

Written evidence submitted by Richard Brooks (PIZ0016)

SUBMISSION TO BUSINESS AND TRADE SELECT COMMITTEE INQUIRY INTO THE PERFORMANCE OF INVESTMENT ZONES AND FREEPORTS IN ENGLAND

INTRODUCTION

1. I am a journalist with Private Eye magazine and have written extensively on developments at the Teesside freeport over the last eighteen months. This is a short submission covering some of my findings.
2. Teesside was announced as one of the first eight freeports in March 2021. It is the flagship of the policy, repeatedly cited by the prime minister as the exemplar freeport. It is also held up by Rishi Sunak as representing a main benefit of Brexit. My investigation has, however, shown it to be a case study in the risks associated with freeports and other special economic zones.
3. Absence of accountability and scrutiny have led to a development that is benefiting private interests more than public ones, providing poor value for money and even exhibiting some of the more serious, potentially criminal, risks known to be associated with lightly-regulated freeports.
4. Some of the decisions that have produced these outcomes were taken before Teesside was announced as a freeport. But even when they were, notably in early 2020, it was clear that the regeneration project being undertaken by the South Development Corporation was to constitute the heart of the freeport. Other costly changes were made to the joint venture structure after freeport status had been announced. Importantly, all were made under governance structures that appear to be typical of freeports and investment zones. They were taken by specially established public bodies with little effective scrutiny, at the time or subsequently. The result is that private interests have – in the relatively early stages of the project – already extracted a nine-figure return while taking no risk and providing no investment.

BACKGROUND

5. Following the closure of the SSI steelworks in 2015, the South Tees Development Corporation (STDC) was established under the Tees Valley Combined Authority (TVCA). The plan was to regenerate what in his 2016 report on the area Lord Heseltine called a “scene of desolation, a memory of industrial activity now gone”.
6. Critical to the development was completing the acquisition of the SSI land, which was achieved through a compulsory purchase order that was confirmed in April 2020. The whole site was to be remediated, at a cost to the taxpayer of around £450m to date (before any tax concessions are considered).
7. As part of this process, in March 2020 STDC entered into a joint venture with local businessmen led by property developers Chris Musgrave and Martin Corney. This took the form of Teesworks Ltd (TWL), owned 50/50 by STDC and the men’s corporate vehicles. TWL was given options over the 1,900 acres of developable land on the south bank of the Tees that STDC had acquired. When a given parcel of land was remediated by STDC, TWL would be entitled to acquire the land at market value. In the event no land transactions occurred before this arrangement was superseded (see paragraph 12

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below). TWL was also given rights to the proceeds of highly valuable scrap metal left on the site.

