

Peter Roberts' Rebuttal (PR-02)	Gary Macdonald Response
<p><b>Investment Fund Income - Business Rates, Service Charge and Scrap Value</b></p> <p>3.86 Mr Macdonald refers at paragraph 3.16 to "...income from the scheme comprises four elements." I have already addressed the first of these four elements i.e. rental income. I now address the remaining three elements which I note from lines 16, 17 and 18 of Appendix 3b STDC 3/3 amounts to £248,871,000 (prior to inflation) which, bearing in mind that he has assumed, at line 26, that TVCA and Government-sourced Grant and Loan income would only be in the region of £120,694,000, clearly demonstrates that the Development Corporation's scheme is heavily reliant upon such income. I have considered each of these items as follows.</p>	<p>My Proof of Evidence and the Funding Model sets out clearly (paragraph 3.15 STDC 3/2) the initial "pump prime" regeneration requirement from public funding to place the site in a position to leverage and attract private sector investment. It is this investment that would be required to fund ongoing regeneration activity across the Order Land and the broader STDC Area. The funding model does not expect the cost of this scheme to be borne entirely by HMG, which has allocated significant funding (£331m) to the site post-SSI already. My main proof makes clear at Table 1, Row 20 the importance of leveraging significant private sector investment and the impact on the proportion of the overall funding model from the public sector (5%).</p> <p>The rental income points from Mr Roberts are primarily surrounding the likely Demand information provided by my colleague Mr Gilfillan. Mr Gilfillan has covered extensive market demand information within his Proof of Evidence (STDC 5/2). The suggested title of "Corrected Cashflow Analysis" on Mr Roberts Rebuttal, Appendix 13, is incorrect as the actual figures are unchanged at Row 63 from my own Appendix 3b Row 63, save for some rounding. The only amendment that has been made is to extrapolate out some average calculations for rental income divided by rent yielding acres. None of these points "correct" the cashflow.</p>
<p><b>Business rates income</b></p> <p>3.87 Mr Macdonald states at paragraph 3.17 ii that "In 2018, the site was confirmed by Government as the UK's first Special Economic Area (SEA), providing the STDC Board with the powers to retain business rates to reinvest in continued development of the site, thereby reducing the ask of local taxpayers and of central Government over the long term."</p>	<p>The Government provided support and agreed in their Autumn Statement 2018 a proposal to designate South Tees Development Corporation Area as a Special Economic Area (<a href="#">Autumn Statement 2018 – Section 5.16</a>). The 2019 legislative agenda has been dominated by Brexit and subsequently a General Election. The intention is for the necessary statutory instrument(s) to be laid during 2020.</p>

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<p>3.88 However, Mr Macdonald does not provide any evidence that this statement is correct. In this context I have made enquiries of the internet and have established the following.</p> <p>3.89 According to Hansard, Mr Sunak responded on 6 November 2018 to a question from Ms Turley in the following terms:</p> <p>“The South Tees site will be designated as a Special Economic Area which will enable the local retention of additional business rates growth. Redcar and Cleveland Borough Council will continue to collect 50 per cent of all business rates in respect of those properties currently situated within the proposed boundary of the Special Economic Area, in line with the current operation of the Business Rates retention System (sic). In addition, once the Special Economic Area is established in statute, Redcar and Cleveland Borough Council will retain 100 per cent of all business rates growth obtained within that same area. This additional funding can then be used by the South Tees Development Corporation and Redcar and Cleveland Borough Council to reinvest in local economic growth.”</p> <p>3.90 There is no record, that I have been able to find, that the necessary statute has been secured such that, in the absence of any evidence to the contrary, the actual position is that there was previously a stated intention to designate a Special Economic Area but, as at the date of this evidence, the necessary legislation has yet to be enacted. As such, the Development Corporation do not currently have the powers to benefit from any rates income. No evidence has been provided by the Development Corporation to confirm either the timing or expectation of any confirmation.</p> <p>3.91 I accept that the Development Corporation would, pursuant to Special Economic Area status have the ability to receive 50% of the rates income generated from new development and I do not fundamentally disagree with the broad principle of Mr Macdonald's approach in relating rates income to the anticipated achievable rental values arising from occupation.</p>	<p>Government has reaffirmed its support for the proposals at South Tees Development Corporation Area through the recent additional funding announcement of £71m which was supported by the Treasury.</p> <p>Business rates references by Mr Roberts pertaining to occupancy demand depend on his assertion that there is not a market demand for the site to support STDC rental projections. Mr Gilfillan has covered this point at length in his Proof of Evidence (STDC 5/2).</p>

