

AGENDA ITEM 6

REPORT TO THE STDC BOARD

11 SEPTEMBER 2025

REPORT OF INTERIM DIRECTOR OF FINANCE AND RESOURCES

**QUARTER 1 FORECAST OF REVENUE AND CAPITAL OUTTURN 2025/26 AND
2025/26-2028/2029 CAPITAL PROGRAMME**

PURPOSE OF THE REPORT

To provide details of the 2025/26 revenue and capital forecast outturn position for South Tees Development Corporation (STDC), highlighting any significant variances against the approved budget for the year, based on the position as at the end of June 2025.

SUMMARY

The STDC constitution, incorporating relevant statutory requirements, requires that the Corporation sets a financial budget annually for both revenue and capital, which must be formally approved by the Board prior to the start of each financial year. The 2025/26 Budget was presented and approved by the Board on 27 March 2025.

The Budget provides the financial framework within which the Corporation will operate in the financial year (2025/2026) and over the medium-term financial plan (MTFP) period. During the financial year, the Board is presented with quarterly reports containing details of how the Corporation is performing against the financial framework and specific budgets. This report presents the forecast position for both revenue and capital as at the end of June 2025 (Quarter 1).

At the end of quarter 1 STDC is forecasting a revenue outturn for 2025/26 of a surplus of £0.488m. The key drivers for the forecast are business rates income and borrowing

costs for the loans incurred in relation to the capital development programme and the details are set out below. Details are set out in the revenue forecast outturn section below.

STDC is currently forecasting capital expenditure of £35.053m for 2025/26, which represents an overspend of £0.055m above the approved budget and the reasons for this are set out in the capital expenditure section of this report. This additional expenditure would require further borrowing. The revenue impact of this additional borrowing will not arise until 2027, when the asset becomes operational, and interest becomes payable under draft loan agreement T&Cs. The revenue cost is estimated at £2k per annum on this additional borrowing.

TVCA has advanced various loans to STDC since its incorporation and details of those loans are set out in Table 3 of the report. As at the end of Quarter 1, and based on the forecast capital budget outturn, and borrowing requirements, STDC's total forecast borrowing amounts to £404.9m.

The loans that have been advanced to STDC, have varying rates, maturities and conditions. Formal loan agreements have yet to be entered into on three of the loans that have already been advanced although these are in progress and will be finalised shortly.

Under the proposed terms interest only becomes payable at the time of the associated asset becoming operational. Interest does not accrue during this time and is a cost borne by TVCA. Under this approach the total current debt, that interest is payable on, is £159.9m and the cost of servicing this debt, included within the Q1 forecast, is c£4m.

From 1 April 2026, the forecast interest payable on the three issued loans (totalling £214m), which are currently not being serviced, will be £9.29m. From the 01 April 2027 an additional, £30.053m of the £404.9m will become serviceable and the revenue impact of that will be a further £1.4m. From 1 April 2027, this will give a total revenue cost of c£15 m per annum for the total forecast borrowing of £404.9m as set out in Table 3 below.

Options are being considered as to whether interest payment holidays (interest is paused rather than deferred) could be granted by TVCA to STDC. The ability for TVCA to provide interest payment holidays will be dependent on local authority accounting rules and the CIPFA code, as well as the ability for TVCA to bear the c£10m of borrowing costs during the holiday period. TVCA are commissioning external advisors to consider these aspects. Ongoing strategic discussions are taking place between senior officers of both entities to find an appropriate resolution to the group financial position.

Members should note that the Medium-Term Financial Plan (MTFP) that was presented to, and approved, in March 2025 assumed that the loan interest holiday would be granted. However, this has to-date not been formally requested or agreed by the TVCA Cabinet.

STDC's borrowing for its own capital programme is forecast to only increase by a further c£5m from 2026/27. Members should note that of the £350m facility agreed by TVCA, based on current forecasts, there will be a remaining facility of £98.3m as at 31 March 2026.

STDL (the 100% owned subsidiary of STDC) is currently forecasting a deficit of £5.79m for 2025/26 (broadly in line with the budget). This deficit predominately arises from costs incurred in relation to land parcels that have yet to be drawn down under the option agreements with a third party.

In 2024/25, STDL delivered an operational deficit of £9.8m and STDC provided financial support to STDL to enable the company to continue until the developments unwind. A matter has been raised in this respect and the accounting for this is currently being reviewed. Any significant matters arising will be reported back to the Board.

A further contribution by STDC of £5.79m will be required to balance STDL financial position for 2025/26. (Note at the time of writing this report, a commercial payment had been agreed very late which will improve this position by £1.5m - however, there was insufficient time to integrate this into this report).

South Tees Site Company limited (STSC), an 100% owned subsidiary of STDC, is currently forecasting a deficit of £0.24m for 2025/26 which is a positive variance to budget of £0.21m.

