

Cabinet



Date of meeting:	22 March 2022
Title of Report:	Plymouth and South Devon Freeport
Lead Member:	Councillor Nick Kelly (The Leader of the Council)
Lead Strategic Director:	Anthony Payne (Strategic Director for Place)
Author:	Kevin Mckenzie (Policy Advisor)
Contact Email:	kevin.mckenzie@plymouth.gov.uk
Your Reference:	KM 14/03/2022
Key Decision:	Yes
Confidentiality:	Part I

Purpose of Report

Plymouth and South Devon Freeport is the result of a successful bid submitted by Plymouth City Council and endorsed by our Local Authority Partners in February 2020.

Our Freeport will unlock £311m in inward investment and create 3,584 jobs. We anticipate more than £100m investment and 1,000 jobs in the first 2 years. It will provide a new world class innovation space enabling us to build our global reputation for marine innovation. It will anchor some of our biggest employers, protecting existing jobs and ensuring they can expand their local operations. It will unlock 130 Hectares of development land including in Plymouth at South yard to provide space for high value advanced manufacturing and logistics companies.

This report provides members with an update on our progress and seeks the necessary approvals to submit our Full Business Case which we must submit on 22nd April 2022 ahead of a June tax site designation.

The decision was the subject of pre scrutiny on 23rd February 2022 and this report encompasses and responds to the recommendations made to cabinet by the Brexit, Infrastructure and Legislative Change Overview and Scrutiny Committee as set out below.

That the Committee endorse submission of the Full Business Case subject to the Cabinet report setting out: -

- The business case for Oceansgate, the capital requirement and how it will be met;
- Governance arrangements and the legal status of the Freeport Authority;
- The operating model and staff recruitment;
- The contractual commitments to landowners that will be set out in the site Specific Agreements;
- The revenue commitment required from Plymouth City Council, as a landowner;
- Legal obligations arising from the customs sites;

These points are picked up in the main body of the appended report.

2. Public consultation process and public feedback loops to be clarified and public consultation to be built into the delivery of the Freeport using means such as the planning process and bespoke engagement event(s) as appropriate;

- Two specific stakeholder events have already been delivered in July and December 2021, we plan to hold a further public consultation event later this year as we move into the operational phase of our Freeport delivery programme. Planning consents for the Freeport will be sought in the normal way and the public will be able to engage with these following normal routes.
3. The Equality Impact Assessment considers issues of diversity (e.g. employee access) and skills support in areas of deprivation together with noise and emissions/pollution between sites, as well as on site;
- An Equality Impact Assessment which picks up on this point is appended.
4. The Carbon Net Zero Strategy for the Freeport considers carbon impact and seeks to minimise carbon outputs in areas such as people and goods moving between sites and also on site.
- Our Full Business Case will set out our ambition to deliver a Freeport that contributes positively to the achievement of Carbon Net Zero.

Recommendations and Reasons

Cabinet is asked, subject to due diligence and the agreement of our Section 151 officer and Head of Legal Services, to: -

1. Note the progress of the Plymouth and South Devon Freeport and to delegate approval of the Full Business Case for submission in April to the Strategic Director for Place.
2. Agree the role of Plymouth City Council as the accountable body for the Plymouth and South Devon Freeport with responsibility for administering the £25m government seed funding.
3. Delegate authority to the Strategic Director of Place to sign the Freeport Memorandum of Understanding and associated legal agreements with Government and partners, setting out government expectations, funding arrangements, outputs and partner obligations.
4. Approve the Oceansgate Phase 3 Outline Business Case and associated service borrowing (funded by retained business rates) subject to a detailed business case and successful Levelling Up Fund grant application.
5. Agree the Freeport operating model, staff structure and revenue budget including the Local Authority annual £50k contribution which will be funded from the Oceansgate revenue budget.
6. Agree to establish a company limited by guarantee to become the Freeport managing entity, with Plymouth City Council, Devon County Council and South Hams District Council as its founding members based on the terms set out in this report. Delegate to the Strategic Director of Place authority to sign any legal or other agreements that may be required, including the members agreement reserved matters, and a scheme of delegation as set out in paragraph 4.9.
7. To delegate to the Strategic Director of Place the authority to enter into Freeport landowner agreements, including those relating to Oceansgate and the South Yard Tax site, as may be required in pursuance of the Freeport Objectives set out in the report and to discharge our obligations as the accountable body.

Alternative options considered and rejected

- An alternative timeline was considered that would have pushed submission of our Full Business Case back until June, this was rejected as it would delay Freeport designation and shorten the window within which potential investors would be able to claim tax benefits.

- An option involving all three Local Authority acting as accountable bodies for activity on their own area was considered but viewed ultimately as unnecessarily complex and bureaucratic.
- The terms under which the Seed Capital grant are made are set by the Government so no alternative arrangement was considered.
- We considered financing the capital requirement in the Oceansgate Business Case wholly from retained business rates and concluded that increasing the proportion of grant income to be applied was a more robust approach.
- Various alternative company models were considered and advice taken both internally and through government appointed consultants. The Company Limited by Guarantee emerged as the most likely suitable model. This preference was then stress tested by Womble Bond Dickinson, their report concluding that this model is fit for purpose is appended.
- We considered a range of alternative uses of seed capital in the development of our Outline Business Case, the allocation we are presenting is the culmination of a considerable process of revision and re-evaluation which has resulted in the best fit to support the achievement of Freeport objectives.
- We considered alternative charging mechanisms that would have leveraged tax benefits such as a fee based on m² of employment floor space provided and the number of new employees benefitting from employers national insurance relief. Ultimately these models were overly complex and less certain than the flat fee arrangement we have settled on.

Relevance to the Corporate Plan and/or the Plymouth Plan

We have set out a number of strategic objectives in the Plymouth Plan that a free port could help us to achieve, the links to specific policies are explored in the appendix: -

- SO2 - Strengthening Plymouth's role in the region
- SO3 - Delivering the international city
- SO11 – Delivering high quality development
- SO12 – Delivering infrastructure and investment

The free port could also assist us to deliver priorities in our Corporate Plan: -

- Strongly supports the delivery of economic growth that benefits as many people as possible
- Strongly supports the delivery of quality jobs and valuable skills

Implications for the Medium Term Financial Plan and Resource Implications:

The MTFP contains some resources in the initial years of the scheme both for revenue and capital. In the medium term there are proposals to engage in wider corporate borrowing, these to be funded from retained NNDR which will be received by The Council as Section 31 grant. Clearly The Council and Partners will need to ensure that available resources are not over committed at that point in the overall scheme.

- The anticipated uplift in NNDR income from the areas designated as Freeport Tax and Customs sites in the Full Business Case will be retained and ring fenced for a period of 25 years,
- Retained NNDR and rental income and legacy from Oceansgate phase 1 and 2 will be directed in the first instance to service borrowing, and, only in the event of a surplus, for future investment in the Freeport as may be agreed by the Local Authority partners.
- The Medium Term Financial Plan already makes some provision for financial support.
- Revenue funding will be required to support the establishment of 4.5 new posts and other Freeport running costs.

- For the first five years this will be generated through fees and charges levied on landowners, supplemented with direct grant support from central government.
- A successful Levelling Up Fund to support the Freeport is anticipated

Financial Risks:

There are risks but we have carefully assessed them and we are confident that they can be managed. The rewards are proportionately large, a vibrant economy delivering quality jobs, and new skills provision to ensure that residents in our most left behind wards can benefit.

