with a report which summarised the business case and recommended the investment of £3.5m of Freeport Seed Funding in the provision of a Digital Test Centre. **Resolved:** • That the Board approves the business case to allocate £3.5m to the Freeport Digital Test Bed; • That the Board approves a request to reprofile expenditure, subject to confirmation with treasury colleagues and following further investigation by TVCA officers in relation to spend acceleration. • Delegates authority to the Tees Valley Combined Authority (TVCA) Chief Executive, Section 73 Officer and Monitoring Officer to approve the full business case on		

		final cost confirmation and to enter into contracts to deliver the project as proposed; and • Approves the change request to DLUHC to re-profile the drawdown of funding for the Digital Test bed project.		
9.	Compliance report including Risk Register and Finance report	Item deferred to the next meeting.		
10.	Date and Time of Next Meeting	Friday, 1 March, 2024		

Teesside Freeport

AGENDA ITEM 4

REPORT TO TEESSIDE FREEPORT GOVERNANCE BOARD

8 MARCH 2024

REPORT OF THE FREEPORT SRO

SENIOR RESPONSIBLE OFFICER UPDATE

SUMMARY

This report provides a general update on Freeport activity and other wider group activity.

RECOMMENDATIONS

It is recommended that Teesside Freeport Governance Board notes the update.

DETAIL

Freeport Tax Extension

1. At the Autumn Statement 2023, the government announced the extension of the window to claim tax reliefs in English Freeports from five to ten years (until September 2031), conditional on agreement of delivery plans with each Freeport.

2. To support the extension, the Department for Levelling Up, Housing and Communities (DLUHC) published a Freeports Delivery Roadmap outlining the steps the government will take to ensure Freeports are best able to capitalise on the opportunity the extension presents.

3. Freeports have been asked to submit a return to DLUHC outlining their delivery plan for the extension, and Teesside Freeport submitted their return on 16 February. More detail is provided in a separate agenda item to this meeting.

Freeport Assurance Review

4. The Teesside Freeport Annual Review conversation is scheduled for 18 March 2024. The DLUHC Assurance and Compliance Team will conduct an independent assurance assessment for each Freeport as part of the Annual Review.

5. This review seeks to secure assurance that the accountable body have appropriate and effective systems in place, or planned, for governance of the Freeport and the safe stewardship of the awarded funds. It is recognised that Freeports are evolving, and operational activities are building over time.

   As per the Freeports Framework the key areas of focus are:

   - Governance, including Board Composition and Management and Transparency arrangements
   - Expenditure control and monitoring arrangements
   - The management of the technically complex areas of procurement and Subsidy Control
   - Risk management
   - Accountable body arrangements for scrutiny of Freeports activities and governance

6. Work is currently progressing to gather all relevant evidence as per the above which will support with the questionnaire circulated.

Tees Valley Review Report

7. 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.

8. 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.

9. 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.

10. 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. The Mayor has now replied to the Secretary of State, and this can be found at Appendix 4.

11. Tees Valley Combined Authority (TVCA) has set out a plan for responding to the Tees Valley Review panel's recommendations outlined in the letter to the

Secretary of State (Appendix 4). 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.

12. 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 11 above.

13. 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.

14. The working group referred to at par 11 has been established and met for the first time on 13 February 2024 where it:

- Discussed Terms of Reference, and agreed they would be taken to the next Tees Valley Chief Executive Officer Group on which there is representation from TVCA and its 5 Constituent Authorities for approval.
- Agreed which of the 28 recommendations were wholly in scope, and which required some clarity from HM Government.
- Agreed an approach to each of the recommendations, and where within the group's membership responsibility lies for addressing them to bring back to the group's next meeting for actions to be agreed.

Tees Valley Investment Zone

15. 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.

16. 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.

17. 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.

18. 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.

19. The TVIZ is focused on digital and technology as our priority sector, with identified high growth clusters in Middlesbrough, Hartlepool and Teesside International Airport.

20. 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.

21. 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.

Freeport Marketing

22. Marketing statistics are provided on a quarterly basis and provided as Appendix 5a and 5b to this report. These are infographics summarising website and communications data, including a glossary of marketing terminology used. The statistics reflect the period October - December 2023.

23. From the report, there has been a slight increase in website traffic. Although the increase wasn't significant, it marks a positive shift from the decline of the previous quarter.

24. The ongoing Tees Valley Review continued to impact marketing efforts, with social content being kept to a minimum and the utilisation of sponsored ad campaigns being limited.

25. The impact of negative press and public comments on social media platforms may have lessened, allowing for a moderate rise in website traffic. The attendance at Offshore Wind North East in November may also have contributed to the increase in web traffic.

26. During the quarter there had been 5 press releases, which is the same as the previous quarter.

27. Other marketing activity during Q4 has included:

- Working along with DLHUC to gather content for the launch of the UK Freeports campaign as part of Levelling Up
- Working with DLHUC on the creation of the new UK Freeport brand that will be used across all UK Freeports. More detail of this can be found below
- Offshore Wind North East – Exhibited and sponsored as Teesside Freeport for two-day event
- Facilitated visits to the Freeport, including; Treasury visit, NZIIC VIP visit, Newcastle University and SINTEF, Jurong Town Corporation

28. The key activities of focus during Q1 2024 (January – March 2024):

- Manage, support and facilitate Inward Investment visits including Brazil Government and DESNZ, Latvia and Estonia Investment visit, Alberta Canada Investment tour alongside NOF, Singapore Business Visit
- Preparation for key events in April / May, including:
    - CHEMUK
    - Innovation Zero
    - UKREiiF
- Manage ongoing media enquiries including from the result of the independent review.

29. We look ahead to 2024 with increased activity through the Northern Echo's Levelling up sponsorship, key events, such as Innovation Zero and UKREiiF and greater presence at networking events both in region and nationally. With the Independent Review now complete we will look to increase activity, including some positive announcements in the early part of the year. UKREiiF will be the biggest event of the year and the Freeport will play a big role in our activity there.

UK Freeports Brand

30. Since the announcement of the enhanced UK Freeports model in 2019, 12 Freeports have been unveiled across the UK leading to DLHUC creating an umbrella "UK Freeports" brand to promote the Freeport collectively. This brand aims to unite all Freeport identities into a single compelling vision, facilitating impactful communication, building trust, and ensuring a consistent message across our extensive network of partners.

31. The initial launch of the UK Freeports brand will focus on two key objectives:

- Raise awareness of the brand, with a particular emphasis on directing audiences to our new campaign website. (Details to follow in the coming weeks).
- Promote the branding guidelines to internal and external partners, ensuring they possess the knowledge and tools to use the branding effectively.

The branding is intended for use by:
- DLUHC and other government departments/other Governments delivering Freeports and related initiatives.
- All Freeports in England, Scotland, and Wales, along with other relevant partners.

Next Steps:
- New Freeport-related material should incorporate the brand.
- Digital assets will be expected to be updated in the coming weeks.
- No retrospective updates required for existing print material.

Freeport Support

32. External consultants have been appointed to provide strategic support to the Freeport. As part of this commission, current and future resource requirements will be identified. One of the first tasks will be to review the role of the Freeport Manager to ensure it fully meets the requirements before we formally appoint that role.

FINANCIAL IMPLICATIONS

33. This report is an update and does not have any direct financial implications.

LEGAL IMPLICATIONS

34. This report is an update and does not have any direct legal implications.

RISK ASSESSMENT

35. The risk profile for Teesside Freeport is the subject of a separate agenda item.

CONSULTATION & COMMUNICATION

36. This report is an update and there are no direct consultation and communication requirements.

EQUALITY & DIVERSITY

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

TEES VALLEY BUSINESS BOARD

38. The Business Board has representation within the Freeport Governance Structure.

Name of Contact Officer: Julie Gilhespie
Post Title: Group Chief Executive and SRO of Teesside Freeport
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Department for
Levelling Up,
Housing &
Communities

Correspondence

Terms of reference

Published 7 June 2023

Applies to England

This publication is available at https://www.gov.uk/government/publications/independent-review-teesworks-joint-venture-reviewer-appointment-letters-and-terms-of-reference/terms-of-reference

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 it 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

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 delivered[1]:

- 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
- Middlesborough 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 party[2] 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
	560	

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	**197**	scrap, land deals and interest
Expenditure		
Tax and overheads	34	
Land transaction	10	TVCA SeAH land transaction
STDC	45	
JV Partners	45	
	134	
Cash at Bank	**63**	

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.

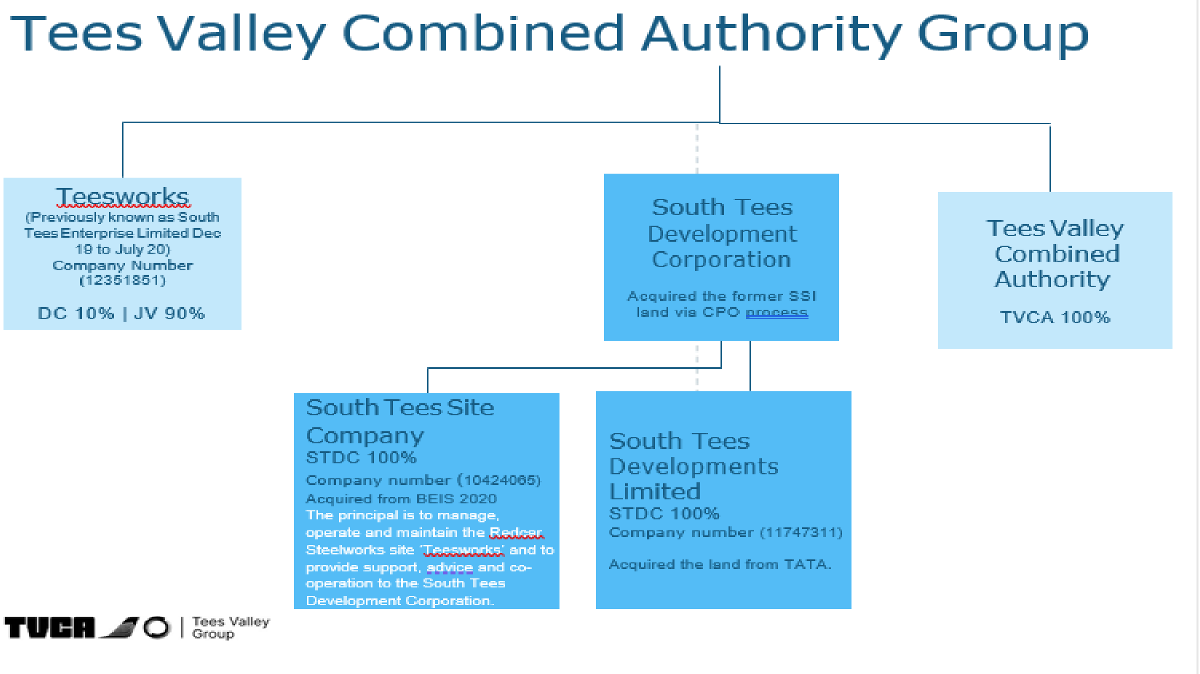
5.4. TVCA and R&C will receive additional business rates income generated by the development which needs to be re invested for the benefit of the site. These business rates are assumed to be available to STDC to support the original business case and financial model and may be used to offset some of 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.

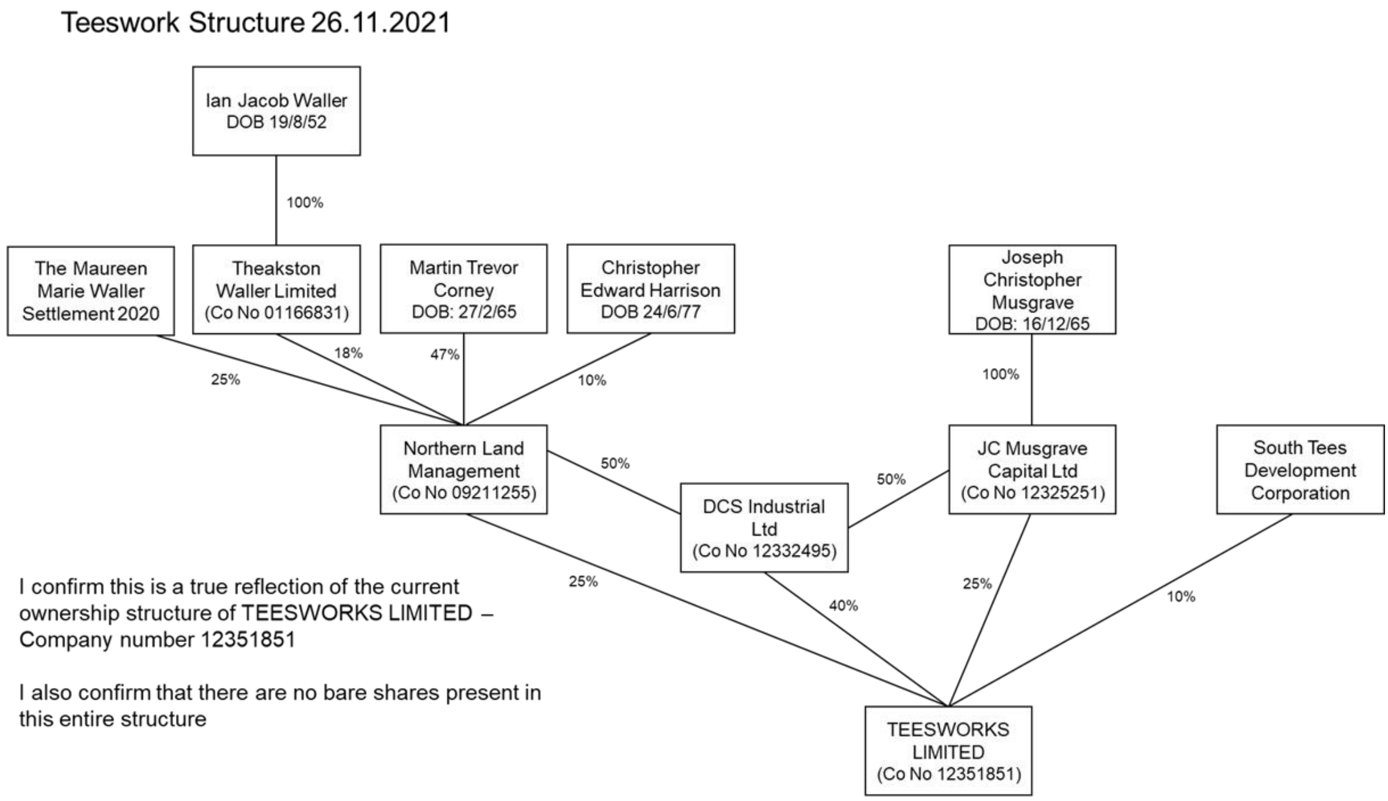
5.6. The financial arrangements in place are complex and are explored in more detail in chapter 19 of the report.

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:



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.



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.

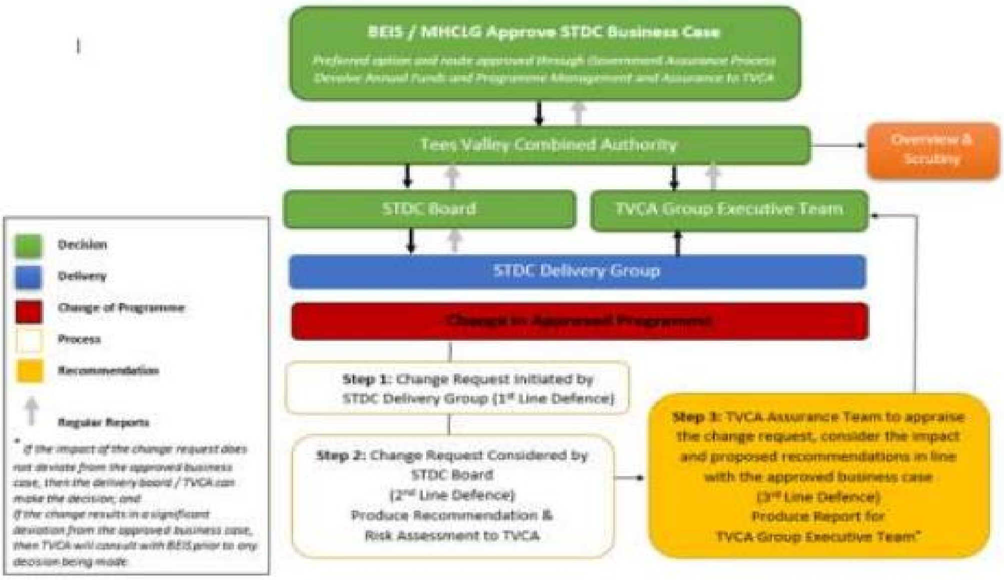
6.9. The legislation is clear however in its intent for TVCA to have an oversight/supervising function of STDC either directly or through the Mayor. It provides for TVCA to issue directions to STDC and sets out reserved matters requiring a Mayoral decision being:

- 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 crystalise 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 our 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 delegation[5]

> *"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 aware[8], 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 interviews[9] 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 partners[10] 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 negotiated[8] 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 understand[11] 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 stakeholder[12], 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 describes[13] that he "practically lives" there. The STDC executive describe the arrangements as follows[14]

"*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 eternal 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 Constitution[15] 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 2017[16], 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 follows[17]:

"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 2016[18] (the TVCA Order). The role of Teesside Mayor was established by Order on 19July 2016[19].

13.2. Article 5 of the TVCA Order provides that the constituent councils, Darlington, Hartlepool, Middlesborough, 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 TVCA[20]. 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 TVCA[21] 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 Committee[23] 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")."*

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[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 authority[24].

[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 2011[25] (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 advice[27], 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 TVCA[28]. 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 2018[29] 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. Legislation[30] 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 Cabinet[31]
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 addition[32], 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 Constitution[33]

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 advice[34].

> *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 FoI 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 was[35]:-

> *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 14the 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 follows[36]:-

"(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 1btthe 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 DLUCH 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 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 STDC[37] 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 report[38] 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 aid[39]. 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 pursing 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 wrap[40]" 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.

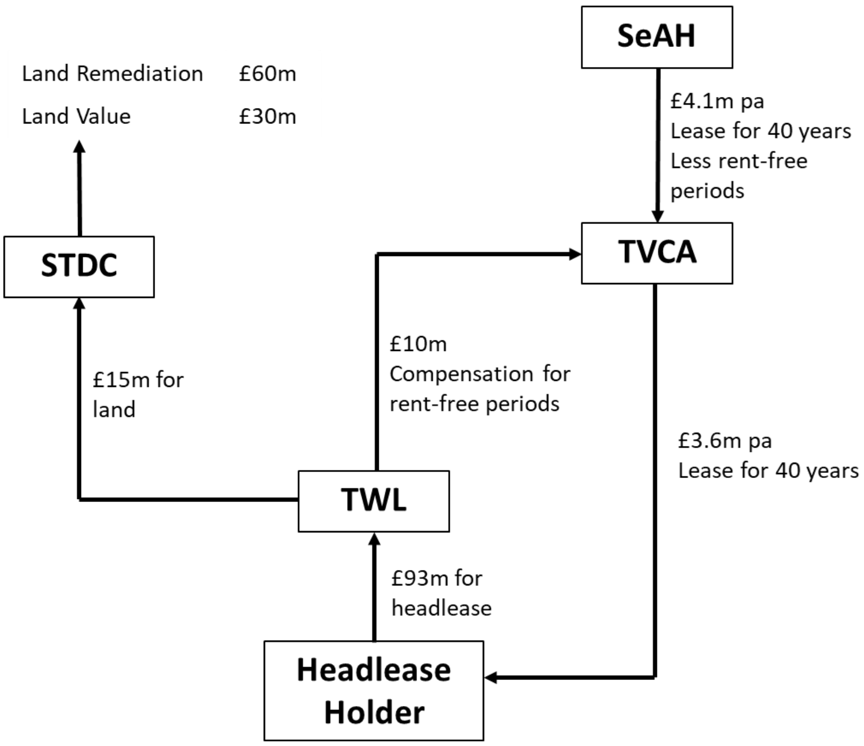
19.44. The legal implications are also stated as no different, but the rationale for the headlease had changed from being crucial to delivering the anchor tenant where the funders required a public sector wrap to a purely funding transaction taking place several months after the agreement had been signed. 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 TVCAs 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	60	
Total Expenditure	**90**	
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	-15	
Total Income	**-39**	
Net Contribution/(receipt)	**51**	
Investment by TWL		
Land payment to STDC	15	
Compensation to TVCA for rent free periods on lease	10	
Total Expenditure	**25**	
Sale of Lease wrap to Investor	-93	
Total Income	-93	
Net Contribution/(receipt)	**-68**	

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.

