

# Brexit, Infrastructure and Legislative Change Overview and Scrutiny Committee



Date of meeting:	23 February 2022
Title of Report:	<b>Plymouth and South Devon Freeport</b>
Lead Member:	Councillor Nick Kelly (Leader)
Lead Strategic Director:	Anthony Payne (Strategic Director for Place)
Author:	Kevin McKenzie
Contact Email:	kevin.mckenzie@plymouth.gov.uk
Your Reference:	KM 11/02/2022
Key Decision:	No
Confidentiality:	Part I - Official

## Purpose of Report

Plymouth and South Devon Freeport is the result of a successful bid submitted by Plymouth City Council in February 2021. The report provides members with an update on our progress and our intention to secure a formal decision endorsing our Full Business Case.

## Recommendations and Reasons

Members are asked to: -

Recommend to Cabinet that they endorse submission of our 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 Site Specific Agreements
- The revenue commitment required from Plymouth City Council as a landowner
- Legal obligations arising from the customs sites

**Reason** - As the accountable body for the Freeport we are required to take a formal decision endorsing our Full Business Case.

## Alternative options considered and rejected

The only alternative option at this stage would be to withdraw from the Freeport Programme. This would cause the council to suffer significant reputational damage.

### **Relevance to the Corporate Plan and/or the Plymouth Plan**

Our free port will help us to achieve strategic objectives from the Plymouth Plan: -

SO2 - Strengthening Plymouth's role in the region

SO3 - Delivering the international city

SO11 – Delivering high quality development

SO12 – Delivering infrastructure and investment

And strongly supports the priorities we have set in our Corporate Plan: -

- economic growth that benefits as many people as possible
- quality jobs and valuable skills

### **Implications for the Medium Term Financial Plan and Resource Implications:**

- Our preferred option anticipates a £25m capital grant from Central Government, which is subject to local match.
- We will raise the local match requirement through service borrowing (repaid using the retained business rates), private sector contributions and other funding streams, e.g. Levelling Up.
- The uplift in NNDR and rental income from designated Freeport Tax and Customs sites will be retained and ring fenced for a period of 25 years and used to service borrowing and support revenue costs.
- Landowner contributions and a specific grant from the Department for Levelling Up, Homes and Communities will underwrite our revenue requirement for the first 5 years.
- The MTFP has allocated additional funding to support Freeport delivery.
- For financial risk, please see Financial Risk section.

### **Financial Risks**

Detailed in the financial risk section below.

### **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.

Our Freeport will act as a catalyst, helping us to accelerate the implementation of existing technologies (such as electric vehicles and hydrogen) as well as pioneering new solutions through our Innovation Hotbed. Similarly, our investment in port infrastructure will facilitate carbon savings from short sea shipping.

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

*\* When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*



**Sign off:**

Fin	pl.21. 22.2 74.	Leg	MS/1 7.02. 21.	Mon Off	LS/38 149/A C/21/ 2/22.	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? Yes Date agreed: 11/02/2022											
Cabinet Member approval: The Leader, Councillor Nick Kelly Date approved: 14/02/2022											

## **Introduction and background**

In September last year (2021), the scrutiny committee received an update about our progress in delivering the Plymouth and South Devon Freeport. This report delivers on the commitment we gave then to provide a further opportunity for scrutiny of our developing proposals before we submit our Full Business Case.

Government has been clear from the outset about its expectation that we will deliver at pace and that pressure inevitably means that any update can only be a snapshot that quickly loses currency. Officers will therefore present the latest information to the members of the scrutiny committee on the day.

## **OBC Submission**

We passed another milestone when we submitted our Outline Business Case setting out our Freeport plans in November. This document ran to over 61 pages, supported by 25 annexes, representing the culmination of months of effort by a small team of dedicated officers from Plymouth City Council, Devon County Council and South Hams District Council, supported by a cast that spanned the local public and private sector.

Prepared to Treasury green book standards, and responding to guidance issued by the Department for Levelling Up, Homes and Communities it consists of five separate elements; the strategic, economic, financial, commercial and management cases. An executive summary of the content is appended as an annexe to this report.

## **HM Treasury presentation**

We aim to establish three tax sites at South Yard, Langage and Sherford. Maps indicating the boundaries of our proposed sites are appended. The tax sites at Langage and Sherford encompass Customs sites, and in order to meet HMRC requirements we may bring forward an additional customs site at Burrington Way.

