

MID SUFFOLK DISTRICT COUNCIL

TO:	Mid Suffolk District Council Cabinet	REPORT NUMBER: MCa/21/49
FROM:	Cabinet Members from Economy and Finance	DATE OF MEETING: 04/04/2022
OFFICER:	Fiona Duhamel, Asst. Director Economic Development & Regeneration	KEY DECISION REF NO. CAB327

Freeport East Full Business Case

1. PURPOSE OF REPORT

- 1.1 To update Members on the progress towards developing the Freeport East Full Business Case (FBC) and associated strategies and policies and to note the proposed set-up of Freeport East Ltd and associated governance structure.
- 1.2 The FBC represents the development of the Outline Business Case (OBC) which was submitted to Government on 10 September 2021. The OBC set out the objectives of Freeport East whereas the FBC sets out how these objectives will be achieved and demonstrates Freeport East's ability to deliver them.
- 1.3 Freeport East became a 'live' Freeport in December 2021 following Government approval of the OBC and the Freeport's Tax and Customs site. Government approval of the FBC will result in the release of £25m worth of capital seed funding which has been allocated to Freeport East to invest in its three Tax Sites and facilitate significant inward investment onto these sites.

2. OPTIONS CONSIDERED

- 2.1 Proceed as per recommendations to endorse submission of FBC and associated strategies and approve principle of business rates retention policy, support the set-up of a Company Limited by Guarantee and support the early years of the programme with a contribution towards a programme delivery fund in advance of retained rates being available. This is the preferred approach as it aligns to the decision process of other Freeport partners and ensures that Mid Suffolk District Council play an active role in the delivery of Freeport East. It will also support the designation and launch of Gateway14 (G14) as a Tax Site with the associated financial incentives for businesses.
- 2.2 The Cabinet could choose not to support the submission of the FBC. However, as the aspirations within the Freeport East proposal are closely aligned to the Council's own strategic priorities and the FBC could be submitted without our express support, this would not be appropriate.
- 2.3 The Cabinet could choose to delay making a decision, however, the Government's timeline for FBC submission is fixed. Delay could mean that the FBC is unable to be submitted on time or that it is submitted but without support from one of its key partners and owners of a Tax Site which could damage the FBCs chance of success

and potentially limit access for potential tenants at G14 to key Freeport related incentives.

3. RECOMMENDATIONS

- 3.1 That the submission of Freeport East Full Business Case (FBC) be endorsed
- 3.2 That the Assistant Director Economy & Regeneration and the S.151 Officer be given delegated authority in consultation with the Leader of the Council and Cabinet Members for Finance and Economy, to finalise the detail on the Freeport East FBC on behalf of Mid Suffolk District Council.
- 3.3 That the proposed incorporation model for Freeport East i.e. Company Limited by Guarantee be approved, and that Cabinet make a recommendation to Full Council on nominations for a MSDC director.
- 3.4 That a retained business rates policy be approved in principle.
- 3.5 That forward funding from the Growth & Efficiency Fund of £80,000 per year for 2 years in advance of retained business rates be approved.

REASON FOR DECISION

Achieving Freeport status for the G14 site and the wider Freeport East region will provide a unique opportunity for significant economic growth.

This once in a generation opportunity will leverage in substantial additional funding to support the delivery of G14 alongside providing investment in skills, infrastructure and investment projects in the wider area to support the Levelling Up agenda and provide opportunities for all and true inclusive growth for our communities.

4. INTRODUCTION & BACKGROUND

- 4.1 The Council as a core partner and member of the Shadow Supervisory Board of Freeport East is required to provide a letter of support for the Full Business Case before it can be submitted to Central Government. The deadline for submission of the FBC is 15 April 2022.
- 4.2 By gaining approval to the FBC by Central Government, Freeport East officially exists with all customs and tax powers for a period of 25 years.
- 4.3 The development of the FBC follows submission of the Freeport East Outline Business Case (OBC), which was submitted to Government on 10 September 2021.
- 4.4 On the 13 December 2021 the Outline Business Case was formally approved by Government, the three tax sites in Felixstowe, Harwich and at Gateway 14 were agreed, published on GOV.UK and Statutory Instruments laid to enshrine them in legislation.
- 4.5 The Council is a major beneficiary of Freeport East in that it is the owner of Gateway 14, a Tax Site and potential Customs site.