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<p>3.92 However, the amount of rates income anticipated is directly proportional to the occupancy demand which, in turn, is dependent upon the Development Corporation's ability to secure tenants and occupiers of the completed development. Therein lies the problem that I have already identified above in that, the Development Corporation has not provided any evidence that occupiers will be secured if, unlike competing locations, they are required to pay rates. In assuming that they can attract business to secure both a rental and a rates income, they are seeking have their "cake and eat it".</p> <p>3.93 This all presupposes that none of the site is designated as an Enterprise Zone in order to attract occupiers in which case the rates income may be nominal. In this context the entirety of the Prairie site and the South Bank sites have been designated as Enterprise Zones by Redcar and Cleveland Borough Council until March 2020. As such, Able UK Limited may have expected to benefit from Enterprise Zone status such that the Development Corporation would not receive any rental income and it remains to be seen as to whether they will proceed on the same terms once the Enterprise Zone designation expires.</p> <p>3.94 In addition, the Prairie site comprises part of Phase 1 and has been awarded £14m of funding for site remediation. However, whereas previously an occupier would have benefitted from Enterprise Zone incentives, this will have expired by the time that the site is ready for development. As such, the site will have become less rather than more attractive to potential occupiers thereby delaying the potential receipt of rental income. As such, if the timing and amount of rate income is predicated off rental income, it is highly likely that Mr Macdonald's timing assumptions are already out of date and not deliverable. I have attached a copy of the Enterprise Zone plan in respect of the Prairie site at Appendix 18 with a copy of the relevant plans relating to the Wilton and South Bank sites at Appendix 17. I have also attached a copy of the Designation Order at Appendix 19.</p>	<p>Mr Roberts has overestimated the impact of the Enterprise Zone (EZ) benefits for end-users on the basis that:</p> <p>Business Rates Discount</p> <ul style="list-style-type: none"> <li>• EZ's virtually all finish 2021/2022 and occupiers have only 5 years from the designation of the EZ to claim the business rates</li> <li>• The business rates discount is capped at £275,000 for a 5 year period equating to £55,000 per annum average</li> <li>• Using an average rateable value of £3.70-£4.20 per sq ft and the current rate in the pound of £0.524, the business rates discount only effectively applies to the first 23,000 sq ft-28,000 sq ft approx. of floor space.</li> <li>• For the large scale users applicable to the main areas of the STDC site, this is de minimis</li> <li>• Therefore, the points raised are immaterial and my colleagues Mr Gilfillan and Mr Aylward-Mills can comment further on the relative merits and de-merits of Enterprise Zones in this regard.</li> </ul> <p>Enhanced Capital Allowances</p> <ul style="list-style-type: none"> <li>• Effective 8 years from start of EZ. The 2012 EZ's have effectively expired and for the 2016/17 "new" EZs the ECA will expire 2024/25.</li> </ul>