The governance arrangements that are envisaged and which will be further developed in the final business case are designed to deal effectively with these risks.

The principle financial risks are set out in a high level risk assessment in the body of the report. All project related risks, including financial risks, are reviewed regularly by the Freeport development team to ensure they are appropriately mitigated.

Carbon Footprint (Environmental) Implications:

Our Full Business Case will set out our ambitious plans to ensure that the Freeport contributes positively to our Climate Emergency Action Plan setting an overarching target that is consistent with our commitment to achieve a carbon net zero position by 2030.

Cabinet accepts the recommendation of the Brexit, Infrastructure and Legislation Overview and Scrutiny Committee that the Carbon Net Zero Strategy for the Freeport should consider carbon impact and seek to minimise carbon outputs in areas such as people and goods moving between sites and also on site.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

Health and Safety – Plymouth City Council Health and Safety policies will apply to Freeport Staff operating from our premises.

Risk Management - the key risks related to this decision are set out in the report. Monthly exception reports are produced for the Freeport Shadow Board.

Child Poverty – the Freeport will promote physical, economic and social regeneration delivering infrastructure, inward investment and a pipeline of jobs across the spectrum of employment from entry level to higher skilled/high value with upskilling opportunities. By delivering an increase in employment and average earnings, and enhancing skills the Freeport will contribute significantly to tackling deprivation.

Equality and diversity - an Equality Impact Assessment is appended to this report. This document was first authored in April 2021 to inform the diversity statement our Freeport Shadow Board adopted in July 2021. The document has been kept open and regularly reviewed as we have developed our Freeport plans.

Most recently it has been updated to respond to the recommendations of the Brexit, Infrastructure and Legislation Overview and Scrutiny Committee to consider issues of diversity (eg employee access) and skills support in areas of deprivation together with noise and emissions/pollution between sites, as well as on site.

Appendices

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 1 of the Local Government Act 1972 by ticking the relevant exemption paragraph number.</i>						
		1	2	3	4	5	6	7
A	Cabinet report							

B	Gateway policy							
C	Equality Impact Assessment							
D	Tax site maps							

Background papers:

Title of any background paper(s)	Exemption Paragraph Number (if applicable)						
	1	2	3	4	5	6	7
Freeport Full Business Case Guidance							
Plymouth and South Devon Freeport – Outline Business Case			✓	✓			
Landowner Agreements – Heads of Terms			✓	✓			
Plymouth and South Devon Freeport – Financial and Economic Modelling Excel Spread Sheets.							

Sign off:

Fin	djn.21.2 2.304	Leg	MS/382 71.	Mon Off		HR		Assets		Strat Proc	
Originating Senior Leadership Team member: David Draffan, Service Director for Economic Development											
Please confirm the Strategic Director(s) has agreed the report? Agreed by the Strategic Director for Place. Date agreed: 14 th March 2022											
Cabinet Member approval: Councillor Nick Kelly, Leader of the Council Date approved: 15 th March 2022											

Plymouth and South Devon Freeport

1.0 INTRODUCTION

- 1.1 The Conservative Government's Party Manifesto included a commitment to create up to ten Freeports around the UK. In December 2020 Cabinet agreed that as Britain's Ocean City, and given our national marine cluster, it was important that we made a credible bid into the Freeport programme.
- 1.2 Our bid, which we submitted in February 2021, set the outer boundary of the Freeport to be consistent with the Plymouth and South West Devon Joint Local Plan. Three primary sites were identified; at South Yard in Devonport, Langage Energy Park and the Sherford Employment Zone, together with elements of the Port of Plymouth at Millbay Docks and Cattewater Harbour. The bid was jointly led by Plymouth City Council, South Hams District Council and Devon County Council.
- 1.3 In March 2021 the Chancellor announced the Plymouth and South Devon Freeport as one of 8 successful bids in England. Following this announcement Plymouth City Council, as the lead authority, led the development of an Outline Business Case. Governance and oversight was provided by a Shadow Board made up of senior officers from the local authority partners, the Heart of the South West LEP, Universities of Plymouth and Exeter and since January 2022 our principle landowners have joined the board.
- 1.4 We submitted our Outline Business Case in November 2021. Following a review by the Department for Levelling Up, Housing and Communities, we responded to a number of critical actions in February 2022. These included a requirement to make progress on delivering site specific agreements with landowners. Our response was welcomed subject to having landowner agreements finalised for at least one tax site and we were invited to submit our Full Business case ahead of a June/July start.
- 1.5 Our Freeport will unlock £311m in inward investment and create 3,584 jobs. We anticipate more than £100m investment and 1,000 quality jobs in the first 2 years. It will provide a new world class innovation space enabling us to build our global reputation for marine innovation. It will anchor some of our biggest employers, protecting existing jobs and ensuring they can expand their local operations. It will unlock 130 Hectares of development land to provide space for advanced manufacturing and logistics companies to come to Plymouth.
- 1.6 This reports sets out the necessary decisions and delegations to enable the Full Business case to be submitted by April 22nd 2022 and then to begin operations early in the summer.

What is a Freeport?

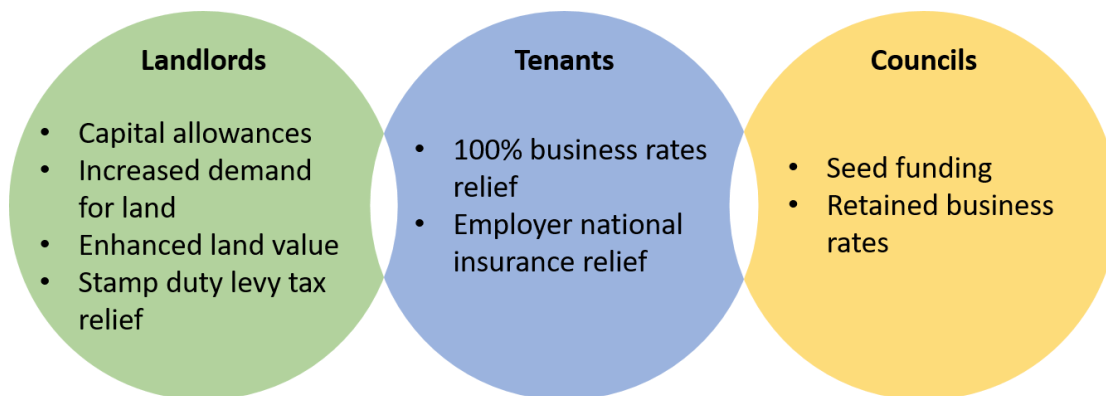
- 1.7 The Government have set three objectives for the Freeport programme, to: -
 - Establish Freeports as national hubs for global trade and investment across the UK: intensify the economic impact of our ports by enhancing trade and investment and generating increased economic activity across the UK
 - Promote regeneration and job creation: create high-skilled jobs in ports and the areas around them, prioritising some of our most deprived communities to level up the UK economy
 - Create hotbeds for innovation: create dynamic environments, capitalising on new ideas and fostering the conditions that will attract new businesses, investors and innovations.
- 1.8 To support the achievement of these objectives the Government will provide seed capital and a package of benefits encompassing tax and customs levers which will be made available in designated areas described as tax and customs sites.

- I.9 Tax sites are areas of undeveloped, or underdeveloped, land which will be developed as sites for new economic enterprises that support the achievement of the government's objectives, they are similar in most respects to Enterprise Zones. Each Freeport may identify up to three tax sites within its outer boundary where the tax reliefs will apply.
- I.10 Customs sites are areas which for practical purposes will be demarcated as being outside of UK customs territory. This enables businesses operating within them to suspend their liability to excise payments and VAT until such time as goods are brought onto the UK customs territory.

