Document No. STDC 3/2

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

Proof of Evidence

of

Gary Macdonald ACMA CGMA

On behalf of South Tees Development Corporation

South Tees Development Corporation

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APPENDICES

1. INTRODUCTION

Qualifications and Experience

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). I am a Chartered Management Accountant. I am an Associate of the Chartered Institute of Management Accountants (CIMA) and Chartered Global Management Accountants (CGMA). I joined TVCA and STDC in September 2019 as Director of Finance and Resources for both organisations.

1.2 Prior to joining STDC, I have worked across a range of organisations in senior financial leadership positions for over 12 years, including statutory Chief Financial Officer positions, covering both financial and corporate services areas of business. My employers and roles have included Deputy Director of Finance at South Tees NHS Hospitals Foundation Trust (circa £600m annual revenue), Chief Financial and Assurance Officer at University of Sunderland (circa £150m annual revenue), and Chief Financial Officer for North Yorkshire Police and Crime Commissioner (circa £150m annual revenue). My experience has encompassed responsibility for the development and management of significant budgets and investment programmes across a range of sectors.

Involvement with the Scheme

1.3 As the Director of Finance and Resources of STDC, I have overarching responsibility for all Finance and Resources functions across the Development Corporation.

1.4 Prior to my appointment, the CPO Order (“The Order”) was made in April 2019. The previous Finance Director had involvement in guiding the financial aspects of the preparation for The Order. Upon my appointment to the role of Director of Finance and Resources on 2nd September 2019 I assumed the responsibility for the overall delivery of those aspects.

1.5 Of relevance to the matters under consideration in this Inquiry, on a day to day level, I am responsible for overseeing the financial arrangements for STDC including advising the Chief Executive and Board on risk and commercial financial transactions. I oversee my colleagues who are actively involved in financial aspects. My relevant key priorities are to:

- Prepare the budget and Medium Term Financial Plan for STDC
- Lead on strategic financial advice matters to the Chief Executive and Board
- Ensure the STDC business case is robust and funded.

Scope of Evidence

1.6 My evidence relates to the financial standing that STDC has to purchase and develop the land to which the Order relates. My evidence should be read together with that of my colleagues David Allison, John McNicholas, Dan Aylward-Mills, John Knowles and Guy Gilfillan, who together demonstrate that the Order Land is deliverable.

1.7 My evidence covers:

- A summary of the financial functions and relationship of STDC, South Tees Developments Ltd (STDL) and South Tees Site Company (STSC);
- A summary of the financial position and the funding available to vest the Order and deliver the regeneration programme, including a summary of the assumptions made when assessing the viability of the scheme;
- Responses to objections raised regarding financial standing; and
- My conclusions on whether there is a compelling case in the public interest for the making of the Order.

Terminology

1.8 In my proof of evidence, references are made to the core documents, by the abbreviation, for example, “CD/1/1”. Other proofs are referred to by their document number, for example STDC 1/1.

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, as set out below: -

- Powers in relation to infrastructure
  - This includes the power to provide or facilitate the provision of infrastructure.
- Powers in relation to land
  - The power to regenerate or develop land.
  - To bring about the more effective use of land.
  - To provide buildings or other land.
  - To acquire, hold, improve, manage, reclaim, repair or dispose of land, buildings, plant, machinery, equipment or other property.
  - To carry out building or other operations, including demolishing buildings.
- Powers to acquire land
  - To acquire land in its area or elsewhere, in accordance with the provisions of the Localism Act 2011.
- Powers in relation to acquired land
  - To override easements.
  - To extinguish public rights of way (with the consent of the Secretary of State)
- Powers in relation to businesses and companies
  - To carry on any business.
  - To form or acquire interests in any business or company.
- Financial assistance powers
  - To provide financial assistance to any person.
  - This may be given in any form, including grants, loans, guarantees, investments, or the incurring of expenditure for the benefit of the person assisted.
- Powers in relation to discretionary relief from non-domestic rates
  - To determine the amount of discretionary rate relief from non- domestic rates (i.e. business rates).

2.4 STDC is the first MDC outside of London. It has been set-up to promote economic growth and commercial development in the Tees Valley by converting assets in the South Tees area into opportunities for business investment and economic growth.

2.5 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. Further detailed background information is provided in David Allison's Proof of Evidence (STDC1/2).

2.6 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. Detailed location plans are provided in Mr McNicholas's evidence (STDC 2/2). The significant benefits of this approach are set out in Mr Knowles' evidence (STDC 6/2) and Mr Gilfillan's evidence (STDC 5/2).

2.7 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.

2.8 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.