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<p>3.95 In addition, I have attached page 72 of the Master Plan which, at paragraph 3.07.2, confirms that the current Enterprise Zone status expires in March 2020 at Appendix 20.</p>	<ul style="list-style-type: none"> <li>• For the end user perspective and in Colliers experience, the ECA's often aren't considered a benefit: <ul style="list-style-type: none"> <li>○ Only apply to UK companies</li> <li>○ Relate to new, not replacement plant/equipment....often end user transfers existing equipment</li> <li>○ Assets mustn't be leased....more and more they are</li> <li>○ ECA's don't apply to steelmaking, waste management or production of agricultural products</li> <li>○ Don't apply in EZ's in non-Assisted Areas (only 12 out of 26 new and extended 2012 EZ's) where State Aid rules continue to apply</li> <li>○ Can't be taken in addition to other grant aid/incentives.....often the case the end user benefits more from other grants than ECA's</li> <li>○ Companies must have the profits to write the ECA against - not always the case.</li> </ul> </li> </ul> <p>The Funding model does not provide any sums in relation to Business rates relief in respect of future tenants. The overall rental income levels have been confirmed as reasonable by expert advisers.</p>
<p><b>Service charge income</b></p> <p>3.96 Mr McDonald refers to the Investment Fund income as including service charge income<sup>28</sup> which, according to row 17 of his Appendix 3b will generate income of £83,220,000 (exclusive of inflation) in respect of the recharge of "site maintenance costs and central maintenance charges" to investors benefitting from that service on site. However, the expenditure identified at paragraphs 3.19 to 3.23 of his evidence makes no reference to these costs such that he is including this income without accounting for the expenditure to which it relates.</p>	<p>The full comprehensive explanation for Service Charges has been explained in my Evidence in Chief at inquiry. The Service Charge expenditure items within Appendix 3a (Rows 44 and 47) exceed Service Charge income whilst the site is being developed and as part of the phased removal of substances to remove the upper tier COMAH status from the site.</p> <p>There is an immaterial error within financial year 30/31 to 34/35 inclusive of around £340k in these years, however this as a % of the £135m of service charge income is circa 1%.</p> <p>The financial years 35/36 to 49/50 show at Appendix 3a Row 17 = Row 44 plus Row 47.</p>

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<p>3.97 The RICS Professional Standards and Guidance "Service charges in commercial property" 1st edition, September 2018<sup>29</sup> confirms at pages 8 and 9:</p> <p>"Service charges deal with the costs of servicing and operating a property, to comply with the landlord lease obligations for the provision of services. The service charge arrangement is set down in the lease(s) and the aim is to entitle the owner to recover their charges and any associated administrative costs incurred in the operational management of the property. This will include reasonable costs of maintenance, repair and replacement (usually where beyond economic repair) of the fabric, plant, equipment and materials necessary for the property's operation, plus any other works and services the parties agree are to be provided by the owner, but subject to reimbursement by the occupier. If the property is fully let, the owner will normally be able to recover all expenditure on services through the service charge, except any concessionary discounts the owner may have given."</p> <p>3.98 As such, the service charge income is intended to cover the costs incurred by the landlord in maintaining and repairing common parts of the completed development and the amount of service charge must not exceed the reasonable costs incurred by the landlord.</p> <p>3.99 It is therefore clear that service charge income cannot be secured for the delivery of new development. As such any estimate of service charge income included within a cash flow as a revenue must be cancelled out by an equal amount of expenditure that only relates to repair and maintenance.</p> <p>3.100 It therefore appears to be the case that Mr Macdonald has included the gross estimate of service charge income in error and that this alleged source of gross income does not, as a matter of fact, actually exist for the purposes of funding development. As such, the Development Corporation will need to secure an alternative source of income to replace the budgeted income of £83,220,000<sup>30</sup>.</p>	<p>Therefore, Mr Roberts' references to service charge expenditure removal and his subsequent amended Appendix 23 is invalid due to misunderstanding the model. This IRR alternative calculation is fundamentally flawed given the removal of service charge income shouldn't be performed. The estimates within my own proof, Appendix 3a, are all reasonable in respect of service charges.</p>

