

**THE SOUTH TEES DEVELOPMENT CORPORATION
(LAND AT THE FORMER REDCAR STEELWORKS,
REDCAR)
COMPULSORY PURCHASE ORDER 2019**

Second Witness Statement of Simon Melhuish-Hancock

Table of contents

- 1) Introduction;
- 2) Consultation by the Development Corporation;
- 3) Negotiations between the Development Corporation and the Thai Banks;
- 4) Conclusions; and
- 5) Statement of truth.

Annex: Defined Terms

Appendix 10 Chronology of discussions between the Thai Banks and the Development Corporation

Appendix 11 Proposed agenda for 29th March 2019 meeting;

Appendix 12 Contemporaneous notes taken at the meeting dated 29th March 2019;

Appendix 13 Addleshaw Goddard letter to Mishcon de Reya dated 5th April 2019;

Appendix 14 Addleshaw Goddard letter to Mishcon de Reya dated 3rd May 2019; and

Appendix 15 Mishcon de Reya letter to Gowling WLG dated 7th October 2019.

1. **INTRODUCTION**

- 1.1 My name is Simon Melhuish-Hancock and I refer to section 1 (Introduction, Qualifications and Structure of Evidence) of my first witness statement, dated 21st January 2020 (hereafter simply "my first statement"). I will use the Defined Terms in this second witness statement with the same meaning that they have in my first statement. I have realised, however, that my first statement as submitted was truncated at the signature page with effect that the intended Annex (a glossary) was omitted. That is now included with this statement.
- 1.2 This evidence is based on a review of the proofs of evidence submitted by the Development Corporation. It provides my response to that evidence and an update on certain matters referred to in my first statement. It has been written to be read alongside my first statement.

2. **CONSULTATION BY THE DEVELOPMENT CORPORATION.**

- 2.1 I refer to Mr. Allison's proof of evidence (and specifically, paragraphs 2.24, 2.25, 5.6, 5.7 and 5.9) and his comment that no objections were received from any landowners following consultation on the proposal to create STDC and the Master Plan.
- 2.2 In response to Mr Allison, I do not believe that SSI UK was consulted by the Combined Authority regarding the creation of the Development Corporation or by the Development Corporation regarding proposals that ultimately became the Development Corporation's Masterplan. Given my role at the relevant time (as outlined in paragraphs 2.9 and following of my first statement) I consider it highly likely that any formal consultation correspondence received by the organisation would have been brought to my attention. With regard to the Thai Banks, I do not know whether they were consulted by either the Combined Authority or the Development Corporation, but I am certainly not aware of any such consultation.
- 2.3 It follows that, unaware of either consultation, neither the Thai Banks nor SSI responded to those consultation processes. Whilst it may be correct to say, as Mr Allison does, that "... *no objections were received* ...", this should not be mistaken for an indication that all parties were in fact consulted on the proposals. Nevertheless, the Masterplan is consistent with the aspirations of the Thai Banks and SSI. All of the regeneration options that the Thai Banks and SSI are pursuing are supported by the Masterplan.

3. **NEGOTIATIONS BETWEEN THE DEVELOPMENT CORPORATION AND THE THAI BANKS.**

- 3.1 I refer again to Mr. Allison's statement (at paragraphs 1.5, 1.6, 3.9, 3.10, 3.11, 3.12, 5.9 and appendix 1) and how he details and characterises the negotiations between the Development Corporation on the one hand and SSI and the Thai Banks on the other.
- 3.2 It is a mischaracterisation of the early discussions between the Development Corporation and the Thai Banks to say, as Mr Allison does at paragraph 1.5, that an offer was ever "...*agreed in principle*...". As I explain in paragraph 6.11 of my first

statement, the principle agreed in May 2018 was that the Thai Banks' security interests would be released in exchange for a suitable cash settlement. The amount of such a settlement was subject to due diligence by the Thai Banks and the satisfactory review by the Thai Banks of the third-party valuations used to arrive at the price.

