Portsmouth CITY COUNCIL

Title of meeting:	Cabinet & Full Council
Date of meeting:	8th March 2022 & 15th March 2022
Subject:	Solent Freeport Full Business Case (FBC)
Report by:	Mark Pembleton
Wards affected:	All wards will be affected as all are in the Freeport zone.
Key decision:	YES
Full Council decision:	YES

1.0 Purpose of report

1.1 The Council as a partner and director of Solent Freeport Consortium LTD (SFCL) is required to have approval to the Solent Freeport Full Business Case (FBC) by Cabinet and Full Council before the submission of the FBC to Central Government can be made. The deadline for submission of the FBC to Central Government is 15 April 2022.

1.2 By gaining approval to the FBC by Central Government the Solent Freeport officially exists with all customs and tax powers for a period of 25 years. The main body of this report has been produced by the SFCL to ensure a consistent approach to approval by all Councils.

1.3 The Council is a major beneficiary of the Solent Freeport in that it is the owner of the Portsmouth International Port, a proposed custom site, and owner and developer of Dunsbury Park, a proposed tax site, both within the Solent Freeport.

1.4 It is also noteworthy that Portsmouth City Council is the Accountable Body for the SFCL.

2.0 Recommendations

Cabinet approves:

2.1 This report to go on to Full Council on the 15 March 2022 for approval.

Full Council approves:

2.2 To delegate to the Chief Executive and the S.151 Officer in consultation with the Deputy Leader of the City Council to approve the Solent Freeport Full Business Case

(FBC) on behalf of Portsmouth City Council, and to see it submitted to Central Government following consultation with the S.151 and Monitoring Officers of each of the tax sites.

3.0 Overview of Freeports

3.1 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 country, while at the same time generating national benefits through trade and innovation.

3.2 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.

3.3 Designated Freeports offer several policy levers, including:

3.3.1 **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

3.3.2 **Customs sites,** in our case this will be Portsmouth International Port and Portico, provide: -

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

3.3.3 **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.

3.3.4 **Seed capital funding** of up to £25m to kick-start delivery of Freeport objectives. Dunsbury Park is in line to obtain £4.4M towards new road and associated infrastructure and Portsmouth International Port is in line for £0.7M towards the cost of a new right-turn from the Port and the demolition of a building and the establishment of a new customs zone building.

3.4 As the policy has evolved it has become clear that *Tax Sites* (3.3.1) and *retained business rates* (3.3.3) are the most significant elements of the overall package. In the March 2021 Budget, the Chancellor announced that the Solent Freeport bid was one of eight shortlisted by the HM Government, marking the start of the Freeport designation process for the Solent region. Alongside the other 7 English Freeports, the Solent has been working through the business case approvals process ever since.

3.5 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 £450k of this has been drawn down by the Solent Freeport mostly to support the work on producing the Outline Business Case (OBC) and FBC.

4.0 **The Solent Freeport proposition**

4.1 The following table summarises the tax and customs sites within the Solent Freeport, and where they sit within the Local Authorities of the Solent region.

Table 1. Solent Freeport tax and customs sites

Local Authority	Tax site	Customs site
Havant Borough Council	**(1) Dunsbury Park**	
New Forest District Council	**(2) Southampton Water, including:** • Marchwood Port • ABP Strategic Land Reserve • ExxonMobil • Fawley Waterside	**(1) Marchwood Port** **(2) Strategic Land Reserve (ABP)**
Southampton City Council	**(2) Southampton Water, including:** • Redbridge	**(3) Redbridge / DP World Terminal**
Eastleigh Borough Council	**(3) Navigator Quarter**	
Portsmouth City Council		**(4) Portsmouth International Port /Portico**

4.2 Since the bid was submitted it has become clear that the initial Customs Site regime will not provide additional benefits for container operations over what is available through existing UK customs arrangements. The Redbridge/DP World sites will not now be taken forward as part of the first wave of Customs Sites. Should the rules change to accommodate container operations these (and other) sites can be brought forward subsequently.