What are the benefits?

- I.11 Each Freeport will be granted up to £25 million of seed capital funding, primarily to be used to address infrastructure gaps in tax and/or customs sites that are holding back investment.

Figure 1. Shows the possible benefits of a Freeport to different groups of stakeholders.



- I.12 Eligible businesses will have access to a suite of tax reliefs including:
- Business Rates Relief;
 - Stamp Duty Land Tax (SDLT);
 - Employer National Insurance Contributions (NICs);
 - Enhanced Structures and Building Allowance, and;
 - Enhanced Capital Allowances designed to incentivise new investment within the boundaries of Freeport tax sites.

These benefits will be available for 5 years, up until 2026/27.

- I.13 We and our partner local authorities will be able to retain 100% of the business rates growth above an agreed baseline. This will be guaranteed for 25 years, giving us the certainty we need to borrow and to invest in regeneration and infrastructure that will support growth.
- I.14 Business rates relief will be available for 5 years subject to eligibility criteria that we will develop locally and aligned to our gateway policy that supports the achievement of our strategic objectives for the Freeport.
- I.15 Businesses operating within Freeport customs sites will have access to simplified customs arrangements.
- I.16 We will provide a supportive planning environment through our Joint Local Plan which already has development policies covering our tax and customs sites.
- I.17 Freeports enjoy direct access to relevant regulators through a Freeport Regulatory Engagement Network (FREN). This will enable early engagement with regulators, minimising bureaucracy and uncertainty.

- 1.18 The Department for International Trade will provide targeted and specific trade and investment support to Freeports, helping them to secure investment and attract exporters.
- 1.19 Our Freeport will adhere to UK regulatory standards. Security, health and safety, workers' rights, data protection, biosecurity, tax avoidance and environmental protection will not be compromised.

2.0 THE PLYMOUTH AND SOUTH DEVON FREEPORT PROPOSAL

The Vision

- 2.1 The PASD Freeport will supercharge Plymouth's economy by building on our unique national capabilities in Marine, Defence and Space to form globally impactful superclusters and a UK Innovation Superpower.
- 2.2 As a South West Powerhouse, the full potential of the region will be realised by concentrating around the largest UK Naval port and Europe's only horizontal launch spaceport, high value primes and their rich supply chains.
- 2.3 The Freeport will deliver Levelling Up stimulus and drive local skills, jobs and higher wages. As an innovation hotbed, we will fuse already strong innovations with global leading projects and prototyping on synthetic testbeds and ocean proving grounds – spinning off viable products and early stage production runs in a supportive tax and regulatory environment.
- 2.4 Our Freeport will see the evolution of sub-sector specialisms including marine autonomy, maritime decarbonisation, digital oceans, smart port shipping, offshore renewable energy support solutions, defence mission modules and small satellite fabrication.

The Partnership

- 2.5 We are working in close partnership with the Department for Levelling Up, Homes and Communities and a number of other government departments, including HM Revenues and Customs, the Treasury and the Department for International Trade.
- 2.6 Our Freeport programme is supported by a local partnership between the public and private sectors, bringing together:-
- Three local authority partners – Plymouth City Council, Devon County Council and South Hams District Council
 - Two Universities - the Universities of Plymouth and Exeter
 - The Heart of the South West Local Enterprise Partnership
 - Anchor tenants and landowners - Princess Yachts, Langage Energy Park Limited and Babcock International
 - Port Operators and the Ministry of Defence

The Tax Sites

- 2.7 We propose to designate three tax sites: South Yard in Devonport, Langage Energy Park and the Sherford Employment Zone providing a combined footprint of around 130 HA for development.

South Yard

- 2.8 South Yard encompasses our Oceansgate development and the existing facilities owned by Princess Yachts, Babcock International and the Ministry of Defence. The site is economically underdeveloped with much of it being made up of underutilised buildings, some of which are the subject of preservation orders. We are in negotiating with the MOD to acquire an extended lease over underutilised facilities that remain within their control.

- 2.9 The total value of the developments proposed of this site, which include a new marine innovation centre, mobility hub and enhanced Princess Yacht's manufacturing facilities is circa £63m and we anticipate all of the development will come forward between 2022 and 2025, with the exception of later phases (3.2 and 3.3) of Oceansgate.
- 2.9 We are currently finalising the final boundaries to be applied to the site with the Treasury and will confirm these as part of the full business case.

Langage

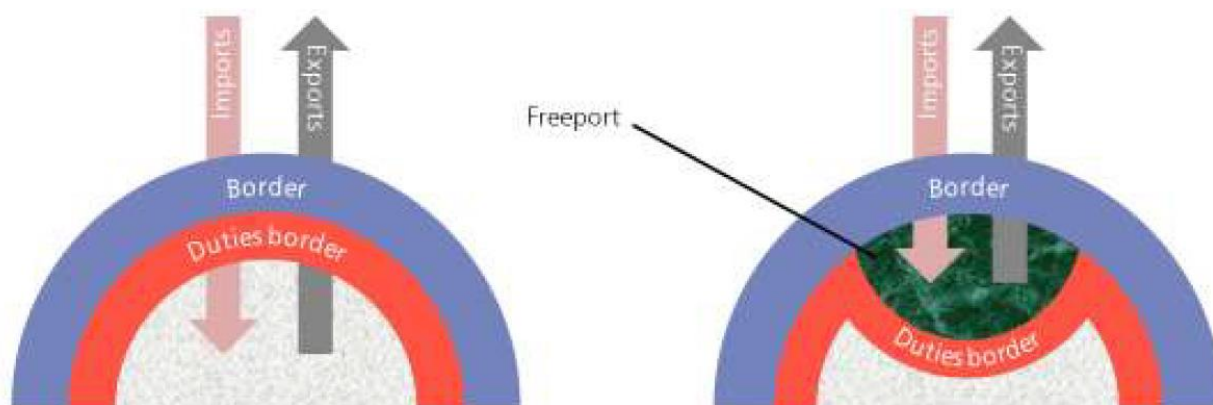
- 2.10 Located on greenfield land within the eastern corridor of the city, in close proximity to the A38 Expressway, the site is allocated in our Joint Local Plan for employment purposes. It will be developed as a tax site incorporating a customs zone to provide industrial and manufacturing space for high value manufacturing and engineering companies, focusing primarily but not exclusively on the marine, defence and space sectors. The site will also be home to a green hydrogen electrolyser plant and a mobility hub to deliver sustainable and low carbon transport options.
- 2.11 Development is anticipated to come forward in two phases, taking place between 2022 and 2027.
- Phase 1a will be delivered first encompassing a 25,000m² Customs Zone on land owned by Langage Energy Park Ltd. We already own a small parcel of land at Langage but we will need to acquire a significant parcel of land from its current owners before we can commence Phase 1b.
 - Phase 2 includes approximately 40 acres of solar farm owned by Langage Energy Park Ltd (LEPL). This occupies around 50% of LEPL's developable site. LEPL has development plans which would enable their plot to be developed in line with our Freeport objectives but this would require moving the solar panels.
- 2.12 However, the solar panels currently benefit from a feed-in tariff (FiT) which is contracted to 2036. LEPL has been in discussion with Ofgem to establish if this FiT could be continued at present levels to 2036 if the panels are moved. We are working with the national Freeport team to see if this issue can be resolved and if not this element of the Freeport will be removed.