In December, a team of officers drawn from the three partner authorities and led by our Strategic Director for Place presented our plans for delivering our Tax sites to Treasury officials. The team set out the development status of each of our tax sites utilising a mix of Google maps fly throughs and traditional slides.

Following this presentation, we were tasked to provide additional information covering some aspects of the tax sites, which we duly submitted in early January. We anticipate further discussion with the Treasury over the next few weeks. Locking down our Tax site boundaries will trigger the tax site designation process, which will require a statutory instrument to give it legal force. The plans appended to this report indicate their current extent.

## **Critical actions**

In common with every other Freeport that has submitted their Outline Business Case we were given a number of critical actions which we were required to respond to by 11 February. These included an expectation that we would have agreed heads of terms with our landowner partners. This deadline brought forward a requirement that we had not expected to have to meet until we were ready to submit our Full Business Case in April.

Thanks to an effort described as “extremely Impressive” by the Department for Levelling Up, Homes and Communities by a team led by our Service Director for Economic Development, in a matter of just a few short weeks, we have reached an agreed position. 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. We have reached an agreed position with Princess Yachts Board and agreed all the key principles with Babcock, Langage, Sherford, Unit Build and we are currently in discussion with MOD.

We are now confident of generating sufficient income through these agreements to meet the cost of our core Freeport team for the next 5 years.

## **Landowner Agreements**

There is a separate agreement for each landowner, Langage Energy Park Ltd, Princess Yachts and the Sherford Consortium. 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.

The agreements also encompass a commitment to implement our gateway policy, which aims to ensure we secure investment in the key sectors we need to support our Freeport vision, i.e. advanced manufacturing and engineering with a particular focus on marine, defence and space, including low carbon applications.

The Gateway Policy will form the basis for agreements between the PASD Freeport Board, private sector landowners and tenants who will ultimately be the beneficiaries of the tax site levers. Compliance with the gateway policy will be the trigger for the application of Business Rates Relief for a period of 5 years, which Central Government will fully underwrite. These agreements will ensure that we have adequate control over the development of our Freeport tax and customs sites.

## **Financial Model**

Finalisation of the financial model is dependent on the successful conclusion of the landowner agreements.

Capital requirements will be met primarily from Freeport seed capital allocated by central government and service borrowing which will be repaid through retained business rates generated by Freeport activity. There will be no impact on our Medium Term Financial Plan beyond the funds already allocated for this purpose through the agreed council budget.

Landowner contributions, including those made by Plymouth City Council and South Hams District Council, supplemented by central government revenue support grants, which are available for the next 3 years will underwrite our operating costs for the first five years.

Plymouth City Council will need to contribute £50,000 per year over the first five years as the relevant landowner for Oceansgate, A reduction of 50% is applied to first year contributions from all landowners so the commitment will be £225,000 over the five years.

**Financial Risk**

<b>Risk</b>	<b>RAG</b>	<b>Mitigation</b>	<b>RAG (Post Mitigation)</b>
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 agreed won Heads of Terms 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 pulled together 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 experienced bid team.	
Local authority exposure to underwriting 1/3 <sup>rd</sup> 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.	

## **Governance**

Our governance arrangements continue to evolve as we move forwards from submission of our Outline Business Case. We have implemented the second phase of that evolutionary process by inviting 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. Our Strategic Director for Place continues to serve as Chairperson.

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. We will firm up our plans before we seek a formal decision and set out a timeline for implementation on our Full Business Case.

## **Next steps**

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;-

- Finalising our capital requirement and the debt envelope required to bring this forward and how this will be serviced, including any further anticipated grant income.
- Developing a business case for our investment in Oceansgate, Princess Yachts and Babcock and addressing subsidy control considerations.
- Providing granular detail about how we will use retained business rates to support Freeport delivery and a supporting policy framework.
- Establishing a legal identity for the Freeport in its own right through a suitable company model, most likely a company limited by guarantee.
- Finalising our operating model and developing role profiles and a recruitment schedule.
- Completing the work necessary to get site specific agreements in place with our landowners.
- Bringing forward a primary custom zone and customs operator and achieving HMRC authorisation for both site and operator.
- Providing detailed delivery plans for each tax and customs site, which must include plans for the delivery of highways and other essential infrastructure.
- Ensuring we have plans and strategies in place to deliver against policy expectations, e.g. Innovation, Trade and Investment, Carbon Net Zero and Skills.

In order to expedite delivery of this crucial work we intend to appoint an additional temporary project manager to supplement our existing capacity.

Appendix one - An executive summary of our Outline Business Case.

Appendix two – A draft Equality Impact Assessment

Appendix three site master plans.