TEES FREEPORT SPECIAL REPORT

THE REGENERATION GAME

In a bleak economic landscape, a beacon of hope on Teesside has become a case study in the loss of democratic control over industrial Britain and the unaccountable enrichment of a select few...

WHEN iron and steel-making all but ended on Teesside in 2015, with the loss of thousands of jobs, the Cameron government's response was to bring in Lord (Michael) Heseltine to repeat what he'd done on Merseyside in the 1980s. From his work emerged a new combined local authority for the Tees Valley and a development corporation to regenerate the old industrial sites on the south bank of the Tees.

Soon after the South Tees Development Corporation was set up under the chairmanship of newly elected Tory regional mayor Ben Houchen in 2017, the 4,500-acre site became a showcase for the Johnson administration's "levelling up" agenda and, before long, the heart of what would be his government's flagship "freeport". One of the most contaminated sites in the country in one its most deprived regions would be transformed into a green energy centre employing 20,000 people in the industries of the future.

Land ahoy!

The critical first step in the regeneration was for the development corporation to acquire the land on the south bank of the Tees. Generally this was straightforward as companies such as Tata Steel, which had shut up shop a few years earlier, happily sold. But bankers to recently collapsed Thai steel company SSI Industries, controlling 870 critical acres of what had been the Redcar Steelworks, held out. An ensuing compulsory purchase process became complex and contentious, and by November 2019 Houchen was complaining of being "held to ransom". The bullish former lawyer on a mission to transform Teesside vowed to "take back what is ours".

Days after these comments, two well-connected local businessmen entered the fray with a move that would soon net them a huge opportunity. Using a specially incorporated company, DCS Industrial Ltd, a group of businessmen led by property developers Martin Corney and Christopher Musgrave bought an option, costing just £0.5m, to lease 70 acres adjoining the land owned by SSI, at the site of the important Redcar Bulk Terminal port. With SSI's bankers' professed plans dependent on this land, Corney and Musgrave now had leverage.

Unknown to the public at the time (since the development corporation's public minutes failed to identify them or their role), the men approached the development corporation and parlayed this into a 50 percent share in a joint venture with the corporation, Teesworks Ltd, to develop the 4,500 acres now also branded Teesworks. No other bids for the opportunity were invited.

A report prepared for the same early 2020 Houchen-chaired board meeting that approved the joint venture, obtained by the *Eye* under freedom of information laws, shows that it also rubber-stamped options for Teesworks Ltd to acquire freeholds over all the land. As Houchen later summed it up: "Once they bring an investor [ie a business coming to Teesside], they're able to draw down the land [ie acquire the freehold], take on the liability, put the money in to remediate it, and develop the investor." The deal would thus effectively transfer control of the south side of the Tees to the new joint venture.

There was little sign of assessing whether the deal was good value for local or national taxpayers (although Houchen insists local politicians including Labour councillors were given the relevant background). But it soon looked good for Corney, Musgrave and co. Accounting records examined by the *Eye* show that between April and August last year, they received four dividends totalling £8.7m. This was thanks to a hitherto undisclosed agreement to share the proceeds of scrap sales between the development corporation and Teesworks Ltd. After just over a year into the partnership, and before any new business had appeared on the site (though Korean wind turbine "monopile" maker SeAH has now started to build a factory), it was a healthy return.

Meanwhile, cash was coming in from Whitehall, but on the strength of plans that were significantly different from what was actually taking shape. Soon after the creation of the joint venture, in spring 2020, the Tees Valley Combined Authority presented the latest version of a "business case" to the government's Department for Business, Energy and Industrial Strategy (BEIS) for the latest slug of public money (the total now runs to more than £250m, largely spent on simply keeping the site safe and the work of decontaminating and remediating often toxic land). This pitch showed that "private led development", in which the developer would "finance and implement redevelopment", was rejected as "unlikely to be financially sustainable because of the higher returns required by private developers, who are likely to compromise social and environmental objectives to maximise revenues".

Yet the Teesworks Ltd joint venture meant that future financing and development *would* be handed to the 50 percent private-owned company, which would also be required to raise the funds to complete the redevelopment – in stark contrast to the commitment in the business case that development of the site "will be facilitated by the creation of an investment fund" raising money publicly and privately.

Furthermore, the plans also envisaged that the South Tees Development Corporation "has control of all the necessary land and infrastructure", with the intention to "rent rather than sell land to allow control of the long-term freehold and impose appropriate lease conditions on tenants". Now this power would belong to the public/private partnership.