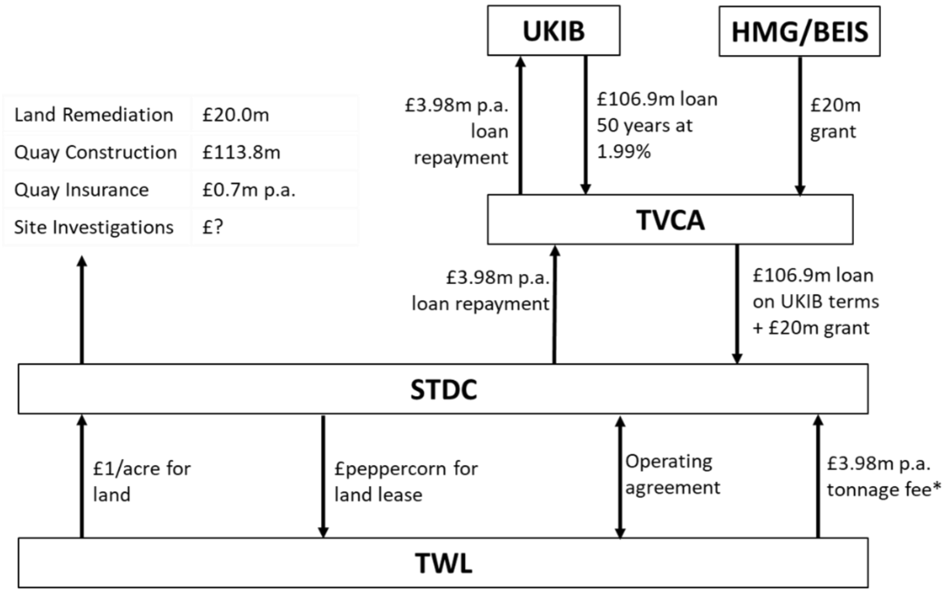
19.52. The UKIB loan to STDC via TVCA has a predetermined repayment schedule and interest is at a fixed rate over its life. This matches the tonnage-based payments from TWL to STDC, but this is dependent on the utilisation of the Quay reaching specified levels and a possible reduction linked to sufficient 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 preperation 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 WilND			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 £m	Comment
Income		
Scrap	98.3	
Land deals	97.5	
Interest	1.0	
	196.8	
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	
	133.4	
Cash at Bank	**63.4**	
Liabilities	10.0	Due to STDC re GE land Transaction
Assets	39.8	Due from STDC through dividend deferal 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 undoubtably 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 regard[41].

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 it 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 undoubtably 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 undoubtably 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 it 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	Middlesborough & 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 MiddlesbroughBoard 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	Tess 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	**First Settlement Agreement (SA1)** An agreement between STDC, Official Receiver (OR), SSI UK, SSI PCL, DCS Industrial Ltd, DCS Industrial (South) Limited. Title:- Settlement Agreement relating to the South Tees Development Corporation (Land at former Redcar Stee Works, Redcar) Compulsory Purchase Order 2019. 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. 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) 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. 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. The agreement includes the surrender of the RBT option held by the JV partners to enable SSI PCL to develop their Bulk Terminal proposal. 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. N.b. there is a requirement for the Thai banks to submit a Deed.
	50/50 JV
2020-03-13	**Shareholders Agreement (JV1)** Between:- Northern Land Management (NLML); JC Musgrave Capital Ltd; STDC; STEL 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. Relates to a newly formed company described as JVC with the shareholding:-

	STDC 2 shares NLML 1 JCM 1 Para 2.1 and 2.2 describe the 'Business of the JVC' as follows:- *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.* 3.3.3 Provides for the appointment of David Allison (Former CEO of TVCA & STDC), M Corney and J Musgrave as Directors. Clause 5 refers to matters requiring the consent of shareholders – Reserved Matters – and these are listed in Sched 2 of the agreement. 6.11 Provides that the Quorum at a meeting is all three Directors. A B & C.
2020-03-13	**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 These three option agreements provide the mechanism by which Teeswork land assembled by various means, would be drawn down by TWL (Formerly STEL). 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. 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. Para 3.3 provides for payments to be made to the Developer for undertaking particular types of work such as maintaining the site.
2020-03-13	**Put and Call Option Agreement** in respect of the entire issued share capital of DCS Industrial (South) Limited. STDC; DCS Industrial Ltd, (DCS) 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.
2020-03-13	**Commission Fee Arrangement**

	Between DCS Ind Limited; DCS Ind (South) Limited; STDL; STDC; 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. 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. Base Land Value is either £1 or (£7536 for Tata Land). Clause 3.2 imposed a restriction on the sale of any land without the express permission of DCS.
2020-05-15	**Notice to Terminate the First Settlement Agreement (SA1).** STDC served the above notice due to the default of the Thai Banks – they didn't submit consent by the deadline.
2020-06-04	**STDC Published confirmation of the CPO**
2020-06-11	**Supplemental Deed v3** STDL; STDC; DCSIS; STEL (TWL); MLML; JCML Para 1 of The Deed variations adds provisions to the 3 option agreements (2020-03-20), which clarify that:- the Developer may remove scrap, minerals, aggregates etc. and the title to such materials shall pass to the Developer on removal from the property. Para 2 imposes a requirement that the Owner may only remove materials etc. with the permission of the Developer. 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'
2020-06-30	**STDC made the General Vesting Declaration in respect of the CPO land.**
2020-07-14	**Second Settlement Agreement relating to the South Tees Development Corporation (Land at Former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019** Between:- STDC; SSI UK; Kenneth Beasley; SSI PCL;

	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
22123	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.

	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. *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.*
2021	
	90/10 JV
2021-11-26	**Deed of Adherence and Variation – (90/10 JV)** Between: TWL: DCSIL; NLML; JCMCL; STDC The Deed notes that STDC has transferred 40 of its 50 TWL shares to DCSIL. This is supplemental to the Shareholders Agreement of 2020-03-13 (SHA) which is amended as provided by Schedule 2 of the Deed. 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. 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. The reserved matters list was reduced to 11 matters
2021-11-26	**Supplemental Commercial Deed** TWL; STDC; DCS Ind Ltd (DCS); DCS Ind Devs Ltd. (DCSID) Concerns the GE Land development. 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. 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

	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. Cl 15 obliges STDC to procure that the GE site is development ready within 18months of the date of the agreement. 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)
2021-11-26	**Commercial Deed: Scrap** TWL; STDC; DCS 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. 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.
2021-11-26	**Commercial Deed re PD Ports** TWL; STDC; DCS; Relates to the dispute between PD Ports and STDC regarding access to PD land across the Teeswork land. 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. 2.2 TWL undertakes to use reasonable endeavours to expend that within 5 years. 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.
2021-11-26	**Commercial Deed re Land Value** TWL; STDC; DCS; DCSID

	Cl 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. 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. Cl 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. Cl 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.
2021-11-26	**Option Agreement – Rights of Emergency Access for PD Ports** STDL; TWL; STDC Grants an option to the Developer to require the Owner to grant access rights to the benefit of certain PD Ports land.
	Agreement/Lease with SeAH Wind No Copy Agreement with SeAH wind for the Sub-lease of the land on which the Wind Turbine factory will be located.
2021-11-26	**Deed of Release of Commission Fee Arrangement** DCS; DCSIS; STDC; STDL. 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.
2021-11-26	**Second Supplemental Deed relating to land on the South Bank of the River Tees** STDL; STDC; TWL; 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). 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.

	Cl 6.1 In the event STDC creates an estate management co Cl 6.1 Creates an option for TWL to acquire that company at market value upon serving written notice to STDC. Cl 6.2 – In the event of service of a notice STDC shall transfer any rent charge and assign the benefit of any covenants. Amends the purchase price under the Option Agreements to £1 (Indexed) to reflect the agreement that the market value was effectively a negative amount. 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. A form of lease is appended and 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. 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. 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?).
2022-10-11	**Transfer of Title – South Quay** STDC; TWL HM Land Registry Document Recording Transfer of the title of the Quay land from STDC to TWL for the sum of £16.27.
2022-10-11	**Lease of South Bank Quay** TWL; STDC TWL grant a lease of the South Bank Quay Land to STDC with a term of 99 years.
2022-10-11	**Quay Operating Agreement** STDC; TWL; TWQL STDC appointed TWL as the operator of the new South Bank Quay

2022-12-16	**Deed of Variation relating to South Bank Quay** Payment to STDC to cover costs of additional works on the Quay. TWL; STDC; TWQL A deed which makes changes to the Quay Operating Agreement and to the Lease held by STDC over the South Quay. 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.
2022-12-16	**Supplemental Land Value Deed** TWL; STDC; TVCA; DCS; JCML; NLML; DCSIDL. 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. 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) *CL2.1 TWL shall make a Disposal Payment (£15m) to SRDC by no later than the longstop date. (16-12-2025).* *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.* 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. The Schedule to the Supplemental Land Value Deed also varies the Scrap and Supplemental Commercial Deed.
2023-03-23	**Draft Third Supplemental Deed** Draft prepared by Ward Hadaway – no copy of final version provided.
2023-04-23	**Deed of Variation** No copy provided.

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
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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.

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,

Michael Gove

RT HON MICHAEL GOVE MP
Secretary of State for Levelling Up, Housing and Communities
Minister for Intergovernmental Relations

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TEES VALLEY MAYOR
BEN HOUCHEN

Our Ref: BH/JG/JL-358

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities

By email: ministerial.correspondence@levellingup.gov.uk / PSMichaelGove@levellingup.gov.uk

28 February 2024

Dear Secretary of State

Thank you for your letter of 24 January in relation to the publication of the Tees Valley Review. You are correct in your assertion that I am extremely pleased with the panel's conclusion that there is no evidence of corruption or illegality at Teesworks. I am further delighted that the panel has recognised the incredible progress that has been made on the site in just three years since it was taken into local ownership. Their recognition of the creation of 9,000 jobs in developing so far just 17% of the site and the role that Teesworks will play in the Levelling Up and economic regeneration of Tees Valley is particularly pleasing.

I note also the panel's acceptance that the Mayoral Development Corporations (MDCs) are a new development tool and as such there are recommendations for Government to clarify its intention with regard to them, especially with respect to Combined Authorities and Local Authorities. This clarity is essential for all MDCs to realise their regeneration potential, particularly in areas that have been left behind economically.

Notwithstanding that, I welcome the panel's recommendations and will work at pace to develop an action plan for their implementation. To that end I have requested a comprehensive review of the recommendations and their implications for the TVCA / STDC constitutions and governance arrangements. Specifically, I have already done the following:

- Established a cross-authority working group, including statutory officers from all five constituent authorities (Chief Executives, Monitoring Officers and S151 Officers) to consider and agree an action plan for implementation of the recommendations. The action plan is included as an appendix to this letter;

- Appointed an STDC Board sponsor for the working group. Whilst most of the recommendations are noted as being for TVCA / STDC / Local Authorities to consider, the STDC Board sponsor will provide feedback on the proposals as they progress to ensure that they address matters from an STDC perspective;

Once this work is completed, the action plan, together with the revised governance arrangements and constitutions, will be submitted to the next available TVCA Cabinet and STDC Board together for approval. Part of the process will be consideration by STDC and TVCA A&G committees as well as TVCA Overview and Scrutiny committee.

The amendments will also be incorporated into the processes and documentation of Hartlepool and Middlesbrough Development Corporations to ensure the best practice is consistent across all of the TVCA affiliated statutory bodies.

The Centre for Excellence in Scrutiny will be asked to consider the scrutiny arrangements and undertake training for officers and committee members following the establishment of the new committees following the AGM.

Whilst having the appropriate processes and documentation in place is essential, I recognise that ensuring these processes are embedded moving forward is equally important. To that end I intend to invite the LGA to undertake some workshops with Cabinet and senior officers within TVCA, STDC and the Local Authorities to ensure a level of independent rigour is applied to the implementation of the recommendations and to ensure that our governance systems work in practice going forward.

I trust this provides you with the information that you required.

Yours sincerely

Ben Houchen
Tees Valley Mayor

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APPENDIX

Statutory Officer Working Group Action Plan

The following Action Plan sets out the detailed actions required by the relevant parties to ensure that TVCA and its constituent local authorities undertake the work required to both agree the actions to incorporate the recommendations made by the Tees Valley Review and to ensure that they are incorporated both into the culture and Governance Structure of STDC, TVCA, and, where applicable, its constituent authorities. TVCA is committed to delivering the required change at pace, while recognising that there is much work to do to ensure that the recommendations are complied with.

To this end, TVCA has established a Statutory Officer Working Group (SOWG), comprising of the TVCA statutory officers and a selection of statutory officers from the Local Authorities, including a mix of Monitoring Officers (MOs) s151/s73 Officers (FDs) and Chief Executives/Managing Directors (CEOs).

TVCA Cabinet will receive an update on the work done to date at its Cabinet meeting on 15 March, and will receive further updates at any future Cabinet meetings before the revised governance arrangements are brought for formal review. STDC Board will get similar updates at its meetings.

The SOWG will meet at least monthly over the coming months to move forward the recommendations. In addition, sub groups of MOs and FDs will consider certain points outside of meetings and come back to the SOWG with recommendations for endorsement. These recommendations will result in a number of protocols and revised constitutional documents which will be considered by TVCA and STDC's Overview & Scrutiny / Audit Committees before being taken forward for formal endorsement by STDC Board and TVCA Cabinet in September.

SOWG draft recommendations will form the basis of workshops with committee members and with TVCA Cabinet and STDC Board to ensure political oversight and engagement in advance of them being finalised. These workshops will take place after the June AGM when the STDC Board, TVCA Cabinet and their committees will be in place following the Mayoral election in May. This work will be supported by Mark Edgell at the LGA who has agreed to provide independent support to ensure that the proposals properly meet the requirements of the recommendations.

Once the revised constitutions and revised governance arrangements are in place, Mark will further undertake workshops with officers and members to ensure that the culture required to embed the recommendations is understood and in place.

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
REC NO	RECOMMENDATIONS FOR TVCA / STDC GOVERNANCE				
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.	Understanding liabilities – the s73 Officers and then the Working Group will receive a Briefing from STDC s73 Officer on the present liabilities for STDC.	King's Counsel (KC's) advice on liabilities to be shared with all LA Monitoring Officers (MOs). By end of March s73/s151 Officer group to agree a position statement for TVCA Cabinet and STDC Board.	Report on liability position be agreed by SOWG to go to TVCA Cabinet / STDC AGM for approval.	TVCA FD/MO
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.	Understanding Business Rate income and associated borrowing – STDC s73 Officer to share a Briefing Note on the forecasting of Business Rates and associated borrowing.	S73/S151 Officer Group to agree briefing on Business rates and forecasting of associated borrowing.	Report to be agreed by SOWG to go to TVCA Cabinet / STDC AGM for approval.	TVCA FD
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.	Model to be refreshed and shared with s73 / s151 group	s73 / s151 Group to agree refreshed model.	Model to be agreed by SOWG and presented to Cabinet together with paper setting out key assumptions and implications.	TVCA FD
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.	Working group agreed that the Scrutiny point will be addressed in response to the work for Recommendation (above) and that the Monitoring Officers will consider the Statutory Instruments of STDC and TVCA to understand their statutory basis. This will be reported back to the Working Group.	MO group to consider the statutory instruments of TVCA and STDC to advise on appropriate basis for TVCA O&S scrutiny. Update to inform revised constitutions.	Amendments to TVCA / STDC constitution as required particularly in respect of clarity on role and reach of O&S.	TVCA MO
7	Centre for Governance and Scrutiny – Group to consider what its proposals are before an invitation for the CFG&S. Training for committee members in due course.	The Working Group acknowledged that there is likely to be some merit in this, but the Working Group will need to consider its own	CGS to be contacted to review proposals re O&S above and also to provide training to both officers and committee members.		TVCA CEO

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
		recommendations first before an invite is to be considered. Training for Members will also be considered in due course.			
8	TVCA and STDC should modify their constitutions to reflect any changes in delegations and directions that may arise from recommendations.	The Working Group agreed that this is a consequential recommendation which relates to amendments following this review. This will be picked up following the Working Group's wider review.	Amend constitutions as required to be endorsed by SOWG following proposal from MOs.	Amended constitution to be approved by TVCA / STDC Board.	TVCA MO
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.	The Working Group agreed that this is a consequential recommendation which relates to amendments following this review. This will be picked up following the Working Group's wider review.	Amendment to TVCA constitution to be endorsed by SOWG following proposal from MOs.	Amended constitution to be approved by TVCA Cabinet.	TVCA MO
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.	Agreed that there should be a Code of Conduct for the joint statutory members. Propose to codify what an associate member is and that link to the relevant LAs. Working Group agreed that this will be picked up in the first instance by the Monitoring Officers, to bring back to the Working Group.	Protocol to be drafted to sit in constitutions of both STDC and TVCA. To be endorsed by SOWG following proposal from MOs.	Amended constitution to be approved by TVCA / STDC Board.	TVCA MO
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.	Working Group discussed how LAs could have more involvement in the work of STDC – sharing papers etc in advance of meetings.	Protocol to be drafted to sit in constitutions of both STDC and TVCA. To include level of involvement of LA associate member on relevant Board to provide check and balance.	Amended constitution to be approved by TVCA / STDC Board.	TVCA MO
12	TVCA and STDC review their Financial Regulations and schemes of delegation to satisfy themselves that control is enacted at the	The Working Group agreed that this is partly consequential – with a need for amendments to the	Constitutional amendment to TVCA / STDC constitution to	Amended constitution to be approved by TVCA / STDC Board	TVCA MO

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
	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	Constitution in due course. It is understood that there is a need to be clear about what a Key Decision is. A review of Delegated Decisions will be carried out and an understanding of how these delegated decisions are reported back to the Board.	ensure the appropriate recording of Key Decisions taken under delegation. To be endorsed by SOWG following proposal by MOs.		
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.	Working Group agree a proposal that the TWL audited accounts come to Cabinet once a year. Consideration will be given as to how TWL reports to STDC as a shareholder. Group will consider what constituent authorities means in this context. Working Group to propose that there is a relevant constituent authority for the relevant DC. Standing Item on Chief Execs Group to feed in with briefing from the relevant Chief Exec.	Protocol to be developed in STDC constitution to (a) Require TWL accounts to be presented to STDC Board and TVCA Cabinet annually; and (b) Clarify the role of LA associate member and allow for reporting to other LAs annually through existing TVCEX group Proposed constitutional amendments to be endorsed by SOWG.	Amended constitution to be approved by STDC Board.	TVCA MO
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.	Discussed the role of the Chair. Clarify post or individual when it comes to some appointments. Role of associate members – codify role. Propose a recommendation re the skills of the Board. Skills audit. Full biographies of those proposed to Cabinet, provided to Cabinet. Noted the need to ensure the Board's skills are appropriate to meet the needs of the Development Corporation.	Produce a skills table for the Board to be agreed by SOWG and recommended for approval to TVCA Cabinet.	Amended constitution to be approved by TVCA.	TVCA CEO