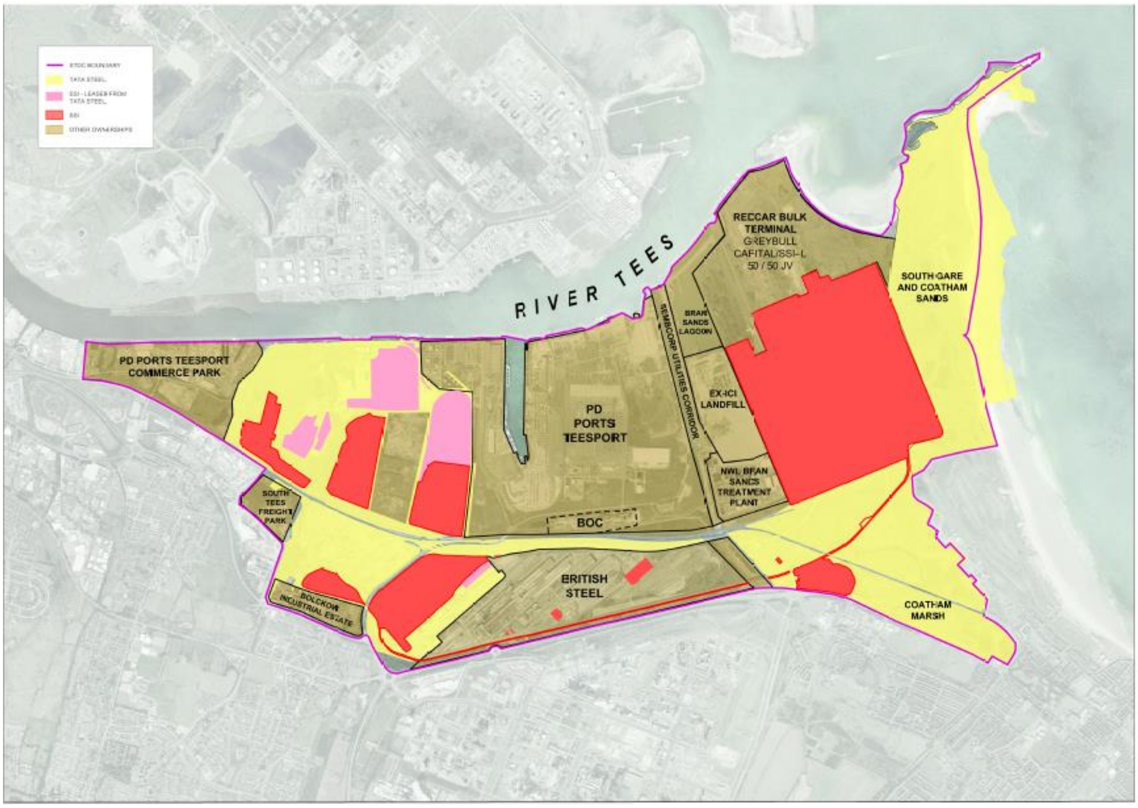
2.9 Within this aggregated landholding there are significant areas of community assets under Tata Steel ownership, i.e., South Gare/Coatham Sands and Coatham Marsh that collectively amount to over 600 acres (243 hectares) in area. These will be excluded from the areas designated for employment-led redevelopment. Taking cognisance of existing operator areas, initial consultations with these operators and areas designated for nature conservation interest, initial evaluation work indicates a likely available land area for redevelopment totalling close to 1,470 acres (595 hectares) within the STDC boundary, net of open space and infrastructure corridors.

2.10 South Tees Developments Ltd (STDL) is a 100% wholly owned subsidiary of STDC and was incorporated on 3 January 2019 with the initial principal scope to manage and develop the land previously belonging to Tata Steel Ltd, to support the delivery of the Master Plan.

2.11 South Tees Site Company Ltd (STSC) is an interim government body that was established in December 2016 by the Government and is responsible for the safe, secure and cost-effective management of the former SSI steelworks site. The Department for Business, Energy and Industrial Strategy (BEIS) is the lead Government department responsible for STSC. STSC has responsibility for the "make it safe/keep it safe" strategy of the South Tees site (see Appendix 1 map for details). It plays a pivotal role in the safe redevelopment of the South Tees area by working to a 'make it safe/keep it safe' strategy.

2.12 STDC has overarching responsibility for the delivery of the Master Plan. STDC and STSC work closely to ensure any regeneration and development activity on the STDC Area is integrated with the "make it safe/keep it safe" strategy. My colleague, Mr David Allison, is the Chief Executive of STDC and STSC and in his Proof of Evidence he has provided a summary of the functions and objectives of STDC and STSC. Mr Allison has also set out the relationship between STDC and TVCA.

2.13 STDC incorporated STDL as the first special purpose vehicle (SPV) designed to manage and develop the land previously owned by Tata Steel Ltd and acquired by STDC. This land is highlighted clearly on the map below.