In the approved budget, it was proposed that the forecast deficits of £5.79m in STDL and £0.24m in STSC would be supported by a financial contribution from STDC reserves.

At 1 April 2025, STDC had revenue reserves brought forward of £6.42m and therefore has sufficient financial reserves to achieve a balanced budget across the group for 2025/26. STDC's reserves position is outlined in Table 2.

However, the ability for a development corporation to provide financial injections into 100% owned commercial subsidiary is subject to review by external advisors. Whilst STDC may be able to afford to do so for 2025/26, the mechanism by which this is done is subject to agreement with the external auditor.

Following the forecast financial contributions, STDC's remaining reserves as at 31 March 2026 are forecast to be £0.882m.

The overarching plan for the Teesworks site and the STDC MTFP was predicated on the government's 50% share of future additional business rates arising from the Teesworks development being received by STDC (via TVCA – mechanism yet to be agreed).

The business rates forecast was reviewed during the 25/26 budget process and significantly reduced to reflect a realistic value and timing of business rates. The forecast is highly dependent on the Valuation Office's determinations and the timing of private sector programs, which we need to monitor and reassess regularly. A further meeting is taking place shortly between senior officers STDC, TVCA and Redcar and Cleveland Council to review the latest forecast and profile of business rates income against the budget and MTFP latest forecasts.

In terms of STDL, the ability to accelerate the disposals of land parcels under the options agreements or to reduce the ongoing retained estates maintenance costs will be an important element of STDL's future financial sustainability. However, this will require close working with the private sector who has responsibility for these disposals.

STSC is anticipating being in a breakeven position from 2026/27.

Members should note that there were anomalies in how the group budgets were presented and allocated between STDC, STDL and STSC in the report approved by the Board in March 2025. This is explained below. This has no overall impact on the budget position for the group but revised budgets for each entity are presented for approval.

It is proposed to hold a "budget workshop" for Board Members in early Autumn to look ahead at the budget setting for 2026/27 and beyond.

RECOMMENDATIONS

It is recommended that the STDC Board:

- i. Notes the Q1 forecast revenue outturn surplus of £0.488m for 2025/26.
- ii. Notes the Q1 Capital Outturn Forecast of an overspend of £0.055m above the approved budget for 2025/26 and the reasons for this are set out in the report.
- iii. Approves the additional capital budget of £0.055m for the forecast overspend.
- iv. Notes that if this capital budget is approved this will result in additional borrowing of £0.055m which has a revenue impact of £0.002m per annum.
- v. Formally requests the loan interest deferral on the facility borrowing from the TVCA Cabinet.
- vi. Notes the future years revenue implications of the financing costs associated with the total forecast borrowing of £404.9m as at 31 March 2026.

- vii. Approves the forecast financial contributions to STSC of £0.236m to be paid from reserves.
- viii. Approves the forecast financial contributions to STDL of £5.79m to be paid from reserves
- ix. Notes the forecast revenue reserves at 31 March 2026 of £0.882m.

BACKGROUND

1. The objective of the South Tees Development Corporation ("STDC") is to bring forward the regeneration of the Teesworks site which includes the UK's largest Freeport. STDC is tasked with regenerating the site, by converting assets into opportunities and driving forward its redevelopment to create jobs, secure investment and transform the region.
2. Following the successful submission of the business case to Government, which secured funding for the development programme, substantial progress has been made in delivering the agreed accelerated scope and the Board has received previous reports to on achievements and expenditure up to June 2025. This covered:
 - Completion of the site wide decontamination programme. Leading to subsequent removal of COMAH status on the former SSI site;
 - 99% completion of the site's accelerated demolition programme, one of the most complex and condensed demolition projects in the UK;
 - Completion of site preparation activities to create developable areas for new tenants
 - Construction of the South Bank Quay and South Bank Link Road
 - Securing of the Primary Custom Zone, including competition of the security fencing and activities required to secure the freeport custom benefits
 - Construction of the £18 million surface water drainage system
3. The development phase of the site is progressing well with delivery ahead of any schedules previously considered in the original business case and this is enabling accelerated inward investment opportunities for the area, leading to skilled jobs in new clean growth sectors repositioning the Tees Valley as a leading player in these areas.
4. The capital investment programme has been financed through a combination of capital grant funding from TVCA (including MHCLG contributions) and loan finance provided by TVCA under the approved £350m borrowing facility. As at 31 March 2025, STDC's total cumulative borrowing stood at £374.8m, of which £221.7m was drawn against the £350m TVCA facility (subject to finalisation of the year-end accounts). Borrowing under this facility is structured across three separate loan

agreements, with formal documentation still to be finalised.