- 3.3 The Development Corporation appears to regard the level of due diligence into valuation matters expected by the Thai Banks to be excessive. Whilst it is true that the Thai Banks, new to UK compulsory purchase, required time to assemble a professional team and take advice, it is not this issue that caused the negotiations to falter. Instead it is the Development Corporation's conduct that caused negotiations to stall. As Mr Roberts points out, in order to undertake a review of the Development Corporation's valuations, the Thai Banks' professional advisers were, and remain, dependent upon a range of information that the Development Corporation has been either unable or unwilling to provide. All of this has meant that even now, the Thai Banks face various uncertainties in the valuation position.
- 3.4 It would be easy to assume that some delays would have been obvious to all parties when dealing with any consortium of banks, let alone banks which are unfamiliar with the jurisdiction and bridging both time zone and language barriers. However, with hindsight, I believe that a stark mismatch between expectations and reality of the pace of discussions has been a principal source of the Development Corporation's frustrations, frustrations that boiled over in a very damaging way on 29th March 2019.
- 3.5 The meeting on 29th March 2019 was to have been an important one, and I disagree entirely with Mr. Allison's characterisation of it in his Appendix 1. Indeed, Mr. Allison's Appendix 1, which purports to set out the chronology of discussions between the Thai Banks and the Development Corporation is itself incomplete. I attach at my Appendix 10 what I believe to be the full and correct chronology.
- 3.6 I have already described my personal recollection of that the 29th March meeting (and the events leading up to it) in paragraphs 6.11 to 6.17 of my first statement. Given the different reporting of the events in the Development Corporation's evidence I supplement those comments by drawing attention to other records of the events as follows:
- 3.6.1 the proposed agenda for that meeting (see my Appendix 11);
- 3.6.2 contemporaneous notes we had taken at the meeting (see my Appendix 12);
- 3.6.3 the Development Corporation's (then) solicitors Addleshaw Goddard's letter of 5th April 2019 which referred to the "*..significant frustration on the part of STDC that despite carrying out their valuation process in January 2019, the Banks have not provided a substantive response to the offers made by STDC...*" (see my Appendix 13);
- 3.6.4 Mishcon de Reya's letter to Addleshaw Goddard of 9th April 2019 (see Mr Roberts' Appendix 5); and

- 3.6.5 Addleshaw Goddard's letter to Mishcon de Reya on 3rd May 2019 stating that the Development Corporation was *"unwilling to participate in a discussion where no counter valuation has been produced."* (see my Appendix 14).
- 3.7 The discussions were not simply "curtailed" as Mr Allison puts it; they were abandoned by the Development Corporation's senior representatives, in a way which caused great offence to the senior representatives of the Thai Banks. It would appear that Mr Allison (who, of course, was not in post at the time and did not attend the meeting) has been misinformed by his colleagues as to the nature of events.
- 3.8 The meeting on 29th March 2019 was the last principal to principal meeting which took place and the last that was suggested by the Development Corporation. I understand that the Guidance requires the Development Corporation to make meaningful attempts to negotiate a settlement of matters, even after commencement of the Order process. Since March 2019, no genuine effort has been made to comply with that Guidance. The Development Corporation's representatives did not allow SSI and the Thai Banks to raise their concerns about the valuation methodologies at that meeting, which the Thai Banks and SSI were ready and willing to do, and did not suggest a further meeting. Instead, the Development Corporation closed off discussions and refused to engage. As Mishcon de Reya's letter of 9th April 2019 made plain, the Thai Banks remained "... willing, able and ready to negotiate, as they always have been." and indeed, remain so willing today.
- 3.9 Mishcon de Reya's letter of 7th October 2019 (see my Appendix 15) also describes the Development Corporation's continued failure to negotiate.
- 3.10 The statement made by Mr. Allison in the last sentence of paragraph 3.12 is also inaccurate, because the reasons for the stalling of negotiations was not because of SSI's role; it was because of the Development Corporation's refusal to negotiate during and after the 29th March meeting.
- 3.11 I also disagree with a similar statement made by Mr. King in his witness statement. In paragraphs 6.10 and 6.24, Mr. King refers to the start date and the finish date of all negotiations with the other affected parties, some of which ended quite recently. He conveniently omits the end date of principal to principal negotiations with SSI and the Thai Banks. Arguably, this was on 7th January 2019 (when the last proper discussion took place) or alternatively 29th March 2019, when the Development Corporation's delegation walked out of the meeting without giving SSI or the Thai Banks any opportunity to articulate an alternative view. The Development Corporation has therefore failed to have any proper engagement with SSI or the Thai Banks for over ten months now.
- 3.12 The reality is that the discussions were over before they had begun, given that the offer for the SSI Land, to which Mr. King refers at paragraph 8.10, was not made until August 2019. The inference in Mr King's evidence is that this was a further attempt by the Development Corporation to reach an agreement with SSI and the Thai Banks. In reality though, this was in fact the first proper offer for the SSI land, because all previous offers had included non-Order assets and consequently were not offers that were compliant with the Guidance. By the time that August 2019 offer

was made, all trust and goodwill between the parties had been lost, and the Development Corporation did nothing to re-establish either.

Information Exchange

- 3.13 Unfortunately, the absence of a constructive approach on the part of the Development Corporation has extended beyond the disappointing meeting of 29th March 2019 and has been evident in other aspects of the Thai Banks' dealings with the Development Corporation. Mr Roberts details his difficulties in obtaining valuation information. A similarly defensive approach was taken to requests for the public records of the Development Corporation's meetings, which were only released in December 2019 on the threat of proceedings and criminal liability.
- 3.14 Mr McNicholas makes a point at paragraph 3.16 of his evidence that the Thai Banks rejected an early proposal for joint working. Whilst that initial position was a reflection of every lender's preference for a clean exit at that time, the subsequent tone of dealings with the Development Corporation has not been consistent with the spirit of collaboration that Mr McNicholas seeks to convey.