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<p><b>Scrap value income</b></p> <p>3.101 I note that Mr Macdonald states in respect of scrap income that “...this source arises from the demolition study of the former Sahaviriya Steel Industries Iron and Steel Making facilities and (sic) Redcar and Lackenby. Due to the uncertainty of realising the suggested value over the timescale of the project the value of scrap income has been prudently reduced by 80%.<sup>31</sup>”</p> <p>3.102 Mr Macdonald has adopted, after adjustment, a value of £23,100,000<sup>32</sup> (exclusive of inflation) which, once adjusted back to account for the 80% deduction, is £28,875,000. No evidence is provided for this estimate but it should be noted that the Development Corporation’s letter to the Thai Banks on 8 May 2018 explicitly included an offer for the scrap which was circa 27% of the value now being suggested as appropriate for inclusion within the Development Corporation’s development budget.</p> <p>3.103 It is therefore either the case that the Development Corporation offered the Thai Banks a value for the scrap that was circa 27% of its true value, or that the revenue assumed by Mr Macdonald within his model is far too optimistic.</p> <p>3.104 In any event, Mr Macdonald appears not to have taken into account that the Thai Banks are entitled to receive the value of the scrap whether that be by disposal prior to the exercise of acquisition notices pursuant to a confirmed Order or by way of a compensation payment to the Thai Banks. In this context Mr Macdonald has included a compensation assessment of £31,572,000<sup>33</sup> (prior to inflation) within his model for all the interests in respect of which terms have yet to be agreed but the offer made to the Thai Banks for the SSI Land which should take account of the scrap is significantly less than both the compensation budget and the scrap value.</p> <p>3.105 As I note in respect of the Delivery Cost estimates, these values are historic. However, I am advised by RVA Group that, since these estimates were produced, the value of carbon steel scrap has been relatively static</p>	<p>The scrap value has been prudently adjusted downward to an 80% of value level. This is to reflect both the level of salvageable scrap and the volatility in scrap metal prices.</p> <p>The reference to the letter to the Thai Banks is not a like for like comparison. This letter provided a net salvageable scrap value. In any event the now estimated cost of decontamination (circa £49m) and demolition costs (proportion of £83m demolition costs at Appendix 3a, Row 35) are shown gross at Appendix 3a in the expenditure section of the model. The costs far outweigh the benefits of scrap value therefore the points made are invalid as there is a net cost of dealing with scrap accounted for within the model rather than a benefit.</p> <p>Any entitlement the Thai Banks have in terms of receipt of income from salvageable scrap metal would need to deduct the costs incurred to produce and realise that value. As stated above these costs far outweigh any potential benefit.</p>

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<p>such that any increases have been short-lived with the prices soon falling back to their original levels. As such, Mr Macdonald is correct not to have inflated these estimates to the present day.</p>	
<p><b>Delivery cost estimates</b></p> <p>3.106 At paragraph 3.20 Mr Macdonald refers to, what he calls, "direct costs". A number of these are stated to have been costed by reference to a letter dated 31 March 2017 from Mr McNicholas who, at that time was employed by CH2M. That letter, as attached by Mr Macdonald does not include any actual cost estimates such that the figures included within appendices 3a and 3b are not evidenced.</p> <p>3.107 However, this letter and the accompanying Excel workbook together with a location plan identifying the various plots were provided to the Thai Banks by the Development Corporation on 22 February 2019. The costs detailed on that schedule differ significantly from those costs now being reported by Mr Macdonald.</p> <p>3.108 I have attached a copy of the STDC spreadsheet and location plan together at Appendix 21.</p> <p>3.109 In order to set out the discrepancies I have listed below those figures adopted by Mr Macdonald at Appendix 3b STDC 3/3 (i.e. exclusive of inflation) and compared them to the figures adopted in the schedule as provided to me.</p> <p>3.110 Mr Macdonald does not state whether his costs are inclusive or exclusive of the cost of works due to be carried out the RBT Ltd Land. However, I note from clause 3a of the Strategic Commercial Agreement dated 12 August 2019, as referred to at paragraph 8.5 of my Proof of Expert evidence that "STDC and RBT will agree a plan for maximising and optimising</p>	<p>The rationale for not including detailed calculations and costs estimates are due to commercial sensitivities and to ensure that subsequent to the CPO process any procurement processes would maximise value for money for the taxpayer.</p> <p>The location plans and associated values referred to in Mr Roberts Rebuttal (Appendix 21) were for all of the STDC Area land and not just the Order Land areas. Therefore, items should be excluded to reflect those areas not associated with the Order Land - these total £58m as follows with the relevant figures shown in Mr Roberts Rebuttal (Appendix 21) in brackets to be excluded: -</p> <ul style="list-style-type: none"> <li>• FIL plot - Former ICI landfill (£7m) – This is owned by Sirius Minerals and they would retain ownership. As this is a landfill development opportunities are very limited.</li> <li>• BSR – British Steel - Central Industrial Zone (£20.5m) – This is explained in Mr McNicholas Proof of Evidence (STDC 2/2 paragraph 2.48) in terms of exclusion from the Order Land</li> <li>• RC4/RC5/RC6 (£4m+£7.6m+£19.3m=£30.9m) - This is owned by Redcar Bulk Terminal Ltd and they would retain ownership. It is not within the Order Land.</li> </ul> <p>Furthermore, a range of costs included within the material provided by Mr Roberts are decontamination/cleaning costs and these are not within the funding model at Appendix 3a as they are funded separately by Central Government as part of the £49m decontamination budget previously agreed and undisputed by the objectors (see Mr Roberts main proof – paragraph</p>