5. Based on capital programme forecasts (and assuming the £0.055m overspend is approved) total borrowing will be £404.9m, including £251.7m under the TVCA facility.
6. Table 3 sets out the borrowing position and the cost of financing the borrowing. The projected increase in borrowing and associated interest costs will place much greater pressure on STDC's revenue position from 2026/27 onwards. While the financing structure remains affordable in the short term, it will be essential to ensure that income streams, particularly from business rates and commercial activity, are aligned to support the servicing of debt as costs increase and reserve resilience reduces.
7. In September 2019, South Tees Development Ltd (STDL) was established, which is a 100% owned subsidiary of STDC, and its primary purpose is to manage and maintain the Teesworks site. In 2024/25, STDL's outturn was an operational deficit of £9.8m and STDC provided financial support to STDL to enable the company to continue.
8. STDL is responsible for the management and operation of the Teesworks site on behalf of STDC. STDL is effectively an estate management company. Operating expenditure incorporates all general operating costs across the site to ensure a secure and well-maintained development is provided for all current and prospective tenants. Elements of this expenditure will be recharged via an annual service charge to tenants. However, in the short term until tenancy levels rise these outlays will be financed from income received and retained during the development period. A full zero-based budgeting exercise has been undertaken to ensure the service charge is reflective of the services required on site for tenants. Key priorities are:
 - **Communal Estate Management and Service Charge Administration**
Oversight of the management of communal estate areas, ensuring that services are delivered efficiently and in accordance with agreed-upon standards.
 - **Commercial Services Management and Charges Administration**
Management of commercial services across the site, this includes ensuring operational continuity and supporting tenants and businesses on the estate.

- **Management and Maintenance of the Retained Non-Communal Estate**
This includes monitoring and maintaining vacant properties and other non-communal assets within the site.
 - **Overseeing the security of the Teesworks site** - This includes overseeing the management of the contract for security.
 - **Reactive repairs and Maintenance** on communal/retained areas of responsibility. Elements of expenditure are forecast to include but are not limited to structural support reports, road network safety signage, road markings, tower light safety check, pothole repairs and safety critical repairs on Bridges and buildings.
9. STDL is responsible for administering service charges related to communal and commercial services.
10. The South Tees Site Company Limited (STSC) was established by the UK Government (specifically under the Department for Business, Energy & Industrial Strategy) to manage the disused and potentially hazardous former SSI steelworks site at Redcar following its liquidation in 2015. STSC's mandate was to ensure the site was kept safe and secure and managed cost-effectively on behalf of the Official Receiver, the entity in charge after the steelworks' collapse. On 8 October 2020, the government divested its sole share of STSC, transferring control fully to the South Tees Development Corporation (STDC). Financial injections have been provided to STSC from STDC.
11. In addition to the above, STDC has previously entered non-standard commercial arrangements with third parties. These arrangements require STDC to forward fund capital development works, which are fully repayable under the terms of the advanced agreements. The arrangements incur interest charges payable by the third parties due to the deferred repayment profile. Table 8 sets out the current position for the commercial arrangements.
12. This report provides details of the 2025/26 revenue (Table 1) and capital forecast outturn position (Table 4) and an overview of STDCs reserves as at 31 March 2026 in Table 3 below.
13. Important consideration needs to be given to the setting of the budget for 2026/27 and the ability for STDC to balance its budget over the medium term and/or provide continued support to STDL. The financial position will be heavily dependent on business rates income streams being generated in line with current assumptions.

2025/26 Revenue Forecast Outturn

TEESWORKS

The UK's largest
industrial zone

14. Table 1 below summaries the current projected revenue outturn position for STDC 2025/26 which is a positive contribution to reserves of £0.488m.
15. Analysis of the table below indicate that STDC revenue expenditure and income are expected to be in line with the current budget.

Table 1 – Forecast STDC revenue outturn summarised by type of expenditure & Income – Q1 2025/26

	Approved Budget 2025/26	Q1 Outturn	Forecast 2025/26	Variance
Income	£'000	£'000	£'000	£'000
Other Income		(15)	(15)	(15)
Business rates	(4,868)	-	(4,868)	-
Total Income	(4,868)	(15)	(4,883)	(15)
Operating Expenditure				
Employees	730	182	730	-
Premises	84	21	84	-
Transport	-	-	-	-
Supplies and Services	574	245	574	-
RCCO	-	-	-	-
Total Operating Expenditure	1,388	448	1,388	-
Net operating (surplus) / deficit	(3,480)	433	(3,495)	(15)
Central Overheads				
Cost of borrowing - MRP	1,435	-	1,435	-

Cost of borrowing - Interest	4,017	1,456	4,017	-
Third Party - Interest	(2,445)	(611)	(2,445)	-
Net cost of borrowing	3,007	844	3,007	-
Total (surplus) /deficit	(473)	1,277	(488)	(15)