8. The deal has been said by regional mayor Lord (Ben) Houchen to have been the price extracted by the businessmen for the leverage they had obtained by acquiring, shortly before the deal, an option to rent a nearby strip of land owned by Redcar Bulk Terminal. They had been able, goes the official explanation, to parlay this into a stake in the South Tees development by relinquishing the option and enabling RBT's owner of the land to withdraw its objection to the CPO. So important was the option said to be that Lord Houchen claimed: "They [the businessmen] brought STDC into the deal" [rather than the other way round]. Given the strength of the findings in the eventual CPO decision and the background of this as a nationally important regeneration project, it seems improbable that the objection would in fact have prevented the CPO.
9. Against this background, the informed and considered approval of the STDC board to the JV arrangements was essential. In the event it was hasty and ill-considered. Details were initially approved at an urgently-summoned board meeting on 10th February 2020 based on a detailed paper handed to directors at that time. I have discussed this with two board members from the time who confirm they had not considered the specifics of the JV and related agreements when approving them.
10. Around the same time, in early 2020, the same business partners were given a 50 percent share, alongside the Tees Valley International airport (bought by TVCA from Peel Holdings in 2019), in a joint venture to develop a £200m business park at the airport. On the advice of a local law firm, procurement rules were waived. While TVCA contributed around £15m to the venture, the businessmen contributed nothing beyond "forgoing management and short-term development fees".
11. Following his election as regional mayor in 2017, Lord Houchen lobbied heavily for freeport status. In TVCA's words: "In early 2019, the Mayor submitted a policy paper to Government championing a Freeport in Tees Valley, building on the recommendations of a 2016 policy paper by... Rishi Sunak MP, forming part of a campaign which launched in 2018 and was backed by more than 50 business leaders".
12. After this proved successful, with the government's March 2021 freeport announcement, the terms of the joint venture were made even more generous to the business partners. In November 2021 their share in TWL was increased to 90 percent, ostensibly to incentivise the partners to accelerate the work given time-limited freeport tax incentives. The price at which TWL could exercise its options was reduced to £1/acre plus – it has later been stated – the costs of remediating the particular piece of land. (As subsequent transactions have proved, this totals far less than the land is worth when the option is exercised).
13. When they were approved at an STDC board meeting on 18 August 2021, these revised terms were subject to as little scrutiny as the March 2020 initial deal. Again, a board member has confirmed there was no serious consideration of the merits of the change. Later email correspondence from the then Redcar & Cleveland Council leader (on whose patch the development site sat) confirmed how ill-informed the board had been.
14. The board paper on which the decision was based in any event grossly misrepresented the nature of the revised joint venture. For example, it said that the change entailed "TWL

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taking on the future development of the site together with the estimated £172m of net future liabilities in preparing the site for tenants”. It also said the move means “the transfer of all future remediation and site preparation liabilities on the Teesworks site to the private sector”. This is not what has happened. STDC pays to remediate the land and TWL compensates it for those costs if and only if it exercises its option to buy a particular piece of land (for a nominal price). It does not have any liabilities or risk.

COST TO THE TAXPAYER

15. The central issue here is that - far from investing their own money up-front, putting capital at risk and actually funding development as the position has been presented to the board and to the public – the joint venture partners put in money only when they are guaranteed (substantial) profit from the relevant deals. On top of this, there are other very lucrative income streams. Two significant land transactions that have occurred to date illustrate the former point.
16. Land on which wind turbine monopile maker SeAH is constructing a factory was remediated at a cost of approximately £15m. Towards the end of 2022, TWL exercised its option to buy the land for £1 per acre plus inflation since the date of the option agreement. Land Registry records show this was reflected in the sale price (£96.79 plus VAT), but a further £15m is said to have been payable (of which £5m has so far been paid) by Teesworks Ltd. This amount is a “disposal payment” under a separate land value deed. The deal appears to have been structured in this way for tax purposes. (Incidentally, it has long been accepted that public authorities should not enter into tax schemes; how this was allowed to happen warrants scrutiny). TWL immediately leased the land to TVCA (for £3.65m p.a.), which leased it to SeAH (for £4.3m p.a.). TWL then sold its lease with TVCA to a Macquarie investment fund for a confidential amount but which I was told by a source was £75m.
17. This gives a huge profit for TWL, of the order of £60m. The JV partners incurred no risk in “earning” the windfall as, had no occupant been found for the land, TWL simply wouldn’t have exercised its option. Lord Houchen and STDC have insisted that a valuation was prepared for the land, arriving at slightly less than the £15m. They have refused to supply details of this valuation under FoI laws. In any case, I established that the valuation was performed for the 31/3/22 accounting date – before planning permission and a formal agreement with SeAH (issue 1600). It is clear that when it came to the sale, by which point the above leasing arrangements had been agreed, the valuation was far higher. This is self-evident, anyway, from the amount for which TWL immediately cashed in its economic interest.
18. STDC and Lord Houchen have presented the income to be received by TVCA under the arrangement through the difference between lease income from SeAH and lease payments to Macquarie (app £0.65m p.a.) as a good result. But, given the credit risk from leasing to one company operating in an uncertain market, the value of this needs to be discounted significantly. Compared to alternatives such as STDC/TVCA owning and leasing the land directly to SeAH, or selling this income stream itself rather than TWL doing so, the arrangement chosen represents a large loss of public value.