4.3 It is estimated that the policy levers available through Freeport designation will deliver significant benefits to the region, including:

- **Leveraging c£1.6 billion in private sector investment on Solent Tax Sites, based on active discussions with private firms looking to invest in new manufacturing and port-based operations and infrastructure,** with this being enabled principally by an estimated **c£225m tax benefits to the private sector,** through a combination of accelerated tax reliefs on new investment, centrally funded business rate reliefs, lower employer national insurance payments on new employees and savings in stamp duty;

- **Providing significant, additional funds** through pooled retained business rates, to deliver supporting infrastructure, innovation, skills, and a steppingstone to net zero programmes. These new funds are generated by an Enterprise Zone type arrangement on the Solent's tax sites, with the revenues being pooled for deployment across the wider Solent Freeport area. As with Enterprise Zones, these revenues are dependent on the Tax Sites attracting new investment and thus generating business rate revenues. Based on the private interest in Tax Sites to date, the estimated pooled business rate revenue potential currently stands at some [*£570m*][1] over 25 years**; and**

- **Delivering increased port capacity** and throughput of international trade through the region's key ports[2] .

4.4 Collectively, this is expected to deliver a significant number of jobs both in the Solent and wider UK economy.

4.5 A top-down economic impact assessment at the time of the original bid and based on the size of and anticipated activity on tax sites, **results in an estimated 28,000 jobs and £2.0 billion GVA directly in the Solent.**

4.6 Using Office of National Statistics (ONS) multipliers to estimate indirect impacts (i.e., wider supply chain impacts) this results in c57,000 jobs and £3.6 billion in GVA across the UK (see Table 2 below). Current end-user interest is already estimated to deliver c16,000 jobs on tax sites. This is expected to increase when the Solent Freeport is formally designated, and the ecosystem of the Freeport and surrounding area develops. These wider impacts include the expected impact of the Freeport tax site programme on port capacity, especially for cruise traffic. Southampton is the UK's preeminent cruise port, and pre pandemic estimates put the number of jobs created in the Solent area by this activity at some 14,000. The investment in port capacity enabled by the Freeport tax sites is expected to allow Southampton to double the number of cruise passengers it can handle.

[1] Subject to further review, this figure will be updated

[2] Estimated increase provided includes automotive capacity (75%), cruise capacity (100%), container capacity (40%) and bulk capacity (100%+), through a combination of investment on Solent Tax Sites and via released capacity elsewhere along Southampton Water.

Table 2. Estimated job impacts from Solent Freeport (thousands) from the original bid

	Local Authority	Direct jobs	Indirect jobs	Total
Dunsbury Park	Havant BC	***1.7***	***1.8***	***3.5***
Navigator Quarter	Eastleigh BC	***3.2***	***3.3***	***6.5***
Southampton Water - total		***23.4***	***23.2***	***46.7***
Southampton Water - SCC	*Southampton CC*	*1.8*	*1.7*	*3.5*
Southampton Water - NFDC	*New Forest DC*	*21.7*	*21.5*	*43.2*
Total		***28.4***	***28.3***	***56.7***

Note: Numbers may not add due to rounding
Numbers subject to be updated at FBC stage.

4.7 Collectively this will generate a socio-economic dividend that will support the levelling up of coastal communities across the Solent, address a few identified market failures and long-standing structural challenges, and strengthen the Solent's contribution to the UK's path to Net Zero. It will also ensure the Solent continues to perform a critical role contributing to national ambitions for a global Britain.

5.0 Freeport designation process

5.1 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'

Figure 1 (page 7) summarises the timings of the Solent Freeport designation process

5.2 The business case process is led by the Department of Levelling Up, Housing and Communities (DLUHC). The purpose of the business case process is to enable prospective Freeports to fully consider all factors that are critical to the successful delivery of a Freeport and assure Government that public funding both directly (such as seed capital funding) and indirectly (such as forgone tax revenue) delivers value for money.

5.3 The focus of the OBC was on the overarching strategic vision for the Freeport as a whole, including how the Freeport levers will be used to address longstanding challenges in the region, and was a critical stepping-stone to the approval of the Solent's proposed Tax Sites, which is expected this month.