Tees Valley's Tory mayor Ben Houchen

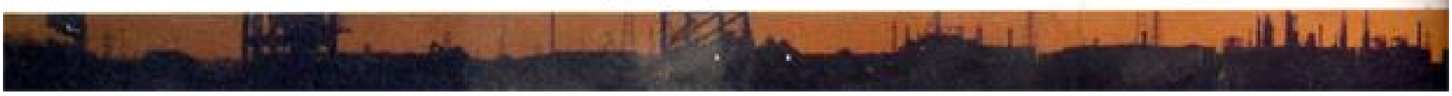
Freeport intervention

At least at this stage the public development corporation retained a half share in the development joint venture. But even this wasn't to last, as the boondoggle on which ardent Brexiteer Houchen, 35, had set his sights for years loomed into view.

In July 2019, with the help of consultancy Vivid Economics (which would continue to earn handsomely from the Tees Valley authority), the mayor published his "proposal for a national free zone policy, using the Tees Valley as a launchpad for national prosperity".

Citing a 2016 paper by the up-and-coming MP for nearby Richmond, one Rishi Sunak, Houchen argued that his development zone should form the centrepiece of the first low-tax, low-regulation freeport.

When Sunak became chancellor six months later, Houchen, by his own account, went on a "Treasury charm offensive" and "shouted from the rooftops and banged down doors across Whitehall and Westminster selling the freeport concept". When eight of the new centres were named in March 2021, Sunak rewarded the Tees Valley mayor with the freeport designation he craved – even though Teesside had scored marginally worse on official criteria than a bid based around less government-friendly Tyneside and Wearside. But Teesside and its supportive mayor were always key to Sunak's political ambitions, its "Brexit-enabled freeport" becoming a central



Rishi Sunak has championed the Tees freeport project alongside Ben Houchen

plank of his (ill-fated) Tory leadership bid.

If the freeport initiative was furthering political careers (Houchen won a landslide re-election last year), it was also increasing Corney's and Musgrave's sway on Teesside. Within months, the area's new status enabled them to raise their stake in Teesworks to 90 percent ownership.

Despite Sunak's fondness for the region as a hard-hatted, high-vis photo-opportunity, he never arrived on the Tees with a cheque book to provide the serious further money needed. So, while the freeport news was welcome, reported the development corporation's finance director Gary Macdonald to his board in August 2021, the five-year window for investment tax breaks meant quicker use of limited government funds and necessitated "a transfer of significant risk and rewards [to the joint venture partners] to incentivise the required pace of delivery". This translated into "an increase of 40 percent share capital in Teesworks to the private sector partners". They would get these shares for nothing through the same company, DCS Industrial, that they had used to acquire the crucial land option two years earlier. The development corporation withheld from freedom of information disclosures valuation details that might explain why Teesworks Ltd was worth nothing.

Commission control

What was more, a "memorandum of understanding" signed by the government's levelling up and business departments and development corporation chief executive Julie Gilhespie in October 2021 revealed the existence of a further commission agreement with the joint venture partners, ie Corney's and Musgrave's companies, not with Teesworks Ltd.

Under this, they would receive further amounts on top of their profits from the joint venture. Again, the authority would not disclose details of this or what it said were several other agreements surrounding the joint venture. Meanwhile, accounts recently filed by DCS Industrial Ltd show it had made at least £1m profit by last November.

Houchen has said that Teesworks Ltd was in fact worth *less* than zero, given the costs it was taking on. Corporation finance director Macdonald's report estimated that the company would need to raise around £350m in loans for further remediation and development of the infrastructure needed to attract business; the mayor would later put the requirement at £206m. Against that, the business case in support of earlier public funding had foreseen income from the site, 90 percent of the profits on which would now accrue to the developers, of £700m (before any potential gains from selling on the freeholds). Which certainly suggests the economic case, and the zero price agreed for Teesworks Ltd shares, needs the independent examination it hasn't so far had.

Perhaps more importantly, however, Houchen says he had no choice but to do the deal, given the absence of further public funding. Under a government that saw levelling up more as a political strategy than a serious investment programme, alternatives – such as sufficiently funding the development corporation directly or guaranteeing its borrowings – weren't on the table.

The price is loss of control. The finance director's report notes, for example, that public influence over what businesses come on to the Teesworks site, on what terms, is now limited to the local Redcar and Cleveland borough council's planning procedures. The rest is down to the businessmen. So much for the new development corporation "taking back what is ours" and driving through regeneration of Europe's largest brownfield site.

It must be hoped that Corney and Musgrave have the backing and determination to see the project through the choppy economic waters ahead. The development corporation's finance man added that financing the project would now be "decided by the majority shareholders [ie the property men] and as such debt leveraging could occur". In uncertain times, with interest rates rising, that's not a great prospect and echoes earlier concerns about financial sustainability.

The deal did at least have to pass "state aid" laws preventing publicly funded sweetheart deals. The development corporation enlisted the help of Newcastle solicitors Ward Hadaway to deal with Whitehall's questions on the matter. Its partner dealing with the Tees Valley was one Tim Care, who happened to be the husband of Tees Valley's commercial director until this March, Alison Fellows, and is a veteran of the PFI industry, of which the Teesside project has uncomfortable echoes.

Scrutiny of the bounty

When local online newssheet the *Tees Valley Monitor* first reported the further handover of Teesworks Ltd shares to Corney and Musgrave companies, Ben Houchen responded in an interview with the *Northern Echo*. BEIS and the Treasury, he said, "had crawled all over" both the 40 percent share giveaway and the original joint venture split.

The *Eye* asked these departments for their assessments of both. The Treasury could find nothing, while BEIS had only a backside-covering "file note" prepared, months after the event, when the latter change attracted adverse publicity and an allegation from Labour Stockton North MP Alex Cunningham of "selling the people of Teesside down the river and hiding behind a cloak of secrecy".

The note recorded that a BEIS official had attended the board meeting at which the extra shares for Corney and Musgrave's group had been agreed, but the civil servant's contribution had been limited to ensuring the development corporation's "lead accountable officer" was satisfied that the deal "represented value for money to the public sector partners". The "lead accountable officer" happened to be the same finance director whose paper had recommended it. Whitehall hadn't examined the arrangements at all, never mind "crawled all over" them.

More unconvincing reassurance was to come. Last month, a couple of days after the *Eye* had put to BEIS evidence that far more land and control had been given to developers than had been approved from Whitehall – and with no meaningful scrutiny – Houchen issued a press release. He claimed the National Audit Office had given Teesworks a "full clean bill of health" after a "thorough review into the organisation and corporate group". The NAO responded that it had performed no official review but had merely confirmed that money from Whitehall had been used as intended (in remediation work).

Plant feed

Before the transfer of control to the property developers, the development corporation had recognised risks in getting into bed with them. Its business case for taxpayer cash 18 months earlier noted the "JV [joint venture] partner's relative lack of experience on size, complexity and hazards associated with the South Tees site" and the "differing governance requirements between JV partner background and public sector requirements impacting procurement". Translated from management speak (the report was prepared with Deloitte), this meant there could be no guarantee over proper spending controls. What can be seen of where the money is going so far suggests the concerns were well founded.

Houchen has promised Teesworks will provide "brighter futures for generations to come". It is certainly doing so for the next generation of one of his new business partners' family.

TCC Plant Ltd – or, as Houchen has plugged it, "fantastic Darlington-based TCC Plant" –

Continues over

Construction work at the freeport site is now largely free of government oversight

was incorporated in February 2020, five days after the mayor reported to the development corporation board the compromise agreement that would usher in Corney's and Musgrave's group into the Teesworks project.

The company is owned by 26-year-old Chester Corney and 28-year-old Thomas Carr, who happen to be Martin Corney's son and son-in-law respectively. TCC Plant equipment now operates on the Teesworks site, and very nicely the lads seem to be doing from the project. Accounts for the first year of their company's operation, up to March 2021, while not revealing its income, show it had retained profits of £530,000 – and that's after any salaries or dividends taken by Corney Jnr and Carr.

TCC Plant is one of a handful of companies set up by the young entrepreneurs since Martin Corney moved into the Teesworks project (having had none before). Carr has also become a director of a new temping agency for construction workers. He and Chester Corney, through their own new "construction holding company" Otis Holdings Northern Ltd, also have a 50 percent stake in Teesside Services Ltd, a new cement manufacturing company. There should be plenty of the grey stuff being poured on the Tees under Corney Snr's watchful eye.

Working for Teesworks Ltd or other contractors, such companies don't have to publish information about their contracts. Run by the 90 percent private Teesworks Ltd, the development work can remain a fairly secret affair. Some contracts that have been awarded by the publicly owned development corporation or its wholly owned safety management company South Tees Site Company Ltd do, however, have to be declared. The largest pose some troubling questions.

Security cheques

One of the winners on the Teesworks site, through contracts for "core site security" and "asset protection services" worth £3m and £2.4m, is Hartlepool company NE Security Ltd. Its lion logo can be seen on signs across the site and on Teesworks-branded 4x4s patrolling it.

Owned by 59-year-old Hartlepool ex-boxer Dave Garside, NE Security's prospects may not have been harmed by his long association with Chris Musgrave. The company has guarded the latter's Wynyard Business Park for more than a decade and Garside was pictured personally accompanying Musgrave's wife to court in 2010 when she was prosecuted over assaulting a traffic marshal.

Company records, which the development corporation appears not to have examined too closely, show that NE Security Ltd came into being in 2012 (contrary to its claims of having been "founded in 1995") and expanded after another Garside security company, NE Services Ltd, went into administration in 2015. Its demise had been brought about by debts to a tax adviser of £375,000 and to HM Revenue & Customs for unpaid taxes running to more than £1.5m, of which £1.4m was to its "counter-avoidance" unit following a failed employment tax-dodging scheme. While the taxpayer was shafted, Garside has moved on and business continues under his ownership, through NE Security Ltd, without the annoying tax bill.

Until March 2014, NE Security was 30 percent-owned by Garside's son, Dave Jnr – even after a prison sentence in 2010 for violent disorder following his involvement in a machete attack. This was followed in 2015 by a sentence of 11 years and eight months for co-leading what Cleveland Police called a "Hartlepool-based organised crime group" that formed part of a cocaine and amphetamine racket stretching across the north of England. There is no suggestion of any involvement by Dave Snr in these matters.

Since his recent release from prison, Dave Jnr has been working at NE Security again. Security jobs and management, however, require an industry association accreditation which Dave Jnr might find tricky to get for a while, and his role is as a "health and safety adviser" – quite a career progression from machete attack accomplice. NE Security says he obtained a health and safety qualification while inside and it is proud of his progress.

Given the importance of security at notoriously smuggling-prone freeports – the drug network Garside was involved in used what are now also freeports at Liverpool and Tilbury – not to mention the valuable assets and scrap lying around Teesworks, all this ought perhaps to sound an alarm. When an *Eye* reporter visited the site, among the locations for NE Security's notices was the perimeter fence of the specially designated "customs zone" of the freeport – into which goods will be able to enter duty-free and must not leave without authorisation.

Full-fat friends

Teesside was supposed to represent the future: poster child for a levelled-up Britain and exemplar of a freeport policy carrying the highest of post-Brexit hopes. But these were, respectively, over-promised and ill-conceived ideas. As the regions deal with the consequences amid dire economic conditions, and new prime minister Liz Truss promises to go further with still lower-regulation "full-fat" freeports, early experience on the Tees suggests there'll be plenty of cream for the insiders – but thinner gruel for everyone else ■

THE 90% CLUB Property men moving on the Tees

THE property developers who entered into a joint venture with the South Tees Development Corporation did so through two companies. These were Northern Land Management Ltd (owned by Martin Corney, his father-in-law Ian Waller, a family trust and fellow director Chris Harrison) and Chris Musgrave's vehicle, JC Musgrave Capital Ltd.

The men were not entirely unknown to Tees Valley mayor Ben Houchen. Waller had donated £7,000 to the mayor in 2018 and 2019. Musgrave is a Hartlepool market trader turned developer who was awarded an OBE in 2019. He had turned Samsung's old plant into his Wynyard Business Park before venturing south a few years ago to do something similar with the former Pfizer factory in Kent, where he had also donated to the Tories. Corney could boast a string of residential developments across the Tees Valley through his and Waller's Theakston Estates group.

Not long before the Teesworks deal, the same group of businessmen had negotiated another 50:50 joint venture, this time with the airport that Houchen had brought back into local public ownership in 2019. Teesside International Airport Business Park Ltd was established to develop a £200m business park at the heavily loss-making airport that is presented as an important part of the freeport. Progress on the site has not been spectacular over the past two years.

Meanwhile, Musgrave's, Corney's and Waller's other style of property development has also received a Houchen helping hand. Soon after becoming mayor, Houchen eagerly backed proposals for a new 4,500-home garden village at Skerningham on the outskirts of Darlington. In papers submitted in 2018 to Whitehall jointly by Houchen, Darlington council's leader and Corney's and Waller's Theakston property group, and seen by the Eye, the mayor said that: "We have identified north Darlington, specifically Skerningham, as the preferred location for a new garden community."

Chris Musgrave (left) and Ian Waller

Campaigners point out that official figures showed the borough already had a 15-year supply of "deliverable housing land" and the last thing it needed was a development that would involve concreting over a large area of green land outside the town and building a brand-new golf course to replace a 100-year-old one that will be built on. Officials at the Tees Valley authority led by Houchen have tried to distance it from the garden village scheme, claiming Houchen's support was a "personal decision".

Another successful bid, enabling up to 6,800 homes, came from Wynyard Park outside nearby Stockton – owned by Musgrave. Houchen said he was "delighted" with the decision.