Sherford

- 2.13 Located on the opposite side of the A38 Expressway to the Langage site, the Sherford Employment Zone forms part of the employment allocation of the Sherford new community. It will be developed as a logistics hub with coterminous tax and customs site boundaries, providing integrated warehousing, storage and engineering space for a single marine/defence contractor. This development is expected to come forward in the first phase of developments, taking place between 2022 and 2025.

Customs sites

- 2.15 A Freeport customs site (also known as a 'free zone') is a secure, enclosed customs zone where some normal tax and customs rules do not apply. It is the presence of customs sites that define a Freeport as something more than an economic zone.



- 2.16 Businesses operating from within a customs site derive 3 three main opportunities: -
- Tariff suspension - the ability to defer payment of VAT and excise duty until such time as imported goods cross into UK customs territory.
 - Tariff exemption – goods brought into the Freeport for export that never enter UK customs territory generate no liability to the payment of VAT or excise duty at all.
 - Tariff inversion – where goods are brought into a customs zone and processed into a final product and the excise duty on the final product is less than it would be on some or all of its components.
- 2.17 Our main customs sites will be delivered at two locations within our tax site boundaries at Langage and Sherford. Since these sites cannot be delivered before we have delivered necessary core site infrastructure, we have identified a third temporary customs site.
- 2.18 Located outside our tax site boundaries this will ensure that we can meet an HMRC requirement that we must have a fully operational customs site before we can be formally designated as a Freeport. Taken together these facilities will provide over 50,000 m² of warehouse and advanced manufacturing space.
- 2.19 To operate a Freeport customs site we must meet the conditions of an HMRC ‘designation order’. The designation order sets out who the Freeport customs site operator is and the conditions they must comply with. In the short term Babcock, who already meet the criteria, have agreed to seek authorisation as our customs site operator. We are currently considering longer term options, including the procurement of a single customs operator to cover all our customs operations.
- 2.20 We have committed to upholding the UK’s high standards for security and combatting illicit activity and we have therefore agreed to honour the obligations set out in the OECD Code of Conduct for Clean Free Trade Zones and the UK’s Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
- 2.21 We also have to maintain a security and illicit activity risk assessment with local partners and security stakeholders and put in place appropriate processes and governance arrangements for actively managing the security risks identified. These processes are subject to an annual security audit.

Anchor Tenants

- 2.22 Our proposal benefits from two anchor tenants who are currently based at South Yard.
- Babcock International – which works in partnership with the MOD at Devonport and has an overseas client base, providing through-life support for submarines, surface ships and

associated systems and equipment. Babcock's facilities at Devonport include the UK's sole licensed site for the refitting and refuel/defuel of nuclear-powered submarines, as well as docks to maintain, refit and modernise surface warships.

- Babcock currently employs over 7,200 people in Plymouth and has strong links with supply chain companies, with opportunities for on-shoring overseas clients. The Freeport represents a significant opportunity for them to expand operations in new economic areas through innovation and by developing an Integrated Logistics Hub at one of the tax sites as well as the re-development of redundant sites 'behind the wire' in South Yard.
- Princess Yachts which employs 3,000 staff on the South Yard Site to meticulously sculpt some of the most technically advanced and beautiful yachts in the world. The company has an advanced concept for a new 88ft super yacht which will be the first to integrate all of its sustainability initiatives through the use of efficient design, electrification and sustainable materials. The Freezone will offer an opportunity to create a flagship centre for luxury yacht manufacturing, creating 450 direct jobs.

2.23 At Langage, the Freeport will bring forward private investment for a 10MW hydrogen electrolyser plant which is planned to be online by the end of 2025. This will align with the Government's Hydrogen Strategy to underpin clean growth and low carbon transport for shipping and HGVs. The plant will utilise a live wire connection to the onsite solar farm and sleeved Power Purchase Agreements to ensure 100% green energy usage. Langage Energy Park Ltd (LEPL) is one of a handful of companies nationally able to deliver this type of plant, which mirrors a sister project in Manchester which is due to go live in 2023.

3.0 FREEPORT FUNDING

Capital Investment

3.1 Total investment in the Freeport is predicted to reach £314m. This is made up of £25m in Government seed capital grant with a local match of £29m. A further £10m will be raised through levelling up grant income and we anticipate total private sector investment levered be close to £250m.

Source	Total Value £'000
HM Government Seed Capital	£25,000
LA serviced debt/forward funding	£29,076
Grant Income (Levelling Up)	£10,000
Private Sector Investment	£249,670
Total	£313,746

3.2 At Langage £33m in public investment will be provided to support land assembly, site preparation and transport links. This will leverage £118m in private investment to build advanced manufacturing units and logistics facilities and a further £28m to deliver a Green Hydrogen electrolyser plant.

3.3 At Sherford £1m in public and £5m in private investment will support site preparation and transport links, private sector investment in off-site costs will be £3m and £62m will be invested in developing a state of the art logistics facilities.

Site	Detail	Lead LA	£m
Langage	Spine Road extension and plot access, Phase I	DCC	11.6
Langage	Link to Sandy Road	DCC	5.0
Langage	Land assembly - plot purchases	SHDC	7.0

Langage	Core Infrastructure @ Langage	SHDC	2.3
Langage	Security fencing @ Langage	SHDC	0.3
Langage	Cycle and pedestrian link to SW	DCC	7.3
Langage	Hydrogen Plant	Private Sector	28.2
Langage	Units	Private Sector	117.9
Sherford	Access roads @ Sherford	Private Sector	4.9
Sherford	Core Infrastructure @ Sherford	Private Sector	1.0
Sherford	Security fencing @ Sherford	SHDC	0.2
Sherford	Units	Private Sector	62.1
Sherford	Offsite costs at Sherford	Private Sector	2.9
PCC	Octagon Roundabout improvement	PCC	0.2
PCC	Ports Infrastructure	PCC	7.0
South Yard	Mobility Hub @ South Yard	PCC	8.6
South Yard	Innovation Centre	PCC	15.3
South Yard	Heritage Centre	PCC	0.3
South Yard	Re-routing MoD cabling to clear site	PCC	3.1
South Yard	Babcock	Private Sector	6.5
South Yard	Princess Yacht Factory @ South Yard - site remediation	Private Sector	22.0
Total			313.7

- 3.4 In South Yard public investment of £17.3m and a £10m levelling up fund grant will deliver a new Innovation Centre and Mobility hub at Oceansgate. Princess Yachts will invest £22m to deliver a new factory to build the next generation of super yachts, supported with £0.9m of public investment and Babcock will invest £6.5m in new and upgraded infrastructure.
- 3.3 Associated British Ports will invest £5.7m supported with a £1.3m public sector investment in the developing new port infrastructure to ensure adequate additional capacity and to provide enhanced freight facilities.

Public sector funding

- 3.4 Subject to Cabinet approval by each LA partner the local authority partners will forward fund the required local match for the £25m seed capital grant serviced by retained business rates

Local Authority	Forward Funding £000s
Devon County Council	14,289
South Hams District Council	4,625
Plymouth City Council	10,162
Total	29,076

Business rates

- 3.5 Debt will be serviced primarily through the business rates generated by the Freeport. The uplift in NNDR generated on the Freeport tax and Customs sites collected by the local authority partners will be held in ring fenced Freeport accounts by the precepting authorities. We estimate that this will generate £72m over a period of 25 years. In Plymouth retained business rates income will be supplemented by other income from South Yard including rental income from Oceansgate.