5.4 The other critical stepping-stone is the agreement of a series of Site-Specific Agreements between the Freeport Company the Solent has established to deliver the Freeport, the landowners of each of the Tax Sites, and the relevant Local Authority. These agreements are designed to ensure that activity on Solent Tax Sites delivers genuinely additional growth and employment for the Solent and that those investing in these sites are fully engaged in the Freeport's objectives supporting skills, innovation, and net zero programmes.

5.5 Two of the three tax sites have their agreements signed, including that for Dunsbury Park Tax Site which was approved by Cabinet on the 8 February 2022 and signed by the Council, Havant BC and the SFCL.

5.6 The FBC involves adding further detail to the vision set out in the OBC, particularly regarding the use of seed capital funding and retained business rates, alongside refining the content of the OBC in line with government feedback.

5.7 As set out in Figure 1, the OBC is expected to be approved by DLUHC by the end of February 2022. This will allow the Solent Freeport to submit a FBC by 8 April 2022 (ahead of the formal deadline of 15 April) and proceed with tax site designation.[3]

5.8 Approval of the FBC (which may take 6 weeks from submission) will lead to the Solent signing a series of Memorandums of Understanding (MoUs) with Government on how the Freeport will operate, which in turn will unlock the central funding for business rates reliefs on Tax Sites; retained business rates from those sites for 25 years; and the £25m of Seed Capital funding.

6.0 <u>Tax site process</u>

6.1 The tax site process is led by the HM Treasury (HMT), and its purpose is to verify that prospective Freeports' proposed tax sites adhere to the criteria set out in the Bidding Prospectus, in terms of both physical size and shape and potential to meet the policy objectives. This is important to ensure that the selected tax sites maximise the benefits of the Freeport whilst minimising any deadweight or displacement, The case provided by prospective Freeports will help the Government and Freeport governing bodies evidence the value of the policy. As noted above, the Solent is using Site Specific Agreements with landowners to mitigate risks in this area. Subject to approval by HMT by the end of February, approval of the OBC by DLUHC, it is expected tax sites will be designated by the end of March.

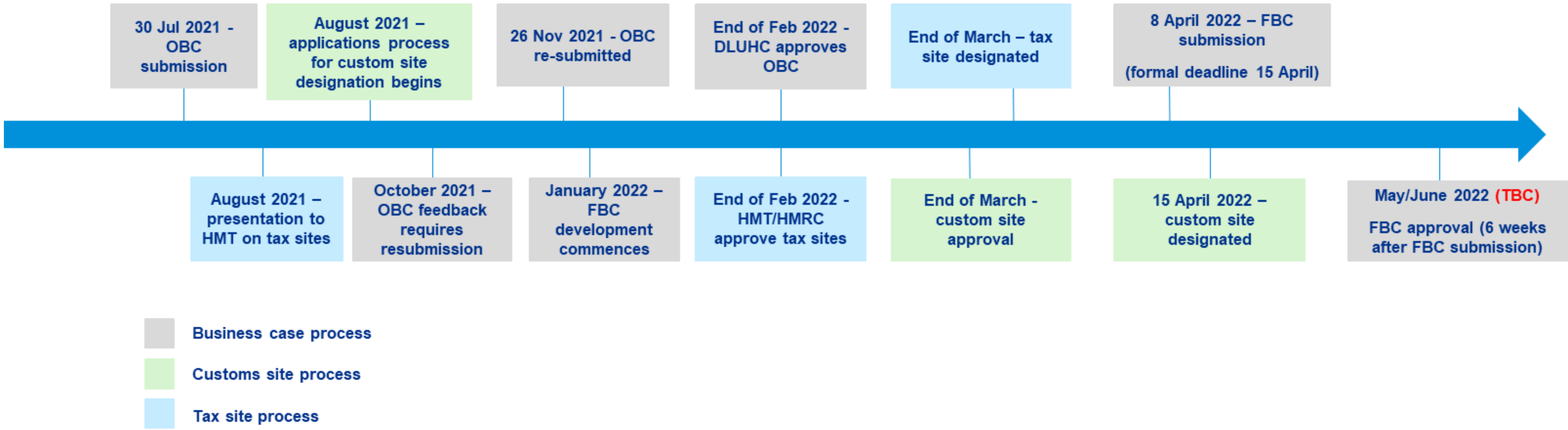
7.0 <u>Custom site process</u>

7.1 Each Freeport customs site will need to be approved by HM Revenue and Customs (HMRC) prior to designation. This will involve HMRC checks to ensure the operator is legitimate, the location is secured, and that the businesses operating within the customs site are complying with relevant security standards. There are also additional checks relating to specific conditions of designation, for example IT systems to ensure it can keep records in specified format. Businesses wishing to access the customs benefits of a Freeport will need a separate Freeport Business Authorisation. Each customs site operator is responsible for liaising with HMRC through its application process.