Financial Settlement Amount

- 3.15 In paragraph 3.9, Mr. Allison states that the offer made to the Thai Banks was “... *considered to represent above market value* ...”. This is not a correct description of the offer and the Development Corporation has subsequently acknowledged that the offer was not based on the valuation principles that apply to CPO compensation. Other offers for the SSI Land such as that received from St. Modwen in August 2017 (prior to the first offer made by the Development Corporation) (as referred to in paragraph 7.7.1 and Appendix 3 of my first statement) and the other substantial offer received by the Thai Banks since then, demonstrate that the original offer was not above market value. It is expressly clear (as per the passages quoted at paragraphs 3.6.3 and 3.6.5 above) that the Development Corporation's offer was in fact a low starting point in respect of which they expected a counter offer. If the offer was genuinely considered to represent above market value, then I am at a loss as to why the offer was subsequently increased by the Development Corporation, or why their Board papers refer to a need for significantly higher budgeted sums (e.g. of £30 million and £23 million plus a contingency in a risk assessment presented to the Development Corporation's Board as early as May 2018; see page 122 of Mr Roberts' Appendix 6)

Tribunal Contract

- 3.16 Mr. Allison states (at paragraph 3.11 of his statement) that “...*Throughout 2019, STDC has invited SSI and the Thai Banks to enter into a Lands Tribunal contract* ...”. Such an offer was repeated by the Development Corporation at the 7th January 2019 meeting, and it was rejected by SSI and the Thai Banks at that meeting on the basis that the Thai Banks and SSI had been advised that such a contract would lead to a lengthy dispute and would prevent the Thai Banks from bringing forward alternative redevelopment plans. The suggestion was repeated in letters of 16 August 2019 and 4 October 2019, in an email on 3 January 2020 and in another letter on 15 January 2020. The attractiveness of the suggestion was not enhanced by repetition.

The offer was therefore not “... *consistently ignored* ...”, the suggestion was made and had been rejected. Repetition of this kind is also no substitute for meaningful engagement.

SSI Involvement

- 3.17 It is also incorrect to state that SSI being given the “...*lead role in negotiating* ...” has prevented any meaningful progress being made nor is it correct to say (as at Mr. Allison’s paragraph 3.12), that there was “... *no realistic prospect of progressing negotiations* ...” because of SSI’s involvement in the process. On the contrary, as one of the key decision makers, SSI’s involvement is essential to ensure that any agreement reached was acceptable to SSI as well, and therefore would have moved rapidly to definitive agreements. The lack of progress has been caused by the Development Corporation’s failure to engage for nearly twelve months and to provide the necessary documents for constructive discussions to take place.

4. UPDATE ON RECENT EVENTS

- 4.1 Several matters relevant to the Inquiry have been in a state of rapid flux over the period in which evidence has been produced and exchanged. What follows are not points that I consider properly to be matters of "rebuttal" as they arise by virtue of the passage of time rather than from the evidence submitted by the other parties. However, in an effort to assist the Inquiry by ensuring my evidence is accurate I provide the following brief updates.

Chris Musgrave

- 4.2 On 29th January 2020, the solicitors acting for Mr Musgrave wrote to Mishcon de Reya withdrawing the recent offer to purchase the whole of the SSI and RBT land. No reason was given for the offer being withdrawn, although I believe it may be because the business opportunity for which the land was required had itself now expired.

Jingye

- 4.3 Whilst communication between SSI and Jingye has continued on a regular basis, there has been a slight interruption due to the Chinese New Year celebrations around the middle of January, which meant that all the Jingye principals returned to China to spend time with their families over the holiday period and generally did not continue working, but also because of the outbreak in China of the coronavirus which resulted in the imposition of travel restrictions. However, a meeting took place between Jingye’s Mr. Wang and SSI’s Vice-President, Group Corporate Development on 2nd February. At that meeting, Jingye stated that it was interested in bringing raw materials for use at the Scunthorpe plant in through RBT and wished to progress discussions to see what land and other assets would be required. There was also a discussion about the pre-emption by SSI of the New British Steel shares in RBT Ltd, which I refer to below.