16. Analysis of the revenue income forecast indicates that STDC is on track to achieve its budgeted revenue income for the year. Business rates income has not yet been received, as confirmation and reconciliation of the baseline uplift are only received at the end of the financial year. STDC will be working closely with Redcar and Cleveland Borough Council, as the billing authority to include a more accurate year-to-date estimate of business rates income for future reports. The inability to generate the £4.9m of business rates income is currently considered low risk.
17. The primary risk relates to the timing of third-party revenue but this, again, is considered low risk due to signed tenant contracts, the majority of facilities being constructed, and confirmed operational dates with the businesses.
18. The forecast increase in business rates compared to the prior year is mainly attributable to SeAH Wind becoming operational, which has triggered the commencement of business rate charges.
19. The cost of servicing STDC forecast borrowing is projected to be £4.0m in 2025/26, rising to c£15m by the end of 2026/27 as interest obligations on the operational assets commence. Table 3 provides an overview of STDC's borrowing position.
20. STDC receives interest income on borrowing provided to the private sector in relation to the South Bank Quay, with the loan structured to ensure that the full cost of the Quay is recovered in addition to any interest payable to UKIB. This represents a contracted revenue stream through a loan agreement.
21. As part of the TVCA group, STDC follows local authority capital accounting rules and procedures, including the application of Minimum Revenue Provision (MRP) for capital expenditure funded by debt. MRP is a mechanism for charging to revenue the cost of principal repayments over an estimated life set out in the MRP Policy approved annually.

22. The obligation to make MRP provision is not directly tied to the timing of borrowing but is instead aligned with the period over which the related capital expenditure delivers economic benefits. STDC's capital expenditure is primarily focused on remediating contaminated land to enable future commercial use. Accordingly, the period over which the expenditure provides benefits begins when commercial tenants commence operations on the site. This allows STDC to defer the recognition of MRP until the financial year following the start of commercial activity on the site.
23. The forecast MRP charge of £1.435m relates to the South Bank Quay, as this is asset is operational.

RESERVES

24. The table below summarises STDC's forecast revenue reserves to 31 March 2026. STDC's forecast remaining revenue reserves following the forecasted financial contributions required to 100% owned subsidiaries is £0.882m
25. The forecast contribution to STDL is outlined in Appendix 1 and the forecast contribution to STSC is outlined in Appendix 2.

Table 2 – Forecast STDC revenue reserves – 2025/26

	Forecast 31 March 2026
	£'000
Reserves Opening Balance	6,071
Opening reserves adjustment*	349
STDC Contribution to/(from) reserves	488
STDL financial contribution	(5,790)
STSC financial contribution	(236)
Reserves Closing Balance	882

26. *An adjustment has been made to the prior year STDC closing reserves. The opening reserves balance has increased by £0.35m to £6.42m, this is due to STDC incorrectly recognising a repayment of a grant in the prior year. TVCA approved a grant to STDC of £10.02m in 2019 and as this was a grant no repayments were due.
27. The current projected revenue outturn position for STDC 2025/26 which is a positive contribution to reserves of £0.488m and this has been included in the table above.
28. STDL is currently forecasting a deficit of £5.79m for 2025/26 which was broadly in line with the budget but will require funding by STDC, reducing available reserves. STDL's budget and forecast outturn for 2025/26 is presented in Appendix 1.
29. The Board should note that a commercial receipt relating to a licence fee negotiation was agreed and received very late in the reporting cycle, which had not previously been budgeted for. This will improve STDL's position by £1.5m, reducing the funding support required by STDC and improving the reserves position above. However, there was insufficient time to incorporate this into the report and the improvement will be reflected in the Quarter 2 report.
30. South Tees Site Company limited "STSC" (100% owned subsidiary of STDC) is currently forecasting a deficit of £0.236m for 2025/26 which is a positive variance to budget of £0.21m. STSC's budget and forecast outturn for 2025/26 is presented in Appendix 2.
31. There were anomalies in the how the budgets were presented and allocated between STDC and its subsidiaries STDL and STSC. The budgets had previously been consolidated and presented as a group budget, with reserves consolidated across the group.
32. All forecast revenue income had been presented as part of the STDL estates management budget. This has now been split out between each of the entities that generates the revenue income. Separate presentation by entity is now included in this report with STDC revenue forecast presented in the table above and STDL and STSCs has been split out in Appendix 1 and 2.
33. The projected increase in borrowing and associated interest costs outlined in the section below will place greater pressure on STDC's reserves position from 2026/27 onwards. While the financing structure remains affordable in the short term, it will be essential to ensure that income streams, particularly from business rates and commercial activity, are aligned to support the servicing of debt as costs increase.

BORROWING

34. Table 3 below summarises STDC's current and forecast borrowing to 31 March 2026.

35. At 31 March 2025, STDC's total borrowing stood at £374.8m (£221.6m of approved borrowing facility). This figure includes both external borrowing and funds borrowed from TVCA through the Investment Plan allocation and the approved £350m borrowing facility of which £221.6m had been drawn down by 31 March 2025.

36. Table 4 sets out the forecast capital outturn for 2025/26 and for committed schemes, a further £30.05m of borrowing will be required to fund this capital programme, taking the total forecast borrowing from this facility at the 31 March 2026 to £251.7m.

37. Total borrowing for 2025/26 is forecast at £404.9m, including £251.7m under the TVCA facility.

Table 3 – Forecast STDC borrowing actual to date and forecast for 2025/26

Name	Type	Principal Borrowed	Repayment Years	Payments per Year	Interest Rate	Deemed drawdown date	Repayment Start
		£'000			%		
External Borrowing							
TVCA (UKIB) - Quay	Annuity	106,700	48	2	1.99	31/03/2024	31/03/2024
STDC Borrowing via TVCA Investment Plan Borrowing							
Investment Plan	Annuity	46,474	25	1	3.5	31/04/2024	31/04/2024
STDC Borrowing via TVCA Facility							
Development 1	Annuity	79,450	25	1	4	31/03/2024	01/04/2026
Development 2	Annuity	73,593	25	1	4.63	31/03/2024	01/04/2026
Development 3	Annuity	61,834	25	1	4.5	31/03/2025	01/04/2027
Quay Heavy Lift platform	Annuity	6,800	25	1	4.63	31/03/2024	31/03/2025
Forecast Borrowing - Development 4	Annuity	30,053	25	1	4.63	31/03/2025	01/04/2027
Total Borrowing		404,904					

38. Under the proposed terms of the intragroup TVCA borrowing facility, interest only becomes payable at the time the associated asset becomes operational. To-date

for STDC, due to the length of the construction period, this has been for a two-year period.

39. As a result, the cost of servicing the total borrowing for 2025/26 is £4m as under this approach interest is only charged for 2025/26 on £159.9m of borrowing. This is projected to rise to £13.309m on total borrowing of £374.8m in 2026/27 as interest obligations on the operational assets commence.
40. From 1 April 2027, the additional forecast borrowing of £30.053m (to take the total forecast borrowing to £404.9m), will become serviceable and the revenue impact of that will be a further £1.4m as interest obligations on the operational assets will commence.
41. This will give a total revenue cost for interest on borrowing of £14.4m per annum from 1 April 2027 for the total forecast borrowing of £404.9m as set out in Table 3.
42. The projected increase in borrowing and associated interest costs will place exceptional pressure on STDC's revenue position from 2026/27 onwards. Whilst the proposal to request a further interest rate holiday would provide relief in the shorter term, it will be essential to ensure that income streams, particularly from business rates and commercial activity, are aligned to support the servicing of debt as costs increase.
43. Options are being considered by both TVCA and STDC on the possibility of interest payment holidays (interest is paused rather than deferred) on the forecast four development loans from the TVCA facility totalling £244m. Deferring the interest would have a favourable impact on future revenue reserves of STDC.
44. The Board is recommended to formally request loan interest deferral, as advised by the Corporation's S73 Officer to the TVCA Cabinet, pending the conclusion of work being undertaken by the TVCA S73 Officer.
45. The ability for TVCA to provide interest payment holidays will be dependent on local authority accounting rules and the CIPFA code, as well as the ability for TVCA to bear the borrowing costs during the holiday period. TVCA are commissioning external advisors to consider these aspects. On going strategic discussions are taking place between senior officers of both entities to find an appropriate resolution to the group financial position.
46. It should be noted that formal loan agreements are still at draft stage and subject to legal review by both parties but will be signed by both parties in due course.

2025/26 Capital Forecast Outturn

47. STDC has an approved capital budget of £34.5m for 2025/26. Table 4 sets out the budget, actual expenditure to 30 June 2025, and the forecast outturn for the full year. The latest forecast indicates a forecast overspend of £0.055m against the approved programme demolition and quay works. Table 4 also provides an analysis of capital activity by investment area.

48. The 2025/26 capital programme will continue to focus on the completion of STDC areas of responsibility:

- Park and Ride
- Removal of hazardous waste
- Utilities

49. The demolition programme is now substantially complete, with all structures removed. The only remaining activity is the safe disposal of hazardous materials generated during the works.

50. The site preparation and infrastructure works primarily relate to the Park-and-Ride facility. An element relates to the completion of STDC areas of remediation and the disposal or relocation of waste from previous remediation activity.

Table 4 – STDC Forecast Capital Outturn summarised by areas of investment – Q1 2025/26

	2025/26 Budget	YTD Actual	2025/26 Forecast Outturn	Variance
	£'000	£'000	£'000	£'000
Demolition	1,145	483	1,275	130
Site Preparation and Infrastructure	32,798	2,693	32,598	(200)
Enabling Studies and Other	1,055	63	1,055	-
Quay	-	125	125	125
Capital Overspend / (Underspend)	34,998	3,364	35,053	55

51. Table 5 above highlights the forecast overspend of £0.055m on the capital programme and the overspend is primarily due to tender submissions being

returned significantly above the approved budget. As a result, no contracts have been awarded to-date.