4.6 The FBC submission will follow the timetable below:

- 15 April – Submit Full Business Case
- Summer 2022 - Government endorses Full Business Case
- Summer / Autumn 2022 - Designation of Freeport
- Summer / Autumn 2022 - Approval of £25m seed capital funding to Freeport East

5. OVERVIEW OF FREEPORTS

5.1 Freeports are a flagship HM Government programme that play an important part in the UK's post-Covid and post Brexit economic recovery. Its aim is to contribute to the Government's levelling up agenda by bringing jobs, investment, and high value opportunities to some of our most deprived communities across the country, while at the same time generating national benefits through trade and innovation.

5.2 In November 2020 HM Government formally launched the bidding process for Freeports in England. This prospectus sets out the objectives of the Freeport policy, which are threefold:

- Establish Freeports as national hubs for global trade and investment across the UK – bringing new investment into the surrounding region and increase trade through generating trade growth and enable trade processes to become easier and more efficient.
- Promote regeneration and job creation – leveraging ideas and investment from the private sector to deliver jobs, sustainable economic growth and regeneration in the areas which need it most.
- Create hotbeds for innovation – leveraging both public and private investment in R&D to develop and trial new ideas and technologies in and around the Freeport

5.3 Designated Freeports offer several policy levers, including:

5.3.1 Tax sites give businesses operating within them access to certain tax benefits i.e., Enhanced Capital Allowances, Enhanced Structures and Buildings Allowance, Stamp Duty Land Tax reliefs, Employers National Insurance Contribution relief, and Business rate relief

5.4 Customs sites, in our case, Gateway 14 and Port One, when approved will provide: -

- Simplified customs procedures
- Duty exemption
- Duty deferred
- Duty inversion
- VAT deferral

5.5 Retained business rates allows local authorities to retain the growth in non-domestic rating income in Freeport tax sites for 25 years above an agreed baseline, which are expected to be used to reinvest in supporting Freeport objectives.

5.6 Seed capital funding of up to £25m to kick-start delivery of Freeport objectives. Gateway 14 has been indicatively allocated £6m towards the development of the Skills and Innovation Centre and Net Zero projects.

- 5.7 Each of the shortlisted Freeports has also been provided with up to £1m of capacity revenue funding by Central Government to help them in the set-up phase and early years operation and to date £300k of this has been drawn down by Freeport East to support their work on producing the Outline Business Case (OBC) and FBC.
- 5.8 For a Freeport to be considered formally designated it will require:
- Government approval of Outline Business Case (OBC) and Full Business Case (FBC) – ‘the Business Case Process’
 - Government approval of proposed tax sites – ‘the Tax Site Process’
 - Government approval of proposed customs sites – ‘the Customs Site Process’

6. SUMMARY OF FREEPORT EAST FBC

- 6.1 The FBC lays out how Freeport East is going to develop, build and operate the three Tax Sites in Felixstowe, Harwich and Gateway 14, with the aid of the allocated Seed Capital whilst also designating a number of Customs Sites including Port One at Gt. Blakenham.
- 6.2 A number of working groups have been established to support the completion of the FBC and set out how Freeport East objectives will be delivered. The working groups have been supported by all Freeport East partners and co-ordinated by the FE Project Manager. These groups are set out below with a summary of the progress made:
- 6.3 INVESTMENT AND TRADE (attended by Michelle Gordon)
- 6.3.1 Development of a Trade and Investment Strategy building on the key sectors identified by the tax site owners in the OBC, supporting international marketing efforts and engagement with the Department of International Trade. Norfolk and Suffolk Unlimited through New Anglia LEP will work with the Inward Investment function in development at Essex County Council to provide a joined-up resource to assist promotion of the Freeport, linking into existing initiatives and provision of a cross team information sharing platform to co-ordinate support.
- 6.4 SKILLS (Chaired by Michelle Gordon, attended by Clare Free)
- 6.4.1 Development of a Skills and Workforce development plan, bringing together partners from across Essex and Suffolk to develop a resourcing and governance plan to ensure there is a pathway for employment across the freeport (particularly within the most deprived communities), unlocked through skills interventions.
- 6.4.2 A 5-year initial intervention plan will be included looking to support the estimated 4600+ new jobs being created in the initial development period of the Freeport.
- 6.5 INNOVATION (attended by Fiona Duhamel)
- 6.5.1 Development of an Innovation Strategy reflecting the current challenges both Essex and Suffolk have regarding national performance rankings, highlighting the local assets, projects and opportunities the freeport needs to enhance to support the drive towards innovation. The freeport would target innovation outputs that include new technologies / prototypes; new partnerships/connections between organisations; new

businesses supported; usage of new facilities; funding secured; and businesses supported/mentored to drive effective use of the retained rates funding.