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19. A new quay on the South Bank provides more risk-free gains for TWL. The project is being paid for by STDC using funds borrowed (by TVCA) from the UK Infrastructure Bank, initially £107m but increased to £113m to remedy flaws in the original design. TWL also exercised its option to buy the quay for £1 per acre (£13.56 plus VAT). It was then leased back to STDC for a peppercorn, with a TWL subsidiary given an “operating agreement”. This will be sub-contracted when a real quay operator is found (discussions are ongoing to find one). While STDC has insisted that TWL must repay the loan and is liable for it, this is not the case. It will pay a tonnage fee to STDC based on use of the quay. If this does not equal principal and interest payments on the loan taken out by TVCA, the shortfall will be rolled forward. When the quay is sufficiently successful for the shortfalls to be paid, TWL’s income from customers using it will of course exceed the tonnage fee. In other words, TWL only “repays” the loan when it is sufficiently profitable. At the other extreme, if the quay attracts no business, TWL will pay nothing; there will be no tonnage fee. In practice, what can be expected to happen is similar to the fate of the SeAH land. TWL will sell its interests to an investor once the quay is operational and customers have been secured. At this point a “break payment” equating to what would be a repayment of the loan kicks in. But the break is at the option of TWL – so again the company will exercise it when the proceeds of selling its interest exceed the break payment. Overall this arrangement, leaving TVCA/STDC with the risk and TWL only upside, represents a large loss of public value.
20. It is also important to note that contracts for the sale of the SeAH land and the quay include clauses passing all environmental liabilities back to public authority even when TWL holds the freeholds, compounding the negative value for money of these deals.
21. Other income streams divert further substantial sums to the JV partners. Income from scrap sales is split 50/50 between STDC and TWL. STDC’s share of the proceeds amounts to £40m by March 2023 according to latest accounts (and is likely now to be significantly higher), implying around £50m for the JV partners. It is hard to see how this represents value for money for the public sector compared to the alternative of retaining all the proceeds and paying a contractor fees or commission for its removal and sale.
22. Earlier this year I discovered a further, previously entirely undisclosed, income stream for TWL. Up to March 2023 STDC has paid TWL around £20m for aggregate recovered from one part of the site for use on another and what appears to be commission on the supply of it. IT is not clear why the taxpayer should be paying TWL for its own rubble.
23. There is no sign of value-for-money assessments for any of these arrangements having been performed by STDC. But given the alternatives, of the gains and income streams remaining with the public body and with experts providing the project management services that the JV partners arguably do, for appropriate fees, it seems impossible that the risk-free returns described above, which have already generated around £150m for the JV partners, without any transfer of risk, do represent value for money.

RELATED PARTIES

24. Appointments to a number of influential positions have been made without proper process and for the benefit of friends and family.