RBT pre-emption

- 4.4 Lastly, in paragraphs 8.9, 9.7 and 10.1, I referred to the opportunity SSI had to acquire the New British Steel shares in RBT Ltd and am pleased to be able to report that the Thai Banks have approved the exercise of this right of pre-emption and, subject to what is said below, will be instructing the Receivers to do so. Full financing is in place and we expect the completion of the transfer of those shares to take place on about 19th February. This would, of course, give the Thai Banks (through the Receivers) full ownership and control of RBT Ltd. In addition, SSI has instructed a firm of port development consultants, Port Evolution Management Limited, to start work on the port expansion plans, including looking at increasing wharf capacity at RBT. However, on 31st January, the OR offered to broker an extension of time for the exercise of the pre-emption with the BSL OR. I understand that this was agreed in principle between the two later that day and was then accepted by Jingye at the meeting on 2nd February. The purpose of the extension (which will likely be for a further period of thirty days) is to give the Thai Banks, SSI and Jingye further time to continue discussions about how RBT Ltd will be structured and operated, in the light of Jingye's desire to use RBT for the import of raw materials for the Scunthorpe plant. As mentioned in my first statement, this would assist greatly in improving the on-going financial viability of that plant and the Thai Banks and SSI are willing to assist Jingye in that regard, if they can.

5. STATEMENT OF TRUTH

- 5.1 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinion on matters to which they refer.
- 5.2 I confirm that I am not instructed under any conditional or other success-based fee arrangement.
- 5.3 I confirm that I have no conflicts of interest.

Simon Melhuish-Hancock

Dated: 3 February 2020.

Annex - Defined Terms

"Avison Young"	the Development Corporation's CPO valuation advisers, formerly GVA
"Ben Houchen"	Ben Houchen, Tees Valley Mayor
"British Steel"	British Steel plc
"BSC"	British Steel Corporation
"BSL OR"	New British Steel's Official Receiver, Mr. David Chapman
"Combined Authority"	Tees Valley Combined Authority
"Corus"	Corus UK Limited
"CFB"	Cleveland Fire Brigade
"Debenture"	Debenture dated 22 March 2011 entered into between (1) the Thai Banks and (2) SSI UK
"Delivery Vehicle"	South Tees Developments Limited, a wholly owned subsidiary of the Development Corporation, incorporated in January 2019
"Development Corporation"	South Tees Development Corporation
"Draft DWD Report"	Initial draft valuation report prepared by DWD
"DWD Note"	Note on valuation issues prepared by DWD
"DWD"	Dalton Warner Davis LLP, Planning and Property (Chartered Surveyors and Town Planners)
D&O Group	Mr. Win Viriyaprapaikit, Mr. Ruedi Mathis, Mr. Vittorio Conti, Mr. Somsak Sivapaiboon, Mr. Kittisak Mapanao, Mr. Peter Rowson and Mr. Simon Melhuish-Hancock
"Guarantee"	Guarantee dated 19 th March 2011, made between (1) SSI and (2) RBS
"Hatfield"	Roy Hatfield Limited
"Highfield"	Highfield Environmental Limited
"HRC"	Hot rolled coil
"Jingye"	Jingye Steel Group

"KTB "	Krung Thai Bank Pcl
"Liberty"	Liberty House Group
"New British Steel"	British Steel Limited (In Liquidation)
"Order"	The South Tees Development Corporation (Land at the Former Redcar Steelworks, Redcar) Compulsory Purchase Order 2019
"Order Land"	the land subject to the Order
"OR"	SSI UK's Official Receiver, Ken Beasley
"PINs"	the Planning Inspectorate
"Plot 1"	CPO Plot 1 and what we have internally referred to as the red land
"PSA "	Port Service Agreement between (1) Tata (2) SSI UK and (3) RBT dated 24 March 2011
"Ramsar Site "	Teesmouth and Cleveland Coast Ramsar site
"Receivers"	Cork Gully LLP
"RBS"	NatWest Markets PLC, previously named The Royal Bank of Scotland Plc
"RBT"	the Redcar Bulk Terminal operation (as distinct from its operating entity, RBT Ltd)
"RBT Land"	the green land
"RBT Ltd"	Redcar Bulk Terminal Limited
"SCB"	Siam Commercial Bank Pcl
"SHA"	RBT Ltd Shareholders' Agreement between (1) Tata (2) SSI UK and (3) RBT Ltd dated 24 March 2011
"Site Company"	South Tees Site Company Limited, a Government owned corporation with responsibilities for the day to day management of the SSI Land pursuant to an agreement with the Official Receiver.
"SSI Land"	the interests in land now held by the Official Receiver, being the former sites of SSI UK's steelworks operation
"SSI UK"	Sahaviriya Steel Industries UK Limited (in Liquidation)
"SSI"	Sahaviriya Steel Industries Pcl

“St. Modwen”	St. Modwen Properties PLC
"Tata"	Tata Steel UK Limited
“TCP”	Tata’s Teesside Cast Products business
"Thai Banks"	KTB, Tisco and SCB
"Tisco"	TISCO Public Bank Pcl