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<p>development and the necessary transport and utility infrastructure across both the STDC and RBT sites... " This implies that the Development Corporation are intending to deliver these works hence I have left these costs in. In the event that these costs no longer apply following the exclusion of RBT from the Order and should be deducted the total amount arising on the RBT land amounts to £30,679,000 before indexation to current day values. However, it would seem unreasonable for RBT Ltd to pay for the costs of delivering new infrastructure that is required by the Development Corporation to benefit their scheme.</p> <p>3.111 It seems therefore, from the CH2M study, that Mr Macdonald needs to include a further amount of £105,134,000 within his calculations in order that they align with the actual estimates upon which he claims he is relying.</p> <p>3.112 However, Mr Macdonald, whilst accounting for future inflation from the date of his evidence, has not taken account of cost price inflation from 31 March 2017 to bring these costs up to the present day. I am advised by RVA Group that it is appropriate to make an addition of 5% to the costs set out above to take account of increases in, inter alia, salaries, fuel costs and insurance such that Mr Macdonald's reports costs increase to £402,138,450 whilst the costs as actually reported by CH2M increase to £512,529,150.</p> <p>3.113 Mr Macdonald has also included "Capitalizable Strategic Costs" but does not explain what these are meant to represent nor provide a breakdown to enable a proper analysis.</p> <p>3.114 Similarly, I am unable, in the absence of detailed evidence, to ascertain the extent to which Mr Macdonald's approach in respect of "STDC pick up of keep safe, Invest to save and Tier costs"<sup>34</sup> is correct.</p>	<p>7.43 reference to secured funding includes the £49m). In other words, the income and expenditure associated with decontamination items should be wholly excluded from the funding model. The £58m plus £49m items above total £107m of exclusions required from the references made by Mr Roberts at Appendix 21, which more than cover the cost differential referred to (£105.1m). As a result Mr Roberts amendments to put additional cost into the model are invalid and therefore Appendix 24 is invalid.</p> <p>In terms of any potential costs associated with agreements with RBT a Resource Sharing Agreement (RSA) is currently in place between RBT and South Tees Site Company (STSC) with associated costs included. Any proposed changes would be the subject of a separate negotiation and agreement of all parties. Both parties would need to consider the cost implications of this, not just one party. The costs for RBT remain in the model for the estimated share of infrastructure cost to RBT.</p> <p>The references to cost inflation suggest that due to the timing of the cost estimates received the model should uplift the costs for the period from the estimation (2017) to the commencement year of the model (2020/21). The objectors confirm they agree with the inflation sums included within the model financial year range, albeit seem to suggest alternative rates of 5%. Both the cost and the revenue guidance were from reports within two months of each other in 2017 (Appendix 4a of my main proof STDC 3/3 – see "Date" column for Rents and DDM/CH2m report).</p> <p>All model assumptions for Income and Expenditure in Appendix 3b were at real prices (i.e. before inflation). There are references to rental growth within income increasing beyond the full occupancy levels within the plan. However, these assertions are incorrect to assume this is due to inflation. These increases are due to periodic rent reviews that would take place over such a lengthy planning horizon and are not unusual processes in development activity. The periodic rent reviews and values in Appendix 3b are not accounting for inflation but the relative attractiveness of the site as</p>