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25. For example, Martin Corney's son-in-law, Orion Kotrri, has been given the task of managing scrap on the site without any advertising of this position. STDC has refused freedom of information requests for details of his employment. This is a clear case of nepotism in the award of an important and possibly well-paid position. Concerns are compounded by Mr Kotrri's and Mr Corney's accompanying Ben Houchen on a trip to Albania with no announcement that they were part of the delegation (indeed it seems the only people accompanying Mr Houchen apart from a press officer). This appointment and the secrecy over its purpose and Mr Kotrri's role again are hallmarks of poor governance.
26. A further dubious appointment was that of Mr Garry O'Malley to the position of STDC operations director in September 2020. Mr O'Malley had been one of the two directors of Redcar Bulk Terminal Ltd when it agreed the option over a strip of land that supposedly gave the JV partners leverage to secure the Teesworks deal. Again, there was no advertisement or competition for this role. Mr O'Malley's background was not in development of quay infrastructure, on which he is said now to focus, but in the entirely different business of port operations. The £127k salary he was given was also a very substantial pay rise for him. It is hard to believe that, if advertised, this role would not have attracted a more qualified candidate.
27. As soon as the TWL joint venture was agreed in 2020, Martin Corney's son and (another) son-in-law established a plant hire company that operates on the South Bank site as a sub-contractor for the main construction contractors and makes improbable profits, at far higher returns on assets than other such companies. Neither of the young men had experience in the business before. Even Martin Corney's daughter Amber Kotrri, a fashion designer and retailer, has amended the principal activity description of a gemstone company she owns to include "renting and leasing of construction and civil engineering machinery and equipment". (Incidentally, her fashion company was also given a concession to operate an outlet at the TVCA-owned airport, without competition). The conflicts of interest given TWL's role in selecting contractors are clear.
28. The procurement of security services gives serious cause for concern. NE Security Ltd replaced established security service providers after the TWL JV arrangement was agreed. The company emerged from a "phoenixism" of a business that went into administration owing large amounts to HMRC's anti-avoidance unit a few years ago. Relatively straightforward examination of the group's corporate filings would have established this. Further checks on the company's recruiting practices would have suggested ongoing tax avoidance/evasion, by paying staff who will clearly be employees as self-employed. They would also have revealed the longstanding association between Chris Musgrave and the company's owner David Garside Snr, as well as the serious record of his son David Garside Jnr in criminal activity of the sort to which freeports are particularly exposed. In 2015 he was given an 11-year prison sentence for a leading role in organised drug crime and is now re-employed by NE Security. No competent procurement and governance system could have awarded around £5m of security contracts – covering for example the perimeter of the freeport customs zone and oversight of highly valuable scrap - to this company.

MISREPRESENTATION

29. Given the complexity and difficulty in scrutinising deals such as those entered into on Teesside, openness and transparency are essential. Instead, secrecy and misrepresentation

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prevail, with disclosure of core facts falling far short of standards normally expected in public projects.

30. Matters that would ordinarily be considered disclosable, such as valuations and sales proceeds of public assets and entire streams of income for the joint venture with the private partners – are kept secret. The absence of transparency is all the more damaging because the project is run by an authority outside the ambit of any public audit body in the way that central government departments or their agencies are covered by the NAO.
31. The essence of the joint venture arrangements should have been disclosed from the outset. The JV ownership structure, the options it was given to buy land, the entitlement to scrap proceeds and any other sources of income should have been publicly known automatically. But no information was published on them - board minutes are cursory, for example - until TWL filed information at Companies House and I began looking into the various elements of the arrangement. Freedom of Information requests brought out some details, but disclosures were excessively redacted.
32. Accountability and responding honestly to questions is obviously important but Lord Houchen has repeatedly misled the public, with no corrections coming from TVCA/STDC. After I had revealed the sale of the SeAH land and the quay for nominal amounts, he was interviewed on BBC *Newsnight*. Among his claims was that “our private partners are committing all of the money to remediate the site, to deliver investment and they’re taking on that liability, that’s not the taxpayer now, that’s their liability...”. As the nature of the JV structure and the options proves, this is not true. On the quay, he said “we’re not paying a penny for that” and that the JV partners are “paying for it because it’s a loan right, they’ve got that funding from finance (sic) and they’re repaying it”. This is false. On the project generally he said that “the very clear thing is that the taxpayer is not on the hook”. This again is clearly false: the taxpayer funds all expenditure, not the private partners. There have been no efforts to clarify or correct.
33. At various points, publicly and in board papers, STDC has made the point that the land across the site had a large negative value. This was cited in the 18 August 2021 board paper as a critical factor in determining the price of the additional shares that were then given to the JV partners at no cost. The same paper contains many references to the JV partners taking greater risks and therefore requiring more profits. Yet they have simply not taken on more risk. In February 2022 Ben Houchen told the *Northern Echo* that the November 2021 deal was struck as it was because: “Their [the JV partners’] argument was ‘well, we appreciate you put some money in, but this site is still worth a negative £200 million. If you’re wanting us to have an obligation to put that money in we want the whole site’. That was the starting point of the negotiation and it would be a brave person to suggest otherwise”. As the evidence above shows, the JV partners were not taking on a £200m or any other liability for the land. Both the initial March 2020 and further November 2021 joint venture deals were based on a false premise. A redacted valuation report I have obtained following intervention from the Information Commissioner suggests in any case that the negative valuation is not correct given the commercial opportunities.
34. There are many examples of Lord Houchen’s falsehoods on social media. In reaction to my reporting the sale of the SeAH land he branded this “lies” and said STDC had explained the transaction to us “multiple times” when the opposite was the case; it had

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refused to answer questions or comment on my analysis. This was part of a campaign of disinformation by Lord Houchen, mostly on Facebook. In one exchange he said of the purchase of land by STDC through the CPO in 2020 (for £15m): “the site was worthless so we didn’t buy anything... Taxpayers money was used for keep safe and demolition. Teesworks own it and we are shareholders and part owners”. This is entirely inaccurate and given Lord Houchen’s deep involvement and knowledge of the project cannot be put down as a mistake. He knows full well that STDC (or its subsidiary company South Tees Developments Ltd) “own” the land and that TWL owns only the relatively small areas it has purchased under its option. On Radio 4 *World at One* in June 2023 he said that the site was “never publicly owned”, which is demonstrably false (he had even celebrated taking back ownership of it). In a statement to the *Evening Gazette* after this provoked comment, STDC doubled down by saying: “After the CPO in 2020, the site was bought by the Joint Venture Partners TWL and the STDC in a 50/50 split. The site was never wholly publicly-owned”. Again, clearly incorrect. The “site” was bought entirely by STDC (or, in the case of the former Tata land, by STDC’s subsidiary company). It is a significant shortcoming in the accountability systems, such as they are, that such misrepresentations cannot be immediately addressed.

35. The accounts prepared by STDC also mislead in important respects. They say that “As part of the agreement an option exists, allowing the purchase of areas of the Teesworks site for a value which is equal to a value determined by an independent valuer”. This would clearly reassure a reader that sales were at a market valuation of some sorts. Yet my enquiries show that the options are exercised at £1 per acre plus remediation costs specific to the site. I have also obtained, from BEIS, quarterly update reports to BEIS by STDC. These say: “Private sector investment is calculated based on the average cost of remediation per an acre incurred to date and the average land remediation rate per an independent valuation report. Incorporated is the average cost of utility requirements per an acre”. This is not a market valuation as the accounts imply. Examples to date and projected “investment” from TWL in relation to particular parcels of land, such as that on which Net Zero Teesside is to be built, confirm the amounts equate to expected remediation costs – not market values.
36. The description of the options is followed in the accounts by the comment: “The responsibility for the future development of the site together with the net future liabilities in preparing the site for tenants is transferred to Teesworks Limited”. This is not an accurate statement of the arrangement, which leaves the risk with STDC.
37. Consistent with this overstatement of TWL’s commitments, STDC’s 2022/23 accounts contain a financial asset valued at £91.5m. This is the arrangement for TWL to pay tonnage fees which may or may not equal STDC’s loan interest and capital payments in respect of the South Bank Quay and equates roughly to the amount drawn down on that loan at March 2023. Given the uncertainties involved in the payments over a 50-year period, this is not prudent accounting and misrepresents STDC’s financial position.

CONCLUSION

38. Far from representing the ideal on which regional development should be modelled, the Teesside freeport is an object lesson in the costs and risks posed by the policy. With procurement standards and value-for-money considerations cast aside and many hundreds of millions of pounds of public money spent behind a veil of secrecy and

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misrepresentation, the result is large fortunes for private interests and a poor deal for the public.

39. I would welcome the opportunity to discuss these matters with the committee and to provide any further documentation required.