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
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.	Agreed that Monitoring Officers will consider format of Board Reports and report back to the working group.	MOs to provide template for SOWG consideration.		TVCA MO
18	Any oral advice and supporting presentations should be made publicly available (where possible) to support the decision record.	It was agreed that oral advice and presentations at Board Meetings will be recorded in minutes.	Future meeting action.		TVCA MO
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.	It was agreed that training for STDC / TVCA members on conflicts of interests and declarations of interest will be provided.	TVCA MO to organise.		TVCA MO
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. Pre-agenda meeting with statutory officers.	It was agreed that pre-agenda meetings would be considered to ensure that all those with an interest could be briefed.	SOWG to recommend pre agenda meetings for TVCA Cabinet. SOWG to recommend pre agenda meeting for Leader / CEX of RCBC before each STDC Board.	Amended constitutions to be approved by TVCA / STDC Board.	TVCA MO
21	STDC should articulate and document the agreed arrangements with the JV partners in a single document.	It was agreed that a full 'bible' of all contractual documentation be produced with a timeline alongside.	Discussions with external legal advisers as to how this is undertaken.		TVCA MO
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.	It was agreed that JG will write to TWL in due course.	STDC CEO to write to JV to negotiate how this is achieved.	Letter and response to come to STDC Board / TVCA Cabinet for consideration.	TVCA CEO
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.	Dependent on recommendation 22.	As 22	As 22	TVCA CEO
24	All STDC recruitment be subject to fair, open, and transparent processes. Recommendation 25 – The STDC executive regularly review operations	Agreed. Will be recorded in a Policy or similar.	Recruitment policy to be updated and shared with Board.	Policy to be approved at STDC Board.	TVCA CEO

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
	on site to ensure JV Partner activity is not incurring risks and liabilities for STDC.				
25	The STDC executive regularly review operations on site to ensure JV Partner activity is not incurring risks and liabilities for STDC.	Noted and agreed. STDC to consider TWL input on site, into procurement activities, financing etc and report back to the Working Group.	Quarterly reporting to STDC Board to be shared with TVCA if its position changes. To be incorporated into MTFP report annually for both STDC and TVCA.	STDC Board reports TVCA Cabinet reports	TVCA FD
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.	Agreed. Noted improvements in FOIs. FOI policy will be brought to the Working Group.	SOWG too be briefed on policy and processes in place. Recommendations to changes to be approved by STDC Board / TVCA Cabinet.	STDC Board Reports / TVCA Cabinet reports	TVCA MO
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.	Agreed. GM will review and report proposals to Working Group.	Report to SOWG	Board / Cabinet report of any proposed changes.	TVCA FD
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.	Agreed. GM will review and report proposals to Working Group.	Report to SOWG	Board / Cabinet Report of any proposed changes.	TVCA FD
	RECOMMENDATIONS FOR HMG				
4	Government should clarify its proposals for landfill tax in terms of public sector land remediation, including timescales for legislation, as currently	Working Group agreed that this will require clarity from Government but Acting Monitoring Officer for STDC will share KC	STDC Board update to be produced to take account of latest position on schemes.	STDC Board report. Financial implications to be built into model in 3	TVCA FD / TVCA MO

ITEM	RECOMMENDATION	COMMENTARY	ACTION / PARTIES INVOLVED	OUTPUT	LEAD
	eligibility for the scheme and STDC's liability for tax are an ongoing, and increasing risk.	Advice received by STDC on the subject, with the Monitoring Officers in the Working Group for initial review and then with the wider Working Group.	STDC MO to share KCs advice when finalised.	above and shared as part of reporting to TVCA Cabinet / STDC. Legal advice to be shared with STDC Board / TVCA Cabinet.	
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.	Working Group agreed that clarity is required from HM Government. Monitoring Officers in the Working Group will review: - current Reserved Matters - Counsel's advice in relation to TVCA Overview & Scrutiny and its relationship with STDC. The Monitoring Officers to then report back to the Working Group.	Awaiting clarification from HMG.		TCVA CEO
	RECOMMENDATIONS FOR LOCAL AUTHORITIES				
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.	Cabinet members shall seek advice from their own statutory officers ahead of Cabinet meetings.	Cabinet papers to be available to statutory officers in CEX meeting month before Cabinet as currently but codified into constitution. CEX to share with their other SOs	Amended constitution to be approved by TVCA / STDC Board.	TVCA MO
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.	Statutory officers of Constituent Authorities should familiarise themselves of the statutory context of STDC and TVCA . STDC / TVCA can provide initial briefing notes to assist, as required,.	As 14 above STDC / TVCA officers to run briefing session for leaders and SOs of Las.		TVCA MO

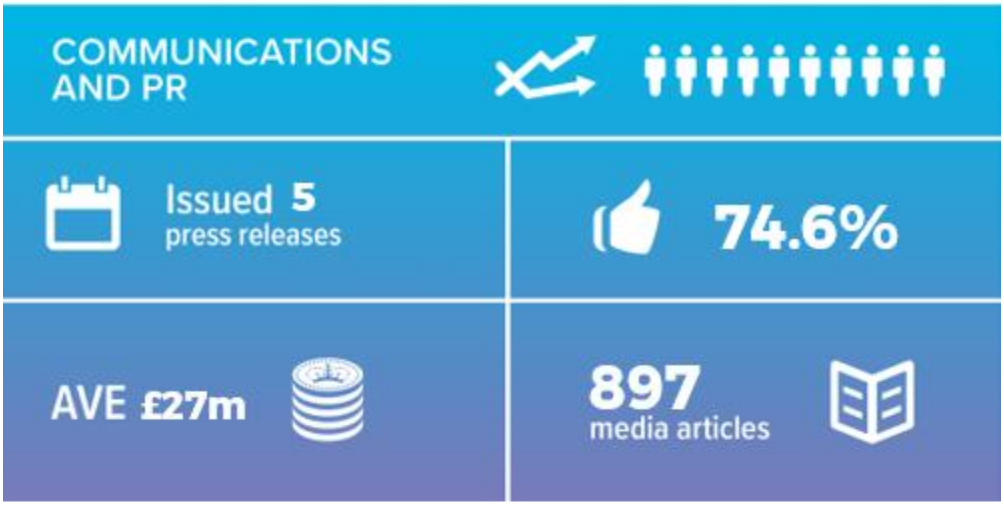
Appendix 5a

Freeport
Stats Summary – October – December 2023

WEBSITE			
	Q3 2023	Versus Q3 2022	Versus Q2 2023
Website Hits	1,578	5%	5%
Page views	5,482	26%	4%
New visitors	1,517	3%	5%

Appendix 5b

Freeport
Stats Summary – October – December 2023



Glossary of Terms:
It is regarded best practice by the Chartered Institute of Public Relations to measure media activity in terms of Articles Generated, AVE, Sentiment, and Potential Reach, guidance which we follow.
No. Articles refers to the total number of articles published by individual media outlets either on, or mentioning, a particular topic.
AVE is Advertising Value Equivalent - the amount that it would cost to buy the equivalent amount of advertising space in a publication or broadcast, calculated by column inches and article prominence.
Sentiment (%) is the overall tone of the coverage, recorded using keyword analysis of articles - either positive, neutral or negative.

Teesside Freeport

AGENDA ITEM 5

REPORT TO TEESSIDE FREEPORT GOVERNANCE BOARD

8th MARCH 2024

REPORT OF THE SRO

FREEPORT DELIVERY PLAN UPDATE

SUMMARY

The purpose of this paper is to provide an update to Teesside Freeport Governance Board on the key activity in the period.

RECOMMENDATIONS

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

Tax Site Development

In line with the December Board update, HM Government announced on 21st November that tax incentives for Freeports have been extended for a further 5 years until September 2031. The tax extension delivery plan was submitted to DLUHC on the 16th February with outcomes expected in March. More details are provided in the separate agenda item.

Teesworks East

1. Construction works at the Steel House site, the proposed location for the Teesworks Park and Ride facility is circa 50% complete. This site will provide parking for more than 1,500 vehicles and a hub for shuttlebuses from the car park to projects on Teesworks.

2. In line with the December update, remediation to the proposed 140-acre site on the Foundry for BP's green and blue hydrogen projects, HyGreen Teesside and H2Teesside, is scheduled to commence in 2024. HyGreen will produce 60Mwe of green hydrogen by 2025; together with H2Teesside, they have the potential to deliver 30% of the UK's 2030 hydrogen production.

3. Tenant interest remains strong across the site. Of the c 500-acre site, approximately 70 acres are vacant. Of this, 25 acres have outstanding remediation issues. British Steel have a commercial agreement with SeAH Wind to supply steel to the manufacturing plant at South Bank.

Teesworks West

4. Circa 200 of this 546-acre site has been remediated and readied for development. SeAH have taken a lease on c 100 acres. A further 60 acres of land are presently the subject of ongoing remediation works.

5. Since December, the available acres for development have reduced. There is strong interest in 65 of the remaining 125 acres in the South Bank. Similarly, the available acreage in Dorman Point has reduced to 5 acres.

6. Construction is in progress at the SeAH Wind site with completion expected at the end of 2024. Currently, 25% of the steelwork has been erected and cladding installation has commenced.

7. Teesworks are planning to build 43 modern business units at South Bank on Teesworks, creating almost 100,000sq ft of industrial, commercial and office space for our local Teesside businesses and supply chain. These aim to be operational later in 2024 in line with SeAH Wind's facility becoming operational.

8. Circular Fuels Ltd are finalising legal agreements to deliver sustainable liquid petroleum gas from waste on a c 25 acre area at Dorman Point. Willis have submitted planning permission for 30 acres at Dorman Point.

9. Lackenby has c 30 acres available and c 33 acres progressing through the legal and planning process. The legal processes for the EDP Phase 1 and Green Hydrogen plots are scheduled to be completed this quarter.

Wilton International

10. Renew ELP – facility is to be operational imminently. This will be the first facility to generate additional business rates income for the reinvestment in Freeport objectives.

11. Planning permission granted for Sembcorp Battery Storage, Tees Valley Lithium, Peak Rate Earth, Nova Pangea and the data centre planned to be constructed on the ex Croda site.

12. Phase 1 of the Sembcorp Battery Storage in construction and scheduled to be operational by the end of the summer 2024.

Custom Zone Development

13. There remains appetite from the HMRC-led all-Freeport Customs Policy Group to consider embedding innovative processes at the customs zone. This appetite supports collaboration with the testing of digital alternatives to current processes, and are being developed with Teesside University, the Freeport Hub and HMRC for testing at the Teesside Freeport Digital Testbed. The testing

regime for this is yet to be defined - it is expected to be developed in the run up to the operation of the testbed later in 2024.

14. The business case for the seed funding digital test bed is a separate item. An application is being progressed to DLUHC to defer the spend profile to 24/25 and 25/26.

15. The Primary Custom Zone continues to store goods imported during 2023.

KEY MILESTONE UPDATE

16. The table below provides an update on the significant milestones reported in the December 2023 paper.

Milestone	Due date	Progress Update
Meetings with all stakeholders and work across Freeport Delivery team.	31/03/24	Meetings with stakeholders have commenced and will be ongoing with the recruitment of a new Strategic Lead role.
Define the custom zone digital alternative tests with HMRC.	31/03/24 – new deadline 31/09/24	The HMRC customs zone test has not yet been defined. This will take place in line with the operational of the Testbed in September 2024.
Prepare first tranche drawdown of seed capital funding for the digital test bed.	31/03/24	A change request is to be submitted to DLUHC to move the spend to 2024/25 and 2025/26. Seed capital funding has been drawn down for this.
Digital Test Bed physical build in progress.	31/06/24	Architect procured with planning permission submitted. Physical build scheduled to commence pre-30th June 2024.
Develop investment proposals for additional retained business rates income.	31/06/24	Shortly expecting rates to start coming in at Wilton from Renew ELP. Liaison needed with RCBC to explore this.
South Bank Quay Workshop and offices complete.	31/06/24 – new deadline to be confirmed	The Quay remains on track to be operational by the milestone date. However, it is expected that the site will go operational in line with SeAH's first steel slab imports scheduled for later in the 2024. This position is continuing to be reviewed.

Digital Test Bed facility operational.	31/09/24	Planning submitted with Testbed facility expected to be operational mid-September 2024
Freeport Digital Tests commissioned.	31/09/24	Planning submitted with Testbed facility expected to be operational mid-September 2024

FINANCIAL IMPLICATIONS

17. The budget for the project is monitored by the Strategy and Accountability for Public Money workstream. TVCA provides assurance and management of the funding as the accountable public body.

LEGAL IMPLICATIONS

18. There are no specific legal implications arising from this report.

RISK ASSESSMENT

19. The approach to Risk is provided under a separate agenda item.

CONSULTATION & COMMUNICATION

20. Stakeholder engagement meetings have continued during the period between meetings both on an individual and reference group basis.

21. The Risk and Accountability workstream held a meeting on the 12th February while membership of the Inward Investment workstream is being finalised.

22. The Business Solutions Director attends the DHLUC Freeport SRO Group meeting of all Freeports on behalf of TVCA. The meeting on 4th March will be attended by the Strategic Lead.

EQUALITY & DIVERSITY

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

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

Teesside Freeport

AGENDA ITEM 7

REPORT TO FREEPORT BOARD

8 MARCH 2024

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

RISK AND ACCOUNTABILITY FOR PUBLIC FINANCE – WORKSTREAM UPDATE

SUMMARY

The purpose of this paper is to provide Freeport Board members an update of activity discussed and progressed through the Risk and Accountability of Public Finance Workstream. The Workstream met on 12 February and the draft notes of the meeting are attached as an appendix to this report.

RECOMMENDATIONS

i. It is recommended that the content of this paper is noted by Freeport Board Members.

DETAIL

1. OVERVIEW OF SESSION

Freeport update

- Progress update on the development of the National Freeport. With the key element being the new roadmap created by the Government to further accelerate much-needed trade and investment in key port areas across the country.
- Update covered overview of Tax Relief extension.
- Additional measures the government are including in the roadmap:
  - Improving infrastructure
  - Skills and work force access
  - Investment promotion
  - Programme delivery

Finance update

- Seed funding is comprised of capital and revenue elements and covers the period 2021/22 – 2023/24, and the TVCA also match funded the Government seed revenue contributions.
- Capital element of the funding - site remediation into Teesworks West and East has completed to plan. Delivery has progressed with the Digital Freeport Test Bed and is planned to go into the next financial year

(2024/25). It was noted a change control request is being submitted to Government to amend the time periods accordingly.

- Retained business rates position - work is progressing with modelling the business rates. TVCA are working alongside Redcar & Cleveland Borough Council (RCBC) on the retention and redeployment.
- Actions agreed
    - Provide a detailed project update on the Digital Freeport Test Bed at the April workstream meeting.
    - Provide a detailed project update on the Investment at the April workstream meeting.
    - GM and AS to meet separately to review progression with the Digital Freeport Test Bed on the Wilton Site.

Freeport Tax Relief Extension update

- The government have announced the extension of the window to claim tax reliefs in English Freeports from five to ten years (until September 2031), conditional on agreement of delivery plans with each Freeport.
- The workstream members will form part of the process in collating the detail for the business case as part of normal Freeport monitoring and evaluation processes.
- The Chair referring to the release of the independent report questioned how the workstream can support, referring to the recommendations on the governance and scrutiny. At present TVCA are prioritising providing a response to secretary state letter, as the deadline date is 8 March 2024. TVCA will work in detail with Local Authority partners to review the recommendations and how these can be implemented effectively.
- Actions agreed
    - Circulate the output of the tax relief extension application to workstream members once it has been submitted to Government.

Compliance update

- The workstream were informed as part of TVCA role as Accountable Body for the Teesside Freeport there is a requirement to ensure that all compliance obligations and responsibilities are fully discharged.

Annual Assurance review

- It was noted the DLUHC Assurance and Compliance Team are to conduct an independent assurance assessment for each Freeport as part of the Annual Review.
- Relevant documentation to be submitted to the Government and will be shared with the workstream to provide further assurance and allow members to review, and note the questions proposed from the Government.

Risk Management update

- Purpose of the paper to was to enable a discussion on the risk environment of Teesside Freeport in accordance with the Risk Management Framework.

- Risk Management is aligned with the ISO standards and HM Orange Book in terms of best practice. Work has progressed within TVCA to ensure the risks are aligned to a corporate level and there is a clear line of sight.

Risk workshop

- The workstream completed a full review of risk register in session, with a request to submit any further amendments or new risks by Friday 16th February.
- Temporary six-month interim Freeport Manager has been recruited, while the permanent position is being recruited, and the candidate will be announced once procurement have confirmed the contract has been signed.
- Discussion regarding risk relating to the skills needed for the site and the lack of the skills in the area and country. Mitigations include skills strategically and works with stakeholders and partners.
    - Risk Register included in the Compliance Report.

FINANCIAL IMPLICATIONS

2. All funding claims to Government will be subject to TVCA assurance processes in line with the TVCA Assurance Framework and potentially Government audit

LEGAL IMPLICATIONS

3. There are no specific legal implications arising from this report other than the requirement for appropriate arrangements to be in place to safeguard public funds as set out above.

RISK ASSESSMENT

4. There are no additional risk implications arising from this report, a full review of risks is to be included in the Compliance update.

   The overall risk portfolio:

   - Freeport **medium** (average of 6)
   - Security and Illicit threat **low** (average of 4)

   The risks that have been identified and mitigated within the finance section of this report relate primarily to the accountability for the use of public funds. The arrangements for accountability of public funds have been covered in detail both within the Teesside Freeport bid submission approved by Government and the subsequent Governance proposals also approved by Government.

CONSULTATION & COMMUNICATION

5. Stakeholder engagement meetings have taken place with the necessary government departments to ensure the accountability for public funds was

appropriately covered in both the Freeport bid and the subsequent Governance dialogue with Government.

EQUALITY & DIVERSITY

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

Name of Contact Officer:	Gary Macdonald
Post Title:	Group Director of Finance and Resources
Email Address:	Gary.Macdonald@TeesValley-ca.gov.uk

FREEPORT RISK & ACCOUNTABILITY FOR PUBLIC FINANCE (RAPF) WORKSTREAM
12TH February 2024, 11:00

MS Teams

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

ATTENDEES	
Members	
Councillor Alec Brown	Redcar & Cleveland Borough Council
Brian Archer	Redcar & Cleveland Borough Council
Neil Oliver	AV Dawson
Nicola Sayer	Casper Ltd
Christine Stobbs	Wilton Engineering
Stephen Fraser	Redcar Bulk Terminal
Tony Harrison	LV Shipping
Andrew Oxby	PD Ports
Andrew Swainston	Sembcorp
Gillian Barker	Sembcorp
David Smith	South Tees Development Corporation
Associate Members	
Officers	
Gary Macdonald	Tees Valley Combined Authority
Natalie Robinson	Tees Valley Combined Authority
Others in Attendance	
Apologies	
Phillip Lishman	Teesside International Airport
John Young	AV Dawson
Phillp Winstanley	Redcar & Cleveland Borough Council

1.	APOLOGIES FOR ABSENCE The Chair welcomed Members to the Freeport & Accountability Workstream meeting. Apologies for absence were submitted as detailed above.