7.2 For the FBC to be approved, the Solent Freeport will need at least one customs site designated by the FBC deadline (15 April 2022). As noted above, there is no time limit on when other Solent customs sites can be brought forward once the Freeport is formally established following the approval of the Full Business Case.

[3] Tax sites are designated via secondary legislation

Figure 1. Solent Freeport designation timelines



8.0 **Retained Business Rates Memorandum of Understanding**

8.1 FBC approval is required to access seed capital funding, central funding for business rate reliefs on tax sites, and retained business rates. Therefore, much of the additional requirements of the FBC (relative to OBC) relate to these areas.

8.2 At FBC stage, prospective Freeports are required to set out a policy for using income from retained business rates. This must cover three areas:

Table 3. Freeport FBC requirements – retained business rates policy

(1) Strategic Focus	• The objectives of the retained business rates fund and the rationale behind them, including how they relate to the objectives of the Freeport and the Freeports programme more widely. • The criteria projects must meet to be eligible for funding and how these uphold the DLUHC's requirements and align with the objectives of the retained business rates fund.
(2) Financial Modelling	• The overall expected value of retained business rates profiled over time • Approach to borrowing against rates, including when it is appropriate to start borrowing, and who will borrow
(3) Governance	• How decisions regarding the use of retained rates will be taken and the process for prioritising and selecting projects for funding. • Where ownership of the business rates policy lies and including how and when it will be reviewed and evaluated. This should make clear how the Freeport governing body will ensure delivery of the policy.

8.3 As noted above, all prospective Freeports will need to agree a Memorandum of Understanding (MOU) with DLUHC on the operation of the Freeport, including the use of retained business rates to unlock both central funding for business rate reliefs, and retained business rates.

8.4 In advance of this, and as a critical part of the FBC, a Solent Freeport Business Rates MOU (See appendix 1 to this report for latest draft) is being drawn up to set out the proposed use and governance for the Solent's retained business rates. This MOU has been collectively developed by:

- S151 officers from the four local authorities that will collect retained business rates within the tax sites (i.e., Havant Borough Council, Eastleigh Borough Council, New Forest District Council, and Southampton City Council)
- Portsmouth City Council in its role as Accountable Body for the Solent Freeport
- the Solent Local Enterprise Partnership (LEP); and
- the Solent Freeport Consortium Limited Board.

8.5 Following FBC submission, DLUHC will set out the process for agreeing variations to its terms as required and appropriate before finalising and signing the MOU agreement between Solent Freeport and DLUHC.

9.0 Retained Rates Investment Committee (RRIC)

9.1 Alongside the Business Rates MOU there is the RRIC the draft Terms of Reference of the RRIC are attached as appendix 2.

9.2 The RRIC is the forum through which the Solent Freeport Consortium Limited and relevant Rating Authorities will work together to agree on the use of retained rates generated at tax sites.

9.3 Membership of the Investment Committee shall consist of six members with voting rights comprising of the following:

- The Leaders (or other democratically elected member as nominated by the Leader) of the Four Freeport Rating Authorities
- The Chair of the Investment Committee (to be a member of the Freeport Board)
- The Chief Financial (S151) Officer of Portsmouth City Council, the Accountable Body to the SFCL or their nominated representative who will have a financial veto right under affordability grounds but no voting rights regarding the type of or geography of investments.

9.4 Ex-officio Members will include the Chief Financial (S151) Officers of the Four Freeport Rating Authorities or their nominated representatives.