- 3.6 The first call on the retained business rates will be the repayment of public sector forward funding to support Freeport investment. The funds generated will also be used to support operating costs after the first five years. The predicted surplus of £32m after these costs are met will be reinvested to meet wider Freeport objectives with the early priorities being innovation and skills funding and offsetting the impact of any displacement of economic activity from the surrounding area.

Freeport Income and Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27	06 - 10	10 - 15	16 - 20	20 - 25	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income										
NNDR Retention	0	7	712	1,793	2,186	14,219	15,945	17,601	19,440	71,902
Other Income at South Yard	94	139	163	198	356	2,954	3,609	3,763	3,642	14,919
Total income	94	146	875	1,991	2,542	17,173	19,554	21,364	23,081	86,821
Expenditure										
Total debt charges	(29)	(209)	(671)	(1,005)	(1,295)	(7,765)	(7,765)	(7,765)	(7,765)	(34,269)
Lifecycle costs	0	0	(168)	(170)	(187)	(1,456)	(2,088)	(2,396)	(3,117)	(9,582)
Total Operating Costs	0	0	0	0	0	(2,290)	(2,527)	(2,789)	(3,080)	(10,686)
Residual Income	(29)	(209)	(839)	(1,176)	(1,482)	(11,511)	(12,380)	(12,950)	(13,962)	(54,536)
Expenditure Total										
	66	(63)	36	815	1,060	5,663	7,174	8,414	9,119	32,284
Risk sensitivity			5%	45%	48%	40%	45%	48%	47%	45%

- 3.7 Sensitivity testing of our financial modelling has considered a range of possible reasonable worst case scenarios, including increased capital costs or construction delays, rising inflation and/or interest rates, a shortfall in private investment, and slower than predicted occupancy rates.

Operating model

- 3.8 The operating model will create 7 new posts (4.5 FTE) including a Freeport Chief Executive Officer. An additional indicative sum is included in the operating model to secure a customs site operator when our main customs sites at Langage and Sherford are operational.

Freeport Operating Costs	Start Date
Freeport CEO	Jun-22
Freeport Manager	Jun-22

Skills Coordinator	Jun-22
Project co-ordinator (P/T)	Jun-22
Customs & security operator (via SLA)	Apr-24
Marketing, Trade and Investment Manager	Jun-22
Innovation Manager	Jun-22
Finance Manager	Jun-22
Annual Total Expenditure	£398,500

- 3.9 In the first year of operation 2021/22 additional non repeating expenditure will be required to support specific functions required to achieve Freeport mobilisation. These include staffing and consultancy costs incurred before the Freeport team is recruited, marketing expenditure to ensure our investor pipeline is robust and additional planning capacity to ensure expeditious processing of the large volume of planning applications we expect the Freeport to generate in its build out phase.

Non repeating costs	
Planning support	60,000
Programme Management	52,877
Other staff costs (Q1 22/23)	100,000
Consultancy costs (Q1 22/23)	125,000
Additional Marketing budget to support pipeline development (Q1 2021/22 until – Q2 2022/23)	90,600
Total	428,477

- 3.10 Our operating model will be fully funded through public and private sector landowner contributions supplemented with our government Freeport revenue grant over the first 5 years. We anticipate a small in year revenue overspend in 2021/22 and this has been covered with the application of a PCC grant which will be repaid in subsequent years.

Funding	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
DLUHC for OBC	300,000	300,000				
DLUHC for FBC	187,500	187,500				
DLUHC ongoing	512,500	467,460	45,040			
PCC internal loan	97,244	97,244	- 92,470	1,560	1,591	1,623
Plymouth City Council	50,000	50,000				
Income subtotal	1,147,244	634,744	467,460	47,430	1,560	1,591
Income from landowners	350,000	175,000	357,000	364,000	371,350	378,700
Oceansgate (PCC)	50,000	25,000	51,000	52,000	53,050	54,100

Income subtotal	400,000	-	200,000	408,000	416,000	424,400	432,800
Total Operating Income		634,744	667,460	360,570	414,440	422,809	431,177
Operating Profit / (Loss)		0	0	0	0	0	0

Plymouth City Council

3.11 Plymouth City Council will fund its capital investment in the Freeport programme through a combination of retained business rates generated by new economic activity in the Freeport, rental income and legacy income from earlier phases of the Oceansgate Programme. This will be supplemented through a £10m bid to the levelling up fund. Sensitivity testing suggests our operating surplus will be sufficient to cover any reasonable worst case scenario.

	2022/23	2023/24	2024/25	2025/26	2026/27	20 - 10	11 - 15	16 - 20	21 - 25	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Plymouth	0	0	113	149	194	1,130	1,247	1,377	1,520	5,729
Retained Business Rates - South Yard	0	0	113	149	194	1,130	1,247	1,377	1,520	5,729
Rents surplus/(deficit)	(20)	(10)	52	139	282	2,009	2,219	2,450	2,704	9,824
Contribution from earlier phases of EZ	114	149	111	59	74	945	1,391	1,314	937	5,095
Total income	94	139	276	346	550	4,084	4,856	5,140	5,162	20,648
Total debt charges - South Yard	(23)	(145)	(308)	(399)	(399)	(1,997)	(1,997)	(1,997)	(1,997)	(9,262)
Lifecycle costs - South Yard	0	0	(130)	(133)	(135)	(718)	(793)	(875)	(966)	(3,750)
Freeport operating costs - South Yard	0	0	0	0	0	(572)	(632)	(697)	(770)	(2,672)
Residual Income - South Yard	71	(6)	(163)	(185)	15	797	1,435	1,571	1,429	4,964

Business case for Oceansgate - phase 3

3.12 The vision for the Oceansgate development in South Yard, Devonport, is to bring together marine based businesses, partners and stakeholders, to create a world class hub for marine industries, with opportunities for research, innovation and production in a collaborative environment.

- 3.13 The first phase of the project, developed directly by the Council, and providing approximately 1,200m² of light industrial business space (Endurance Court) and 1,300m² of office space (Endeavour House), was successfully completed in April 2018. Phase 2, comprising a further 1,300m² of light industrial business space and 1,100m² of office space, was successfully completed in February 2021.
- 3.14 The masterplan for the Oceansgate development envisages a third phase made up of:
- Phase 3.1 Innovation Area
 - Phase 3.2 Skills & Technology Area
 - Phase 3.3 Prototype Area
 - Phase 3.4 Marine Transformation Services Area
- A feasibility study has been carried out to show that Phase 3.1 can be developed as a standalone project. Later phases require a major programme of enabling works to proceed.
- 3.15 The development of a new Innovation Centre and Mobility Hub is a key element of the masterplan for the Oceansgate project (Phase 3.1) and of the Freeport South Yard Tax Site. This is a project of strategic importance that will generate significant new employment and business opportunities, and provide a major boost to the delivery of later elements of Phase 3 of the Oceansgate project and the wider PASD Freeport enterprise.
- 3.16 The Centre will provide collaboration space for businesses to develop new projects and will include meeting rooms and supporting equipment to allow organisations to quickly develop new technology. It will host the Ocean Futures innovation delivery service, Smart Sound Plymouth HQ, Smart Sound Connect control centre as well as the Marine Assured Autonomy Testbed and ROADS project teams.
- 3.17 A full capital investment business case will be brought forward dealing with funding, MOD leases, cash flow, sensitivity analysis, and demand. The MoD have agreed, in principle, to release land to enable Phase 3.1 to progress and the designation of South Yard as a Freeport Tax Site opens a window of opportunity.
- 3.18 Oceansgate 3.1 will see the development of a 3,770m² Marine Innovation Centre and Mobility Hub, including a new 173 space multi storey car park. The proposal is a key element of the masterplan for the Oceansgate development and the South Yard Tax Site unlocking future phases of development.
- 3.19 At an estimated cost of £27.3m, in addition to Freeport seed capital serviced borrowing and a round 2 Levelling Up fund award will be required. The Department for Levelling Up Housing and Communities are encouraging this type of blended approach to funding, however a full capital investment business case will need to be approved in due course.
- 3.20 This is a project of strategic importance that will generate significant new employment and business opportunities, and provide a major boost to the delivery of later phases of the Oceansgate project and the wider Freeport enterprise.

Description	Total Cost	Seed Capital	LUF Grant	Service Borrowing
Phase 3.1	£27.3m	£7.25m	£10m	£10.05m

- 3.21 The Innovation Centre will cost £12,034,187. This equates to £3,192/m², more expensive than a typical office building, but consistent with a quality statement building with a high level of fit out

and built in difficult ground conditions. A further £1,867,722 will be required to meet associated infrastructure costs.

- 3.22 The multi-storey car park and mobility hub will cost £7,009,563. The cost per parking space is circa £39.5k which reflects the small size compared with typical multi storey designs and reflects the need to incorporate a Mobility Hub. The site is also burdened with difficult ground conditions and certain security and aesthetic requirements and will require an additional £778,921 in related infrastructure costs.
- 3.23 In addition to these construction costs, the cost estimate includes circa £4.658m for Ministry of Defence separation works, fees, surveys, client contingency and other costs. The total development cost for the Innovation Centre, car park and mobility hub is £26,348,393.
- 3.24 This proposal is subject to confirmation of DLUHC Freeport and LUF Round 2 funding, and full business case approval by the Council in due course. Up to £8.0m of serviced borrowing has already been approved for Oceansgate Phase 2, and our financial modelling indicates that a further £10.05m service borrowing for Phase 3.1 is affordable out of the projected rental income and retained business rates that will be generated, supported in the early years of the project by approved MTFP revenue funding.
- 3.25 Commitment of the additional service borrowing will be subject to a demand study on the proposed new Marine Innovation Centre that we are currently in the process of procuring to demonstrate that there is sufficient market demand for the development at the level of rent required to support our proposed service borrowing.

Accountable Body

- 3.26 Plymouth City Council will act as the sole accountable body for Freeport seed capital grant. A delivery plan incorporated within a member's agreement will be agreed to govern how this money will be managed and accounted for.
- 3.27 Plymouth City Council and South Hams District Council will establish ring fenced funds to receive the retained business rates and allocate them in accordance with a Business Rates retention policy agreed by the Local Authority Partners through the Joint Local Partnership Group (Member Steering Group once we establish the Freeport as a Company). This will include the central government reimbursement of funds allocated to support the 5 years business rates relief we expect to give businesses that comply with our gateway policy.
- 3.28 The Member Steering Group will receive an annual audit report prepared by the S.151 officers of the Local Authority supported by the Freeport finance manager.

Financial Risk

- 3.29 The current principle financial risks are set out in the table below, all project related risks are reviewed regularly by the Freeport development team.

Risk	RAG	Mitigation	RAG (Post Mitigation)
Success of Freeport depends on wrap around innovation service, funded externally from Freeport budget.		Funding strategy in place to secure Shared Prosperity funding and Innovate UK funding	
Funding model agreement is dependent on final signing of landowner agreements		Direction of travel and Heads of Terms agreed with all major Landowners.	
Financial model is dependent on final HMT sign off re Tax Site demarcations.		Round table discussion arranged with HMT to finalise site demarcations. Detailed	

		evidence base prepared and submitted in collaboration with Landowners and supported by wider (Government) Freeport Team.	
Levelling up funding required for the capital build of the innovation centre.		Funding strategy in place with an experienced bid team.	
Local authority exposure to underwriting 1/3 rd of the Freeport Company Limited by Guarantee. Total liability circa £130,000 per annum for a period of 5 years.		Offset by grant from HMT and retained business rates.	
Initial legal counsel suggest we will not be able to achieve certainty about the application of public subsidy regulations.		DLUHC have provided written assurance that we will be able to reallocate seed capital if subsidy control issues force us to reconsider capital allocation as a result. We will ensure that private sector partners are appraised of the risk.	

4.0 FREEPORT GOVERNANCE

Evolution of our governance model

- 4.1 The Freeport is a partnership arrangement involving long term financial arrangements that accordingly needs strong governance. The Freeport guidance identifies a number of requirements in settling on our preferred governance model. These include:
- A detailed statement of the long-term governance arrangements for the Freeport (including key governance documents), why these are appropriate, and how they will evolve over time as needed
 - A clear statement of any changes to the arrangements set out in the OBC
 - A clear and well justified schedule of delegation, allocating of accountability and delivery responsibility for each element of the Freeport proposal
 - Evidence of appropriate memberships for the governance body, subcommittees, and delivery teams, with clear and well justified roles and responsibilities for all key stakeholders (including private and public)
 - Evidence that the necessary expertise will be available to facilitate effective Freeport delivery, including how this will be recruited, developed, and, if appropriate, contracted
 - Clear timescales and processes for changes to governance and management arrangements, including recruitment and any plans for incorporation
- 4.2 Our governance arrangements continue to evolve as we move forwards from submission of our Outline Business Case. We have now invited key private sector partners to join the Plymouth and South Devon Shadow Freeport Board as full members. The full members now include the Local Authority partners, the Heart of the South West Local Enterprise Partnership, the University of Plymouth (on behalf of the Universities of Plymouth and Exeter), Babcock International, Princess Yachts and Langage Energy Park Ltd.

- 4.3 In our Outline Business Case, we set out our intention to establish the Freeport as a legal entity, with our preferred option being a Company Limited by Guarantee. Board members have received counsel about the suitability of this model from our retained legal advisors Womble Bond Dickson and pending their agreement, we anticipate issuing instructions to create a suitable company model.
- 4.4 We considered a range of alternative legal models include a contractual joint venture, which is a model we have used successfully before to deliver public/private initiatives. Other alternative we looked at were a special purpose vehicle and various incorporated company models involving an equity arrangement.
- 4.5 The Freeport Company delegated authority will be based on the flow of powers transferred from Government via primary legislation to Plymouth City Council, Devon County Council and South Hams District Council. The Local authorities in turn will create and commission a Freeport entity to manage the Freeport within a defined scheme of delegation and Local Authority reserved matters. In this way the Freeport Company has autonomy to operate and run the Freeport within its delegated powers.
- 4.6 The legal model will be a company limited by guarantee with Plymouth City Council, Devon County Council and South Hams District Council as founding members. A 'Members Agreement' will enshrine the Freeport governance model between the 3 authorities and will also define the Freeport Company's scheme of delegation and the Local Authority reserved matters. The Company 'member's agreement' will give the Local Authorities the necessary control to oversee the delivery of Freeport business plan as accountable bodies and scrutiny of public finances, whilst giving the Freeport company the autonomy to run the Freeport within defined limits.
- 4.7 The Freeport Company will have the following features and principles.
- **A members steering group** made up of the leaders and Chief Executives of each of the three local authority partners will provide strategic oversight and ensure alignment with the emerging County deal.
 - **An independent board of directors** with a chair from the private sector to provide clear evidence of private sector leadership, we will set out the process through which the chair will be appointed in the scheme of delegation. It is anticipated that the Founding directors will include but not limited to:-
 - Private Sector Chair
 - Directors from each Local Authority
 - Directors from landowners in each tax site including Princess Yachts, Babcock, Langage Energy park Limited
 - A Director from the Port Operators, Universities and Business Organisations
- A Memorandum and Articles** of Association setting out the remit and roles of the directors, a scheme of delegation and matters reserved to the founding members.
- **A Members' Agreement** binding the three local authorities to perform their functions and roles and their engagement with the Freeport Company based on the key principle of a partnership of equals, incorporating: -
 - **An annual delivery plan and budget** – proposed by the Freeport Company, sanctioned by the Founder members with respect to their reserved matters and approved by the Board of Directors who will hold the Freeport Company to account for its delivery, and;
 - **Policies and bilateral agreements** between the Local Authorities governing the use of Business Rates - to supporting borrowing and long term operational costs, including the proportion of business rates from each collecting authority, and the mechanisms for deciding the application of surplus retained business rates and redressing displacement.

- **A standard Service Level Agreement** to secure and fund commissioned activities from the Freeport Company to a range of partners including – Skills, Inward Investment, Innovation Services - where a budget is available or has been secured.
- **Partnering Agreement / Local Authority Agreements** –where it would not be appropriate to utilise the Members Agreement.

4.8 The Freeport Company is responsible for the management of the Freeport, employment of staff, delivering the Freeport business case and providing agreed shared services. It is anticipated these shared services will include marketing, inward investment and skills activities as they relate to the Freeport. The Landowners are responsible for delivering their individual sites and The Councils are responsible for delivering the Capital works funded by Freeport capital funding and retained business rates.

4.9 The Local Authority reserved matters will include but not be limited to:

- Agreement of the Freeport Company's annual business and financial plan.
- Appointing the Chair of the Board.
- Agreeing a scheme of delegation for the Freeport Company.
- Enforcement of the landowner agreements and gateway policies
- Allocation of retained business rates surpluses beyond those identified in the Freeport Full Business case
- Annual joint scrutiny

Additionality and Gateway Policy

4.10 Government requires Freeports to clearly demonstrate that they avoid displacing activity from elsewhere and provide genuine additionality – bringing in new jobs and investment.

4.11 Our proposals at Langage and Sherford unlock key employment sites that have been stalled for many years. The growth would either not have happened at all in the absence of the Freeport, or would have happened much more slowly. Whilst South Yard has existing development, the site is significantly underutilised in part due to the condition of the existing buildings. Freeport levers will enable Plymouth City Council and our key anchor tenants to develop and repurpose significant parts of the site, creating new jobs and leveraging additional investment.

4.12 The Freeport is focussed on attracting new high value investment within target sectors to the Freeport. These sectors are advanced manufacturing and engineering with a particular focus on marine, defence and space including low carbon applications.

4.13 To ensure this is realised we will establish robust governance and management structures which align prospective tax and custom site tenants with the delivery of the identified Freeport benefits and objectives. The adoption of a Gateway Policy mitigates against risks to delivery of these benefits by providing clarity on the eligibility of prospective businesses and/or organisations into the Freeport sites.

4.14 The Gateway Policy will form the basis for agreements between the Freeport Company, private sector landowners and tenants who will ultimately be the beneficiaries of the tax site levers including Business Rates Retention (BRR). Compliance with the gateway policy will be the trigger for the application of discretionary Business Rates Relief.

4.15 UK companies and/or organisations looking to locate within the Freeport, will need to meet certain gateway criteria, which are likely to include:-

- Businesses will need to clearly demonstrate how the proposed Freeport operations fall into one or more of the sectors above;

- Businesses will need to clearly demonstrate how the proposed Freeport operations represent incremental investment and employment additional to existing operations;
- Local businesses will not be precluded from applying to locate within the Freeport but will need to evidence new economic activity; and,
- If a business is relocating for purposes of growth then evidence will be required to prove that no appropriate expansion space was available at the current site.

4.16 Landowners can discuss other uses with the local authority, should they be able to demonstrate they have made best endeavours to comply with the Gateway Policy requirements, without a pipeline of suitable prospects coming forward.

Landowner Agreements

- 4.17 We have extensively engaged with all our landowners co-designing and then issuing a series of bespoke heads of terms, a gateway policy, site benefits analysis, a new revenue budget and a detailed delivery programme.
- 4.18 The heads of terms define the parties to each of the agreements, the Landowner, relevant Local Authority and the Freeport, and commit them to work together to developing the site in accordance with the Plymouth and South Devon Freeport vision. The boundaries of each the tax sites are defined and the indicative capital sums to be invested in the site by each of the parties.
- 4.19 From the agreements above, Plymouth City Council will be the local authority and rating authority for all of the South Yard agreements, entering into agreement with the respective landowners and the Freeport Authority. In the context of the Oceansgate 3.1 site, Plymouth City Council will enter an agreement with the Freeport Authority as a landowner, making a commitment to the proposed capital development.

The outputs

- 4.20 Our Freeport proposal is highly ambitious and transformative the top ten outputs we anticipate are: -
- 1. 3,584 direct jobs created with an average wage level of at least £13.92 per hour**
 - 2. 10% of jobs created to be filled by inactive claimants and registered unemployed**
 - 3. 3,000 m² of skills infrastructure**
 - 4. 2,400 m² of new innovation space**
 - 5. 137.9 hectares of land developed**
 - 6. 5 new businesses each year**
 - 7. 2-3 new FDI each year**
 - 8. 40 Business/Higher education collaborations annually from 2022**
 - 9. £4m a year in private investment in research & development**
 - 10. 10 new products developed for market**
- 4.21 We expect the Freeport to deliver wider benefits such as an uplift in land value, labour supply, a skills uplift and the jobs/GVA arising from the construction of the Freeport. Our economic modelling estimates the total value of these and other benefits at £409.5m over a 15 year timeframe.

Timeline

4.22 The key milestones and latest dates are set out in the table below. The memorandum of understanding between the government and the local partners cannot be issued less than 21 days after the tax sites are legally established so these are in practice the earliest possible dates. However if these dates slip there is nothing to stop us commencing work on site in anticipation of the grant letter and memorandum being issued.

Milestones/Latest Dates	Date
Plymouth City Council Decision	23/02/2022
South Hams District Council Decision	31/03/2022
Devon County Council Decision	13/04/2022
At least one site specific agreement is signed by all parties	20/04/2022
Freeport Governing Body endorses the Full Business Case	21/04/2022
Joint Local Partnership endorses the Full Business Case	21/04/2022
Plymouth City Council signs off on the Full Business Case as lead accountable body under delegated arrangements set out below	21/04/2022
Full Business Case is submitted to Department for Levelling Up, Homes and Communities	22/04/2022
Staff recruitment process commences	01/05/2022
Primary customs site is operational and HMRC approvals are achieved.	06/06/2022
Tax site(s) covered by site specific agreements are legally established by statutory instrument	07/06/2022
Department for Levelling Up, Homes and Communities sign off Full Business Case and issue Memorandum to Freeport Governing Body	28/06/2022
Freeport governing body signs off on memorandum.	01/07/2022
Plymouth and South Devon Freeport is formally designated and section 31 grant letter is issued to Plymouth City Council	01/07/2022
Freeport is operational and works commence on site.	01/07/2022
All Sites will be online within 5 years of summer 2022.	31/03/2027

Risks and Mitigation

4.20 The top 5 risks associated with the Freeport are set out below. Our risk register is regularly reviewed by the Freeport team and all risks are reported through Freeport governance arrangements and actively managed by the Freeport delivery team.

Risk Description	Combined Score	Mitigation	Combined Score
State subsidy framework could inhibit use of seed capital	16	Agreement reached with DLUHC reached that seed capital can be reallocated subject to a project change request. Legal advice suggests we need to carry out point by point review (7 principles) as this will provide best defence to challenge. Will need to demonstrate public interest outweighs market distortion.	16

Land acquisition (CPO) takes 3 years leading to reduced scale of Freeport deliverability	20	Early engagement to determine likely timescales. Realistic budget allocated to secure sites reflecting wider economic value	15
Highways England stop further planning at any site until junctions are improved	20	25,000m2 of employment space is consented and available for uptake at Langage and about 14Ha of space will become available at Sherford. Work collaboratively with Highways England as part of infrastructure board to develop solutions and phasing. Can any additional traffic burden be acceptable during a build phase of any new major infrastructure? Modelling at FBC stage to test and understand.	12
South Yard - Co-ordination of MoD services separation and diversion within the Base impacts on programme and cost	20	Secure funding for enhanced contingency allowances, reflective of work to date (e.g. HV).	12
Unexpected/increasing costs require additional funds to be secured or the scale back of plans (related to landowners and transport infrastructure costs)	16	Sensitivity testing on financial construction variables complete, but full transport impacts not yet known.	12

5.0 RECOMMENDATIONS

5.1 Recommendation 1 – Cabinet is asked to note the progress of the Plymouth and South Devon Freeport and to delegate approval of the Full Business Case for submission in April to the Strategic Director for Place.

Alternatives considered – the deadline for submission of the 22nd April and upcoming pre-election period dictate that we have to seek a delegated decision.

5.2 Recommendation 2 - Cabinet is asked to agree the role of Plymouth City Council as the accountable body for the Plymouth and South Freeport with responsibility for administering the £25m government seed funding.

Alternatives considered - An option involving all three Local Authorities acting as accountable bodies for activity in their own area was considered but viewed ultimately as unnecessarily complex and bureaucratic.

5.3 Recommendation 3 – Cabinet is asked to delegate authority to the Strategic Director of Place to sign the Freeport Memorandum of Understanding and associated legal agreements with Government and partners - setting out government expectations, funding arrangements, outputs and partner obligations.

Alternatives considered - The terms under which the Seed Capital grant are made are set by the Government so no alternative arrangement was considered.

- 5.4 **Recommendation 4 – Cabinet is asked to approve the Oceansgate Phase 3 Outline Business Case and associated service borrowing (funded by retained business rates) subject to a detailed business case and successful Levelling Up Fund grant application.**

Alternatives considered - We considered financing the capital requirement in the Oceansgate Business Case wholly from retained business rates and concluded that increasing the proportion of grant income to be applied was a more robust approach.

- 5.5 **Recommendation 5 – Cabinet is asked to agree the Freeport operating model, staff structure and revenue budget including the Local Authority annual £50k contribution which will be funded from the Oceansgate revenue budget.**

Alternatives considered - We considered alternative charging mechanisms that would have leveraged tax benefits such as a fee based on square meterage of employment floor space provided and the number of new employees benefitting from employers national insurance relief. Ultimately these models were overly complex and less certain than the flat fee arrangement we have settled on.

- 5.6 **Recommendation 6 – Cabinet is asked to agree to establish a company limited by guarantee to become the Freeport managing entity, with Plymouth City Council, Devon County Council and South Hams District Council as its founding members based on the terms set out in this report. Delegate to the Strategic Director of Place authority to sign any legal or other agreements that may be required, including the members agreement reserved matters and a scheme of delegation as set out in paragraph 4.9.**

Alternatives considered - various alternative company models were considered and advice taken both internally and through government appointed consultants. The Company Limited by Guarantee emerged as the most likely suitable model. This preference was then stress tested by Womble Bond Dickson.

- 5.7 **Recommendation 7 – Cabinet is asked to delegate to the Strategic Director of Place the authority to enter into Freeport landowner agreements, including those relating to Oceansgate and the South Yard Tax site, as may be required in pursuance of the Freeport Objectives set out in the report and to discharge our obligations as the accountable body.**

Alternatives considered – The Department of Levelling Up Homes and Communities have imposed a condition that we must bring forward at least one site specific agreement before the 20th April 2022. The work required cannot be completed in time to bring this to cabinet for agreement before we enter the pre-election period.

Summary and next steps

- 5.8 It has been a little over 12 months since the Chancellor of the Exchequer announced that our Freeport bid was successful and that Plymouth and South Devon Freeport would become one of the eight English Freeports. We were expected to deliver at pace and we have.
- 5.9 The commitment given to realising the vision we set out in our bid, not only from our internal team, but also by our partners, especially South Hams District Council and Devon County Council has been outstanding. We are grateful too, to our private sector partners, our Local Enterprise Partnership and Universities who have been supportive from the outset and with whom we have built even closer relationships as we move forward to submit our Full Business Case.

- 5.10 The Plymouth and South Devon Freeport is one of the biggest undertakings Plymouth City Council has embarked on post war. It will truly enable us to build back better in the wake of the COVID 19 pandemic providing 1000s of new jobs to underpin our recovery.
- 5.11 It is designed to leverage our strengths, our thriving marine innovation sector and traditional defence links as well as the emerging space sector. Our biggest employers serve as our anchor tenants and the Freeport not only anchors them to the city for the future but enables them to pursue ambitious expansion plans.
- 5.12 The Freeport unlocks much needed employment land to create space for a new wave of light manufacturing and green energy firms to locate in the area and the tax and customs benefits will provide additional incentive to accelerate the rapid development of the sites.
- 5.13 Our new marine innovation centre will serve as a hotbed for innovation leading to the development of new products we can take to a global market place with the support of government opening up new trading opportunities. Our ports will benefit from that uplift in trade and we will provide new logistics facilities and customs zones to facilitate and encourage export orientated businesses to locate their operations within our Freeport.
- 5.14 There are risks, but we have carefully assessed them and we are confident that they can be managed. The rewards are proportionately large, a vibrant economy delivering quality jobs, and new skills provision to ensure that residents in our most left behind wards can benefit.
- 5.15 The scale of investment the Freeport anticipates is a sign of our ambition to achieve our vision of becoming one of Europe's most vibrant waterfront cities, where an outstanding quality of life is enjoyed by everyone.
- 5.16 We have achieved a great deal in a very short space of time, there is however a great deal more still to do before we are ready to submit our Full Business Case.

Key work streams include;-

- Bringing forward a primary custom zone and customs operator - before we are formally designated as a Freeport we must achieve HMRC authorisation for both site and operator.
 - Detailed delivery plans - are required for each tax and customs site, which must include plans for the delivery of highways and other essential infrastructure.
 - Key policy levers – we are expected to have plans and strategies in place to deliver against policy expectations, e.g. Innovation, Trade and Investment, Carbon Net Zero and Skills.
 - Retained business rates – we must provide granular detail about how we will use retained business rates to support Freeport delivery and a supporting policy framework.
- 5.17 In order to expedite delivery of this crucial work we have appointed an additional temporary project manager to supplement our existing capacity. However, there are timing factors that are outside our control which mean that we will not be able to complete all of the necessary work before we enter the pre-election period. We are therefore seeking delegated authority to sign off on our Full Business Case ahead of submission on 22nd April.