

AGENDA ITEM 9
REPORT TO THE STDC BOARD
29 FEBRUARY 2024

REPORT OF GROUP CHIEF EXECUTIVE OFFICER

SITE MAINTENANCE ARRANGEMENTS

SUMMARY

The Board has previously been updated on 20th April 2023 regarding managing the South Tees Development Corporation (STDC) and South Tees Developments Limited (STDL) retained estate requirements at the Teesworks site, including the proposed funding requirements, definitions of the retained estate and the risks to STDC not performing its obligations.

The Board approved the following recommendations on 20th April 2023: -

- Notes the STDC and STDL retained estates areas of responsibility and associated requirements for maintaining them;
- Notes the Special Economic Area (SEA) statutory requirements for the use of retained business rates;
- Notes the current estimated financial investment into the retained estate;
- Approves the use of future business rates to proactively fund and manage the retained estate requirements ensuring this remains compliant with SEA statutory requirements

As part of the operational requirements for STDC & STDL to fulfil its obligations on the Teesworks site, there is a requirement to set up a legal entity to deliver these obligations. This paper sets out approval for South Tees Development Corporation (STDC) to establish a 100% owned subsidiary to undertake the maintenance of the estate and administer the service charge regime to property owners and tenants as they come on board.

The required staff are already in place and undertaking the roles but in order to be able to manage this appropriately to service third party property owners and tenants, these activities need to be ring fenced into a stand-alone company.

RECOMMENDATIONS

It is recommended that the STDC Board:

- i. Approves the submission of a request to TVCA Cabinet to establish a 100% owned subsidiary of STDC under s212(2) of Localism Act 2011. The approval to set-up the company is subject to TVCA Cabinet approval; and
- ii. Approves appointing TEMCo as the service management provider for the STDC / STDL communal estates; and
- iii. Approves appointing TEMCo as the service management provider for the STDC / STDL retained estates; and
- iv. Approves for the STDC appointed Directors of South Tees Developments Limited (STDL), as landowner, to provide the necessary rights of access and for operational activity to take place in respect of TEMCo activities across the STDL owned site areas; and
- v. Approves TEMCo to engage with Teesworks Limited and tenants as applicable to discharge any of TEMCo's areas of responsibility across the Teesworks site ensuring where appropriate the agreement of appropriate charging mechanisms in consultation with the Group Chief Executive Officer, Group Director of Finance and Resources and Monitoring Officer.

DETAIL

1. South Tees Site Company (STSC) is the company established by BEIS following the closure of the Redcar Steelworks in 2015. This company transitioned to local control in 2020 as part of the settlement with HMG.
2. STSC was staffed by former steelworkers and was responsible for the keep safe (including maintenance) of the site whilst it was COMAH regulated.
3. Most of its activities have now ceased following the removal of COMAH status and what remains is the establishment of an appropriately commercial operation to manage both STDL's retained estate and the shared communal estate.
4. In order to do this appropriately and on the basis recommended by RICS, this needs to be done through a standalone company, albeit 100% owned by STDC. It is not appropriate to use the STSC company because of the need not to pass on any historic liabilities and it is recommended by best practice by RICS to set up a new entity to ensure that the operational activities and financial administration of the estate management company is distinctly separate from that of either STDC or STDL.
5. For these reasons, STDC will look to set up a new, off-the-shelf subsidiary and appoint that corporate entity to deliver and administer the retained and communal estate maintenance business on STDL's behalf. This will include the staff that work in this area who will transfer under TUPE and ensure the long-term employment of these key staff. It will also include the current relevant contracts with key suppliers and other stakeholders.
6. The new company's role is simply to manage the provision of estates services and recharge costs to property owners and tenants in respect of estate management services. It has no

involvement or responsibility for the future development of the site, the responsibility for which now sits with Teesworks Limited.