2.	DECLARATIONS OF INTEREST There were no declarations of interest.
3.	MINUTES OF PREVIOUS WORKSTREAMS The minutes of the below previous workstreams were provided for information: - Assurance & Compliance held on 7 March 2023 - Strategy & Public Finance Accountability held on 13 April 2023 Gary Macdonald (GM) advised the Freeport Board approved the above workstreams to be consolidated and re-aligned, to streamline the number of workstreams into two: - Freeport Risk & Accountability for Public Finance workstream - Inward Investment & Marketing workstream The workstream noted further information on the governance arrangements for the Freeport Board is provided at item 11 of the agenda.
4.	FREEPORT UPDATE GM provided a progress update on the development of the National Freeport. With the key element being the new roadmap created by the Government to further accelerate much-needed trade and investment in key port areas across the country. He advised the government is extending the window to claim special tax reliefs in English Freeport sites from five years to ten. The Business case Tees Valley Combined Authority (TVCA) complete should now include updates with the added value the additional years for the extension period and this will be submitted to Government timescales. GM highlighted the other measures the government are including in the roadmap: - Improving infrastructure - Skills and work force access - Investment promotion - Programme delivery It was agreed the workstream will be provided with a briefing update on the submission to Government. The workstream noted the content of the report.
5.	FINANCE UPDATE

	GM provided an update on the expenditure of Seed Funding Capital and Revenue Budget. The workstream noted the expenditure is in-line with the budget parameters. GM highlight a couple of items may need to be carried into the next financial year. However, the workstream will be kept informed. GM advised the Seed funding is comprised of capital and revenue elements and covers the period 2021/22 – 2023/24, and the TVCA also match funded the Government seed revenue contributions. It was noted the Government are reviewing an extension to the funding, but nothing has been confirmed at present. However, if not secured, the revenue budget would be exhausted. TVCA in-house resources continue to support and work on the Teesside Freeport. It was agreed the workstream and Freeport Board will review the proposals for how any remaining seed funding/investment (where applicable) can be utilised to ensure the Teesside Freeport fully benefits. GM provided a further update on the capital element of the funding. He advised the site remediation into Teesworks West and East has completed to plan. Delivery has progressed with the Digital Freeport Test Bed and is planned to go into the next financial year (2024/25). It was noted a change control request is being submitted to Government to amend the time periods accordingly. GM advised a meeting was held to review the requirements and the process seems straight forward, this includes a new proforma to complete to document the progress with the scheme. **An action was agreed to provide a detailed project update on the Digital Freeport Test Bed at the April workstream meeting.** Brian Archer (BA) enquired if there is any update on the position of the retained business rates plan. GM advised work is progressing with modelling the business rates, and TVCA are working alongside Redcar & Cleveland Borough Council (RCBC) on the retention and redeployment. An annual assurance update is scheduled with Government in March to review the Freeport assurance areas including the planned approach for the reinvestment of business rates. **An action was agreed to provide a detailed project update on the Investment at the April workstream meeting.** Andrew Swainston (AS) commented he is keen to progress and support the process and would welcome an update meeting with TVCA. **An action was agreed for GM and AS to meet separately to review progression with the Digital Freeport Test Bed on the Wilton Site.** **The workstream noted the content of the report.**
6.	FREEPORT TAX RELIEF EXTENTION PROPASAL

	An update was provided on the tax extension delivery plan process announced by the Government in the Autumn Statement 2023. GM informed members the government have announced the extension of the window to claim tax reliefs in English Freeports from five to ten years (until September 2031), conditional on agreement of delivery plans with each Freeport. GM advised there are rules attached to the extension which are being reviewed to ensure there are no displacements within regions, depending on the different sites and locations. But overall, he commented it is positive news in terms of the extension for the tax relief. He noted the extra time will be a key benefit given the time it can take to establish new companies to the Freeport. The workstream noted updates to the original business case tax relief conditions to the Government will be required focusing on the added value the extension provides. The workstream members will form part of the process in collating the detail for the business case as part of normal Freeport monitoring and evaluation processes. GM informed the workstream the headline submission deadline is 16 February 2024, and the team are progressing well to ensure the key details are submitted. **An action was agreed to circulate the output of the tax relief extension application to workstream members once it has been submitted to Government.** The Chair referring to the release of the independent report questioned how the workstream can support, referring to the recommendations on the governance and scrutiny. GM advised at present TVCA are prioritising providing a response to secretary state letter, as the deadline date is 8 March 2024. The TVCA will work in detail with Local Authority partners to review the recommendations and how these can be implemented effectively. The workstream will be kept updated, specifically with any changes which may be relevant to the operation of the workstream. **The workstream noted the content of the report.**
7.	COMPLIANCE UPDATE An update was provided to the workstream on compliance matters. The workstream were informed as part of TVCA role as Accountable Body for the Teesside Freeport there is a requirement to ensure that all compliance obligations and responsibilities are fully discharged.

	GM advised the annual Freeport Security Forum (FSF), is the overarching body on behalf of the Government who will ensure an annual Freeport Security audit takes place for every freeport. Nikki Sayer (NS) added as part of the legal designation orders that Casper Ltd have in place, it is their responsibility to check the compliance of the site and the security, working alongside Teesworks on the security (including the Primary Customs Zone). NS updated the workstream on the recent audit from HM Revenue and Customer (HMRC) to review not only the Freeport site security and compliance, but if the HMRC rules were also working effectively. It was confirmed the audit went well with no concerns highlighted. **The workstream noted the content of the report and the requirement for an Annual Freeport Security Audit (AFSA) working closely with the Freeport Security Forum (FSF).**
8.	ANNUAL ASSURANCE REVIEW Natalie Robinson (NR) provided an overview on the assurance process for the Teesside Freeport. It was noted the DLUHC Assurance and Compliance Team conduct an independent assurance assessment for each Freeport as part of the Annual Review. NR advised the anticipated date for the review is 9-15th March 2024, and the report provides the assurance that the team are progressing with collating both the documents, data, and the response. GM further added the relevant documentation submitted to the Government will be shared with the workstream to provide further assurance and allow members to review, and note the questions proposed from the Government. **An action was agreed to add Government submissions as a formal item to the workstream agenda going forward.** **The workstream noted the contents of the Annual Assurance review.**
9.	RISK MANAGEMENT UPDATE NR provided the risk management update. NR advised the purpose of the paper is to enable a discussion on the risk environment of Teesside Freeport in accordance with the Risk Management Framework. NR advised key points are highlighted within the report from the framework to give members reassurance on the management of risks. The workstream noted the risk management is aligned with the ISO standards and HM Orange Book in terms of best practice. Work has progressed within TVCA to ensure the risks are aligned to a corporate level and there is a clear line of sight.

	The workstream noted a full risk review and assessment is currently being progressed on all legal requirements and will be completed by quarter one. Both the workstream and Freeport Board will receive an update on this. **The workstream noted the contents of the paper, including the Risk Management Framework.**
10.	DATE & TIME OF NEXT MEETING: Monday 29 April 11:00
	FOR INFORMATION:
11.	TERMS OF REFERENCE The workstream noted the update provide on the Teesside Freeport Governance Board review of its governance arrangements.
12.	FORWARD PLAN The workstream noted the contents of the forward plan.
13.	ACTION TRACKER The workstream noted the template for monitoring workstream actions going forward.
14.	RISK REGISTER WORKSHOP The workstream completed a full review of the risk register. GM informed members a temporary six-month interim Freeport Manager has been recruited, while the permanent position is being recruited, and the candidate will be announced once procurement have confirmed the contract has been signed. The chair questioned why the position has been recruited on a temporary basis. GM advised the recruitment process for a permanent position tends to take longer and assured members TVCA absolutely intend to have a permanent position in place. The workstream noted the reputational damage risk will be updated following a review of the independent review report. NS highlighted the risk relating to the skills needed for the site and the lack of the skills in the area and country. GM advised the TCVA reviews the skills strategically and works with stakeholders and partners. He recommended adding to the Freeport risk register but having a feed in from TVCA on their progress with this action to ensure there is no duplication. The Chair raised concerns with the recent legal case between parties around access at Teesworks, including the judgement over access rights to the site, and questioned if this needs to be noted as a risk. GM advised as

	this is progressing through the legal processes if any risks evolve himself or Andrew Oxby (AO) will review and highlight to the workstream (where applicable) but that it would not be appropriate to discuss this any further at this time. Brian Archer (BA) commented the risk process looks strong and robust. He recommended having a clear sight of all risks across the Freeport Board and workstreams to establish one global risk register and allow for the higher archery of risks to be seen. NR confirmed there will be a feed in to ensure it can be clearly seen and advised herself and Siobhan McArdle (Chair of Inward Investment and Marketing Workstream) are reviewing how this will work. She highlighted the risk management system currently in place allows the full picture to be seen in relation to risks across the organisation so there is a full line of sight. The workstream agreed a named accountable officer for each risk should be the preference going forward. GM informed members Siobhan McCardle is the Chair of the Tees Valley Business Board and the Chair of the Investment and Marketing Workstream. NR asked members to contact her by Friday 16 February 2024, if any further comments or risks arise outside of the meeting, and she will then provide an up-to-date position on the risk register to members with a view to the updated Risk Register being presented to the next Freeport Governance Board. The Chair thanked members for their contributions.

Teesside Freeport

AGENDA ITEM 8

REPORT TO TEESSIDE FREEPORT GOVERNANCE BOARD

8th MARCH 2024

REPORT OF THE FREEPORT SRO

TAX EXTENSION UPDATE

SUMMARY

The purpose of this paper is to provide information on the tax extension delivery plan process announced by the government in the Autumn Statement 2023. This proposes to extend the window to claim tax reliefs in English Freeports from five to ten years (until September 2031).

Teesside Freeport submitted their return to DLUHC on 16th February; DLUHC will assess and moderate the returns and seek the required approvals in early March. DLUCH plan to begin the formal activation process in law shortly after.

RECOMMENDATIONS

It is recommended that Teesside Freeport Governance Board:

i. It is recommended that the board note the content of this report

DETAIL

1. At the Autumn Statement 2023, the government announced the extension of the window to claim tax reliefs in English Freeports from five to ten years (until September 2031), conditional on agreement of delivery plans with each Freeport. The tax relief extension is a necessary but not sufficient condition to ensure the success of Freeports – further action is needed to tackle the root issues that made an extension necessary in the first place.

2. To support the extension, the Department for Levelling Up, Housing and Communities (DLUHC) has published a Freeports Delivery Roadmap outlining the steps the government will take to ensure Freeports are best able to capitalise on the opportunity the extension presents. The roadmap ensures actions are being taken by central government to accelerate Freeports delivery.

3. To complement this, DLUHC want to ensure Freeports delivery is being prioritised and accelerated by local partners – developers bringing sites forward, landowners bringing on end users, Local Authorities providing planning

consents, and Freeports marketing their sites. As such, this extension planning seeks reaffirmed commitments from local partners to delivery.

4. A lot of good work has gone into the programme this far, the requirements to be covered via the tax site extension framework agreements seek to maintain and enhance the processes that deliver high quality Freeport development.

5. The Extension Delivery Plan and associated framework agreement is designed to be a reciprocal agreement between Freeports and DLUHC. The Appended document sets out the expectations on Freeports as part of the framework agreement, and the criteria that DLUHC are seeking to be met to deliver on the Freeport vision. These requirements are not new, they are the commitments provided at Full Business Case (FBC) stage. The framework therefore aligns with criteria set out in previous guidance, but considers delivery information that has subsequently become available, including on the application of Tax Site Management Policies (TSMPs), progress of site developments, and the Retained Business Rates Plan.

The process to extend reliefs on tax sites

6. HMG will decide whether to grant an extension to tax reliefs on a site-by-site basis, with consideration given to two requirements:
   - Tax site landowners and developers recommit to progressing the development of sites
     a. Evidence of site progress so far
     b. A credible plan for future site delivery
     c. For sites showing limited progress: analysis showing all reasonable actions are being taken to accelerate delivery

   - Tax site landowners and developers recommit to developing the site in line with the agreed Freeport vision
     a. Evidence of tax site management policy implementation and lessons learned
     b. Reaffirmed commitments to the Freeport vision
     c. For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public value

7. Government expects that Freeports have effective governance structures and personnel in place to ensure the successful delivery, implementation and monitoring of Freeports. The Extension Delivery Plan aims to understand the current and proposed future capacity, highlight any risks, barriers and issues to be addressed and the proposed measures to mitigate these. Evidence to be provided include:
   - Credible plans for quickly ensuring a strong Freeports delivery team
   - Public commitments from Billing Authorities to retained rates strategies
   - Provision of sufficient capacity in relevant Local Planning Authorities

8. Full details of the Tax extension delivery plan Framework are appended in the Draft Extension Delivery Plan FINAL document (Appendix 1), the completed pro forma was submitted on 16th February. We await feedback from DLUHC, who are assessing and moderating the returns, then they will seek the required approvals in early March. DLUCH plan to begin the formal activation process in law shortly after.

FINANCIAL IMPLICATIONS

8. The budget for the project is monitored by the Strategy and Accountability for Public Money workstream. TVCA provides assurance and management of the funding as the accountable public body.

LEGAL IMPLICATIONS

9. There are no specific legal implications arising from this report. TVCA have an existing Memorandum of Understanding (MoU) in place with Government that sets out the requirements as accountable body.

RISK ASSESSMENT

10. There are no specific risk implications arising from this report. All existing risk management processes and controls are in place to ensure adherence to any Government conditions or requirements attached to these proposals.

CONSULTATION & COMMUNICATION

11. Stakeholder engagement meetings continue both individually and through reference group meetings. A stakeholder engagement plan has been developed.

EQUALITY & DIVERSITY

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

TEES VALLEY BUSINESS BOARD

13. The Business Board has representation within the Freeport Governance Structure.

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

HM Government

English Freeports Tax Extension Delivery Plan Framework

Introduction

At the Autumn Statement 2023, the government announced the extension of the window to claim tax reliefs in English Freeports from five to ten years (until September 2031), conditional on agreement of delivery plans with each Freeport. The tax relief extension is a necessary but not sufficient condition to ensure the success of Freeports – further action is needed to tackle the root issues that made an extension necessary in the first place.

To support the extension, the Department for Levelling Up, Housing and Communities (DLUHC) has published a Freeports Delivery Roadmap outlining the steps the government will take to ensure Freeports are best able to capitalise on the opportunity the extension presents. The roadmap ensures actions are being taken by central government to accelerate Freeports delivery.

To complement this, we want to ensure Freeports delivery is being prioritised and accelerated by local partners – developers bringing sites forward, landowners bringing on end users, Local Authorities providing planning consents, and Freeports marketing their sites. As such, this extension planning seeks reaffirmed commitments from local partners to delivery.

A lot of good work has got the programme this far, the requirements to be covered via the tax site extension framework agreements seek to maintain and enhance the processes that deliver high quality Freeport development.

Delivery plan

Government has made available an extension to tax reliefs on Freeport tax sites and wishes to explore the options to help increase local delivery capacity.

DLUHC will ensure there is a robust case for granting these significant, new benefits on a site-by-site basis. It will be critical to confirm that local stakeholders including Freeports, landowners, and local authorities are taking all actions possible to accelerate the delivery of the Freeport. We will need to assure the value for money of the extension for each site and verify that the public benefits of the extension are being maximised.

The Extension Delivery Plan and associated framework agreement is designed to be a reciprocal agreement between Freeports and DLUHC. The requirements below outline the expectations on Freeports as part of the framework agreement, and the criteria that DLUHC are seeking to be met to deliver on the Freeport vision. These requirements are not new – we are looking for reassurance and evidence to show Freeports are keeping to commitments provided at Full Business Case (FBC) stage. The framework therefore aligns with criteria set out in previous guidance,[1] but considers delivery information that has subsequently become available, including on

1. Freeport Bidding Prospectus
English Freeports Guidance - Full Business Case
English Freeports Guidance - Setup Phase and Delivery Model
Freeports Business Rates Relief Local Authority Guidance

the application of Tax Site Management Policies (TSMPs), progress of site developments, and the Retained Business Rates Plan.

Process

This is the final framework. The extension planning process will proceed as follows:

- DLUHC and the Freeports hub will be on hand to support Freeports in developing their delivery plan, and we encourage Freeports to submit draft responses where possible – if received before 5th February we will endeavour to provide timely feedback
- Freeports should confirm by close of play on **Thursday, 1st February**, those tax sites where information will be provided by Friday, 16th February and those which require further time to obtain the information.
- Freeports should submit their return in the template provided to rachel.shwe@levellingup.gov.uk by close of play on **Friday, 16th February**
- DLUHC will then assess returns, moderate assessments, and seek the required approvals. We hope to confirm the outcome in early March
- We hope the process of formally activating the extensions in law will proceed shortly after

Only Freeports that have signed their Memorandum Of Understanding (MOU) with HMG are eligible for an extension to their tax reliefs. Those Freeports who have not yet done this but wish for their extension to be considered on this timeline should return a signed MOU by 16th February.

We understand that these are tight timeframes; however, we also appreciate that Freeports and investors are eager to have the extension activated as early as possible in 2024. On this timeframe, the majority of the available time has been given to Freeports to develop plans. We would like to continue to engage with you to check on progress and review drafts. Support will be available to Freeports from the DLUHC team, their Freeport leads, and the Freeports Hub.

For sites which are not ready to submit plans on this timeline, or sites which are not judged to have passed the criteria on this occasion, **there will be a second opportunity to submit sites for extension**. We expect the second window for submission to be end of March and will confirm shortly.

We will use the Tax Extension Delivery Plan as a complementary update to the agreed FBC and MOU for ongoing monitoring purposes such as site delivery to track progress. DLUHC expects Freeport stakeholders to hold to commitments made as part of the extension planning. As part of this we will be asking for information on businesses locating on tax sites on an ongoing basis to ensure the commitments being made as part of the extension deal are being upheld.

Should Freeports wish to make significant changes to key strategies or policies, we have an established change request process. However, if needed, should Freeports fail to meet commitments without good reason we will consider revoking current policy levers or benefits and/or exclusion from future benefits, as per section 7.3.4 of the Freeport's MOU.

Extending reliefs on tax sites

HMG will decide whether to grant an extension to tax reliefs on a site-by-site basis, with consideration given to two requirements:

1.1 Tax site landowners and developers recommit to progressing the development of sites

a. Evidence of site progress so far
b. A credible plan for future site delivery
c. For sites showing limited progress: analysis showing all reasonable actions are being taken to accelerate delivery

1.2 Tax site landowners and developers recommit to developing the site in line with the agreed Freeport vision

a. Evidence of tax site management policy implementation and lessons learned
b. Reaffirmed commitments to the Freeport vision
c. For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public value

These criteria are outlined in detail below, with the evidence required for each.

1.1 Tax site landowners and developers recommit to progressing the development of sites

This requirement is to show that there is sufficient landowner and developer commitment to delivering tax sites.

a. Evidence of progress so far

Please provide the following information, in the template set out in Annex A:

i. Progress with planning application(s) or other required consents
ii. Design and/or procurement progress to deliver site
iii. Physical build-out of sites and associated infrastructure
iv. Details of tenants and other businesses that have committed to move onto sites, or evidence of site marketing (as per Annex A & B)
v. Investment so far from landowners and/or other stakeholders

DLUHC may request further evidence following a review of the information.

b. A credible plan for future site delivery

The delivery plan (as per Annex A) is an opportunity to refresh and apply realistic timescales to the project plans and expected delivery milestones submitted at the FBC stage. A Gantt chart breakdown, or equivalent documentation, should be provided and be separated out into different dates for distinct plots, and where appropriate a development strategy for each of the tax sites. It should provide a high-level summary of key milestones and activities, dependencies (with other programmes and procurement), risks and expected timescales until after the completion of all works for the site to be fully operational/occupied (an example of which has been provided in Attachment 1, Annex A. Evidence should be provided of landowner/developer investments (secured and future), planning stages etc. as per Annex A.

For developments on tax sites which have been completed or near completion, an updated Gantt Chart will <u>not</u> be required, unless it is proposed to undertake additional development work over and above the proposals included at FBC.

c. For sites showing limited progress, analysis showing all actions being taken to accelerate delivery

This criterion should only be completed for tax sites where there has been only limited progress on site delivery so far. These are categorised as those where for significant portions of the site there is no planning permission, no construction, and no occupiers confirmed. Please check with your Freeport Lead, if you would like to confirm which of your sites this may apply to.

For these sites, we would like clear evidence on the following which has been produced to date (as requested in Annex A):

- Technical constraints: including planning, transport access, grid connections, site issues (topography, contamination, archaeological etc)
- Commercial viability: costs, business plan, financial model, funding plan
- Delivery capability: status of project team and resourcing

We recognise that this may entail providing commercially sensitive information which we will treat in the strictest confidence.

This will provide evidence of the commercial challenges and the reassurance of a clear commitment from landowners to progress site delivery, in order to qualify the tax extension.

1.2 Tax site landowners and developers recommit to developing the site in line with the agreed Freeport vision

It is important to ensure tax reliefs deliver additional economic activity and avoid reliefs being 'deadweight' or triggering displacement. This way they will contribute to the objectives of the individual Freeport and the policy as a whole.

a. Evidence on tax site management policy implementation, with lessons learned

Freeports set out a tax site management policy in the setup phase – a sufficiently strong policy was required as part of the commercial case of the Outline Business Case prior to first activating tax sites. This takes different forms for different Freeports, including Site Specific Agreements (SSAs), Gateway Policies or similar. Freeports should demonstrate that this is in place, with appropriate governance, submitting the most up to date policy that is enacted.

Freeports should submit evidence of how the tax site management policy is working (in the template in Annex B), including:

i. The assessments made of each prospective business, investor or tenant against the policy, and details of any businesses rejected or declined

ii. Documentation showing how these were considered and approved as part of Freeport governance, and a justification of if/how the governance setup contributes to meaningful operation of the policy in practice
iii. Any changes made to the policy or how it is implemented since it was approved by DLUHC with the rationale

The original business case guidance set out that tax site management policies should provide a strategy for proactively managing each tax site to maximise investment that is additional, supports clustering, fulfils the policy objectives. It set out the expectation that they are underpinned by appropriate policies and agreements with landowners / end users, with meaningful oversight and involvement of the Freeport Board.

b. Reaffirmed commitments to the Freeport vision

Freeports should provide:

i. A commitment to update the tax site management policy, in line with any lessons and improvements evident from their review of experience to date (as per Q2 & Q4 of Annex B) and, following a review by DLUHC, take on board proposed recommended actions as applicable, to be implemented by mid-March.

Where the policy has not yet lived up to the expectations in the guidance, or displays other challenges or gaps, Freeports should set out the actions that will be taken to improve the policy's functioning. DLUHC may request additional changes based on our analysis of your return. If Freeports would like advice or best practice on improvements, the Freeports Hub can advise.

ii. A quantified estimation of sector breakdown at a tax site level, aligned with FBC proposal and Freeport policy objectives.

Please set out the list of targeted sectors using the relevant standard industrial classification of economic activities (SIC) code for the primary use of the land in question, and if you wish also a qualitative / open form of description, as per Q3 - Annex B.

Should Freeports wish to change their agreed site vision and sectors from what was signed off in business cases and the MOU, this should be taken through a change control process with HMG as per our change management policy, submitted alongside the tax extension delivery return.

iii. A commitment for the Freeport and the Tax Site Landowners / Developers to enter into a formal agreement to:
- provide advance notification to DLUHC of any proposed sale of land and/or property within the tax site[2]; and
- put in place mechanisms that ensure that the Landowner / Developer transfers their obligations in line with the Freeport FBC and Freeport policy objectives to the prospective vendor, who will formally agree to adhere to this.

[2] It should be noted that Stamp Duty Land Tax relief for purchases of land and buildings within a Freeport tax site, are subject to a 'control period' of up to 3 years and the land being acquired and used in a 'qualifying manner'. Please note that Freeport relief claimed will be subject to clawback where the purchaser fails to use the property in question in a 'qualifying manner'.

It is recommended that Freeport and the Tax Site Landowners / Developers enter into a legal agreement to ensure that this prior condition must be met before a disposition can be registered. This could include a deed of covenant or another approach which would enforce adherence to the Freeport MOU. The Freeports Hub can provide advice on possible approaches. Please set out the planned mechanism now, and provide evidence this has been implemented by mid-March.

DLUHC will be ready to revoke Freeport benefits from a site if a landowner comes on board who does not abide by the MOU or work with the Freeport or HMG to collaboratively adapt the site vision.

c. For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public value

While logistics, storage and warehousing are valuable contributors to and enablers of economic growth, there is high demand for these services and limited market failures for providing them. As such, reliefs and subsidies for these sectors are at higher risk of being displacement and deadweight. This is particularly the case where these businesses have already located on tax sites, suggesting the existing relief window has been sufficient to achieve its aims. If Freeport tax sites filled up with considerable amount of low value logistics and warehousing, this would reduce the VFM and public support for the programme.

Freeport sites and tenants should therefore put in place concrete mechanisms to mitigate these risks and help ensure the taxpayer gets value for money from any extension. Freeports should propose their own mechanism in line with the following requirements:

i. Logistics, storage or warehousing businesses already on Freeport sites should commit to paying a significant portion of the value of reliefs post- 2026[3] to the Freeport
ii. Sites expecting to have at least 30% logistics, storage or warehousing by hectarage should ensure future tenants contribute a significant portion of the value of post-2026* reliefs to the Freeport

We define warehousing and logistics through the SIC codes provided in Annex F. We define ‘significant portion’ to equate to at least 75% of the projected value of reliefs post-2026.

We would like Freeports to set out a figure that this equates to in expected contribution, along with transparent calculations as to how this was reached, and for businesses and landowners to commit to providing that amount. Freeports should explain what mechanism will be put in place to ensure this happens, and should propose how the money will be managed and the purposes for which it will be used– it could be absorbed into the wider Freeport budget or held in a ringfenced pot with a specific purpose. For example, some Freeports have established a ‘skills levy’ managed by the Freeport with landowners.

[3] Following the elapse of the current tax reliefs’ sunset date

iii. Sites which wish to have 50%[4] or more of logistics, storage or warehousing by hectarage should set out additional justification why we can be confident an extension to tax reliefs would provide value for money to taxpayers

It is appreciated that there are instances where warehousing and logistics development could constitute significant, high value and/or additional investment to the Freeport tax site. Sites targeting 50% logistics, storage and warehousing may be considered in cases only where the FBC already proposed to focus primarily on these sectors and where the value for money to the Freeports programme of extending reliefs on such sites can be demonstrated. Freeports wishing to go above 50% logistics, storage and warehousing for specific tax sites should set out:

- A rationale, with evidence, of the VFM of extending further tax reliefs on the site, including how government can have confidence that higher value investment will be brought forwards

- Actions to be undertaken to maximise public benefit and social value from the development of the site (e.g. financial contributions towards the wider aims of the Freeport).

In Annex A Q1, Freeports will need to provide an update on progress of each development on each tax site and will need to confirm those developments which are currently occupied. Freeports should provide an overview of the process, governance and approval arrangements they propose to put in place to implement and manage the above approach. As with the updated tax site management policy, we would like you to set out here the mechanisms you will implement, and commitments from relevant stakeholders to implement them, and we would like to see evidence they have been put in place by mid March.

We will consider exceptions to these requirements in 1.2.c only in exceptional circumstances – please contact the DLUHC team at the earliest if you may need to apply for an exception. HMG intends to monitor the implementation of these mechanisms, alongside the amounts of relief claimed. A list of the SIC codes that apply to warehousing and logistics development has been provided in Annex F. Should circumstances change in the future Freeports can submit a change request to alter this mechanism or the amount.

Understanding Freeports delivery capacity

Government expects that Freeports have effective governance structures and personnel in place to ensure the successful delivery, implementation and monitoring of Freeports. The Extension Delivery Plan aims to understand the current and proposed future capacity, highlight any risks, barriers and issues to be addressed and the proposed measures to mitigate these. Evidence to be provided include:

[4] Ultimately for monitoring purposes the 50% threshold is for built-out land and therefore, the sector threshold will be monitored as occupiers are confirmed. Once an occupier is on-site, the relevant hectarage of that built-out land will count towards the threshold. For the purpose of providing estimates for the Delivery Plan – we will take into account estimates of hectarage of the tax site earmarked for development.

2.1 Credible plans for quickly ensuring a strong Freeports delivery team
2.2 Public commitments from Billing Authorities to retained rates strategies
2.3 Provision of sufficient capacity in relevant Local Planning Authorities

Freeports should submit:

2.1 Credible plans for quickly ensuring a strong Freeports delivery team

Evidence should be provided on the current status of resourcing (as per Annex C), including:

a) Current staffing level and arrangement
b) Current projected future staffing in 24/25, 25/26 and 26/27 assuming existing resourcing
c) Evidence of local partner contributions to date and in the future

To ensure the successful delivery, implementation and monitoring of Freeports, it is recommended that Freeports have a minimum of 8 FTE dedicated Freeport staff from May 2024 through to the end of 2026/27. We would expect the following key functions to be covered by the team: Project / Programme Management: Freeport Delivery & Strategic Delivery (including seed capital funding, TSMP & BRR reinvestment); Performance management, assurance & evaluation; Inward investment; Communications; Regeneration; Skills; Innovation and Net Zero).

The Freeport may propose alternative capacity support arrangements for specific requirements and/or exceptional circumstances with a strong rationale e.g. marketing outsourced to an external contractor under a 3 year contract. In addition, the Freeport should consider: how such capacity will be funded e.g. sourced directly through the accountable body; in kind support; securing income from retained business rates etc; any risks, barriers and issues which are preventing the recruit additional capacity; and the proposed mitigating actions to address these.

We are exploring all options, and would like to understand the consequences if this capacity funding were taken from the Freeports seed funding. Please can you set out where you would take the seed funding from if £0.5m or £1m of CDEL were reallocated to your capacity, and what would be the implications and consequences of doing this.

Please set out a plan for how you would strengthen your Freeport resourcing should the following be reallocated to capacity:

a. £1m CDEL in 2024/25
b. £0.5m CDEL in 2024/25 and £0.5m CDEL in 2025/26
c. £0.5m CDEL in 2024/25

2.2 Public commitments from Billing Authorities to retained rates strategies

Billing Authorities for Freeport tax sites are expected to allocate retained business rates growth to Freeport purposes. This commitment was made as part of the FBC and MoU processes and DLUHC expects Billing Authorities to honour it. For each Billing Authority, Freeports must confirm:

- Has a clear, written commitment to allocate retained business rates on Freeport tax sites to Freeport purposes (i.e., using the governance arrangements set out in the FBC and to support Freeport objectives) been made publicly (yes/no)
    - If yes, provide link.
    - If no, confirm when and how the Billing Authority will do this.
- Their plan for updating the retained business rates reinvestment strategy, including addressing any outstanding feedback from DLUHC, and maintaining an up-to-date, public version of it.

2.3 Sufficient local planning capacity

The successful delivery of Freeport tax sites will depend on the ability of relevant local planning authorities (LPAs) to create a conducive planning environment. DLUHC therefore expects LPAs to allocate dedicated planning officer capacity to the Freeport (either individually or shared across multiple LPAs). Each LPA must provide the following:

- Does the LPA have dedicated Freeport planning resource? (Yes/No)
    - If yes, confirm FTE, whether roles are LPA-specific or Freeport-wide, and how roles are funded (by LPA/by Freeport/by landowner contributions).
    - If no:
        - Commit to allocating dedicated planning officer capacity to the Freeport.
        - Confirm FTE, whether roles will be LPA-specific or Freeport-wide, and how they will be funded.

Arrangements that do not involve dedicated planning capacity will only be accepted in exceptional circumstances if it can be clearly shown that it is not required (e.g. if an LDO is in place).

SUMMARY FRAMEWORK FOR TAX EXTENSION

Input	Requirement	Benefit Lead	Criteria	Evidence
1. Extension of Tax Relief to Freeport Tax Sites	**Tax Site Landowner agrees to develop site and Tax Site Developer starts to develop site** **Purpose:** Securing commitment to and accelerating the progress of development of tax sites	Tax Site Landowner & Developer	Meaningful progress with planning applications and/or landowner investment, supported by a project plan and evidence which confirms a set start date for each development on each tax site. As detailed under section 1.1 (a) "Tax site landowners and developers recommit to progressing the development of sites" 1.1 (b) "A credible plan for future site delivery", Freeports should provide an update on the information requested as per Annex A (Q1 & Q2), including further information and/or evidence as requested. As detailed under section 1.1 (c), "For sites showing limited progress, an open book assessment of the constraints, and actions being taken to accelerate delivery", Freeports should provide an update on the information requested as per Annex A template (Q3), including further information and/or evidence as requested.	Credible evidence (as per the criteria) of meaningful commencement of development on each tax site by a set start date. Submission of Annex A with supporting evidence as requested.
	Tax Site Landowner agrees site to be developed and Tax Site Develop operates in line with Freeport vision & Tax Site Developer **Purpose:** Allowing only appropriate investment on tax sites	Tax Site Landowner & Developer	To demonstrate that a Tax Site Management Policy (TSMP) is in place or needs to be updated, to specify sector mix and level of additionality, with appropriate governance to ensure this is strictly adhered to. Freeports should consider best practice approaches with tax site landowners and/or end users, which reinforces appropriate investment on tax sites As detailed under section 1.2 "Tax site landowners and developers recommit to developing the site in line with the agreed Freeport vision", Freeports should provide an updated on the information requested (as per Annex B) for the following: 1.2 (a) Evidence on tax site management policy implementation, with lessons learned 1.2 (b) Strengthened commitments to the Freeport vision 1.2(c) For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public value	Submission of a signed Tax Site Management Policy. Submission of evidence of the implementation of the Tax Site Management Policy to date. Submission of Annex B with supporting evidence as requested., including Site Specific Agreements (SSA) and End User Agreements where available.
2: Building Freeport Capacity **(2024/25 - 2026/27)**	**Sufficient Freeport capacity provided** **Purpose:** - Being appropriately staffed to manage site delivery and promote tax sites effectively	Freeport Company / Board	It is recommended that a minimum 8 FTE dedicated Freeport staff should be in place until the end of 2026/27, with confirmation of the job roles and responsibilities clearly defined, supported by an up to date organisation chart, as detailed under section 2.1 "Credible plans for quickly ensuring a strong Freeports delivery team", Freeports should provide an update on the information requested as per Annex C.	Submission of Annex C and updated Organisation Chart (where this is available)
	Local Authority allocates retained rates to the Freeport **Purpose:** Increased investment and tax base in the local authority area. Allocating retained rates to the Freeport. Helping fund the Freeport.	Tax Site Billing Authority/ties	The Freeports Full Business Cases committed to a retained business rates investment strategy, which was to be signed off and committed to by all Billing Authorities as part of MOU. We expect this existing strategy to be published and made publicly available on the Local Authorities' (LAs) websites. In addition, we require a commitment to develop a more detailed Business Rates Reinvestment Strategy with a view to publish this by the start of the 2025/26 financial year. Freeports should provide an update on the information as detailed under section 2.2 "Public commitments from Billing Authorities to retained rates strategies" and requested as per Annex D.	For using BRR as approved through Business Case Process we would expect the commitment to be published making clear it has been approved by relevant bodies. This can be through the publication of the Business Case or a bespoke document and the relevant hyperlink provided. Submission of Annex D
Input	**Requirement**	**Benefit Lead**	**Criteria**	**Evidence**

2: Building Freeport Capacity **(2024/25 - 2026/27)**	**Dedicated planning officer support to focus on Freeport developments** **Purpose:** - Local Planning Authority provides planning consents on tax sites on a timely basis to ensure Freeport developments can progress and maximise the tax relief opportunities and secures inward investment - Support to address poor quality planning applications	Local Planning Authority	To ascertain the progress of planning application and to identify if there are LPA capacity issues, where this arises to ensure there is sufficient local planning capacity to prioritise Freeport planning applications, as detailed under section 2.3 "Sufficient local planning capacity", for developments which do not have consent, there should be a credible plan as requested in Annex E.	Where there are LPA capacity issues, it is recommended that there is confirmation of, or commitment provided by the LPA to provide dedicated Freeport planning officer/s and credible workplan for each LPA. Submission of Annex E

FREEPORT NAME : TEESSIDE

ANNEX A: TAX SITE UPDATED DELIVERY PLAN REQUIREMENTS & CHECKLIST

1.1 Tax site landowners and developers recommit to progressing the development of sites

1. Please list all developments and complete the information as indicated under the relevant column headings

1.1 (a) Evidence of progress so far

Name of Tax Site (include size of tax site in hectares)	**Name of Development (include size of development in hectares**	**Name of Landowner and/or Developer**	**Please indicate the current RIBA stage of the development*** Please select relevant RIBA stage from the drop down list. RIBA Plan of Work	**Start Date** (actual or forecasted to start on site)	**End Date** (actual or forecasted to complete on site)	**Investment For Development** (include £m, Source of Funding & Confirmed or To Be Confirmed [TBC]) e.g. £5m – Private Developer [Confirmed] £5m – Capital Seed Funding [Confirmed] £1m – BRR [TBC])	**Investment Secured From Tenants** (select "Yes" if investment secured and detail current value to date £m in additional comments)	**Open Book Information Required** (select "Yes" for those developments which have not started on site or limited progress)	**Progress on Site** Please advise on % of site progress completed to date e.g. (i) Full planning & statutory approvals secured: 100% (ii) Design work fully completed for the development and procurement completed: 100% (iii) Construction started and in progress: 50% (iv) Current occupation of the development by tenants: 20% (under comments, please provide a list of tenants who have moved on site)				**Additional Comments** Please provide any additional information and/or supporting documentation to support the position**.** This should include: • supporting comments related to: (i) planning or other required consents; (ii) design and/or procurement (iii) construction; and (iv) provide a list confirming tenants who have moved on site or evidence of site marketing *(please confirm if investment has been secured from tenants for Freeport reinvestment)* . • changes which have impacted site delivery (e.g. construction costs increased in response to the market conditions, investment withdrawn etc) • what the key risks, issues and barriers are (e.g. commercial viability identified, technical constraints such as delays to national grid connection/utilities/power issues *(please detail the current position in terms of the issues, any associated work completed and what the landowners / developers have undertaken to date to try to progress the position)*, statutory approvals, site issues, transport etc) • any other information which is not covered by the updated project plan
									(i) Planning Applications and other required consents % Achieved	**(ii) Design and/or procurement progress to deliver site** % Achieved	**(iii) Physical build-out of sites and associated infrastructure** % Achieved	**(iv) Current occupation of the development by tenants** % Achieved	
Teesworks West Tax Site (200 ha)	South Bank SeAH (36.42 ha)	LO: Teesworks D: SeAH	5 – Manufacturing and Construction	Jul-22	Jan-25	£650m Multiple sources.	**Yes**	**No**	100%	100%	30%	100%	• Legals complete. • Remediation complete. • Foundations mostly complete. • 25%+ of the steel work is erected. • Cladding being erected.
Teesworks West Tax Site (200 ha)	South Bank AVAILABLE (26.31 ha)	LO: Teesworks D: TBC	Choose an item.	TBC	TBC	£TBC TBC	Choose an item.	Choose an item.	n/a	n/a	n/a	n/a	• Very high interest from numerous occupiers in the offshore wind sector, including SeAH (above) who require additional land for construction/ parking. • Remediation not complete, but historic foundations are currently being broken out of the ground.
Teesworks West Tax Site (200 ha)	South Bank Harbour Marshalling (12.55 ha)	LO: Teesworks D: Confidential	2 – Concept Design	Sep-25	Q4-2025	£TBC TBC	**Yes**	**Yes**	0%	5%	0%	0%	• Land currently secured by the tenant under an Option Agreement until mid-2025. • Offshore wind contract has been awarded to the tenant. • Land requires remediation, due to start in early 2025. • Currently confidential due to NDA and progressing legals.
Teesworks West Tax Site (200 ha)	South Bank Harbour Marshalling (16.86 ha)	LO: Teesworks D: Confidential	2 – Concept Design	Sep-25	Q4-2025	£TBC TBC	**Yes**	**Yes**	0%	5%	0%	0%	• Land currently secured by the tenant under an Option Agreement until mid-2025. • Offshore wind contract has been awarded to the tenant. • Land has already been remediated, so is ready for development. • Currently confidential due to NDA and progressing legals.
Teesworks West Tax Site (200 ha)	South Bank AVAILABLE (26.31 ha)	LO: Teesworks D: TBC	Choose an item.	TBC	TBC	£TBC TBC	Choose an item.	Choose an item.	n/a	n/a	n/a	n/a	• Issues around historic ground contamination caused by former site uses (steel making). • Working with gov't to reduce Hazardous Landfill Tax liabilities, which if successful will allow us to remediate/ develop this plot in due course.
Teesworks West Tax Site (200 ha)	South Bank Primary Customs Zone & Freeport Entrance/ Security/ Containment (1.21 ha)	LO: Teesworks D: Teesworks/ TVCA	2 – Concept Design	Q2-2024	Q4-2024	£5m TBC	**No**	**Yes**	0%	25%	0%	25%	• The Primary Customs Zone is built and operational. • The Freeport Entrance/ Security/ Containment area is progressing through initial designs before being fixed, procured and built.
Teesworks West Tax Site (200 ha)	South Bank	LO: Teesworks D: Teesworks	1 – Preparation and Briefing	Q3-2024	Q4-2025	£7.52m Private Sector	**No**	**Yes**	50%	25%	0%	0%	• Architects are continuing to progress the designs for the industrial/ trade units with planning submitted. • Construction likely to be an 18-month process from breaking ground to operation.

	Spec-Development Scheme (3.24 ha)												
													• Please note, we have additional land on the South Bank area of Teesworks that sits outside of the Tax Zone. • We are progressing the construction of South Bank Quay, SBQ Office and various infrastructure upgrades in this area.
Teesworks West Tax Site (200 ha)	Dorman Point Circular Fuels (9.59 ha)	LO: Teesworks D: Circular Fuels	4 – Technical Design	Q4-2025	Q1-2027	£150m TBC	**No**	**Yes**	50%	50%	0%	0%	• Planning documentation is prepared and due to be submitted imminently. • Legals are due to complete within the next few weeks. • Remediation across the plot is partially completed, with the remainder to be complete once the legals/ conditions are agreed/ complete and the tenant has made their FID.
Teesworks West Tax Site (200 ha)	Dorman Point Willis Phase I (4.05 ha)	LO: Teesworks D: Willis	4 – Technical Design	Q3-2024	Q2-2025	£50m TBC	**No**	**Yes**	75%	50%	0%	0%	• Planning application has been submitted and sits with the LPA. • Legals are due to complete this quarter. • Remediation of this plot is 90% complete, with Utility upgrades to be made once the legals are unconditional on the tenant's part. • Slight delay on the project due to Gov't funding delay.
Teesworks West Tax Site (200 ha)	Dorman Point SAF Phase II (11.33 ha)	LO: Teesworks D: Confidential	1 – Preparation and Briefing	Q2-2028	Q3-2029	£100m TBC	**No**	**Yes**	0%	5%	0%	0%	• Legals are due to complete this quarter. • This is Phase II of the above project, so will not begin development until 2028. • This plot is partially remediated. • Subject to FID.
Teesworks West Tax Site (200 ha)	Dorman Point Plant & Tool Rental (0.4 ha)	LO: Teesworks D: Confidential	2 – Concept Design	Q3-2024	Q3-2024	£TBC TBC	**No**	**Yes**	0%	5%	0%	0%	• Heads of Terms are agreed. • Legals are progressing alongside Technical due diligence. • Planning is to be submitted this quarter. • This plot is 90% remediated.
Teesworks West Tax Site (200 ha)	Dorman Point BESS (3.44 ha)	LO: Teesworks D: Confidential	1 – Preparation and Briefing	TBC	TBC	£TBC TBC	**No**	**Yes**	0%	5%	0%	0%	• Currently negotiating Heads of Terms. • The detail of this transaction is currently confidential. • The site requires partial remediation and utilities installed.
Teesworks West Tax Site (200 ha)	Dorman Point AVAILABLE (2.63 ha)	LO: Teesworks D: TBC	Choose an item.	TBC	TBC	£TBC TBC	**No**	**Yes**	n/a	n/a	n/a	n/a	• Land available for development. • This site is 90% remediated. • Considerable interest from prospective occupiers.
Teesworks West Tax Site (200 ha)			Choose an item.				Choose an item.	Choose an item.					• Please note, we have additional land on the Dorman Point area of Teesworks that sits outside of the Tax Zone. • We are progressing a c. 8.9 ha development in this area in the waste recycling/ power generation sector. • We have also completed the development of Teesworks Skills Academy (Training Centre to assist with the staffing across Teesworks) which sits outside of the Tax Zone.
Teesworks West Tax Site (200 ha)	Lackenby EDF Phase I (6.39 ha)	LO: Teesworks D: EDF	4 – Technical Design	Q2-2025	Q2-2026	£60m TBC	**No**	**Yes**	75%	50%	0%	0%	• Planning application has been submitted and sits with the LPA. • Legals are due to complete this quarter. • Substantial remediation is required across this plot. • Utility upgrades are required once the legals are unconditional on the Tenant's side.
Teesworks West Tax Site (200 ha)	Lackenby Green Hydrogen Phase II (4.37 ha)	LO: Teesworks D: Confidential	2 – Concept Design	TBC	TBC	£TBC TBC	**No**	**Yes**	0%	50%	0%	0%	• Legals are due to complete this quarter. • This is Phase II of the above project, so will not begin development until Phase I is operational for X time period. • This plot requires substantial remediation. • Significant utility upgrades are required for Phase II. • Subject to FID.
Teesworks West Tax Site (200 ha)	Lackenby AVAILABLE (12.14 ha)	LO: Teesworks D: TBC	Choose an item.	n/a	n/a	n/a	Choose an item.	Choose an item.	n/a	n/a	n/a	n/a	• This plot is likely to be developed out as a new sub-station to secure the increased power supply that Teesworks requires. • This plot requires remediation.
Teesworks West Tax Site (200 ha)	Lackenby BESS (1.21 ha)	LO: Teesworks D: Confidential	4 – Technical Design	Q2-2025	Q1-2027	£25m TBC	**No**	**Yes**	60%	50%	0%	0%	
Teesworks West Tax Site (200 ha)			Choose an item.				Choose an item.	Choose an item.					• Please note, we have additional land on the Lackenby area of Teesworks that sits outside of the Tax Zone.

													• We are progressing a number of different projects in this area, including the refurbishment of c. 555k sq ft of existing warehouses, infrastructure upgrades, a service centre (pub/ hotel/ retail/ PFS/ etc) and an HGV park.
Teesworks East Tax Site (200 ha)	Steel House AVAILABLE (8.46 ha)	LO: Teesworks D:	Choose an item.	Existing	Existing	TBC	Choose an item.	Choose an item.	n/a	n/a	n/a	n/a	• Existing 250,000 sq ft vacant office building with 43,000 sq ft data centre which have both been stripped out of their former uses. • Will most likely be developed out once a number of the other developments across Teesworks are operational and there is a greater requirement for office/ amenities space.
Teesworks East Tax Site (200 ha)	Steel House Park & Ride (8.46 ha)	LO: Teesworks D:	5 – Manufacturing and Construction	Q2-2023	Q3-2025	£3m TVCA	**Yes**	**No**	100%	100%	40%	0%	• Planning permission secured and design work complete. • 1,500 space Park & Ride is currently under construction, linked to the NZT development, but will provide parking for additional tenants. • This will become a ‘transport hub’ incorporating foot/ bicycle/ bus/ car/ rail commuters.
Teesworks East Tax Site (200 ha)	Long Acres BESS (21.13 ha)	LO: Teesworks D: Confidential	1 – Preparation and Briefing	2026	2027	£1bn TBC	**No**	**Yes**	0%	0%	0%	0%	• Confidential due to ongoing commercial/ legal negotiations. • We are about to agree Heads of Terms imminently for what will be the UK’s largest BESS project. • A planning application needs to be submitted by the tenant. • The full site requires remediation and utility upgrades once the legals are unconditional on the Tenant’s side.
Teesworks East Tax Site (200 ha)	Long Acres Concrete Production (0.81 ha)	LO: Teesworks D: Confidential	5 – Manufacturing and Construction	Q4-2023	Q1-2024	£TBC TBC	**No**	**Yes**	100%	75%	75%	100%	• Currently developing under a licence. • Legals will complete imminently. • Remediation and utility works are complete.
Teesworks East Tax Site (200 ha)	Long Acres BESS (3.44 ha)	LO: Teesworks D: Confidential	1 – Preparation and Briefing	2026	2027	£TBC TBC	**No**	**Yes**	0%	5%	0%	0%	• Confidential due to ongoing commercial/ legal negotiations. • We are currently negotiating Heads of Terms. • A planning application needs to be submitted by the tenant. • The full site requires remediation and utility upgrades once the legals are unconditional on the Tenant’s side.
			Choose an item.				Choose an item.	Choose an item.					• Please note, we have additional land on the Long Acres area (24.28 ha) of Teesworks that sits outside of the Tax Zone. • We are progressing discussions with a number of parties on this plot with e.g. data centre operators.
n/a	Net Zero Teesside			2024	2027	£1.5bn +							• Please note, we have the NZT site (c. 60.7 ha) that sits outside of the Tax Zone. • Remediation is underway on this project. • Construction will begin towards the end of the year.
Teesworks East Tax Site (200 ha)	The Foundry Anglo American (2.83 ha)	LO: Teesworks D: Anglo American	4 – Technical Design	TBC	TBC	£3bn+ TBC	Choose an item.	Choose an item.	100%	25%	5%	0%	• This is an easement across the Teesworks estate, over which the Tenant will be constructing an over-head conveyor to transport their product from their mine to their export facility. • Planning permission has been secured and the conveyor legs have been physically marked out. • Wider detail on the project is not available currently.
Teesworks East Tax Site (200 ha)	The Foundry HyGreen (24.28 ha)	LO: Teesworks D: BP	3 – Spatial Coordination	2026	2028	£500m+ TBC	**No**	**Yes**	25%	50%	0%	0%	• Heads of Terms are agreed with legal negotiations due to conclude in the next 6-weeks. • The planning application is being drafted alongside the facility designs. • Subject to Gov’t approval, funding and tenant FID. • Full site remediation is required, likely to commence this year. • Utility upgrades will be required once the tenant has actioned all conditions on their side.
Teesworks East Tax Site (200 ha)	The Foundry H2Teesside (29.54 ha)	LO: Teesworks D: BP	3 – Spatial Coordination	2025	2027	£500m+ TBC	**No**	**Yes**	25%	50%	0%	0%	• Heads of Terms are agreed with legal negotiations due to conclude in the next 6-weeks. • The DCO is being drafted alongside the facility designs. • Subject to Gov’t approval, funding and tenant FID. • Works in tandem with NZT (above). • Full site remediation is required, likely to commence this year. • Utility upgrades will be required once the tenant has actioned all conditions on their side of the legals.
Teesworks East Tax Site (200 ha)	The Foundry AD Plant (4.05 ha)	LO: Teesworks D: Confidential	2 – Concept Design	TBC	TBC	£TBC TBC	**No**	**Yes**	0%	0%	0%	0%	• Heads of Terms have been provided and the tenant is within an exclusivity period. • A planning application will be required in due course. • Full site remediation and utility upgrades will be required once the tenant has actioned all conditions on their side of the legals. • Subject to agreement of legals, tenant FID and approved planning.
Teesworks East Tax Site (200 ha)	The Foundry Available (20.23 ha)	LO: Teesworks D: TBC	Choose an item.	n/a	n/a	n/a	**No**	**Yes**	n/a	n/a	n/a	n/a	• 50% of this site is available and we are progressing interest with a number of parties. • This land will require full remediation prior to any development. • 50% of this site has issues around historic ground contamination caused by former site uses (steel making).

													• Working with gov't to reduce Hazardous Landfill Tax liabilities, which if successful will allow us to remediate/ develop this plot in due course.
	The Foundry Available (31.16 ha)	LO: Teesworks D: TBC		n/a	n/a	n/a			n/a	n/a	n/a	n/a	• Please note, we have additional land on the Foundry area of Teesworks that sits outside of the Tax Zone. • We are progressing interest with a number of different parties/ sectors on this plot. • Full remediation is required.
WILTON c191 ha										**Land does not require remediation, is already connected to utilities. Awaiting tenant specific investment**			
Wilton - International C151 ha	**Plot 1 9.966 ha**	Sembcorp	1 – Preparation and Briefing			Potential Lithium Refinery Investment TBC	**No**	**No**					• Close to FID, planning permission in place, need feed study to gain FID
	Plot 2 14.19 ha	Sembcorp	0 – Strategic Definition			Possible SAF facility Investment TBC	**No**	**No**					• Interested parties, investment decision to be made March
	Plot 3 3.86 ha	Sembcorp	0 – Strategic Definition			Nova Pangea Investment TBC	**No**	**No**					• Second Generation Ethanol. Has government funding for investment in collaboration. Delayed – awaiting decision on requirements from investor • May take all the site if Phase 2 agreed, or site could be divided
	Plot 5 1.46 ha	Sembcorp	0 – Strategic Definition			No potential user confirmed	**No**	**No**					• Small plot, several enquiries, all are awaiting financing before confirming proposals
	Plot 9 26.88 ha	Sembcorp	5 – Manufacturing and Construction			Sembcorp Battery – electric storage facility	**Yes**	**No**					• Phase 1 in construction, for completion & operational end June 2024. Sembcorp investment £confidential • Phase 2 proposed. No Financial Investment Decision taken yet. Land held, as no plans to develop for another use
	Plot 11 10.33 ha	Sembcorp	0 – Strategic Definition			No investment planned	**No**	**No**					• Greenfield site, with planning Instrument of Consent granted. Currently houses the visitor induction centre, site entry. Has potential to develop for HQ office building at entrance to site, is v long term regen plan for Sembcorp if central office HQ were to be released
	Plot I 16.73 ha	Ineos	0 – Strategic Definition			No potential user confirmed	**No**	**No**					• Ineos are beginning to market their plot
	Plot K 13.92 ha	Steve Timmons	0 – Strategic Definition			Data Centre	**No**	**No**					• Private landowner has planning permission for energy intensive data centre
	Plot N 17.4ha	Homes England	0 – Strategic Definition			Peak Rare Minerals	**No**	**No**					• 43 acres option exercised for 999 ye lease, no development international investment Tanzania government delays • Paul Murphy HE consultant acting??
	Plot N 2.8ha	Homes England	6 – Handover			Renew ELP	**Yes**	**No**					• Facility to be operational imminently
	Plot N 34.8 ha	Homes England	0 – Strategic Definition			Under option confidential	**No**	**No**					• Site under option to electric sector business
	Plot W 8.91 ha	Ineos	0 – Strategic Definition			No potential user confirmed	**No**	**No**					• Ineos are beginning to market their plot
Wilton Centre c40 ha	**WAPG Wilton 4.05 ha**	We Are Pioneer Group	0 – Strategic Definition			Additional Lab Space proposed	**No**	No					• Awaiting confirmation of tenant requirements before investment decision made
Insert and copy if a new row is required.			Choose an item.				Choose an item.	Choose an item.					

* The RIBA Plan of Work outlines all stages in the planning, design and building process, from conception to completion on site. This will confirm the stage of progress for the development is currently at on tax sites.

2. Please provide an updated project plan (e.g. Gantt chart or equivalent) which confirms a set start date for each development on each tax site (as above). This should reflect a high level summary of key milestones[5] and activities[5], dependencies (with other programmes and procurement), risks and expected timescales to achieve a start on site through to after the completion of all works for the site to be fully operational/occupied.
Please confirm the value of investment for developments still to be confirmed (TBC), as listed under the above table, and the action being undertaken to secure this.
Please submit a copy of the updated Gantt chart / project plans[6]. For developments on tax sites which have been completed or near completion, an updated Gantt Chart will <u>not</u> be required, unless it is proposed to undertake additional development over and above the proposals included at FBC.
1.1 (b) A credible plan for future site delivery

[5]Depending on the situation, potential milestones and activities on the project plans should include, but is not limited to: the relevant RIBA stages of the project throughout the development timeline; submission and approval of planning applications; submission and approval of statutory approvals required; confirmation of plans drawn up by architects; confirmation of project costs and designs; confirmation of procurement status; confirmation of delivery of activity e.g. site investigation, remediation, construction etc

[6]See Attachment 1 - Proforma Example of Gantt chart: Annex A, Q2, Proforma - Extension

Teesworks:

Worksheet in Teesworks - DRAFT E›

Wilton:
Land is available to let across the tax site, the land is ready for tenant investment. No clearance or remediation required. As a result, there is no forward plan for site development required.

Not all plots owned or in direct control of the site operator, Sembcorp. All site services (provision of energy and steam) provided by Sembcorp. Not all landowners are proactively marketing their sites although vacant – e.g. one owner has 3 separate sites within the tax site boundary and is currently holding land in case of their own future development needs.

3. **For developments which have not started on site or there has been limited progress, please liaise with landowners / developers to provide 'open book' information by the landowners / developers.** (Min 2 - 4 pages, dependent on supporting documentation provided)
1.1 (c), "For sites showing limited progress, an open book assessment of the constraints, and actions being taken to accelerate delivery

This should include:
(i) a summary of the technical constraints: including planning, transport access, grid connections, site issues (topography, contamination, archaeological etc)
(ii) provide evidence to support the commercial viability: this should include a high level cost plan, updated development site map and/or architect plans, business plan, financial model, funding plan - highlighting estimated financial viability gap, as applicable
(iii) provide an overview of the tax site delivery capability: status of project team and resourcing.

Please submit as much of the open book information (including supporting documentation/evidence of the above) you have available by Friday, 16 February 2024.

Teesworks

The Teesworks estate spans some 4,500acres with the landholding interest being approximately 2,600acre. The net developable area extends to 1,500acres, of which 1,200acres is situated in the Freeport tax site.

Due to the ability of the site to offer Freeport tax benefits to inward investors, the interest in the site from tenants and proposed tenants has been of high volume.

Whilst all sites within this tax zone are deliverable and significant parcels of land have/are being readied for development, the vast nature of the land within the site and the resource (both labour and financial) required to bring this to market (to meet the specific requirements of bespoke end users) in a restricted timeframe is constrained.

Many of the projects on the Teesworks site are nationally significant infrastructure projects, each spanning tens, if not hundreds of acres. The process for a development project to materialise is therefore complex given the scale and technical nature of the operations. Several of the projects are subject to Development Consent Orders (DCO) and many have lengthy funding processes to secure FID, whilst the complexity of the detailed design work on projects of scale is lengthy.

The key sectors are in offshore wind, carbon capture, hydrogen storage and production battery storage and production and sustainable energy operations. The attraction of incentives offered through the Tax site status have been pivotal in securing such operators which is seeing inward investment on each project in the range of £100m to in excess of £1bn. This coincides with the creation of thousands of jobs, whilst bringing huge economic investment to the area.

The current time constraints to qualify for the Freeport benefits are challenging given the nature of the development projects cited above.

In order to facilitate the time constraints of the benefits a number of up-front mitigation strategies have been deployed to enable the early adoption and construction of the site therefore reducing the time from tenant commitment to practical completion of build. These measures are as follows:

Planning

Outline planning has been sought and granted from the local planning authority for circa 14.5 million sq.ft of floorspace. This included transport strategies, remediation strategies, ecological studies, surface water, and foul drainage planning.

Transport Access

First stage transport calculations have been carried out and agreed with the local authority. Off-site mitigation measures and potential hot spots have been identified with these measures documented and agreed.

Grid Connection

Although the site benefited from a substantial existing National Grid connection, to fully develop the site an increase to capacity is required. Engagement with National Grid has taken place and a jointly designed solution to increase the power supply is being progressed, this includes a new large sub-station on the site and outline design for a further extensive on-site network to include individual tenant supply requirements. The final offer received from National Grid overcomes any projected future shortfall in demand within plans being discussed for an accelerated programme. This will develop as further tenants are forthcoming and load requirements are understood.

Water Connection

As with power, the site currently benefits from having an existing substantial water network however again this is only of a capacity that will be capable of delivering the first phases of tenants. Early talks were commenced with the local water company and feasibility studies completed on the off-site network required to supplement the current capacity to that of a size that will accommodate the full site development. The local water company are in the process of instigating the works required to facilitate this increase in demand.

Topography, contamination and archaeological

Topography, contamination, and archaeological surveys have been carried out on the whole site and strategies deployed. Early works have been carried out to treat and remove any issues that may arise to constrain development.

Land Remediation

Full remediation plans have been established and the relevant permits have been sought and granted to complete circa 300acres of remediation with a further 100 acres currently in operation. The outstanding areas of the site will be completed on a phased basis linked to tenant contractual commitments.

Whilst remediation is both viable and deliverable, the process to remediate individual parcels of land is time constrained with the application for planning permission, Environment Agency permitting, procurement of the specialist contractors, agreeing scope of works and indemnities and contractual administration (agreeing all legal/technical detail with inward investors and developers). Furthermore, until contractual commitments securing development become unconditional, it would be neither sensible or viable to speculatively commence large scale remediation of land and infrastructure works.

An initial amount of funding was provided toward the site regeneration to demolish all structures and remediate an initial parcel of land on the estate. This funding completing phase 1 (demolition) has been significantly accelerated, but only recently been finished and the delivery phase (preparation of sites and commencing development) is now progressing, however given the nature of the project this is at a very early stage.

Land remediation costs run in the region of £150,000 to in excess of £200,000 per acre with many of the underlying ground conditions unknown.

Given the significant liabilities and cash requirements to not only remediate, but to also upgrade and install new service infrastructure a comprehensive funding strategy has been adopted by Teesworks Limited. The funding model entails re-circulation of income, supported through the capitalisation of leasehold interests. On larger development sites on the estate, when unconditional leasehold agreements to companies of significant financial standing and strong covenant strength are secured they may be put to the investment market, whereby large funds secure the total leasehold income for an upfront capital sum. This generates working capital to reinvest back into the site to support the stream of forthcoming development projects. Other structures are also in place which is securing upfront capital to cashflow remediation and infrastructure works.

Operating income is being supported by shareholder investment and securing shorter term leasehold income. Delivery of the site activity is through a vastly experienced, senior management team operating from the site, supported by a number of professional consultancy firms. The personnel leading the project have a diverse range of skills and experience in the real estate sector, all of whom have worked previously on major regeneration projects.

Teesworks are also working closely with several national specialists to support the delivery of key infrastructure assets.

Wilton

The Wilton tax site is a plug in ready developable land, it is not requiring complex remediation like the Teesworks tax sites. Sites that are available to lease are already cleared.

The site operator Sembcorp offers utility services including on site power generation, via a private wire network, and steam. The site has resource constraints, meeting the demand for power and water. Whilst not constrained by National Grid capacity, the requirements of some investors could mean that demand for power could outstrip their available supply five times over.

FREEPORT NAME: **TEESSIDE**

ANNEX B: **TAX SITE MANAGEMENT POLICY: POSITION STATEMENT & PROPOSED AMENDMENTS**
1.2 Tax site landowners and developers recommit to developing the site in line with the agreed Freeport vision

1. **Please provide a copy of the latest version of the Freeport Tax Site Management Policy / Plan (TSMP)**
   1.2 (a) Evidence on tax site management policy implementation

   As this takes different forms for different Freeports, including Site Specific Agreements (SSAs) with Land Owners, End User Agreements (with Developers/Tenants), Gateway Policies or similar, please confirm your approach and provide supporting documentation / annexes. For SSAs and End User Agreements, please can you confirm which ones you have in place and if these have not been submitted to DLUHC previously, please can you submit copies.

The Tax Site Management Policy is **Annex U** of the Final Business Case.

This policy scope sets out who the policy applies to, and where, and sets out the eligibility criteria for businesses to benefit from tax incentives from locating in a specified tax site.

The criteria are based on key and supporting industry sectors, described by SIC code; the businesses are also required to demonstrate jobs growth into the region, and not displacement.

The policy is implemented by the landowners: where a business fits the criteria, it is automatically approved. Where exceptions occur and the landowner or their agent believes a business not listed in the prescribed list of SIC Codes should benefit from locating on a tax site, the landowner can provide commercial rationale in a written report to the Freeport Board for consideration.

2. **How is the TSMP working in practice and how has the policy been applied? Is it working as expected or have there been some gaps, challenges or unintended consequences?** (Min. 1- 2 pages)
   1.2 (a) Evidence on tax site management policy implementation, with lessons learned

   Please provide supporting evidence of the TMSP in action with supporting evidence (i.e. copies of minutes of Freeport Board minutes which confirms conflict of interest of Freeport Board members and approval of businesses; other documentation which shows how tenants were assessed against the tax site management policy, confirmation of the businesses (including their relevant SIC code) approved to date for each of the developments within each of the tax sites and details of any business not approved through the policy and confirmation of non-approval of tax reliefs.

To date, the businesses taking up leases within the tax sites fit within the sectoral definitions of the policy and have been automatically approved. As such, there are no lessons learned to share as there has not been a test of the process to request an exception to the prescribed list of SIC Codes

3. Please confirm the priority sectors you will target on each tax site in the table below

1.2 (b) Strengthened commitments to the Freeport vision

Name of Tax Site	Specify Priority Target Sectors*	Where applicable, provide a qualitative description of the sector vision to complement the proposed SIC codes	List Associated SIC Codes	Specify Hectarage Per Priority Sector e.g. 80ha site: 52ha Advanced Manufacturing; 20ha Life Sciences; 8ha Logistics *(Provide estimated hectarage of tax site earmarked for development)*	Specify % Sector Breakdown e.g. 65% Advanced Manufacturing; 25% Life Sciences; 10% Logistics *(Express hectarage of sectors as a percentage)*	Comments Please provide further comments to support the position, including: identifying any key risks / issues and how these will be addressed to ensure that the businesses, investment will contribute to realising the objectives of the Freeport and the policy as a whole. If there is a change to the proposed priority sector since the submission of the FBC, please provide a rationale to justify the proposed change for DLUHC to approve
1. Teesworks West	Clean Energy (including Offshore Wind Assembly and Manufacture) Chemicals and Materials Processing Bio Life Sciences (Advanced Manufacturing)	Teesworks has a 25-year strategic vision for a world class industrial site heavily focused on clean energy and advanced manufacturing This aligns to achievement of the Teesside Net Zero Cluster Policy	**Key Sectors:** **Section C:** Manufacturing Divisions 10,20,21,24,25,27,28 **Section D:** Division 35. **Supporting Sectors:** **Section D:** Division 47 **Section H:** Division 49,50,52 **Section J:** Division 63 **Sections M & N**	No spatial split of site per priority sector applied	No percentage split of site by sector applied	There is no change to the proposed priority sectors since the FBC submission
	Insert new row above if required.					
2. Teesworks East	Clean Energy (including Offshore Wind Assembly and Manufacture) Chemicals and Materials Processing Bio Life Sciences (Advanced Manufacturing)	Teesworks has a 25-year strategic vision for a world class industrial site heavily focused on clean energy and advanced manufacturing This aligns to achievement of the Teesside Net Zero Cluster Policy	**Key Sectors:** **Section C:** Manufacturing Divisions 10,20,21,24,25,27,28 **Section D:** Division 35. **Supporting Sectors:** **Section D:** Division 47 **Section H:** Division 49,50,52 **Section J:** Division 63 **Sections M & N**	No spatial split of site per priority sector applied	No percentage split of site by sector applied	There is no change to the proposed priority sectors since the FBC submission
	Insert new row above if required.					
	Clean Energy (including Offshore Wind Assembly and Manufacture)	Wilton's strategic vision is to be a Leading provider of sustainable solutions supporting the UK's	**Key Sectors:** **Section C:** Manufacturing Divisions 10,20,21,24,25,27,28	No spatial split of site per priority sector applied	No percentage split of site by sector applied	There is no change to the proposed priority sectors since the FBC submission

3. Wilton	Chemicals and Materials Processing Bio Life Sciences (Advanced Manufacturing)	transition to Net Zero , targeting energy intensive industrial businesses	**Section D:** Division 35. **Supporting Sectors:** **Section D:** Division 47 **Section H:** Division 49,50,52 **Section J:** Division 63 **Sections M & N**			
	Insert new row above if required.					

4. Given the Freeport's experience of applying the TMSP as per Q2 above and potential DLUHC intervention if non-compliance occurs in the future, are there any changes and/or measures you would recommend to the TSMP, in particular, how will these improvements disincentivise landowners/ developers from finding tenants who do not align? Please provide an overview of such changes and approx. timescales to agree to a revised TMSP. *1.2 (b) Strengthened commitments to the Freeport vision*
The disincentive to landowners is that the business rates offer will not be available from the billing authority. As mentioned above, this has not been tested.
5. In order to reduce the risk of displacement and deadweight for tax sites which include logistics, storage and warehousing, Freeports and tenants will need to provide a commitment to put in place concrete mechanisms to mitigate these risks and help ensure the taxpayer gets value for money from any extension (Min 2 pages) *1.2 (c) For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public values* Freeports should propose their own mechanism in line with the following requirements: • Logistics, storage or warehousing businesses already on Freeport sites should commit to paying a significant portion of the value of reliefs post 2026 to the Freeport • Sites expecting to have at least 30% logistics, storage or warehousing by hectarage should ensure future tenants contribute a significant portion of the value of post-2026 reliefs to the Freeport Freeports should explain what mechanism will be put in place to ensure this happens, and should propose how the money will be managed and the purposes for which it will be used– it could be absorbed into the wider Freeport budget or held in a ringfenced pot with a specific purpose. For example, some Freeports have established a 'skills levy' managed by the Freeport with landowners. We would like Freeports to: • to articulate their proposed mechanism in line with the above requirements, propose how the money will be managed and the purposes for which it will be used for; • set out a figure that this equates to in expected contribution, along with transparent calculations as to how this was reached, and for businesses and landowners to commit to providing that amount; and • to confirm how they will implement, manage and monitor the proposed approach
Teesside Freeport does not prioritise these sectors
6. For tax sites which wish to have 50% or more logistics, storage or warehousing by hectarage, Freeports should set out additional justification to demonstrate that an extension to tax reliefs would provide value for money to taxpayers (Min 2 pages) *1.2 (c) For sites with higher risk of displacement and deadweight, mechanisms to mitigate these risks and ensure public values* Freeports wishing to propose alternative thresholds for specific tax sites should set out: • A rationale, with evidence, of the VFM of extending further tax reliefs on the site, including how government can have confidence that higher value investment will be brought forwards • Actions to be undertaken to maximise public benefit and social value from the development of the site (e.g. financial contributions towards the wider aims of the Freeport). Should Freeports wish to change their agreed site vision and sectors from what was signed off in business cases and the MOU, this should be taken through a change control process with HMG as per our change management policy, submitted alongside the tax extension delivery return.
Teesside Freeport does not prioritise these sectors
7. In order to safeguard the continued Freeport vision and Freeport policy objectives on potential future disposals of land / property on tax sites, the Freeports must: • **propose a mechanism which Freeports which will put in place with Landowners/ Developers to ensure they provide advance notification to DLUHC of any proposed sale of land and/or property within the tax site and ensures that the Landowner / Developer transfers their obligations in line with the Freeport FBC and MOU to the prospective vendor, who will need to formally agree to adhere to this in advance of the sale** • **provide a written declaration from Landowners/ Developers to confirm that they have signed up to the proposed mechanism** *1.2 (b) Strengthened commitments to the Freeport vision*
The land in the Teesside Freeport is in mixed private ownership. The Freeport is not involved in commercial discussions, nor would it be appropriate to be, due to potential conflicts of interest. We will work with landowners to consider a possible protocol to monitor land and property disposals and the transfer of obligations. However, there is not a mechanism that allows the Freeport to make this a mandatory requirement. As land is transferred information is submitted to the land registry which notifies Government of the transfer.

NAME OF FREEPORT: TEESSIDE

ANNEX C: FREEPORT STAFF & CAPACITY BREAKDOWN

2.1 Credible plans for quickly ensuring a strong Freeports delivery team

1. Please provide a brief position statement of the current staffing levels for the Freeport and if applicable, any proposed plans to increase capacity in the future (this should also include if you are currently using or are proposing to use retained business rates to support the Freeport capacity and operational costs). Please advise of any risk, barriers and/or issues which are preventing you to recruit additional capacity (including funding gaps) and the proposed mitigating actions to address these. If it is proposed to secure capacity support through a procured approach, please provide justification for this and complete Q3 below.
The current staff from TVCA employed in supporting the Freeport is set out in the table below. As an interim measure, until a Freeport Manager is recruited, external consultancy support is in place.

2. Please complete the table below with staff who are currently employed or are proposed be recruited to support the Freeport

	Job Title	FTE Based on contracted hours e.g. 35hr/wk = 1FTE 17.5hr/wk = 0.5FTE	**Brief overview of role and responsibilities** Where applicable this should link back to the requirements listed under section 2.1 "Credible plans for quickly ensuring a strong Freeports delivery team	**Existing Post / New Post** Please confirm if this is an existing post or a new post which is being planned to be recruited in the future	**Start Date** If not existing post, please provide approx. start date (mth / year)	**Status of Employment** (Freeport / Secondment*/ Contractor / Other - please specify)	**Source of Funding** (Local Authority, Private, income from Retained Business Rates etc)	**2024/25 £**	**2025/26 £**	**2026/27 £**	**Total £**
1	Freeport Manager	1.0	Responsibility for Freeport Delivery & Strategic Delivery (including seed capital funding, TSMP & BRR reinvestment)	Existing	TBC – in recruitment	Freeport	TVCA	69,120	71,194	73,329	213,643
2	Programme Manager	1.0	Responsible for Programme and Project Management activity across the Teesside Freeport	Existing	N/A Existing	Freeport	TVCA	69,120	71,194	73,329	213,643
3	Governance Support Officer	1.0	Responsibility for coordination the administration of Freeport coordination activities with stakeholders and support to Board and workstreams	Existing	N/A Existing	Freeport	TVCA	44,168	45,493	46,858	136,519
4	Performance Risk and Assurance Officer	2.0	Responsible for Performance management, assurance & evaluation;	Existing	N/A Existing	Freeport	TVCA	88,336	90,986	93,716	273,038
5	Director Business Solutions	0.5	Responsible for the management and coordination of Inward Investment, Skills, Regeneration across the Teesside Freeport	Existing	N/A Existing	Freeport	TVCA	81,494	83,939	86,457	251,890
6	Marketing and Communications Officer	1.0	Responsible for supporting Inward Investment activity across the Freeport	Existing	N/A Existing	Freeport	TVCA	52,753	54,336	55,966	163,055
7	Clean Growth and Innovation Manager	0.5	Responsible for the Development and management	Existing	N/A Existing	Freeport	TVCA	30,290	31,199	32,135	93,624

			of all Net Zero and Innovation activities across the Freeport								
8	Business Solutions - Inward Investment Manager	0.5	Responsible for leading Inward Investment activity across the Freeport	Existing	N/A Existing	Freeport	TVCA	34,560	35,597	36,664	106,821
9	Finance Officer	0.5	Responsible for financial management activity for the Teesside Freeport and supporting the BRR reinvestment modelling	Existing	N/A Existing	Freeport	TVCA	28,340	29,189	30,065	87,594
10				Choose an item.							
	TOTAL			**Choose an item.**				**498,181**	**513,127**	**528,519**	**1,539,827**

*Where these roles are provided in-kind by partner organisations, the resourcing commitment must be secure, supported by a local agreement, and verified by the Freeport SRO in the form of a letter

3. Please provide an updated organisation chart which supports the above if one is available. Please confirm if this has been provided	~~Yes~~ / No

4. Please confirm if you have procured some external consultancy to provide specialist capacity support									
Procured External Contractor (Insert Name of Company Contracted As Applicable; or Insert Type of Support Required To Be Procured)	**Brief overview of support to be provided** Where applicable this should link back to the requirements listed under the Extension Delivery Plan criteria and provide justification to procure such support	**Contracted / To Be Procured** Please confirm if this is an existing contract or future contract planned for the future	**Start Date Of Contract** If not existing contract, please provide approx. start date (mth / year)	**Duration of Contract**	**Source of Funding** (Local Authority, Private, income from Retained Business Rates etc)	**2024/25 £**	**2025/26 £**	**2026/27 £**	**Total £**
1. Interim Freeport Management support	**To support the delivery of key Freeport Manager pieces of work, including the gathering of intelligence and preparation of responses to: □ Tax extension framework (16 Feb) □ Security review (early March) □ Annual assurance review (26 Feb) plus ongoing Freeport Management support functions pending permanent role recruitment as listed above.**	**Contracted**	**13/2/2024**	**6months**	**TVCA (pro-rata contract value for the element falling in 2024/25)**	**55,000**	**0**	**0**	**55,000**
2. SRO Strategic support	**The Teesside Freeport is moving to focussed delivery, utilising a new operational and governance structure within the context of extension of tax exemption sites and a renewed focus and marketing at national level. Changes in Freeport resources over the last few months have not kept pace with these emerging issues and opportunities and we now are facing a requirement to move at pace to re-engage Freeport partners and stakeholders to collaborate and contribute to delivery. This requires a resource that is familiar with the Freeport, has strategic relationships with key players, able to engage with government departments and understands the local area. An ability to translate the agreed full business case into operational delivery**	**To be Procured**	**N/A**	**6months**	**TVCA**	**170,000**	**0**	**0**	**170,000**

	and identify and recommend the resource that is required to make this work in the longer term. The FBC for the Freeport relied on other strategic programmes for Skills, Innovation and Inward Investment being utilised to support the Freeport delivery, an understanding of these programmes is essential.								
3.									
Insert new row above if required									

5. Please set out a plan for how you would strengthen your Freeport resourcing should the following be allocated: • **£1m CDEL in 2024/25** • **£0.5m CDEL in 2024/25 and £0.5m CDEL in 2025/26** • **£0.5m CDEL in 2024/25** **In addition, please can you set out where you would take the seed funding from if £0.5m or £1m of CDEL were reallocated to your capacity, and what would be the implications and consequences of doing this.**
Not applicable as CDEL fully committed.

NAME OF FREEPORT: **TEESSIDE**

ANNEX D: RETAINED BUSINESS RATES PLAN CHECKLIST

2.2 Public commitments from Billing Authorities to retained rates strategies

		Delete accordingly or provide further information where prompted	Additional Comments If you have selected "No" to a question, please provide an update / comment on the position and how this will be achieved
1	Has a Freeport published a document on Business Rate use? (may be part of wider Business Case document)	Yes	The FBC is published on the TVCA website and includes a summary of the purpose and use of RBR at section 1di3. The Annexes with complete policy information is not currently held online due to commercial sensitivity requirements. Annex W has been shared with the stakeholders, and refreshed to the Freeport Board, board paper from 1st December
2	Does the publish confirm the approval of the Freeport, Accountable Body and Billing Authorities?	Yes	The Billing Authority support for Freeport and RBR is provided in the FBC, referenced paragraph 91.
3	Does the document provide confirmation that the Freeport is intending to use the BRR to support the Freeport objectives?	Yes	See section 1di3, paragraph 76 onwards
4	Does the document show the Governance processes?	Yes	See flow chart, This is extracted from Annex W, in the published board paper
5	Does the document have a summary of how the Business Rates are to be used?	Yes	Indicative themes, not project specifics, as no business rates charged / received
6	Please confirm the Freeport's commitment to a more detailed Business Rates Reinvestment Strategy with a view to publish this by the start of the 2025/26 financial year	Yes	Confirmed

NAME OF FREEPORT: **TEESSIDE**

ANNEX E: LOCAL PLANNING SUPPORT & WORKPLAN CHECKLIST

2.3 Sufficient local planning capacity

			Delete accordingly or provide further information where prompted	**Additional Comments** Please provide any additional information to support the position
1	Please advise if there are currently planning applications which are awaiting approval and there is a there a need to provide sufficient planning support ? If Yes, please provide an overview of the position and progress to Q2. If No, please provide confirmation of experience to date and progress to Q3. Under both responses for the above, please indicate any current involvement or your intention to involve the Planning Advisory Service (PAS)		No	RCBC planning authority is welcoming of plans to develop industrial activities on the site. They provide a positive planning environment which is attractive to investors
2	Confirmation of the appointment or commitment to provide sufficient capacity planning support across the relevant LPA/s with associated tax sites			
	Name of Local Planning Authority	**Overview of Proposed Commitment to Dedicated Planning Support**	**Delete accordingly or provide further information where prompted**	**Additional Comments** Please provide any additional information to support the position
	N/A		Yes / No / To Be Confirmed	Insert comments
			Yes / No / To Be Confirmed	Insert comments
			Yes / No / To Be Confirmed	Insert comments
3	Has the Freeport provided a very high level overview of developments and planning requirements over the next 5 years to the LPA to manage workload and priorities ? If yes, please provide a copy. If no, please provide an update within the additional comments (include approx. timescales to submit)		No	The Freeport does not have requirements of planning. The tax site owners and/or investors liaise directly with RCBC.
4	What consideration has been given to approaches to accelerate consent ? (e.g. Planning Performance Agreement, Local Development Orders and/or inclusion as Nationally Significant Infrastructure orders).		Teesworks is a special economic area Wilton has pre-existing local development orders	
5	Please indicate any current involvement or your intention to commit to engage with Statutory Consultees including Natural England, Environment Agency, Historic England and the Marine Management Organisation who are, through the Freeports Delivery Roadmap delivering a series of measures to accelerate their elements of the planning process		Not applicable. The Freeport does not have requirements of planning or other statutory consultees	

ANNEX F: Warehousing & Logistics SIC Codes

SIC Code	Description
52101	Operation of warehousing and storage facilities for water transport activities
52102	Operation of warehousing and storage facilities for air transport activities
52103	Operation of warehousing and storage facilities for land transport activities
52242	Cargo handling for air transport activities
52243	Cargo handling for land transport activities
52290	Other transportation support activities
53201	Licensed carriers
53202	Unlicensed carriers

Appendices 1 and 2 are exempt from publication by virtue of paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of schedule 12A of the Local Government Act 1972.

AGENDA ITEM 9

REPORT TO FREEPORT BOARD

8 MARCH 2024

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

COMPLIANCE UPDATE

SUMMARY

The purpose of this paper is to provide Freeport Board members an update of activity discussed and progressed through the Risk and Accountability of Public Finance Workstream.

RECOMMENDATIONS

It is recommended that the Freeport Board:

i. Notes the content of this paper is and considers the analysis and updates provided;

ii. note the Risk Management Framework as outlined in Appendix 2.

DETAIL

1. Compliance with Freeport requirements

As part of TVCA role as Accountable Body for the Teesside Freeport there is a requirement to ensure that all compliance obligations and responsibilities are fully discharged. This is set out clearly within the Memorandum of Understanding (MoU) with Government:

"..2.5.5 The Governing Body commits to ownership and management of the security and illicit activity risk assessment at Annex B of the FBC and to coordinating the implementation of an appropriate risk management and mitigation plan on this basis. Recognising this, and the commitment from Freeport customs site operators to counter illicit activity included in Annex H of the FBC, the Governing Body commits to the establishment, ownership and management of the appropriate structures, governance arrangements, and establishing effective processes for coordinating the

management of security risks as outlined in the Management Case of the FBC. This includes coordinating active management across physical, personnel and cyber domains and working with HMG and other relevant agencies as required…"

The MoU provides further clarity regarding the process of review that must be undertaken in partnership with the Freeport Security Forum (FSF). The Freeport Security Forum was set-up by Government. The Freeport governing body will conduct the security audit and then report to the Freeport Security Forum (FSF) led by HMG. The FSF will be chaired by the Home Office and reviewed by experts within relevant departments, including HMT, Home Office and from Law Enforcement authorities. Relevant extracts from our Teesside Freeport MoU with Government are provided below:

"..The Freeport will engage with the Freeport Security Forum as per section 2.5.5 and 2.5.6 of this MoU, in line with the requirements of the annual Freeport security audit. This is a cross-government group consisting of security stakeholders from the Home Office, Border Force, National Crime Agency, the Police, DfT, HMT and HMRC…" "..2.5.6 The Governing Body will carry out an annual audit of Freeport security measures in place and any breaches with local security stakeholders as required by the Freeports Framework.."

The Annual Freeport Security Audit (AFSA) is the tool used by the Freeport Security Forum to assess all Freeports. This complements but does not replace the standard UK customs and border security processes that apply to Freeports or similar facilities. Freeport Customs Site Operators are also required to obtain AEO(S) or equivalent authorisation from HMRC, an international gold standard for safety and security, and remain subject to robust ongoing oversight from HMRC. For all English Freeports, the first AFSA is due to take place in the next couple of months. The online guidance on the Freeports webpage will be updated in line with the new process that is being followed in due course.

The report must be agreed and receive sign off by all local strategic security partners. If the FSF is not satisfied with a Freeport's AFSA, they will work with the Freeport to agree improvement actions to be implemented. A Freeport will not pass annual review until the government is satisfied with the AFSA…"

We have received a diary date for the first meeting with the Freeport Security Forum scheduled for 13th March 2024 where we will receive further information.

Casper Customs are the Teesside Freeport lead support in these matters and have confirmed that Teesside Freeport were audited by HMRC just before Christmas 2023 which included a visit to site see the security we have in place following previous scheduled visits. HMRC also checked the Teesworks Site Security Policy and Risk Assessment. Casper Customs advise that we are confident there should be no issues with the Annual Freeport Security Review.

Context – Approach to risk Management.

2. The Board agreed to adopt the TVCA Risk Management process at the initial Board meeting in May 2021. This framework has successfully been deployed to deliver the first operational Freeport in the UK and will continue to manage risk during operations (Appendix 1).

3. The Risk Management Framework is reviewed on an annual basis, the latest review and approval by TVCA Audit and Governance Committee/STDC Audit and Governance Committee and STDC Board July 2023.

4. The Risk Management Framework has been written in line with ISO and Orange Book Standards and has been integrated into the automated Risk Management platform which has been developed to capture, monitor and track risk (threats and opportunities).

5. The below illustration is taken from the Orange Book which depicts how Risk Management has been used for the Freeport and wider TVCA risk.

Illustration 1 – HM Orange Book 2023

Context – Alignment of TVCA corporate risk

6. Recent review of strategic objectives has led to a refreshed Corporate Risk Register, which aligns 13 core corporate objectives and associated parent risks to all programmes

and projects across the TVCA portfolio. The Corporate Risk and Objective aligned to the successful delivery of the Teesside Freeport is as follows:

Corporate Objective:
Diversify the economy, support more business start-ups, develop high growth potential businesses and key growth sectors.

Risk-0002724:
As a result of failing to provide a supportive business environment to encourage inward investment, there is a threat that Tees Valley Businesses are unable to grow which will result in the inability to diversify the economy, support more business start-ups, develop high growth potential businesses and key growth sectors.

Treatment Action Plan:
Supporting Business Growth

1. Attract and support new businesses to Tees Valley
2. Support companies to introduce new products or processes
3. Support start-ups and the growth of new and existing businesses
4. Offer consistent support in Tees Valley for SMEs and large companies
5. Build upon the success of Business Compass, by launching the new Tees Valley Business Gateway, supported by new grant and business finance programmes.

Unlock Sites for Business

1. Secure strategic sites within the South Tees Development Corporation area
2. Site infrastructure
3. Business accommodation to unlock key sector's growth
4. Focus on bringing forward brownfield land

In order to measure success moving forward, the primary outputs aligned to this risk are from the Strategic Economic Plan are:

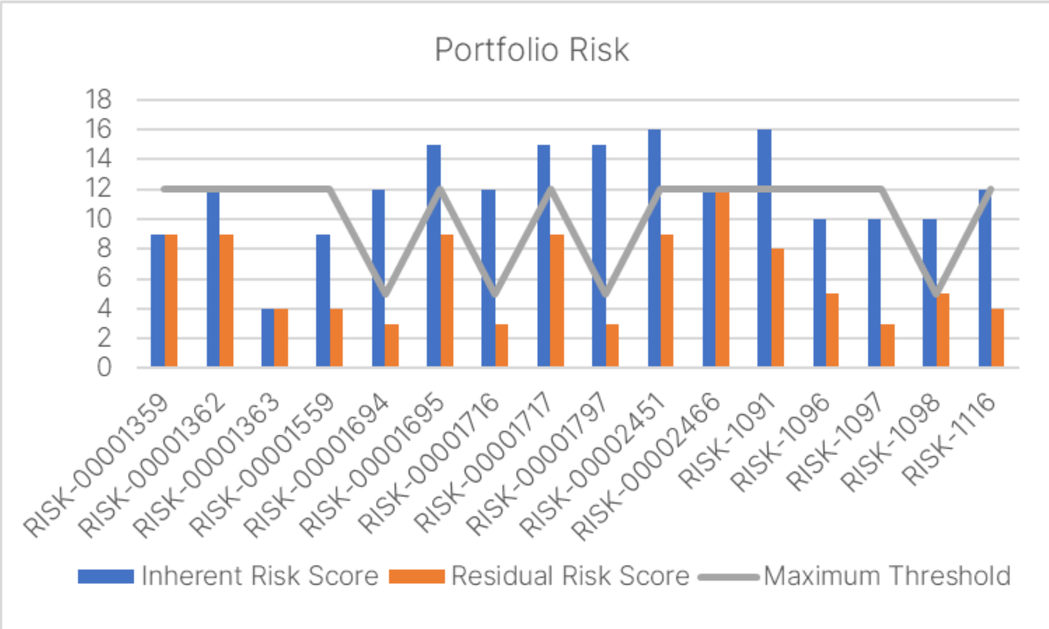
- New startups and business expansion
- GVA per hour worked 30% growth
- Job density 55% growth
- Business density 10% growth

Investment plan output obligations are:

- 4400 jobs
- £277m GVA

Freeport Department Risk

7. The current Freeport Risk Portfolio is as follows:



Graph 1 – Freeport Risk Portfolio, TVCA Risk Management

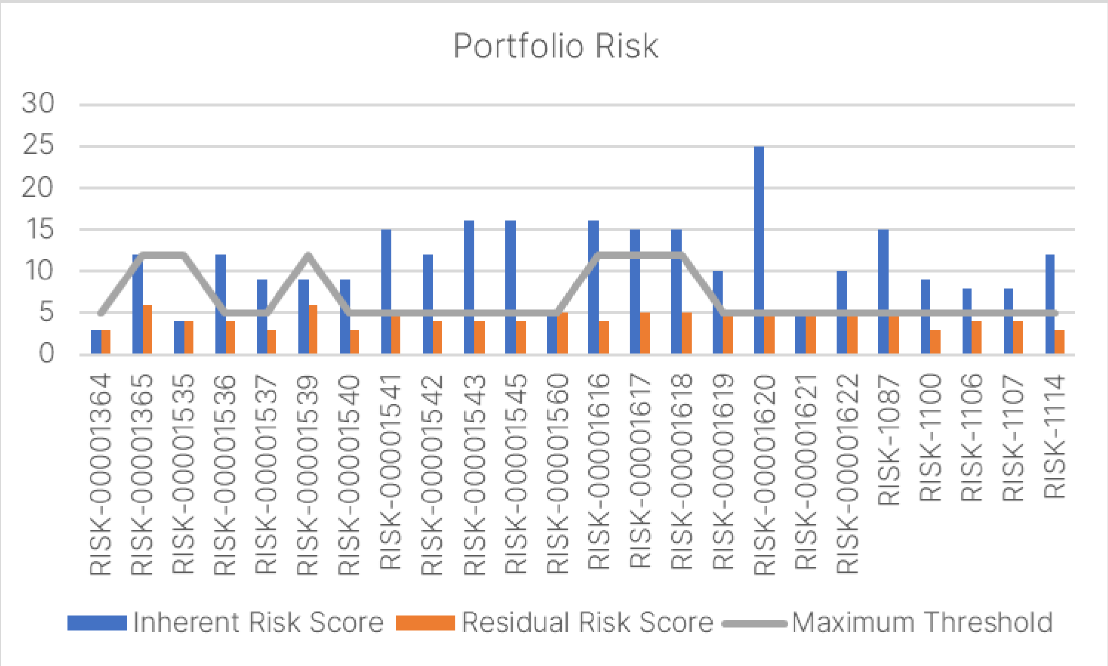
8. Reviews are scheduled to complete in depth analysis against Freeport risks, this proactive approach allows preventative measures to be implemented for internal and external risks.

9. The Risk and Accountability for Public Finance workstream members are currently reviewing all risk register entries.

10. Freeport Risk Portfolio is managing 16 general risks and 24 Security & Illicit threat risks. A number of these potential risks have strong mitigations and only become prevalent as the Freeport is operational.

11. The current Security and Illicit threat Risk Portfolio is as follows:

Teesside Freeport



Graph 2 – Security and Illicit threat Risk Portfolio, TVCA Risk Management

12. Preoperational risk assessments are scheduled to be complete to ensure that the processes and procedures we have in place are in line with operational and security service requirements.

13. Opportunities for Freeport are currently being reviewed and will be tracked in the same platform as Threats. Assumption that all expressions of interest and enquiries regarding Freeport will be documented and monitored using the Performance Management system which links directly to the existing CRM system.

14. Freeport Obligatory review

To support compliance with obligations, a full risk assessment using core regulatory requirements is scheduled for Q1 2024.

The review will cover the following obligations:

- Finance Act 2021
- The Free Zones (Customs, Excise and Value Added Tax) Regulations 2011
- Taxation (Cross-border Trade) Act 2018
- The Customs (Import Duty) (EU Exit) Regulations 2018
- The Customs (Export) (EU Exit) Regulations 2019
- The Customs Transit Procedures (EU Exit) Regulations 2018
- The Customs (Special Procedures and Outward Processing) (EU Exit) Regulations 2018.

15. Managing Risk – The next steps

Further stakeholder engagement and understanding of risk, the impact and probability of those risks along with the proximity is required to understand those threats and opportunities affecting the successful delivery and operation of Teesside Freeport.

Fully embedding CRM systems to give an accurate reflection of interactions which could maximise opportunities for the Freeport.

The tracking of Performance Management via the available technology and teams within TVCA to measure milestones and outputs as outlined in the Freeport Business Case.

16. Context – Performance and Assurance of the Freeport Business Case

The following logic model puts into context the respective outputs, outcomes and impacts for the Freeport as a whole, and assumes full occupation of sites.

The arrows indicate the journey from investment, to activities, to outputs, outcomes, and impacts.

This demonstrates how the enactment of each tax or customs lever, attracts end users to take up the c600ha of tax land and will make use of the customs sites.

It is anticipated there will be a spillover effect to the wider region. The attraction of 41,780 jobs to the site and a further 60,000 indirect and induced jobs created, will have a cumulative impact on the UK economy of £14bn. If only 60% of this is realised in the immediate travel to work catchment of the Freeport, that is still a rise of £8.5bn (or 62% increase in regional GVA). This increase in regional GVA will have a significant uplift to household formation (24,000 more homes needed) and retail expenditure (potentially rising £2.5bn).

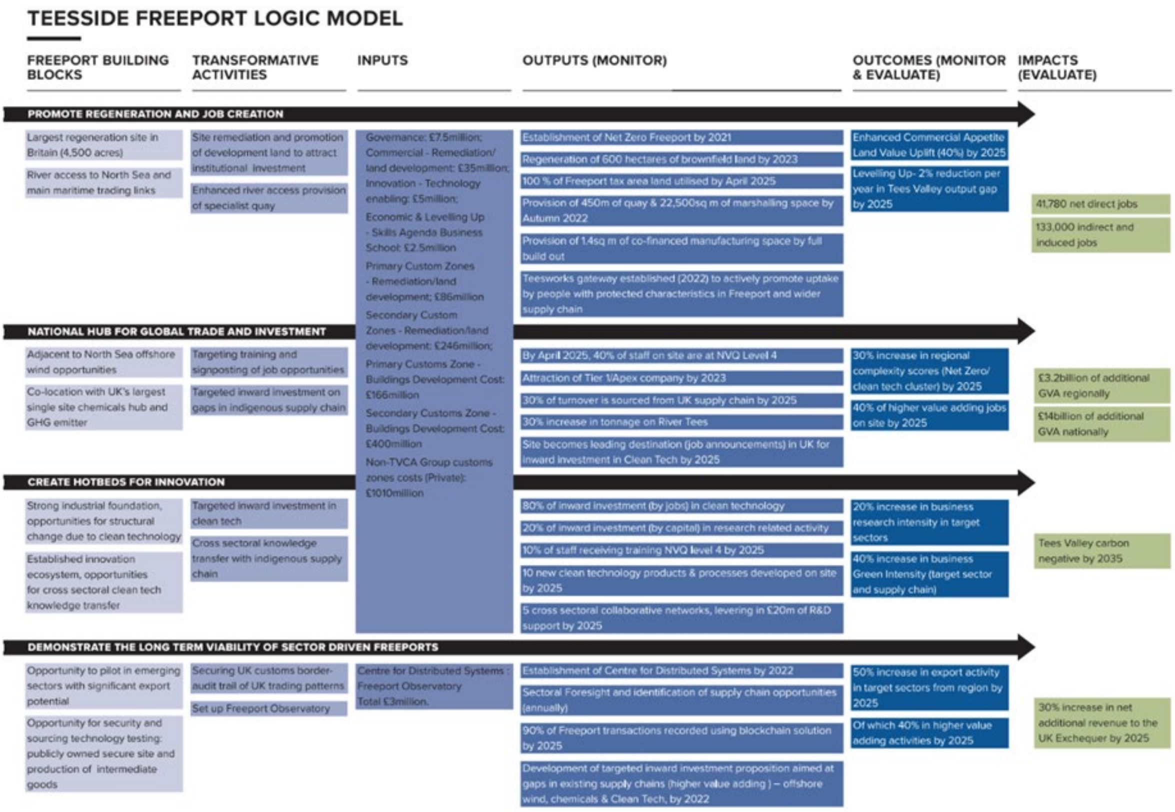


Illustration 2 – Teesside Freeport Logic Model, Freeport Business Case

17. Monitoring performance

A designated Business Partner approach is to be taken to monitor output as outlined in illustration 2 – Teesside Freeport Logic Model.

The monitoring of these outputs will be tracked via the Performance Management system, along with expenditure, milestones and project information.

18. Annual Assurance

The Teesside Freeport Annual Review conversation is scheduled March 2024. The DLUHC Assurance and Compliance Team will conduct an independent assurance assessment for each Freeport as part of the Annual Review.

This review seeks to secure assurance that the accountable body have appropriate and effective systems in place, or planned, for governance of the Freeport and the safe stewardship of the awarded funds. It is recognised that Freeports are evolving, and operational activities are building over time.

As per the Freeports Framework the key areas of focus are:

- Governance, including Board Composition and Management and Transparency arrangements
- Expenditure control and monitoring arrangements
- The management of the technically complex areas of procurement and Subsidy Control
- Risk management
- Accountable body arrangements for scrutiny of Freeports activities and governance

Work is currently progressing to gather all relevant evidence as per the above which will support with the questionnaire circulated.

19. Finance Update

The Freeport Bidding Prospectus clearly recognised the need for all Freeports to have access to a limited amount of Seed Revenue Funding. This funded was designed to:

"Support governance set-up costs and will work with the government to develop detailed business cases for their spending plans associated with the regeneration funding offered to Freeports..."

Revenue funding for 2022-23 has already been confirmed to be £350,000 and this funding has been received into TVCA. TVCA compliment the HMG funding with an additional £250,000, providing a combined budget of £600,000 in the year ending 31st March 2023. This was in addition to year 1 allocation of a similar sum.

The table below sets out the budget summary for 2023-24 and confirms that the forecast is expected to be in line with budget for this financial year.

Non-Audited Accounts for 2023/24

The committed resource costs include permanent headcount for the year, forecast utilisation of temporary resources and reflects the use of more internal marketing resources with is offset by a reduction in external marketing costs.

Marketing reflects advertising campaigns at Newcastle and Teesside International Airports, management and production of content for Teesside Freeport website and social media presence.

Whilst the figures are subject to change following completion of year end audit, it is pleasing to note that the expenditure for the year has been managed within budget parameters despite significant escalation in inflation during the year.

The three-year seed revenue funding covered the period 2021/22 – 2023/24. TVCA match funded the Government contributions for those years. We are currently in discussions with Government around the possibility of extending revenue funding and will feedback to the workstream when more detail is known. Should further Government funding not be secured the level of available revenue budget will reduce to the TVCA contribution level going forward.

Seed Capital Project updates Tax sites update

The preparation of tax sites has been accelerated. Teesworks West tax site has remediated 193 acres across South Bank and Dorman Point. A further 15 acres has been remediated at Teesworks West bringing the total remediation works to 208 acres. The full works have been delivered and the £21.5m has been received by TVCA and accounted for.

Freeport Digital Test Bed

The remaining £3.5m is planned to be drawn down in equal instalments over the next 2 years for the development of a digital testbed subject to the development of an appropriate business case which will require approval by Freeport Board. Procurement delivery activity is underway with specifications and development of tender materials being prepared. The appropriate project management and support services are also being put in place to implement, manage and monitor delivery activity.

FINANCIAL IMPLICATIONS

20. The financial implications arising from this report are set out in the earlier sections of the report. All funding claims to Government will be subject to TVCA assurance processes in line with the TVCA Assurance Framework and potentially Government audit.

LEGAL IMPLICATIONS

21. There are no specific legal implications arising from this report other than the requirement for appropriate arrangements to be in place to safeguard public funds as set out above.

RISK ASSESSMENT

22. There are no additional risk implications arising from this report.

The overall risk portfolio:

- Freeport **medium** (average of 6)
- Security and Illicit threat **low** (average of 4)

The risks that have been identified and mitigated within the finance section of this report relate primarily to the accountability for the use of public funds. The arrangements for accountability of public funds have been covered in detail both within the Teesside Freeport bid submission approved by Government and the subsequent Governance proposals also approved by Government.

CONSULTATION & COMMUNICATION

23. Stakeholder engagement meetings have taken place with the necessary government departments to ensure the accountability for public funds was appropriately covered in both the Freeport bid and the subsequent Governance dialogue with Government.

EQUALITY & DIVERSITY

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

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