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	<p>it is developed out and the resultant impact on likely rental rates. In any event all of these figures, and their averages, have been assessed as being entirely reasonable by Avison Young colleagues. Therefore, given that neither income nor expenditure includes inflation within Appendix 3b you cannot simply uplift the expenditure items for inflation without a corresponding increase for income. If income was uplifted in addition to expenditure this would increase the likely returns rather than decrease them. On this basis the current model is entirely reasonable. This would also mean that Mr Roberts alternative IRR models at Appendices 22 and 23 are fundamentally flawed.</p> <p>The Capitalisable Strategic Costs include items such as Ground Investigation costs, Strategic studies of the site. These costs relate to activities which would be incurred over a period of time. Once they are completed the costs would be capitalised into an asset. Examples would be ground investigations and ecological studies, which provide necessary detail on the condition of the land to be leased by an investor. An example has already been provided by Mr McNicholas evidence of the condition of the site and amplified by his example regarding the bridge infrastructure studies.</p> <p>The final point regarding Keep Safe has been covered fully within my proof of evidence - the funding is separate for transparency in the model and the associate expenditure (Row 44) demonstrates the costs and the need for additional Government Funding (as approved as part of £71m announcement) to ensure the initial regeneration activity is fully funded to leverage private sector investment.</p>
<p><b>Compensation estimates</b></p> <p>3.115 Mr Macdonald advises at paragraph 3.22 that his assumed compensation cost of £31,572,000 (prior to indexation) has been informed by Avison Young although no evidence is provided to explain the breakdown of this estimate and Mr King has not provided any evidence in this regard.</p>	<p>The requirement for STDC to pay compensation sums earlier has already been fully accounted for. Although the funding model shows a cautious assessment of when this may fall in terms of delivery timescales, the actual funding is from TVCA and is flexible in its use. The TVCA funding is already provided in 2019-20 financial year profile and can be utilised from that moment forward.</p>

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<p>3.116 I am sure that the Development Corporation will be aware that they would be required to pay 90% of their estimation of compensation by way of any advance payment pursuant to Section 52 Land Compensation Act 1973 such that this will have been factored into their phasing. In this regard, it therefore appears that they are not anticipating serving any acquisition notices until 2022/23. This indicates that they accept that there is no immediate need for them to be granted compulsory purchase powers and take possession.</p> <p>3.117 More fundamentally, however, as I set out at paragraphs 6.21 to 6.32 and 7.34 of my evidence the compensation assumed by Avison Young falls well short of that which will be due to the Thai Banks even before any consideration is taken of the entitlement of other parties.</p>	<p>The claim that the valuation falls short of what the Thai Banks would require is irrelevant. The valuation is an independent expert valuation from our advisers and would not consider the Thai Banks as part of this valuation assessment. In any event any future valuation sum would be determined by the Lands Chamber following vesting under the CPO and if the disagreement is simply about the amount, that mechanism exists to determine it.</p>
<p><b>Public Regeneration Funding</b></p> <p>3.118 Mr Macdonald sets out an explanation of the Public Regeneration Funding assumed as being available for the delivery of the Development Corporation's scheme at paragraphs 3.8 to 3.14 of his evidence.</p> <p><b>TVCA Investment</b></p> <p>3.119 At paragraph 3.9 of his evidence, Mr Macdonald refers to TVCA Investment Plan funding of £56.5m and refers to his appendix 2. However, there is nothing within his appendix that refers to an allocation of this amount nor that it is intended to fund the delivery of the Development Corporation's scheme.</p> <p>3.120 However, I note that page 32 of appendix 2 of the Tees Valley Investment Plan 2019-29,35 which was approved at the TVCA Cabinet meeting dated 24 January 2019, refers to "Sites and Premises Programme (including infrastructure) – STDC site (infrastructure and land acquisition) - £56.5m" under the heading of Business Growth (including enabling</p>	<p>The references to £56.5m are clearly within Table 1 of both my Summary and Main Proof. This clearly sets out the original funding allocations, the commitments against those allocations at the time of production and the regeneration funding available to vest the CPO and ensure the scheme is sustainable.</p> <p>From reviewing Mr Roberts second proof paragraphs here we agree on the £56.5m being the correct value. Further references to the applicability of the valuation sum are supported by STDC external advisers. In any event, as above, any valuations would form part of the Lands Chamber process. I am satisfied that the values shown are supported by external advisors and are reasonable.</p> <p>Mr Roberts refers to the possible omission of the requirement to repay the loan for land acquisition within his proof. The relevant rows at Appendix 3a are as follows: -</p> <p>Row 21 - Assumed loan (funding) for land purchase £34m</p>