52. The Transport Management Hub forecast at a capital cost of £2.4m has been descoped from the 2025/26 capital due to no contractual obligation and no immediate requirement for the facility. Within the site preparation and infrastructure capital programme this positive variance on the Transport Hub has been offset by a forecast overspend on the "Park-and-Ride". Further details are set out in the paragraphs below.

Capital Outturn Variance Detail

53. The forecast overspend on "Site Preparation and Infrastructure" is in relation to the Park-and-Ride facility. The two significant areas of works that have returned tenders in excess of the budget are:
- Park & Ride Phase 1/2/2+ Construction – Junction and Access Road, £0.4m above the budget of £8.7m
 - Park & Ride Phase 3 Construction – Car Park and Security Management Facilities, £1.7m above the budget of £11.77m.
54. The forecast overspend of £0.13m on demolition is on a contract relating to the removal of waste from the dredging at the South Bank Quay. The original procurement was for earthworks linked to the demolition, to address the removal of stockpiles of lime stabilised dredged silt material (ex-South Bank Quay) from the Former Metals Recovery Area site to various locations on Teesworks, for use in future works.
55. The original plan for the works under the contract was to move approximately 78,000 cubic metres (m³) of material, which is unchanged, of which 30,000m³ was to be relocated to South Bank and Dorman Point, the remainder to other locations. The selection of South Bank West and Dorman Point as two of the locations was in the interests of helping expedite a very tight schedule for the works. However, it has subsequently proven necessary to move this 30,000m³ of material to Long Acres. This has introduced a longer haul distance, and a consequential net increase in the unit cost per m³ for haulage of the affected material. This variation amounts to an increase over the original contract value of 15.3%.
56. For the Quay, the final certifications have been received and has resulted in £0.13m of variations in Q1. It was reported previously to the Board that a comprehensive review of Quay operating building costs is underway to determine the recoverable value against the previously reported £2.2 million overspend.

57. While it is still expected that a portion of these costs will be recovered, no value has been included in the forecasts at this stage, pending greater certainty around both the amount and timing of recovery. It should be noted that the total overspend figure has still not yet been approved by our project managers but has continued to be included in this report on a prudent basis. Our independent surveyors continue to rigorously challenge the validity of the overspend as part of the ongoing assessment process.

Capital Expenditure Overview for 2025/26

58. The following is a high-level summary of where capital expenditure was incurred during Q1 2025/26 financial year, aligned to key project areas:

59. Demolition: Expenditure supported the completion of demolition activities with this work now focused on the safe recovery and disposal of hazardous CoMAH substances from structural remains.

60. Site Preparation and Infrastructure: for the Park-and-Ride facility, the earthworks phase completed in 2024/25 and the expenditure in Q1 2025/26 was on the utilities requirements and the preparation for construction of the junction and access road.

61. The Board is asked to approve as part of paper the increase to the capital budget of £0.055m to allow contracts to be entered into to complete the works.

62. Table 5 below indicates the proposed funding for the 2025/26 STDC capital budget.

Table 5 – Forecast STDC capital funding for the 2025/26 Capital Programme

Funding	2025/26 Budget £'000	YTD Actual £'000	Forecast Outturn £'000	Variance £'000
Capital Receipt (use of reserves)	5,000	-	5,000	-
Borrowing (TVCA)	29,998	3,364	30,053	55
Total Funding	34,998	3,364	35,053	55

63. The capital funding remaining outside of the borrowing facility of £5m is from the sale of land in previous years.

64. Table 5 above highlights the requirement for additional borrowing of £0.055m for 2025/26 and the Board is asked to approve the additional borrowing for 2025/26 of

£0.055m to fund the forecast overspend on the capital programme.

STDC Capital Programme

65. Table 6 below indicates that after 2025/26 STDC requires additional borrowing of £4.9m over the MTFP period and based on the assumptions stated above, the capital investment over the MTFP period 2025/26 to 2028/29 is summarised in the table below.

Table 6-STDC Approved Capital Programme 2025/26-2028/29

	Budget 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Total £'000
Demolition	1,275	2,100		-	3,375
Site Preparation and Infrastructure	32,598	2,514	-	-	35,112
Enabling Studies and Other	1,055	250	-	-	1,305
Quay	125	-	-	-	125
Total Capital Programme	35,053	4,864	-	-	39,917

66. The reduction in the capital programme over the MTFP is fully aligned with the commitments set out in the original business case submitted to government. The delivery timescales have been ahead of those outlined in the original business case. This reflects the fact that STDC has already delivered a significant proportion of its obligations and the scale of progress made-to-date.

67. The proposed funding of the capital programme outlined in Table 6 above is summarised in Table 7 below – indicating the capital grant available is fully utilised.

Table 7 – STDC forecast MTFP Capital Investment 2025/26 to 2028/29

Funding	Forecast 2025/26 £000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000	Total £'000

Capital Land Sale	5,000	-	-	-	5,000
Borrowing (TVCA)	30,053	4,864	-	-	34,917
Total Capital Funding	35,053	4,864	-	-	39,917

Non-Standard Commercial Arrangements

68. STDC has entered into two non-standard commercial arrangements with private sector developers. One with BP and Teesworks Ltd (TWL) for the delivery of the Net Zero Teesside (NZT) project. There is a separate arrangement with TWL for the Orsted project which is the 'General Site Preparation Works Agreement'. Both of these arrangements require STDC to forward fund capital development works, which are fully repayable under the terms of the advanced agreements. The arrangements incur interest charges due to the deferred repayment profile.
69. The forecasts assume that all repayments are paid when they fall due and the interest accrued is paid in full.
70. The NZT project is a significant private sector investment and is proposed to lead to c£4bn of capital investment in a Carbon Capture Utilisation and Storage (CCUS) facility and dedicated power plant. This will potentially lead to c4,000 construction jobs in addition to the direct and indirect jobs associated with the facility.
71. The NZT arrangement follows STDC/STDL delivery model that was presented and approved by the STDC board on the 16 March 2023.
72. As part of the delivery model STDC/STDL has undertaken remediation works as landowner. When work has been completed on the NZT site and all costs are accounted for (including landfill tax reliefs) TWL will exercise its option. All development activity and costs will be fully funded by the private sector.
73. Any future tenants with proposed enabling activities operating under the STDC/STDL delivery model will be costed and fully recovered including appropriate management and interest charges. There are no additional proposed activities above those outlined above in the table below, that are forecast to follow this model to-date. The table will be updated throughout the 2025/26 financial year to reflect any future tenant developer expenditure and associated funding.
74. The table below summarises commercial expenditure funded in advance by STDC to date, alongside private sector contributions received. It also sets out the medium-term

forecast of further commercial expenditure to be funded in advance by STDC and the corresponding reimbursements.

Table 8-STDC third party forward fund expenditure for the MTFP period

	Prior years' spend £'000	Budget 2025/26 £'000	Forecast 2025/26 £'000	Budget 2026/27 £'000	Budget 2027/28 £'000	Budget 2028/29 £'000
Capital Expenditure						
NZT Project	27,700	3,800	3,700	-	-	-
Osted Project	1,499	3,310	3,101	-	-	-
Total Capital Expenditure	29,199	7,110	6,801	-	-	-
Funded by						
Private Sector Contributions Received	15,000	-	-	-	-	-
Private sector funding owed	14,199	7,110	6,801	-	-	-
Total Funding	29,199	7,110	6,801	-	-	-

75. The total forecast commercial expenditure to be funded in advance by STDC is £36m.

76. To date, STDC has incurred £29.19m of expenditure on commercial projects in prior years, of which £15m has been reimbursed. The outstanding balance of £14.199m is due and expected to be fully received within the 2025/26 financial year.

77. In Q1, STDC funded £3m in advance, with a total forecast of £6.8m for 2025/26. This is £0.3m lower than previously forecast, primarily due to reduced requirements for technical consultants.

78. All forward-funded commercial expenditure, both incurred to date and forecast for 2025/26, is contractually due for reimbursement within the financial year, and full recovery is anticipated.

FINANCIAL IMPLICATIONS

79. This report gives an update on performance against the budget for the Corporation.
80. The financial implications are detailed within the report, specifically highlighting the risks associated with serving borrowing costs and achieving revenue income forecasts.
81. Large capital projects typically carry an element of financial risk due to unforeseen challenges, scope changes, or execution delays. However, this risk is now reduced to a lower level for STDC as the projects are nearing completion, minimising uncertainties. The likelihood of significant scope changes, cost escalation, or delays is reduced and the progress made to date enables more accurate financial forecasting to completion.
82. Experienced external and internal project managers are used to oversee the projects. Their responsibility includes maintaining budgetary control, monitoring timelines, managing risks, and ensuring resources are allocated efficiently. Their expertise helps to minimise delays and cost overruns and aims to identify and address potential financial issues before they escalate.

LEGAL IMPLICATIONS

83. The Constitution of the South Tees Development Corporation provides that any decision or issue which may result in a significant risk of:
- a. A financial liability; or
 - b. A statutory liability; or
 - c. An environmental or criminal liability
- to the Tees Valley Combined Authority or to any or all of its Constituent Authorities ("a Referral Decision") and shall refer such decisions or issues to the Combined Authority for agreement before such liabilities arise, and prior to the implementation of any such decision.
84. It is confirmed that the decision sought in this Report **does not** fall within the definition of a **referral decision**.

RISK ASSESSMENT

85. The Budget Report remains as medium risk to reflect the work on the implementation of our group risk management strategy.

CONSULTATION & COMMUNICATION

86. The annual financial statements are presented and reviewed by the Audit and Governance committee.

EQUALITY & DIVERSITY

87. There are no equality and diversity implications associated with the recommendations of this report.

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Appendix 1 – STDL Budget and Forecast Outturn 2025/26

	Approved Budget 2025/26	Q1 Outturn	Forecast 2025/26	Variance
	£'000	£'000	£'000	£'000
Commercial Services External	(344)	(85)	(344)	-
Service Charge	(702)	(267)	(702)	-
Works Agreement	(567)	-	(567)	-
Total Income	(1,613)	(352)	(1,613)	-
Operating Expenditure				
Employees	720	178	720	-
Retained Estates	1,964	197	1,964	-
Communal Estates	4,110	1,246	4,110	-
Commercial Services - STDC Projects	311	-	311	-
Commercial Services - External Projects	298	-	298	-
Total Operating Expenditure	7,403	1,621	7,403	-
Net operating (surplus) / deficit	5,790	1,269	5,790	-

Appendix 2 – STSC Budget and Forecast Outturn 2025/26

	Approved Budget 2025/26	Q1 Outturn	Forecast 2025/26	Variance
	£'000	£'000	£'000	£'000
Power Income	(37,087)	(1,973)	(37,087)	-
Water Income	(1,005)	(31)	(1,005)	-
Water Use of Systems Income	(84)	(21)	(84)	-
Intercompany Recharges	(257)	(64)	(257)	-
Total Income	(38,433)	(2,089)	(38,433)	-
Operating Expenditure				
Operating costs	88	15	60	(28)
Power Consumption and services	37,193	1,968	37,193	-
Water Consumption and services	1,274	103	1,274	-
Keep Safe Activities	328	5	142	(186)
Total Operating Expenditure	38,883	2,091	38,669	(214)
Net operating (surplus) / deficit	450	2	236	(214)

Appendix 3 - STDC Funding Overview

In 2019 £10.5m of capital grant funding was secured from the Ministry of Housing, Communities and Local Government (MHCLG) to TVCA outlined for STDC and its development of the Prairie Site, now known as Dormant Point.

In September 2020, TVCA was successful in securing funding from MHCLG as part of the 'Get Building Fund'. Projects on the Teesworks site were identified and £4.1m of the capital grant was granted to STDC from TVCA for the delivery of these projects.

In September 2020, the TVCA successfully secured further funding from the MHCLG through the 'Get Building Fund'. Projects on the Teesworks site were identified as eligible, and a capital grant allocation of £4.1 million was awarded to the STDC by TVCA to support their delivery. The primary STDC projects were the construction of the Teesworks Gatehouse and the Teesworks Skills Academy.

In October 2020 £125m (£62.7m revenue and £63.1m capital) of funding was secured by TVCA from Central Government via the South Tees Development Business Case Submission. Cabinet approved this funding for STDC for the remediation of the site and to pave the way for investment by private companies.

Subsequently, TVCA was successful in securing additional capital funding from central government following the successful submission of two business cases: £20m to support Offshore Wind activity in March 2021, and £21.5m in September 2022 to enable the development of the Teesside Freeport.

A revenue operating grant was received from central government for £7.4m, to support the operational costs of STDC group including STSC.

In addition to the above, the TVCA Cabinet has previously approved the use of their borrowing powers to support the delivery of the STDC Business Case approved by Government up to a value of £350m.

TVCA secured a £106.7m loan facility from the UK Infrastructure Bank to support the development of a 450-metre quay at South Bank, designed to service the offshore wind sector. This funding has been onward-lent by TVCA to the STDC to enable delivery of the project. This loan was varied to increase the value to £115.5m to incorporate a heavy-lift platform and quay operating building.

STDC has generated commercial revenue and capital receipts since incorporation. Revenue income has been primarily generated from the sale of scrap metal (£50m Revenue) from the Teesworks sites and from Dividends (£8.7m revenue).

SOUTH TEES DEVELOPMENT CORPORATION

The dividends were accumulated from the period of 50% ownership of Teesworks Limited by STDC. Capital receipts primarily from the sale of the land for the SeaH site (£15m capital).

Funding Summary

Source	Type	Amount
		£'000
STDC Business Case	Capital	63.1
Offshore Wind Business Case	Capital	20.0
Freeport Business Case	Capital	21.5
TVCA Investment Plan Funding	Capital	10.0
TVCA Investment Plan Funding	Capital	46.5
Get Building Fund	Capital	4.1
Prairie Site Funding	Capital	10.5
Land Sale for SEAH	Capital	15.0
Quay	Capital	115.2
STDC Business Case	Revenue	62.7
Government Operational Grant	Revenue	7.4
Dividends	Revenue	8.7

TEESWORKS

The UK's largest
industrial zone