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 is included at Appendix 3a, with a version excluding inflation at Appendix 3b. The purpose of the model excluding inflation is to enable Mr Aylward-Mills to produce the full economic viability assessment utilising an independent model that begins with sums excluding inflation. The Model sets out the income and expenditure every year for a 30 year period from 2020.

<u>Income</u>

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

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

3.4 The regeneration funding is covered within my Proof of Evidence. The Investment Fund is predominantly covered in my colleagues’ evidence.

3.5 An executive summary of the key funding information is provided at Appendix 3c with an extract provided in Table 1 below. The purpose of this table is to provide an overview of the total approved funding for the STDC Area, the level already committed and the balance available to support delivery of The Order. Table 1 has a reference column with row numbers for ease of use. The second column explains the different sources of funding and further detail is set out from paragraph 3.8 onwards for each item. The third column titled “Regeneration Allocations Total” provides the total approved allocations from TVCA and Central Government. The “Total Committed” column confirms how much of the approved allocation is committed. The “Regeneration Funding” column confirms the approved regeneration funding available for The Order. The “Investment Fund” section of the table confirms the total private sector funding from Direct income and Financing loan within Appendix 3a.

row	TABLE 1 Regeneration Funding, £k (money-of-year)	Regeneration Allocations Total 17/18 -24/25	Total Committed	Regeneration Funding Total 20/21 -24/25
	TVCA Funding			
1	**TVCA Investment Plan**	**56,500**	**12,215**	**44,285**
2				
3	Govt Regen			
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	**sub-total Government funding announcement**	**71,000**	**0**	**71,000**
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	**Sub-total Government funding commitment to STDC Area**	**274,545**	**189,878**	**84,667**
13				
14	**Total**	**331,045**	**202,093**	**128,952**
15				
16	**Investment Fund, £k (money-of-year)**			**20/21 to 49/50**
17	Direct Income			1,978,010
18	Financing Loan			294,020
19	**Total Private Sector Funding**			**2,272,030**
20	**% Public Sector funding**			**5%**

3.6 The funding breakdown for the delivery of all activity across the STDC Area is provided in Table 1, paragraph 3.5. Table 1, row 14 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.

3.7 STDC Model key assumptions have been supported by source information provided at Appendices 4a and 4b and explained below. All financial values provided within the Model have been derived from expert external advisors and are complemented with market and economic quality assurance analysis contained within my colleagues' proofs of evidence.

3.8 As can be seen from Table 1, the elements of regeneration funding are divided into two:

i. TVCA investment (Table 1, row 1);

ii. Central Government funding (Table 1, row 12).

3.9 The first strand of the regeneration funding is the funding secured through the TVCA Investment Plan 2019-29 ("TVCA Investment Plan"). The resources included within the TVCA Investment Plan total £56.5m. Appendix 2a shows the 24th January 2019 Cabinet decision record approving the investment and Appendix 2b provides the supporting evidence shown in the TVCA Investment Plan itself.

3.10 This Investment Plan enabled the purchase of the former TATA land securing over half of the developable land at the STDC Area (identified in Appendix 1) as a key investment project.

3.11 The second component is Central Government funding. There are multiple sources within this component. I explain them as follows:

i. Central Government regeneration funding in the sum of £71m (Table 1, row 7). The letter from Central Government confirming this funding is at Appendix 7a, and the associated press release is provided at Appendix 7b. This sum comprises the following elements:

(a) BEIS switch of budgeted keep safe (KS) costs (Table 1, row 4): this represents the keep safe ("KS") costs that are anticipated to switch from STSC to STDC on transition, within the Comprehensive Spending Review ("CSR") period.

(b) BEIS funding carried forward (Table 1, row 5): this sum represents the element of KS costs that will go beyond the CSR period for which the Government has provided specific commitment.

(c) Ask of Central Government (Table 1, row 6): this sum represents the balance of regeneration funding required from government after allowing for all other specific TVCA and Central Government funding sources listed in Table 1

ii. In addition, there have been various sums allocated or committed:

(a) BEIS "Keep Safe" funding" (Table 1, row 8): this funding is part of the element of the original £117.8m KS funding commitment approved with Government and is separate from the £71m funding approval.

(b) Funding for Prairie Site Regeneration (row 9): this funding was approved by Government as part of the 2018 Autumn Statement and budget specifically to commence remediation and enabling infrastructure to prepare the first development site, an initial site within the South Industrial Zone, known locally as the "Prairie Site". Design and investigation works are now ongoing to ensure it can be investor ready and a planning application has been secured to commence ground remediation.

(c) SSI Taskforce funding (row 10): the Task Force was set up in September 2015 in response to the planned mothballing, and subsequent liquidation of the SSI Steelworks. The aim of the group is to provide support to affected workers, local businesses, communities and the wider economy by delivering a programme of tailored support. This funding was approved by Government.

(d) Grant for STDC Operational Running Costs (row 11): this funding is the operational funding approved by Government to maintain the core running costs of STDC.

3.12 A key early stage project in STDC's plans to deliver the regeneration enabling works is the decontamination of various redundant SSI assets, such as the South Bank Coke Ovens and Redcar Coke Ovens, to address the inventory of Control of Major Accident Hazards (COMAH) substances contained on the land. Government has already committed to the progression of this project and approved £3.2m to fund the initial phase of these works (Appendix 5a), which commenced in April 2019 under the stewardship of STSC. This funding is part of the £117.8m allocated for South Tees Site Company (Appendix 5b) and broken down in the Central Government funding above (rows 4, 5 and 8).

3.13 A subsequent programme of demolition of this infrastructure will see the hazardous inventory reduced in line with the phased delivery of the Master Plan and will remove dependence on the market appetite to use existing assets, creating cleared sites for development and maximising the breadth of market appeal and the deliverability of developments.

3.14 The total public regeneration funding is therefore approximately £331m (row 14 in Table 1).

3.15 Turning to the Investment Fund (row 16 onwards), the Model is predicated on initial remediation/regeneration capital investment to facilitate development activity and a development strategy linked to achieving successful leaseholders (strong covenants), that would generate competitive rental income streams. These strong rental streams secure appropriate finance and funding to ensure continuous development and growth. This approach creates what is referred to as the "Investment Fund" in my Proof of Evidence and in the Model.

3.16 The Investment Fund income from the scheme comprises four elements (see Appendix 3a for the breakdown, rows 15-19):

i. Rental income;

ii. Business rates income;

iii. Service charge income;

iv. Scrap income.

3.17 I explain each of these as follows:

i. Rental income (rows 15, Appendix 3a): this forms the main Investment Fund income stream. The rental rates of land that are assumed for the Model were originally estimated by Dodds Brown, a firm of independent commercial Chartered Surveyors and Property Consultants who operate in the Tees Valley and wider area, in 2017. STDC valuation experts Avison Young have subsequently reviewed the rental assumptions. Avison Young informed the rental values within the financial model and deem them reasonable in terms of the market place following appropriate regeneration activity. The rental income is based on a blended tone to reflect a range of an anticipated lower, medium and higher value range to reflect specific site factors across the STDC Area remit. The rental estimate per acre per annum is commercially sensitive and is therefore not provided within this Proof of Evidence. Avison Young has confirmed that the rental values within the financial model are not unreasonable in terms of the market place following appropriate regeneration activity. Avison Young has confirmed that the rental income is based on a blended tone to reflect a range of an anticipated lower, medium and higher values, to reflect specific site factors across STDC's Order Land remit (rather than a uniform rent per acre across the site). The rental estimate per acre per annum is commercially sensitive and is therefore not provided within this Proof of Evidence.

ii. Business rates income (row 16, Appendix 3a): this is a function of the normal calculation and the rent levels above representing the share of rates retained under Special Economic Area (SEA) status. 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. The Model delays the start of this income item compared to the rental start as rates are not levied until building is complete. It is critical therefore for land assembly to take place as quickly as possible in order to begin to deliver the Master Plan and generate revenue for the site for continued investment and development.

iii. Service charge income (row 17, Appendix 3a): this assumes that site maintenance costs and central maintenance charges are recharged to investors benefitting from that service on site.

iv. Scrap income (row 18, Appendix 3a): this source arises from the demolition study of the former Sahaviriya Steel Industries Iron and Steel Making facilities and 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%.

3.18 The other element of the Investment Fund income is a financing loan. As explained above, the Model is predicated on initial remediation/regeneration capital investment to facilitate development activity and a development strategy linked to achieving successful leaseholders (strong covenants), which would generate competitive rental income streams. These strong rental streams secure appropriate finance, which is referred to as the financing loan in the Model.

<u>Expenditure</u>

3.19 On the expenditure side in the Model (see Appendix 3a), this comprises:

i. Direct costs (rows 35-44);

ii. Overheads (row 47);

iii. Land purchase and compensation (rows 49-51);

iv. Financing loan interest and repayments (rows 54-55).

3.20 I explain the “direct costs” as follows:

i. Demolition (row 35, Appendix 3a): These costs have been evidenced by external expert demolition advisers as part of a Demolition study of the former Sahaviriya Steel Industries Iron and Steel Making facilities and Redcar and Lackenby. The Demolition study details are attached at Appendix 4c.

ii. Decommissioning /Cleaning (row 36, Appendix 3a): These costs are in respect of Decommissioning activity that has been given specific attention in cases where there is significant work of this type to be undertaken as a pre-requisite to demolition operations, particularly in connection with COMAH de-risking, where there may be a case for early intervention in advance of actual demolition works. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

iii. Infrastructure – Highway (row 37, Appendix 3a): These costs are in respect of primary and secondary highway networks to serve development parcels and within wider development zones are less definable at this stage and have been costed based on typical linear quantities of highway per hectare or acre of developed area for similar schemes, applying unit cost rates per metre. In this case, preparation of the ground to accommodate highways construction has been dealt with under the site preparation costs. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

iv. Infrastructure – Marine (row 38, Appendix 3a): These costs are in respect of the marine infrastructure interests are presently focused on the reconstruction of the dilapidated South Bank Wharf, which extends to some 500 linear metres of river frontage at the South Bank site. Current depths in the navigable channel run from around 7.0m to 8.5m. The concept would be for the establishment of a multi-user berth that affords sufficient flexibility on types of usage so that development potential is not constrained. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

v. Infrastructure – Rail (row 39, Appendix 3a): These costs are in addition to the infrastructure corridor, the proposals allow for establishing or, where already existing, reinforcing rail connectivity within each major land zone for multiple users. Costs have been based on a straight linear meterage of railway provision. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

vi. Infrastructure – Utilities (row 40, Appendix 3a): These costs are in respect of general utilities infrastructure (gas, water, electricity, telecoms, drainage) would be provided along primary (and some secondary) highway corridors to afford connectivity to each area of the site. Utilities provision within each area of the site would be the responsibility of the respective developer. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

vii. landscape & Public Realm (row 41, Appendix 3a): These costs are in relation to the provision of landscape and public realm to the various development parcels and wider development zones adopts a tiered approach, to cater for general landscape provision in developed areas and higher levels of provision in areas such as landscaped landfill facilities. In development land parcels, a typical area designation of 7% has been allowed. At the higher end, within the landfill zone, a 90% area coverage has been assumed. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d

viii. Site Preparation (row 42, Appendix 3a): Given the vastness of the regeneration area and the marked variation in former uses – varying from operations with very high contaminative potential to areas only ever utilised for open raw materials storage – it would be inappropriate to apply a single unit rate per hectare across the whole redevelopment area. These costs are based on the available ground conditions information which, granted, is limited in some locations, and utilising the more extensive knowledge base on previous uses, a tiered approach has been adopted in the assessment of site preparation cost estimates, based on similar industrial site redevelopment projects. The costs have been evidenced by CH2M in their CH2M Letter - South Tees Regeneration Programme Initial Capital Cost Data attached at Appendix 4d.

ix. Capitalisable Strategic Costs (row 43, Appendix 3a): Project and development costs which will be incurred in the creation of the business park asset. The costs relate to enabling consultancy work that is ancillary to the main Model costs.

x. STDC pick up of keep safe (KS), Invest to save I2S), Tier costs (row 44, Appendix 3a): These costs reflect the post-transition expenditure of South Tees Site Company when it is transferred to STDC. The costs will reduce post decontamination and post demolition activity to reflect the reduced risk to the site. The decontamination works will reduce the liabilities associated with COMAH substances as set out in Mr McNicholas Proof of Evidence (STDC 2/2 paragraphs 2.21 to 2.22).

3.21 As to overheads (row 47, Appendix 3a) these are calculated based on site company information and relate to the operational management of the STDC Area.

3.22 The Land Purchase and Compensation payments (rows 49-51) relate to the payments that are estimated to be required in respect of The Order. The valuation inputs were provided by Avison Young, involving input from Directors with specialist sector knowledge. Michael King of Avison Young confirms that they are reasonable within this context. Avison Young are STDC's appointed CPO consultants in terms of assessing land and rights acquisition costs under the Order and in accordance with the "compensation code".

3.23 The loan interest and repayments (rows 54-55) arise from the Investment Fund development loans that are secured against leaseholder rentals (strong covenants).

Commitment to Deliver

3.24 A dedicated group (the 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. The group consists of senior level figures in Government, STDC and STSC and meets on a regular basis to ensure the delivery of this objective as a fundamental pillar of success for the overall regeneration of the STDC Area.

3.25 The financial and governance commitments set out above have also been supplemented by further support in terms of both internal and external resources to ensure a successful transition. To enhance the development of proposals associated with transition, the STDC Board has approved the procurement of specialist management consultancy resources to support the delivery of STDC commitment to transitional arrangements for the next 12-18 months. These resources will work alongside the increased resources within STDC that have seen the appointment of a new Commercial Director and a Strategic Utilities Projects Director to work alongside the Chief Executive, Programme Director and myself as Director of Finance and Resources. A copy of the relevant written Board resolution on this matter is attached (Appendix 6)**.**

Financial Investment

3.26 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. As discussed in Mr Knowles' Proof (STDC 6/2) and Mr Gilfillan (STDC 5/2), 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 funding impact and investor sentiment on larger sites (STDC 6/2) and the benefits of a single contiguous site have been carefully considered by Mr Knowles (STDC 6/2) and, in terms of agglomeration of activity on a site, this has been covered by Mr Aylward-Mills (STDC7/2). 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. (STDC 7/2).

3.27 In order to realise this potential, STDC has procured an intermediary agent (Colliers International) to advise and guide us in the identification and acquisition of the most beneficial partner(s) for the South Tees proposition and to develop a comprehensive marketing strategy for promoting this major investment opportunity to potential end users, both nationally and internationally, to help realise the 25-year vision.

Funding Timeline

3.28 In order to realise the potential of the STDC site the evidence provided by Mr Knowles (STDC 6/2) and Mr Gilfillan (STDC 5/2) clearly demonstrates the requirement to have larger developer-ready zones of land that can maximise and bring forward significant inward investment, due to the unique selling point of the scale and logistical benefits of the STDC site.

3.29 The Model provides regeneration funding in 2020-21 to enable site remediation, site preparation and purchase of land through The Order process. This strategy would maximise the development opportunity rather than managing plots in isolation, where they would afford only discrete, stand-alone benefits, and would likely compromise future development opportunities.

3.30 The funding timeline for regeneration funding would see Government funding utilised over years 2020-21 to 2023-24 in the Model. The respective Government departments (MHCLG and BEIS) have both confirmed their respective commitments to the STDC development and Central Government has provided funding allocation confirmation in writing. This allocation has been announced publicly by Government on 10th January 2020 by the Chief Secretary to the Treasury. The formal allocation letter from central Government is provided at Appendices 7a-7b.

3.31 In summary, Government has confirmed support for regeneration funding and this is set out in Table 1, paragraph 3.5. The total commitment from Central Government and TVCA Investment Plan is £331m. These significant public sums demonstrate the significant public interest in securing the site to support the overall Model.

4 RESPONSE TO OBJECTIONS

4.1 The responses to objections that I have provided are contained within this section. The approach that I have taken is to highlight each objection in bold text and provide my response in normal font.

4.2 The evidence of my colleague Mr King (STDC 8/2) examines the objections in detail, however, within the areas I cover within my evidence, Tisco Bank pcl, Krungthai Bank pcl and Siam Commercial Bank pcl (the Thai Banks), Sahaviriya Steel Industries plc and The Royal Bank of Scotland plc all object to the Order on the following grounds:

4.3 Paragraphs 13 and 14 of the Guidance make it clear that a compulsory purchase order should not be confirmed unless it has been demonstrated that the acquiring authority has, or is likely to have, adequate resources to meet the costs of both acquiring the land, and implementing the scheme.

4.4 As explained above, a partnership approach with Central Government is in place to deliver the Master Plan ambitions, not only to sustain development activity but also underpinning local acquisition strategies, including this process of compulsory acquisition, in order that STDC can ensure development-ready plots are made available for investment and to attract occupiers and investors to the site.

4.5 The resources available for acquiring the land and implementing the scheme comprise regeneration funding and have been clearly set out in Table 1, paragraph 3.5 above. All of these figures are shown in more detail within Appendix 3a and at a more summarised level in Appendix 3c. The economic viability of the assumptions has been confirmed as robust by Mr Aylward-Mills (STDC 7/2).

4.6 The Statement of Reasons entirely fails to make a persuasive case that sufficient funding is or is likely to be available. Vague reference is made to several possible sources of funding, but when considering the indicators set out in paragraph 14 of the Guidance it is important to note that:

no agreements are in place for public or private funding (save as addressed below);

4.7 The funding arrangements are set out in my response at paragraph 4.5. 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 cost estimates in respect of land acquisition and scheme implementation have been reviewed and confirmed as robust by Mr Gilfillan (STDC 5/2), Mr Knowles (STDC 6/2) and Mr Aylward-Mills (STDC 7/2). The rental rates of land that are assumed for the Model were originally estimated by Dodds Brown, a firm of independent commercial Chartered Surveyors and Property Consultants who operate in the Tees Valley and wider area, in 2017. STDC valuation experts Avison Young have subsequently reviewed the rental assumptions. Avison Young informed the rental values within the financial model and deem them reasonable in terms of the market place following appropriate regeneration activity. The rental income is based on a blended tone to reflect a range of an anticipated lower, medium and higher value range to reflect specific site factors across the STDC Area remit. The rental estimate per acre per annum is commercially sensitive and is therefore not provided within this Proof of Evidence. Avison Young has also confirmed that the rental valuation sums within the Model are not unreasonable.

4.8 **the timing of funding is unclear but funds are plainly not currently available and are unlikely to be available early in the process;**

4.9 The funding model at Appendix 3a provides a clear timing profile for both funding and expenditure and demonstrates succinctly how plans will be delivered over the lifetime of the investment period. The necessary approvals for regeneration funding are already in place, as set out in paragraph 3.9 and 3.11 and evidenced at Appendices 2a, 2b, 7a, 7b. The economic viability of the overall Model is confirmed in Mr Aylward-Mills' Proof of Evidence (STDC 7/2).

4.10 there has been no attempt to demonstrate that funding will be available within the statutory period under section 4 of the Compulsory Purchase Act 1965;

4.11 Section 4 of the Compulsory Purchase Act 1965 requires "..A notice to treat may not be served by the acquiring authority after the end of the period of 3 years beginning with the day on which the compulsory purchase order becomes operative..". The responses provided above and the clear profile and timing of the funding outlined in Appendix 3a clearly support The Order process and demonstrate that significant funding is confirmed and available to comply with the statutory period requirements.

4.12 there has been no attempt to demonstrate the existence of exceptional circumstances to justify present-day acquisition against a 25-year delivery programme;

4.13 The Proof of Evidence provided by my colleague Mr Allison provides the relevant information in respect of compliance with Compulsory Purchase guidance and this is further supported by his evidence regarding the compelling case in the public interest. (STDC 1 / 2).

4.14 no adequate evidence is provided of any immediately available funding to address potential blight notices, and as detailed below the assertion of £60 million of land acquisition funding from TCVA is both undocumented and based on hopelessly unrealistic valuation material.

4.15 As set out in Table 1, paragraph 3.5 funding from both the TVCA Investment Plan and Central Government has been confirmed. The valuation inputs were provided by Avison Young, involving input from Directors with specialist sector knowledge. Michael King of Avison Young confirms that they are reasonable within this context. Avison Young are STDC's appointed CPO consultants in terms of assessing land and rights acquisition costs under the Order and in accordance with the "compensation code". The values reflected in the Model are consistent with this input. The values are commercially sensitive and are therefore not provided in my Proof of Evidence. Avison Young has confirmed that the valuation values within the Model are not unreasonable. The associated funding requirements have been included within the Model based on the cost estimates provided. Further validation of the Investment Fund area of the Model has been provided in terms of securing private sector development funding (see the evidence of Mr Knowles – STDC 6/2) and in terms of the likely market demand for such investment (Mr Gilfillan – STDC 5/2). The rate of return of the proposals has been assessed by Mr Aylward-Mills (STDC 7/2) and has clearly demonstrated the economic viability of the model.

4.16 The Statement of Reasons attempts to create an illusion of adequate funding by referring to numerous alternative revenue and funding streams. The reality, however, is that these are in the main no more than highly speculative possibilities which fall a very long way short of the level of certainty required before authorising compulsory purchase. Repeated reference is also made to historic central Government funding that has largely already been spent and/or committed, and which therefore does nothing to reassure the Secretary of State that the Order is adequately resourced.

4.17 As set out above funding from both TVCA Investment Plan and Central Government has been expressly confirmed. The references to historical Government funding are included, where applicable, to demonstrate the level of long-term commitment that has been made to the STDC site and the overall development and land remediation of the land. Government continue to support the STDC Area in respect of these commitments. Full detail of public and private sector funding is provided in Table 1, paragraph 3.5.

4.18 In addition, the acquiring authority asserts in the Statement of Reasons (paragraph 5.13) that a sum of only £60 million is available and will be sufficient to meet the land acquisition costs of the Order. This is incorrect and misleading, as the Tees Valley

Investment Plan 2019 – 2029 allocated a sum of £56.5 million to both land assembly and infrastructure provision.

4.19 The TVCA Investment Plan provides an approved allocation of £56.5m. The statement of reasons suggested a rounded value of £60m because additional funding was taken into account to cover the ground work investigations and the provision of one Local Growth Fund (LGF) funded roundabout and one TVCA funded roundabout.

4.20 In this context, this sum is hopelessly unrealistic, being insufficient to meet the compensation payable in respect of the land in which the Thai Banks have a security interest, and any associated infrastructure costs (for which no estimates have been provided by the acquiring authority)

4.21 My responses to objections in paragraphs 4.5, 4.7 and 4.15 cover funding sufficiency.

4.22 The evidence of Mr King (STDC 8/2) examines the objections in extensive and cohesive detail, however, within the areas I cover within my evidence, Tarmac Trading Ltd and East Coast Slag Products ltd object to the Order on the following grounds:

4.23 The Acquiring Authority has failed to consider adequately whether the regeneration of the land proposed to be acquired by the CPO can be achieved without necessarily being dependent on grants or expenditure from the public purse and thereby has failed to show a compelling case for the use of compulsory purchase powers.

4.24 The Statement of Reasons clearly sets out a compelling case for the use of compulsory purchase powers. This is further evidenced by Mr Aylward-Mills (Vivid Economics – STDC 7/2) as follows: -

"..Appropriate zoning of an industrial site can maximise the potential for agglomeration effects by promoting colocation in prioritized sectors. A site is more likely to be regenerated if adjacent sites are redeveloped. Ensuring the redevelopment of the Order Land will therefore increase the attractiveness of the wider STDC area. Without redevelopment, the dilapidated industrial sites risk undermining the attractiveness of the STDC Area for potential investors and the region missing out on the public benefits of additional jobs and economic activities…"

4.25 The Model (Appendix 3a rows 45 and 47) sets out an overall investment plan of £709m in relation to Direct Costs and Overheads. The total gross expenditure (Appendix 3a row 58) is £1.4bn including assumed land purchase, compensation costs and financing loan. The total gross funding including land purchase and development financing loans is estimated at

£2.4bn (Appendix 3a row 30). The total public sector support from Central Government and TVCA Investment Plan for the Model is £129m as set out in Table 1, paragraph 3.5. The private sector funding over the life of the Model is £2.27bn (Appendix 3a rows 19 and 28). This represents a significant leverage on the private sector (95%) to deliver the STDC Area. The purchase of land under the Order powers is not the significant element of the overall investment proposals and therefore the focus of this objection on dependency on grants or expenditure from the public purse fails to recognise the proposed development model for the site.

4.26 The development model relies on private sector rental income streams, for which there is a clear market as evidenced by Mr Gilfillan (STDC 5/2) to provide collateral for future debt finance to develop subsequent plots of land. Private sector inward investment will fund asset construction on these plots whilst at the same time stimulating wider economic growth, as set out by Mr Gilfillan (STDC 5/2) and Mr Aylward-Mills (STDC 7/2).

4.27 These facts provide the compelling case for the use of Compulsory purchase powers and therefore I do not consider this objection to be valid.

5 CONCLUSION

5.1 '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 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. This conclusion is presented in context of the scope of my Proof of Evidence. 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. My evidence cross refers to, and supplements, Proofs of Evidence from Mr Gilfillan (clear evidence of market demand), Mr Knowles (clear evidence of the viability of the scheme to private sector investors) and Mr Aylward-Mills (economic viability of the Model).

5.3 Mr Gilfillan, Mr Knowles and Mr Aylward-Mills have all provided evidence that the funding that STDC could obtain would be adversely affected by taking any part of the Order Land out of the Order.

5.4 I have provided responses to objections raised regarding financial standing and cross referred, where appropriate, to my colleagues' proofs of evidence regarding the economic viability of the STDC Area and the market demand for the STDC Area.

5.5 Through work undertaken by Vivid Economics they have concluded that there are no economic viability impediments for The Order. The work of Colliers International UK has evidenced significant market demand and used sectoral analysis regarding the prospects for inward investment. Both pieces of external work are robust and have considered and confirmed the viability of an inward investment market that requires the Order Land to attract the appropriate level of investors and, in turn, to attract the required level of rental income to support further development.

5.6 The overall funding commitment from TVCA and Central Government is shown in Table 1, paragraph 3.5. This demonstrates significant commitment to regeneration activity to enable private sector investors to be attracted to the STDC Area.

5.7 Both BEIS and MHCLG have been consulted on the development of the Business Case and confirmed their commitment to the STDC Area in their respective plans. The Government officials of each department have briefed their respective ministers and, following dialogue with the Treasury, the Government has confirmed funding of £71m: see Appendices 7a and 7b.

5.8 The Model sets out total funding for the investment of £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.

5.9 Based on all available information and assumptions the Order is adequately funded, including plans to progress.

5.10 Should the Order not be granted the further strain on the public purse would be: -

- On-going and increasing keep safe costs as a result of site deterioration and as set out in my colleague, Mr Allison's Proof of Evidence (STDC 1 / 2);
- Economic dis-benefits due to stalled investment as set out in Mr Aylward-Mills' Proof of Evidence (STDC 7/2); and
- Continued economic decline due to no coherent strategic use of land across the STDC site - the avoidance of which is one of the primary purposes of establishing the MDC by way of legislation in the first place.

5.11 In conclusion, there are no financial impediments in delivering the regeneration objectives and indeed the further financial strain on the public purse and economic decline should the Order not be granted would be significant and the detrimental effects would be long-lasting.

5.12 There is an adequate funding strategy in place with regeneration funding secured, and a deliverable prospect of an "Investment Fund" coming forward to deliver the regeneration and development of the STDC Area. Mr Aylward-Mills (STDC 7/2) and Mr Knowles (STDC 6/2) give evidence on the credibility of the funding strategy.

5.13 In my view, the Guidance is satisfied in respect of the acquiring authority showing adequate resource being 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). This is demonstrated in the TVCA and Central Government funding commitments made to enable initial regeneration activity to take place. The regeneration activity provides the necessary platform for future development (by way of leaseholds that will provide covenants for development finance) and supports the scheme underlying the Order. The economic viability of the scheme has been independently assessed as robust and the key assumptions in respect of market demand and potential have also be independently reviewed and confirmed as appropriate.

5.14 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.