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<p>infrastructure) I have therefore assumed that Mr Macdonald is referring to this funding.</p> <p>3.121 , In this context I note that the TVCA Cabinet Decision Record predates both the Development Corporation's SoR and SoC which refer to this funding approved at that meeting in the following terms "The money required to acquire the land (circa £60m) was agreed as a local government matter, and this funding was approved by the TVCA Cabinet at a meeting on the 24 January 2019.<sup>36</sup>"</p> <p>3.122 I have therefore assumed that the reference within the SoC is incorrect and it is in fact the case that the funding is only £56.5m rather than £60m and this funding is for both compensation payments and infrastructure. As such, my comments at paragraph 7.35 of my Proof of Expert evidence, wherein I refer to funding of £60m is incorrect and should read £56.5m.</p> <p>3.123 It therefore follows that my calculations at paragraph 7.37 of my Proof of Expert evidence are also incorrect such that, once the "PCE" of £10m to £12m is deducted the actual amount available to compensate the Thai Banks and fund infrastructure is reduced to £32,285,000.</p> <p>3.124 On the basis that I am of the opinion that this is unlikely to cover the compensation due to the Thai Banks, let alone fund infrastructure. The Development Corporation are clearly underfunded.</p> <p>3.125 It is important to note that it is not clear as to whether this funding is being provided to the Development Corporation by means of a grant on the assumption that there is no requirement to make a repayment, or by way of a loan and Mr Macdonald is silent within his evidence on this point although I note that row 21 of his cash flows, at appendix 3a and 3b describes this income as "Assumed Loan for Land Purchase (inc. tax) &amp; Compensation." He also includes an allowance of £42,587,000 at row 51 of appendix 3b that is described as "Assumed Land Purchase (inc. tax) &amp; Compensation Loan Repayment (including historic purchase)"</p>	<p>Row 49 - Assumed land purchase and compensation expenditure value £34m</p> <p>Row 50 - Interest on loan</p> <p>Row 51 - Original Tata Land Loan and principal costs and subsequent Land Loan £34m above</p> <p>The analysis above clearly demonstrates all funding and costs are included within the funding model.</p>

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<p>3.126 In the absence of any further evidence on this point I have therefore assumed that this is a loan that will require repayment at some stage such that the repayment will need funding whether that be through income, grant aid, private lending or a combination thereof.</p> <p>.</p>	
<p><b>BEIS Funding</b></p> <p>3.127 At paragraph 3.11 Mr Macdonald refers to Central Government regeneration funding of £71m and states that "The letter from Central Government confirming this funding is at Appendix 7a..."</p> <p>3.128 However, the letter referred to by Mr Macdonald actually states "...we are prepared in principle to agree your £71m request for Government funding... ...As is standard, the award of this funding will be subject to an assurance process and usual assessment process in respect of your Business case and delivery plan. Our Departments will work with you to develop these plans during the business case approval process." Contrary to Mr Macdonald's statement, therefore, the funding is not confirmed, and it is entirely possible that it might not be forthcoming if the application is rejected. As such, this is at best, a promise to consider the possibility of providing funding subject to certain conditions being met.</p> <p>3.129 I also note, that Mr Macdonald explains that this funding comprises £11,355,000 for keep safe costs "that are anticipated to switch from STSC to STDC on transition, within the Comprehensive Spending Review ("CSR") period<sup>37</sup>" and a further sum of £5,900,000 for "...the element of KS costs that will go beyond the CSR period for which the Government has provided specific commitment<sup>38</sup>." The balance of £53,745,000 is then described as "...the balance of regeneration funding required from government after</p>	<p>My Evidence in Chief has covered fully the approved £71m from Central Government, the support from both relevant Secretaries of State and the Treasury. The Government departments have provided extensive quality assurance on the Business Case submitted to government. The STDC CEO has presented to the BEIS Investment Committee personally in December 2019 and Government have confirmed that the funding is only subject to the usual assurance processes associated with such investments.</p>

