

**Localism Act 2011  
Acquisition of Land Act 1981**

**Inquiry into:**

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

**Summary Proof of Evidence**

**of**

**Gary Macdonald ACMA CGMA**

**On behalf of South Tees Development Corporation**



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**1. INTRODUCTION AND SCOPE OF EVIDENCE**

- 1.1 My name is Gary Macdonald and I am the Director of Finance and Resources of Tees Valley Combined Authority (TVCA) and South Tees Development Corporation (STDC). My evidence relates to the financial standing that STDC has to purchase and develop the land to which the Order relates.

**2. FINANCIAL FUNCTIONS AND RELATIONSHIP OF STDC, STDL AND STSC**

- 2.1 The Tees Valley Combined Authority (Functions) Order 2017 (“the MDC Order”) provides for the Combined Authority to have in relation to its area functions corresponding to functions that the Mayor of London has in relation to Greater London, to designate mayoral development areas and to initiate the establishment of Mayoral Development Corporations (under the Localism Act 2011).
- 2.2 STDC is a Mayoral Development Corporation (MDC) established in 1 August 2017 under “The South Tees Development Corporation (Establishment) Order 2017 (“the 2017 Order”).
- 2.3 STDC has a number of specific powers under the Localism Act 2011, including specifically the power to reclaim land.
- 2.4 The proposal to establish STDC was as a consequence of the closure of the SSI steelworks, and the initial focus of the site assessment work was restricted to the former SSI landholdings. Taken in isolation, these former SSI landholdings afford only discrete, stand-alone, likely compromised development opportunities. As a consequence, there is a risk of dilution of the full market potential of the STDC area as a whole. Therefore, the Master Plan concept is based on the creation of a series of large development zones that integrate the SSI landholdings into wider vacant or under-utilised land areas.
- 2.5 This strategy enables the range of development opportunities to be optimised, delivering large areas that are sufficiently sized to provide significant flexibility in the types and size of future operations – e.g. large-scale strategic site uses, clusters of linked industries/processes, etc.
- 2.6 Consequently, there is a critical requirement to realise a land assembly not just comprising the former SSI landholdings, but one that integrates the former Tata Steel land and other Order Land order interests into the overall area to be considered for redevelopment.

### 3. FINANCIAL POSITION

3.1 The MHCLG guidance entitled 'Compulsory purchase process and the Crichel Down Rules' (July 2019) provides guidance to acquiring authorities in England making compulsory purchase orders to which the 1981 Act (as amended) applies (the Guidance). With reference to my evidence, the Guidance states that an acquiring authority, when considering the making of a compulsory purchase order, should show adequate resource is likely to be available to enable the acquisition of the land pursuant to the order and for the scheme underlying the order to proceed (paragraph 14 of the Guidance).

#### The Financial Model

3.2 The Financial Model ("the Model") is what STDC has used to assess the viability of the scheme and to show that, complying with the Guidance, adequate resources are likely to be available for acquisition and for the scheme to proceed. The Model sets out the income and expenditure every year for a 30 years period from 2020.

3.3 Taking income first, the scheme has two funding components: -

- Public regeneration funding; and
- The Investment Fund (development revenue streams).

An executive summary of the key funding information is provided in Table 1 below.

row	<b>TABLE 1</b> <b>Regeneration Funding, £k (money-of-year)</b>	Regeneration	Total	Regeneration
		Allocations	Committed	Funding
		<b>17/18</b>		<b>20/21</b>
		<b>-24/25</b>		<b>-24/25</b>
	<u>TVCA Funding</u>			
1	<b>TVCA Investment Plan</b>	<b>56,500</b>	<b>12,215</b>	<b>44,285</b>
2				
3	<u>Govt Regen</u>			
4	*BEIS switch of budgetted KS costs (within CSR period), pre-inflation	11,355	0	11,355
5	*BEIS funding carried forward	5,900	0	5,900
6	Ask of Govt (CSR Funding)	53,745	0	53,745
7	<b>sub-total Government funding announcement</b>	<b>71,000</b>	<b>0</b>	<b>71,000</b>
8	*BEIS Keep Safe funding	100,545	100,545	0
9	MHCLG funding for Prairie Site Regeneration (pre-CSR)	14,000	333	13,667
10	SSI Taskforce funding	80,000	80,000	0
11	MHCLG Grant for STDC Operational Running Costs	9,000	9,000	0
12	<b>Sub-total Government funding commitment to STDC Area</b>	<b>274,545</b>	<b>189,878</b>	<b>84,667</b>
13				
14	<b>Total</b>	<b>331,045</b>	<b>202,093</b>	<b>128,952</b>
15				
16	<b>Investment Fund, £k (money-of-year)</b>			<b>20/21 to 49/50</b>
17	Direct Income			1,978,010
18	Financing Loan			294,020
19	<b>Total Private Sector Funding</b>			<b>2,272,030</b>
20	<b>% Public Sector funding</b>			<b>5%</b>

### Regeneration Funding

- 3.4 The funding breakdown for the delivery of all activity across the STDC Area is provided in Table 1, paragraph 3.3. Table 1 provides the total regeneration allocation (£331m) less those sums already committed (£202m) leaving funding available for additional regeneration activity of £129m. The Table also demonstrates the private sector investment (£2.27bn) within the Model and highlights a public sector funding level of 5% across the life of the Model.
- 3.5 As can be seen from Table 1, the elements of regeneration funding are divided into two:
- i. TVCA investment Plan 2019-29 (£44m);
  - ii. Central Government funding (85m).

### Investment Fund

- 3.6 The partnership funding arrangements support from both the TVCA Investment Plan and Central Government provides the regeneration funding that will enable developments to progress. Following the initial regeneration funding from TVCA Investment Plan and Central Government, the Model maximises site development and income received from private sector investment via leasehold arrangements providing strong covenants to support debt finance to create an Investment Fund.
- 3.7 STDC recognises that a combination of both public and private sector funding is required to deliver redevelopment on this scale, and has been in dialogue with major private and public sector investment funds (e.g. pension funds, infrastructure funds, etc.) for some time now. It is clear there is a strong appetite for investing in STDC and the STDC Area when considering the projected revenue returns from land receipts. The likely range of internal rates of return (IRRs) that would be sought by potential investors has also been considered and compared to the current IRR of the Model. This has demonstrated that the Model provides an attractive rate of return for potential investors.

### Commitment to Deliver

- 3.8 A dedicated group (South Tees Transition Group) was established in November 2017 consisting of STDC senior management and BEIS senior officials. The objective of this group is to achieve an agreement that moves the STDC Area into local control.

## **4 RESPONSE TO OBJECTIONS**

4.1 The financial and funding areas of the objections focus on the following key areas: -

- Adequacy of available resources to meet the costs of both acquiring, and implementing The Order
- Adequacy of funding arrangements
- Funding availability within the statutory period under section 4 of the Compulsory Purchase Act 1965
- Realism of valuation material and the ability to cover blight notices
- Unnecessary dependency on grants and the public purse

4.2 The resources available for acquiring the land and implementing the scheme comprise regeneration funding and have been clearly set out in Table 1, paragraph 2.3 above. The economic viability of the assumptions has been independently confirmed as robust.

4.3 The total funding allocation commitment made by TVCA and Central Government is £331m of which £202m is committed. The regeneration funding within the Model is £129m and this is further supported by private sector funding of £2.27bn over the life of the Model. This demonstrates significant commitment and resources to deliver The Order and the associated activity. The Model clearly demonstrates the availability of funding to comply with the statutory period under section 4 of the Compulsory Purchase Act 1965.

4.4 The valuation activity on the Order Land has been undertaken by property experts and the valuations have been verified as reasonable for the purposes of the Model.

4.5 The total funding for the investment is £2.4bn over the next 30 years, leveraging a significant proportion of the investment from the private sector (95%). Therefore 5% public funding reflects that the STDC Area and The Order does not place an over reliance on public sector expenditure or the public purse.

## 5 CONCLUSION

- 5.1 'Compulsory purchase process and the Criche! Down Rules' (July 2019) provides guidance to acquiring authorities in England making compulsory purchase orders to which the 1981 Act (as amended) applies (the Guidance). With reference to the matters that I am evidencing, the Guidance states that an acquiring authority, when considering the making of a compulsory purchase order, should show adequate resource is likely to be available to enable the acquisition of the land pursuant to the order and for the scheme underlying the order to proceed (paragraph 14 of the Guidance).
- 5.2 In my view, the Guidance on this point is complied with. I have explained the Model and provided a summary of the funding available to vest the Order and deliver the regeneration programme. This evidence has confirmed all necessary funding allocations are in place and have been confirmed with funders to deliver the regeneration requirements of the Model. The Investment Plan aspects of the model have evidenced significant market demand and sectoral analysis regarding the prospects for inward investment and the overall Model has been independently assessed as economically viable.
- 5.3 The total funding for the investment is £2.4bn over the next 30 years, leveraging a significant proportion of the investment from the private sector (95%). Therefore 5% public funding reflects that the STDC Area and The Order does not place an over reliance on public sector expenditure or the public purse.
- 5.4 Based on all available information and assumptions the Order is adequately funded including options and plans to progress.
- 5.5 I therefore believe that the Order has been made in accordance with STDC's powers and the Guidance, and that it is in the public interest for the Order to be confirmed.