9.5 The Freeport Investment Committee will lead on the strategy and prioritisation of investments and make recommendations to the Board for final decision. This will include:

- Developing the prioritisation matrix to be used to evaluate proposed projects for retained rates funding
- Assessing projects against the eligibility criteria and prioritisation matrix
- Allocating funding to specific projects by workstream and ensuring equity of use, both across workstreams and geographic spread across the Solent

9.6 The role of the Retained Rates Investment Committee is both advisory and decision making, and there is an expectation that they will provide recommendations on matters relating to the use of retained rates for consideration by the main SFCL Board and the Chief Finance Officer of Accountable body for the SFCL. It is expected that the advice and recommendations of the Committee will normally be reached by consensus, but if a vote is required decisions shall be made based on a majority of those members attending and voting.

9.7 The Accountable Body has the right to veto an investment on affordability grounds to not place the SFCL at financial risk.

9.8 The following figure summarises process for deciding how retained business rates are invested.

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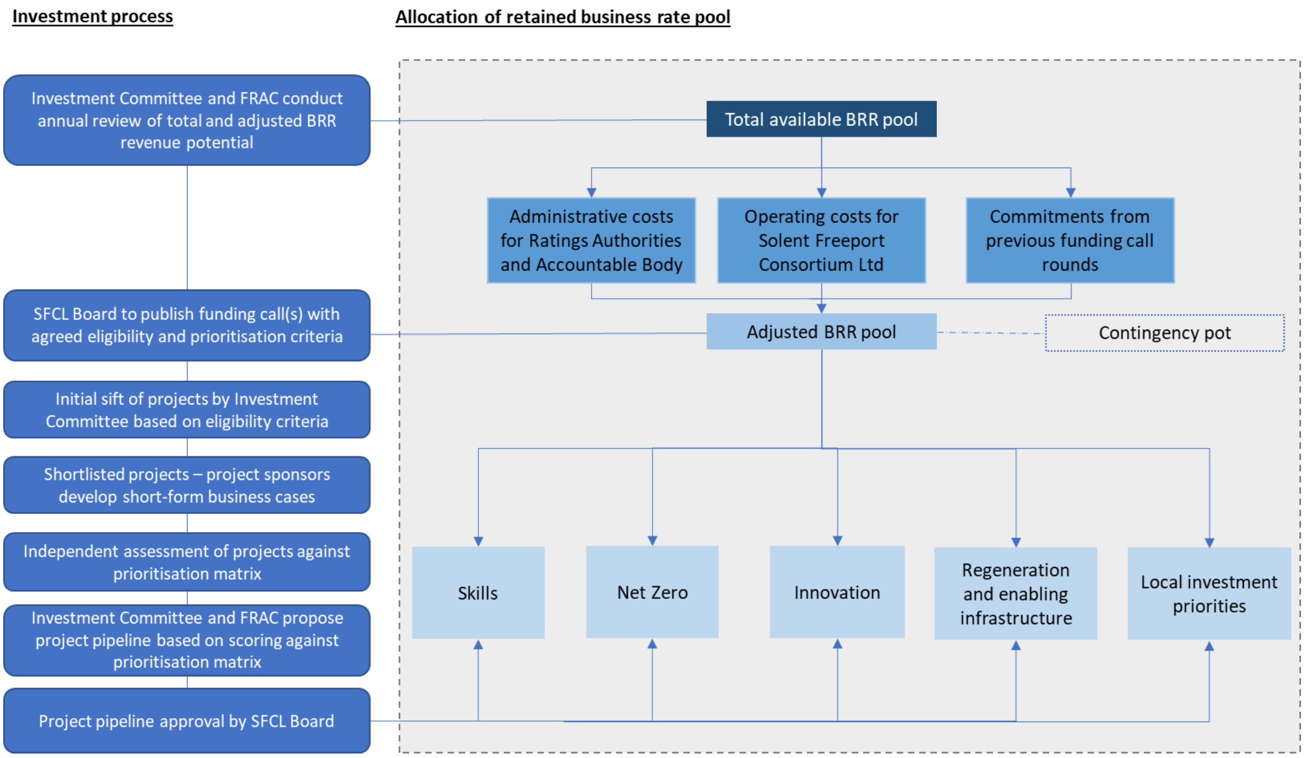
Figure 3. BRR investment process



Note: FRAC stands for Finance, Resource and Audit Committee. This is a sub-committee within the Solent Freeport Consortium Ltd. (SFCL)

10. Reasons for recommendations

10.1 The FBC when approved by Central Government will bestow full benefits of Freeport designation on a 45 KM zone of the Solent, specifically on the customs sites and tax sites as listed in 1.4 Table 1, providing economic benefits to the Solent region.