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<p>allowing for all other specific TVCA and Central Government funding sources listed in table 139.”</p> <p>3.130 It is therefore clear that some of this funding is intended to cover the Keep Safe costs currently being incurred by the Site Company (i.e. STSC) on behalf of the OR that would be incurred in any event and is not new funding for the purposes of delivering development.</p>	
<p><b>Summary</b></p> <p>3.131 Mr Macdonald states at paragraph 3.14 that “the total public regeneration funding is therefore £331m”. He also states at paragraph 3.6 that “...the total regeneration allocation (£331m) less those sums already committed (£202m) leaving funding available for regeneration activity of £129m”</p> <p>3.132 This figure would appear to be derived from Table 1 as shown at paragraph 3.5. However, this table and subsequent calculation is misleading as I set out below.</p> <p>3.133 He has correctly referred to the TVCA Investment Plan funding of £56,500,000 at row 1 but, in calculating the regeneration funding he has included the full amount rather than deducting the amount that has already been spent. As such, the correct figure available for the purposes of acquiring the land is £44,280,000 of which the entire amount should appear in the column marked “Total Committed.” However, this misses the point that this funding has to be repaid and therefore needs to be added to the overall cost of the scheme.</p> <p>3.134 He states that the “BEIS switch of budgeted KS costs (within CSR period)” at row 4 is pre-inflation, but as a comparison of his appendix 3a and 3b demonstrates, the figure of £11,355,000 I not, therefore regeneration funding after inflation. As such, the correct figure is £10,544,000. However,</p>	<p>Mr Roberts assertion that the full £56.5m has been included within the Funding Model is incorrect. Table 1 of my main and summary proofs clearly shows commitments against this sum and the remaining value included within the funding model. Rows 21 and 22 provided further confirmation of what has been included within the funding model.</p> <p>The "pre-inflation" reference at Table 1 is a typo and should not be shown. The £11.35m is including inflation. The value excluding inflation can also be found at Row 24 of Appendix 3b.</p> <p>All references to funding sources not being valid for the scheme are incorrect. Only the relevant regeneration funding sources have been included within the Funding Model as per Table 1. Where funding sources have been included all associated expenditure has been included. By way of example the reference to either £11.35m or £5.9m of Keep Safe funding being included incorrectly fails to recognise that these funding sources are included to fund the associated expenditure at Row 44.</p> <p>In conclusion the final assertion that only £13.667m is the only valid funding source is clearly inaccurate as all associated regeneration funding should be included with the associated expenditure.</p>

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<p>this is a cost that would be incurred regardless as to whether, or not, the scheme underlying the Order was to come forward. This is 3.135 At row 5 he has included "BEIS funding carried over" of £5,900,000 but this funding does not relate to site regeneration but to site Keep Safe costs.</p> <p>3.136 He has included, at row 6 "Ask of Govt (CSR) Funding) and presented this as being part of the "Government funding commitment..."<sup>40</sup> However, as paragraph 3.11 (c) of his evidence states "...this sum represents the balance of regeneration funding required<sup>41</sup> from government after allowing for all other specific TVCA and Central Government funding sources listed in Table 1."</p> <p>3.137 He has included the full £71,000,000 "Government funding announcement" at row 7. However, as I have set out above this funding is not committed and is still subject to the Development Corporation making a business case. In the event that the Development Corporation is unable to make its case and/or the Government decide not to proceed, this funding will not be available.</p> <p>3.138 Mr Macdonald has also included (at row 8) BEIS Keep Safe funding, although this, by definition, relates to Keep Safe matters and, in any event, has already been committed so is not available for regeneration. In addition, the "SSI Taskforce funding (row 10) is described by Mr Macdonald at paragraph 3.11 ii (C) as being to " provide support to affected workers, local businesses, communities and the wider economy..." such that it is not available for funding the delivery of development whilst the "MHCLG Grant for STDC Operational Running Costs" is, as confirmed by Mr Macdonald at paragraph 3.11 ii (d) for the purposes of meeting the running costs of the Development Corporation. As such, none of this funding is available to meet the costs of delivering the Development Corporation's proposed scheme.</p> <p>3.139 The only funding that is confirmed and available for the delivery of development on the Order land, as opposed to the payment of compensation, is therefore the remaining balance of the MHCLG funding for</p>	

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<p>the Prairie Site regeneration detailed at row 9 of Table 1 of paragraph 3.5 which is stated by Mr Macdonald to amount to £13,667,000.</p> <p>3.140 There is therefore a significant funding shortfall which can only be met by securing additional borrowing from the public and/or private sectors</p>	