7. The detailed decision regarding this will be the responsibility of the STDC Board but in accordance with s212(2) of the Localism Act 2011, permission to set up a body corporate needs to be granted to STDC by TVCA on each occasion and this paper seeks the relevant approval from STDC Board to recommend this to TVCA Cabinet in respect of this company.
8. The new company will be called Teesworks Estate Management Company Limited (TEMCo). TEMCo will enter into contracts with STDL to provide, on its behalf, estate management services to STDL's Communal Estate (shared roads, bridges, gatehouses, watercourses and site wide security of the same) and also to manage STDL's Retained Estate (Development Plots, Buildings and other land not yet drawn down by Teesworks Limited under their land purchase options).
9. The cost of managing and maintaining STDL's Retained Estate falls to STDL and TEMCo would make charges to STDL for providing this service to STDL.
10. The primary responsibility for the provision of services and costs of managing and maintaining the STDL Communal Estate lies with STDL and costs incurred are recharged proportionately to property owners and tenants under RICS guidelines via an estate service charge. STDL are responsible for the payment of that proportion of the estate service charge costs as are proportionate to the relative size of its Retained Estate relative to the entire Teesworks Estate. TEMCo would provide the Communal Estate Services on STDL's behalf and would charge STDL and other property owners and tenants the proportionate costs of doing so.
11. The appointment of TEMCo as retained and communal estate service provider to STDL does not absolve STDL of legal responsibility for the provision and financial administration of all such services. TEMCo would primarily be providing those services on behalf of STDL under terms clearly set out in legal contracts.
12. TEMCo might in addition contract to provide property management related services to others on commercial terms such as Teesworks Limited who have expressed an interest in TEMCo undertaking its financial administration of communal service charges with its tenants on Teesworks Limited's behalf.
13. TEMCo might in addition also contract directly with end user customers within the Teesworks Estate on commercial terms to provide facilities management services to site occupiers own premises. Examples of facilities management services that might be provided are cleaning, landscape maintenance and security services.
14. TEMCo may acquire from STDL certain site assets such as weighbridges, water and sewerage network and railtracks and thereafter offer those assets for use to third parties on commercial terms.
15. As part of Teesworks Limited options, Teesworks Limited have the right to purchase TEMCo,
16. Should Teesworks Limited purchase TEMCo at a future date, TEMCo will retain all of its rights and obligations of access, operations and other elements that the company sets up in order to fulfil its obligations to tenants and all property owners, including STDC and STDL.

FINANCIAL IMPLICATIONS

17. The establishment of a 100% owned company in itself has no financial implications other than any necessary administrative costs in its creation and ongoing management which will be managed from within the STDC budget.

18. The operational budget for TEMCo will be managed through two principle income and expenditure streams.

- a. the Communal Estate service charge regime for the Teesworks Estate apportioning costs across all Property Owners and tenants including STDL's proportionate share; and
- b. the Retained Estate costs which fall directly to STDL. Whilst STDL remains a landowner it will be responsible for 100% of the costs for the retained estate that it owns.

These costs and assumptions are factored into the STDC Budget and Medium-Term Financial Plan.

19. In the event that Teesworks Limited exercises its right to acquire TEMCo at market value an independent valuation of the company will be conducted at the time of any transaction. STDL will be required to follow public procurement rules to commission its own estate management services which may, or may not, be via TEMCo.

LEGAL IMPLICATIONS

20. Section 212(2) of the Localism Act 2011, as amended by the Section 1(3)(b) of the Schedule to the Tees Valley Combined Authority (Functions) Order 2017 provides that, with the consent of the Combined Authority, a Mayoral Development Corporation (in this case STDC) may form or acquire an interest in a body corporate.

21. South Tees Development Corporation is a public authority and is therefore required by law to obtain best value for money for the assets it disposes of. This will include the any sale of the proposed 'TEMCo' to a third party.

RISK ASSESSMENT

22. The subject matter of this report is categorised as low to medium risk for TVCA. Existing management systems and daily routine activities are sufficient to control and reduce risk.

EQUALITY & DIVERSITY

23. This report has no negative impacts on groups of people with protected characteristics.

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