- 6.5.2 The strategy sets out the vision for an innovation ecosystem that the Freeport will deliver utilising levered funding, retained rates and a partnership approach that maximises the assets across both Suffolk and Essex.

6.6 EQUALITIES

- 6.6.1 An Equalities impact assessment to detail the baseline that Freeport East commences with, setting the commitment to have an Equalities and Diversity champion within the Management and Supervisory board, annual reviews towards equality and a commitment for equality by design in project proposals and spend of retained rates projects.

6.7 GOVERNANCE/ INCORPORATION (attended by Emily Yule, Fiona Duhamel and Katherine Steel)

- 6.7.1 An options analysis has been developed to explore the most appropriate governance model to allow Freeport East to deliver against local authority responsibilities, freeport objectives and also provide effective engagement with private sector landowners, custom site operators, occupiers and contractors as part of operating the Freeport. A company limited by guarantee has been determined as the preferred model and the Freeport will progress incorporation in partnership with the stakeholders to allow recruitment and spend of the Pot C revenue funding (further details on the business rate “pots” is explained in Section 9) to provide maximum benefit to the residents from the anticipated growth of the Freeport tax sites.

6.8 FINANCE (attended by Katherine Steel and supported by Michelle Gordon on business rates modelling)

- 6.8.1 The Section 151 officers from all authorities have worked collaboratively to establish the principles they are satisfied with for the Freeport. Mechanisms will be developed allowing retained rates income to be transferred to third parties e.g. Tax Site operators. This will then facilitate, at their risk, investments being made on the anticipated growth of business rates, unlocking development in the sites and the overall deliverability of the Freeport objectives. Retained rates modelling anticipates £343m of rates income over the 25 years with the next stage being to agree the distribution of rates across the authorities in accordance with the principles already established in the Outline Business Case.

6.9 ECONOMIC ANALYSIS

- 6.9.1 The working group has reworked the Value for Money assessment across the freeport in line with updated government guidance and it demonstrates a cost benefit analysis well within the expected range for Government. This work clearly justifies the economic benefit of the Freeport interventions and provides reassurance that the impact to cost ratio is robust and would hold up against any potential shortcomings in delivering Freeport objectives.

6.10 SITE DEVELOPMENT (Liaison with Emily Attack)

- 6.10.1 Both Gateway 14 and Hutchison Ports, as site owners, have progressed their site development plans, adding detail, progressing leads for commercial deals and

demonstrating that processes are in place to fully realise the development of their sites.

6.11 PROJECT PIPELINE SUPPORT AND CO-ORDINATION

6.11.1 A project investment pipeline has been developed that demonstrates the value that Freeport East is building on. It also outlines the provisional upcoming projects that Freeport status will enhance to maximise its impact and the collaborative activity that is / will take place with existing stakeholders.

6.12 SECURITY

6.12.1 An updated security risk assessment has been completed in partnership with Essex/Suffolk Police, Port of Felixstowe Police, Counter Terrorism Policing, tax & custom site operators, National Crime Agency and Border Force. A member of the Freeport Supervisory board will be appointed to the Freeport security group to act as board champion and the terms of reference for this group will be enacted.

6.12.2 The activity set out above highlights the key content of the FBC and the work that has been undertaken to develop it from the Outline Business Case.

6.13 FREEPORT EAST HEADLINE ECONOMIC BENEFITS

6.13.1 Freeport East will result in £330m of investment in new infrastructure, create an additional 13,500 new jobs and generate approximately £343m in retained business rates over the designation period.

6.13.2 It will also create an additional 1.3m tonnes of international trade and an uplift in sub-regional GVA of up to £16.6bn.

7. LINKS TO CORPORATE PLAN

7.1 The Corporate Plan (2019-27) is designed to address the challenges and seize the opportunities facing the districts, and their organisations, for the foreseeable future. In relationship to the matters contained within this report, the Council's strong local leadership role to build great communities for living, working, visiting and investing in is particularly relevant.

7.2 The Freeport designation will help us to achieve our Vision to build "Great communities with bright and healthy futures that everyone is proud to call home".

7.3 It will support our Strategic Priorities on the Economy as a "place that is known for strong growth in innovation and creativity, for being highly connected and sustainable with the best skilled workforce in the East".

7.4 The Freeport will also help to deliver on the key Goals of our recently published Recovery Plan:

7.4.1 Inclusive growth and support – working with our partners and cross council to deliver healthier outcomes in our economies as part of our joined-up recovery programmes

7.4.2 Strength in innovation – driving resilience and re-growth of our places through innovation in sustainability and climate change, and capitalise on the positive behaviour change post pandemic

- 7.4.3 Resilience – ensure our businesses develop resilience for the future, enabling them to inspire and be aspirational within our communities
- 7.5 The Freeport designation has been identified as a key activity within the “recover” strand of the Recovery Plan with a specific focus on ensuring that G14 innovation cluster is accelerated as a result of the designation and the business led Innovation and Skills Centre is developed.

8. FINANCIAL IMPLICATIONS

- 8.1 Members approved a financial contribution in 2021/22 towards the operating costs of developing the OBC and FBC of £12,500 from the Growth and Efficiency Fund in line with contributions made by all other Local Authorities.
- 8.2 Members have also already approved the budget for the purchase and development of G14. This development is expected to be accelerated via the Freeport designation, and Freeport funding will be sought for the delivery of the added value initiatives on site which were not part of these existing funding agreements including the Innovation and Skills Centre and additional Net Zero projects.
- 8.3 Businesses investing in the G14 Tax Site will be eligible for Business Rates Relief in accordance with the Freeport Business Rate Relief Policy (as set out in more detail in Section 9).
- 8.4 The revenue costs of the Freeport East Delivery Team are being met from a commitment of £1m Government capacity funding until there is sufficient funding generated from retained rates to cover these costs.
- 8.5 However, around £400,000 a year from 2022/23 will also be required over and above the committed funding for revenue projects to meet the Freeport East policy objectives, primarily skills, innovation, and investment.
- 8.6 This funding is to be committed on a one-fifth share for each of the five authorities, in advance of the retained business rates being the source of funding. It is anticipated that the projected business rates will fund this requirement from 2024/25 onwards, so there is a requirement, equating to £160,000 in total each (£80,000 in the financial years 2022/23 and 2023/24) for forward funding by the five Local Authorities. With rates income increasing in the years beyond 2024/25, it is expected that this forward funding would be repaid.
- 8.7 It is proposed that this contribution would be made from the Mid Suffolk Growth & Efficiency Fund.
- 8.8 Once the FBC has been signed off, the allocated Seed Funding attributed to each site will be confirmed. The allocation for G14 is expected to be spent on delivering added value services including the development of an Innovation & Skills Centre on site and additional net zero initiatives. This money will be drawn down via a grant process from East Suffolk District Council over a 3 year period as appropriate development costs are incurred and agreed milestones are reached.

9. FREEPORT EAST BUSINESS RATES POLICY

- 9.1 The Government has confirmed that full business rates relief will be available to eligible businesses within the designated Freeport tax sites.

- 9.2 Relief will be available to all new businesses, and certain existing businesses where they expand, until 30 September 2026. This relief is payable for 5 years and will be funded by the Government, in a similar way to the current operation of Enterprise Zones.
- 9.3 Business rate revenue above baselines for each tax site will then be apportioned based on a bespoke hybrid model described below. Under this model a portion of the total income generated will be earmarked for reinvestment within the tax site area; a portion will be retained by the local authority within which the tax site falls; and a portion will go into a pot to be reinvested across the wider freeport area. The hybrid model aims to provide a means for improving and enhancing tax sites, while ensuring that the benefits of freeport status are distributed evenly across the area.
- 9.4 The Government has not changed legislation relating to the Freeport relief and instead has issued guidance for Local Authorities to use their discretionary relief powers under section 47 of the Local Government Finance Act 1988 (as amended), to grant relief to those who are eligible.
- 9.5 In the existing framework granting of discretionary relief would involve a cost to the Council. However, in the case of Freeports the Government will fully reimburse the Council for the cost of relief granted in accordance with the guidelines, through section 31 of the Local Government Finance Act.
- 9.6 To accompany the FBC all partners have been asked to support the high-level arrangements for business rates retention, under which the retained business rate monies will be divided into three pots:
- 9.7 Pot A is the existing rates funding calculated on the same basis as would currently apply to the distribution of rates. Pots A1 and A2 are distributed to billing authorities and the County Council's to ensure they do not lose out from Freeport. Councils can allocate this funding to their General Fund and can spend it as they see fit.
- 9.8 The principles relating to a specific additional pot will need to be negotiated with New Anglia Local Enterprise Partnership (NALEP) as part of G14 is currently designated as an Enterprise Zone (EZ). This will not affect the monies that will be available for Pot A or Pot B, but will reduce the overall sums available in Pot C.
- 9.9 Pot B provides additional funding to support or accelerate development of a Tax Site. This pot is expected to be used to support the delivery of added value activity at G14 that will stimulate additional economic growth including acceleration of the development of the Innovation and Skills Centre and additional net zero projects.
- 9.10 Pot C provides a fund for economic development and regeneration projects within the subregion, aligned to achieving the wider Freeport Policy objectives including investment in skills, innovation, levelling up, trade, investment, infrastructure, security and net zero carbon. This fund is administered by the lead authority, East Suffolk District Council, and decisions on its use would be determined by the Freeport East Supervisory Board, of which Mid Suffolk District Council is a member. Projects would need to impact on the area within the Freeport boundary map. The size of pot C will depend on the requirements of Pot B (development of Freeport sites) and the time taken for the Tax Sites to be delivered and occupied.

- 9.11 In addition, some of the retained rates will be used to pay for the overhead costs of the body managing Freeport East.
- 9.12 A full retained rates policy will be drafted post submission of the FBC and brought back to Cabinet for approval.
- 9.13 This policy will set out the final split between each of the “pots” and priorities and conditions of spend.
- 9.14 As part of these ongoing discussions local authorities including Mid Suffolk District Council would not be asked to provide any direct funding or take on any financial / borrowing risk.

10. LEGAL IMPLICATIONS

10.1 GOVERNANCE STRUCTURES

- 10.2 Freeport East is currently governed by the Freeport East Shadow Supervisory Board, however the intention is to incorporate with the preferred model being a Company Limited by Guarantee (CLG). The expectation is that each of the current partners will nominate directors to the permanent Supervisory Board.
- 10.3 The permanent governance structure will comprise a two-tier arrangement, including a Supervisory Board and a Management Board. The Supervisory Board will be responsible for the strategic direction of Freeport East development and for monitoring and holding to account the Management Board for the effective delivery of the interventions and strategy and for receiving assurance about the effective management of the physical and fiscal security aspects of Freeport East.
- 10.4 The Management Board will be responsible for the day-to-day operation of Freeport East and the discharge of its obligations regarding security, crime prevention and for executing the strategy agreed by the Supervisory Board under delegated powers. It will also be responsible for submitting regular reports to Government.
- 10.5 The Supervisory Board will be composed of a Chair, the Chief Executive of Freeport East (both posts currently being recruited) and ten non-executive directors. The non-executive members of the Supervisory Board are nominated by the stakeholders based on their knowledge and experience and in the case of local authorities to provide democratic accountability.
- 10.6 Recruitment to the position of Freeport East Chair and Chief Executive is currently underway. These roles will be paid for by the initial government funding to set up Freeport East, and in the longer term by retained rates flowing from the Freeport Tax Sites. The individuals, once appointed, will replace the Acting Chair and Acting Chief Executive, who are in place on an interim basis.
- 10.7 A shadow board is currently established and includes a number of partners including.
- Essex County Council
 - Suffolk County Council
 - East Suffolk District Council (Accountable Body)
 - Mid Suffolk District Council
 - Tendring District Council
 - New Anglia LEP

- South East LEP
- University of Essex
- Gateway 14 Ltd
- Hutchison Ports
- Harwich Haven Authority
- Haven Gateway Partnership
- HM Government

10.8 Under current proposals for Freeport East Ltd, Mid Suffolk District Council and G14 Ltd would both be members, and each able to appoint a Director to the board.

11. RISK MANAGEMENT

11.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No. (Insert risk number / description). Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Inability for Freeport East to deliver economic benefits to region	Medium	Lack of delivery against agreed Government priorities and no benefit to our residents or communities from the investment	Proactive working groups set up to manage delivery of priority projects to make sure that projects are delivered and provide local benefit
Delay in projected pace of development	Medium	Inability to generate profiled business rates resulting in delays to delivery of wider freeport projects that generate socio-economic benefits	Forecasting has been conservative and based on up to date commercial enquiries and the likely timeline for development
Inability to secure match funding for Skills and Innovation centre	Medium	Significant delays to delivery of Innovation & Skills centre	Seed Capital contribution identified and plan for priority access to retained business rates to facilitate delivery
Staffing implications	High	Reduction in ability to deliver "business as usual" activities and priorities as	Workload management and shared responsibilities

		set out in our Recovery Plan	across all Freeport partners
Internal transition of responsibilities following retirement of AD for Resources	High	New AD may take some time to become familiarised with the Freeport programme causing potential delays with development and adoption of retained business rates policy	Transition being carefully managed to ensure new AD is being briefed on existing commitments and policy discussions
Financial – reduction in amount of seed capital allocated to G14	Low	Significant delay in delivery of skills and innovation centre and additional net zero projects	Seed Capital allocations have been agreed in principle and a process is being developed with East Suffolk to transfer relevant funds to MSDC
Reduced/slow development on G14 Tax site reducing business rate receipts	Low	Impact on the flow of business rate receipts and delivery additional on-site investment and of wider freeport initiatives	First deal is nearly complete, securing significant investment in the site and substantial interest has been shown in the remaining sites.

12. CONSULTATIONS

- 12.1 A number of Member briefings have already taken place in respect of the development of the OBC and FBC, specifically on 16 August 2021 and 6 September 2021.
- 12.2 Discussions on the principles have also taken place at Innovation Board meetings, Central Suffolk Chamber meetings and at the G14 Ltd Board meetings.
- 12.3 External consultees include representatives of all partner organisations who are Freeport East Shadow Board members.
- 12.4 Internal consultees include Finance, Legal & Governance, Assets, Planning and Economy.

13. EQUALITY ANALYSIS

Equality Impact Assessment (EqIA) not required

- 13.1 An equality impact assessment has been undertaken which demonstrates that the Freeport East initiative will have no impact on all protected characteristics with the exception of the group suffering from 'deprivation/ socio-economic disadvantage'. Since a key objective of Freeport East is to deliver 'levelling up' and inclusive growth it can be clearly demonstrated that the initiative will have a positive impact on this protected characteristic.
- 13.2 The FBC highlights that Freeport East aims to have a workforce that is representative of the local community. Freeport East will publish a diversity statement and an annual report on progress in encouraging diversity and will nominate a diversity champion from the Board to embed diversity across the partnership to ensure objectives are met.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1 The development of a Green Energy Hub to support the generation and use of clean energy as part of local and wider net zero ambitions is a central theme of the Freeport East initiative. This includes establishing the Freeport as a hub for green hydrogen production and distribution as well as contributing to the decarbonisation of port activities. A significant offshore wind facility is also planned for the Bathside Bay tax site to provide space for laydown and operations & maintenance activities. Furthermore, all Freeport East developments will be delivered to the highest green energy standards possible and aspire to provide net zero impact on carbon emissions.
- 14.2 A significant number of environmental enhancements are already planned at G14 as part of its ambition to maximise sustainable construction opportunities and explore low carbon heat and energy/water sources on the site.
- 14.3 Funding for additional net zero projects on site will be sought via Freeport in order to deliver on the ambition for the site to be an exemplar net zero development.

15. APPENDICES

Title	Location
(a) N/A	

16. BACKGROUND DOCUMENTS

- 16.1 Redacted OBC

17. REPORT AUTHORS

*Michelle Gordon, Corporate Manager Economy & Business,
Fiona Duhamel, Assistant Director Economic Development & Regeneration
Katherine Steel, Assistant Director, Corporate Resources,*