10.2 The Council will benefit as landowner with the Council owned International Port becoming a customs site and Portico (a wholly owned company of the Council) becoming a Customs Site Operator.

10.3 The Council will also benefit as their industrial park, known as Dunsbury Park, will become a tax site with a wide range of tax incentives in place for future tenants.

10.4 Seed funding has been requested for both sites to ensure they can operate in line with the proposed FBC as soon as possible.

11. Integrated impact assessment

11.1 The council will also be the Accountable Body for the Solent Freeport with a very important role in the running of the Freeport, the management of the retained business rate pool, subsequent borrowing capacity and decisions regarding the investment pipeline.

See attached as appendix 3.

12. Legal implications

12.1 The site-specific agreement provides for a set of principles and conditions the council are obliged to adhere to in order for the relevant red line to benefits from tax site designation rate relief.

12.2 The agreement is between the (1) Solent Freeport limited (2) the Council and (3) Havant borough council as the rating authority. The Agreement recognises the Council's status as accountable body for and on behalf of the Solent Freeport and separates and distinguishes from this in cases of termination.

12.3 The obligations in terms of assurance of any end user to meet one of more of the Freeport objectives is not specific within the agreement in terms of evidencing and /or formalisation. There is an ability for any end user to utilise the site and to opt out of meeting such criteria but only in very specific limited express provisions for non-viability. The reality is it is an onerous set of obligations upon the council to pass onto any end user. In cases where the contractual Solent Freeport objectives cannot be evidenced in terms of Additionally the agreement provides the Solent Freeport can terminate the agreement and the council's directorship at the Solent Freeport board removed.

12.4 The terms of the agreement and the obligations and restrictions it places upon the council as landowner (and therefore stepped down to any end user), are to be balanced as against the benefit of the tax relief as observed and reviewed by the market and the viability if the project delivery at the site.

13. Director of Finance's comments

13.1 It is a requirement from Government that all Freeports have a designated Accountable Body in place to assure the financial transparency and accountability of the Freeport and that efficient systems and management controls are in place to support the Freeport and ensure that it can achieve its objectives.

13.2 The Council agreed as part of the bidding process that it would be very willing to be the Accountable Body for the Solent Freeport and following confirmation that the Solent was selected as one of the eight Freeports in the March 2021 Budget announcement the Council formally wrote to government to confirm it would carry out this role.

13.3 Officers from the Council have been providing financial and legal advice to the Freeport board throughout the outline and full business case preparation and this will continue once full designation has been achieved.

13.4 As the Freeport is in its infancy the Council has agreed to temporarily underwrite any operating deficit in the short term as long as there is a strong likelihood that the Freeport will remain financially viable (which continues to be the case).The Accountable Body oversee and report on all of the financial transactions of the Freeport and report the current and three year forecast financial positions, highlighting any risks and issues to both the Freeport's Finance, Resources and Audit Committee (FRAC) and then to the main Board.

13.5 The Council has also been instrumental in developing the Retained Rates MoU and The Retained Rates Investment Committee Terms of Reference as referred to in paragraphs 8 and 9 of this report and at present it is forecast that approximately £570m of retained rates will be available for use in the Freeport area.

13.6 In its role as Accountable Body, the Council has been proactive and agreed to undertake most of the borrowing and therefore the risk against these retained rates in order to stimulate early development of the area. The Retained Rates MoU and The Retained Rates Investment Committee recognise this role and the risk that comes with it and there is provision in both documents to ensure that PCC have the right to veto any investment that is not deemed viable or carries a level of risk that is unable to be managed adequately.

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Signed by:

Appendices:

- **Appendix 1** Draft of the Memorandum of Understand for Retained Business Rates by the Solent Freeport.
- **Appendix 2** is a draft of the Terms of Reference for the Retained Rates Investment Committee.
- **Appendix 3** is the Integrated Impact Assessment.

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ……………………………… on ………………………………

………………………………………………
Signed by: