

Summary Proof of Evidence of Dan Aylward-Mills MSc MA (Hons)

**The South Tees Development Corporation Compulsory Purchase
Order**

Acquiring Authority: South Tees Development Corporation
January 2020

STDC7/1

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Glossary of Terms and Abbreviations

ANPR	Automatic Number Plate Recognition
Avison Young	Avison Young (UK) Limited
BEIS	The Department for Business, Energy and Industrial Strategy
CBA	Cost-Benefit Analysis
Clean Growth Strategy	HM Government (2017): The Clean Growth Strategy: Leading the way to a low carbon future
Colliers	Colliers International Property Consultants Limited
Deadweight	Economic benefits which would have occurred without the Scheme
Direct jobs	Jobs created directly by investments in the STDC Area as a result of the Scheme
Displacement	Economic activity created as a result of the Scheme, but which results in a decrease in economic activity elsewhere in the UK, for example an employee that leaves a vacant job in one company to fill a direct job created by the Scheme
FDI	Foreign Direct Investment
Freeport	An area within a country's territorial area but considered outside of the country's customs border, sometimes referred to as 'Free Zones', 'Special Economic Zones' or 'Free Trade Zones'.
GDP	Gross Domestic Product
Green Book	HM Treasury (2018) The Green Book: Central Government Guidance on Appraisal and Evaluation
GVA	Gross-value added
Heseltine Report	Heseltine (2016): Tees Valley: Opportunity Unlimited (CD/D/6)
Indirect jobs	Jobs created through the supply chain as a result of increased economic activity on the STDC area
Industrial Strategy	HM Government (2017): Industrial Strategy: building a Britain fit for the future
IRR	Internal Rate of Return
Lichfields	Nathaniel Lichfields & Partners Ltd
Master Plan	Updated South Tees Regeneration Master Plan, November 2017 (CD/f/2)
MHCLG	Ministry of Housing, Communities and Local Government
Optimism bias	The tendency for costs of delivering public investment programmes to overrun initial estimates
Optimism bias adjustment factor	A percentage used to uplift estimated costs of public investment programmes to account for optimism bias
OR	Official Receiver
Order	South Tees Development Corporation (Land at the former Redcar Steel Works, Redcar) Compulsory Purchase Order 2019
Order Land	The approximately 1,752 acres of land subject to the Order
Scheme	STDC redevelopment programme for the STDC Area which aims to create 20,000 jobs in the Tees Valley
Statement of Case	The Statement of Case of the Acquiring Authority (CD/A5)
SSI	Sahaviriya Steel Industries
STDC	South Tees Development Corporation
STDC Area	The 4,500 acres within the administrative boundaries of STDC.
TVCA	Tees Valley Combined Authority
Vivid Economics	Vivid Economics Ltd

Declaration

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 opinions on the matters to which they refer.

1.0 **Summary of Proof of Evidence**

Qualifications and Experience

1.1 My name is Dan Aylward-Mills and I am the Head of Growth and Development at Vivid Economics Ltd ("Vivid Economics"). I have a Master of Science in Economics for Development and a Master of Arts in Economics and Management from the University of Oxford.

1.2 I am professional economic consultant with ten years of experience in analysing and advising on economic policy. I specialise in analysing business performance, the barriers to trade and investment and the ways in which government can improve the competitiveness and incentivise business investment at the regional, national and subnational level.

Instructions

1.3 My instructions are to:

- 1 Review the evidence provided to me, in particular the South Tees Regeneration Master Plan ("the Master Plan") and a cash flow model prepared by the South Tees Development Corporation ("STDC"), and identify whether the proposed Scheme is likely to create economic benefits in the public interest.
- 2 Identify the key assumptions which underpin these economic benefits.
- 3 Identify whether there are any risks associated with these assumptions which might make the Scheme unviable or fail to deliver public benefits.
- 4 Consider the extent to which the Scheme, and the public interest benefits, would be viable without the acquisition of the whole Order Land.

Will the Scheme create economic benefits in the public interest?

1.4 The approach recommended by HM Treasury's Green Book for appraising policies, programmes and projects is to undertake a Social cost-benefit analysis (CBA). This

looks at the costs of implementing a project and the social value created based on market prices. In the case of the Scheme, this requires a comparison of the costs of implementing the Scheme with the revenues that it is projected to generate through rent, business rates and service charges.

- 1.5 The Green Book does not recommend including economic impacts through job creation when considering social value at the national level. It does, however, recognise that these effects may be important when undertaking an appraisal of a project with a subnational focus. I have reviewed the performance of the Tees Valley economy and conclude there are compelling reasons to take into account such regional economic impacts. These reasons include the persistent, higher than average levels of unemployment, the impact of the closure of SSI Steelworks on the regional economy, the response from national government, including the establishment of STDC with a mandate to promote investment and employment within the region, and the designation of Durham and Tees Valley as an 'a' assisted area. The latest official figures show that there are 22,000 unemployed people in the region, with a further 15,000 'economically inactive' people that would like a job.
- 1.6 I provided an indicative estimation of the regional economic benefits of the Scheme, based on targets for job creation in the Master Plan and conservative assumptions about the persistence of jobs, resulting in an increase of up to 4,348 jobs in the Tees Valley. Even with these conservative assumptions, the positive benefits to the regional economy are significantly greater than the net present social value (NPSV) of the Scheme from a national perspective. This is consistent with the objectives of STDC to promote opportunities in the regional economy.
- 1.7 Taking into account the regional benefits, I find the Scheme has a NPSV (benefits net of costs) of £3.6 billion. The benefit-to-cost ratio is 5.2, meaning benefits are over five times higher than costs.

What are the key assumptions underpinning the expected benefits?

1.8 The main assumptions which I have identified as potentially affecting the ability of the Scheme to deliver the economic benefits discussed in Section **Error! Reference source not found.** are as follows:

- 1 The costs of implementing the Scheme are in line with STDC estimates. However, my calculation of the Net Present Social Value (NPSV) has already included an adjustment for optimism bias of 66%.
- 2 The revenues generated by the Scheme are in line with STDC projections. In particular, this requires that there is (a) sufficient interest from investors in occupying the Order Land so that occupancy is in line with STDC's assumptions, and (b) that the rental rates these investors pay (in £ per acre) are in line with STDC's assumptions.
- 3 Finance is available to STDC to cover up front investment for the redevelopment of the STDC Area.
- 4 When considering the regional economic benefits, the jobs created are additional to the area (i.e. would not have been created without the Scheme) and they generate GVA per employee at or above the national average.

Are there any risks associated with these assumptions which might make the Scheme unviable or fail to deliver public benefits?

1.9 The key assumptions required to deliver the economic benefits relate to the costs of implementing the Scheme, the availability of finance to support the temporary cash deficit of the Scheme, and the take up of available land by rent and employment generating occupiers.

1.10 The assumptions around costs have been provided to me by STDC. Whilst I have not attempted to verify or benchmark these costs, I have included a generous optimism bias adjustment factor in my calculations, uplifting costs by 66%.

- 1.11 I have reviewed the funding available to STDC and the expected cash surplus the Scheme is expected to generate. I have also read the evidence of John Knowles on the rates of return required by private investors. My conclusion is that the Scheme is expected to generate a sufficiently high return to attract private sector investment to close any gap between funding requirements and the availability of public funds.
- 1.12 These returns, the revenues which constitute the benefits in the national NPSV and the ability of the Scheme to generate regional economic benefits through increased employment are all predicated on the assumption that there is significant interest from investors to occupy the land. Forecasting inward investment under different scenarios is very hard to do with any degree of robustness. However, my conclusion is that there is strong evidence to support a high level of interest, uptake and occupancy. This includes the evidence presented in the Proof of Evidence of Guy Gilfillan of a strong pipeline, the unique qualities of the STDC Area set out in the Proof of Evidence of John McNicholas, and the prospects of the STDC Area gaining Freeport status.
- 1.13 The assumptions used in the estimation of regional economic benefits through job creation mean that the projected increase in employment (of up to 4,348 in any given year) is modest relative to the size of the land, the existing pipeline, and the slack in the regional labour market, but will deliver significant regional benefits.
- 1.14 My conclusion is that the assumptions which underpin the calculation of economic benefits from both the national and regional perspective are well supported and that the Scheme is viable.

Would the Scheme, and the public interest benefits, be viable without the acquisition of the whole Order Land?

- 1.15 I have reviewed the evidence on the viability of the Scheme if STDC were unsuccessful in acquiring the rights to the whole of the Order Land. My conclusion is that failure to do so could materially impact the viability of the Scheme.

- 1.16 The Scheme includes several fixed costs, which do not vary with the size of the developable land which generates rent. These include infrastructure costs relating to the infrastructure corridor, STDC overheads, and the redevelopment of the Coastal Community Leisure Zone. Recovering these costs over a greater rent-yielding area creates an economy of scale.
- 1.17 Furthermore, if STDC were to fail to secure the whole of the Order Land, the Scheme is less likely to ensure optimum zoning and agglomeration opportunities, less likely to ensure the optimum provision of quality infrastructure, less likely to create a strong brand, and less likely to provide an attractive and safe physical environment. These are all likely to negatively impact the attractiveness, uptake and occupancy which are required for the Scheme to deliver economic benefits.
- 1.18 My conclusion is that, to maximise the probability of delivering positive economic benefits to the national and regional economy, comprehensive ownership of the Order Land is required.