# Freeport East Local Growth & Investment Strategy

## Using retained business rates on freeport tax sites to help strengthen and level-up our region

March 2024

# Contents

# 1. Introduction

## About Freeport East

Freeport East aspires to be the UK's leading centre for trade, green energy and innovation. It will be a Global Freeport for a Global Britain. It will deliver unique opportunities for investment, business-led growth and levelling-up that will create benefits at a local, national and international level.

## Purpose of this strategy

The freeport model designed by UK Government provides that all growth in business rate income on designated tax sites above a specified baseline figure over a 25-year period is to be collected locally and then utilised to support the aims of the freeport.

This model is a significant benefit when compared to the extant approach whereby a significant proportion of business rate income would otherwise flow directly to HM Treasury. The freeport model thereby secures greater funds for regional growth and investment under governance mechanisms and processes which are locally-led.

As set out in relevant documents from the Department for Levelling Up, Housing and Communities (DLUHC) and the Memorandum of Understanding implemented between DLUHC, the Billing Authorities and Freeport East Ltd, the principle of the retained rates strategy should be to maximise the amount of pooled funds that can be utilised to support the Freeport vision and objectives. These funds can be deployed to promote the freeport vision within the Freeport East Outer Boundary (the 45km zone) or wider "travel to work" area.

Initial proposals for how these funds would be used were set out at a high level in the Full Business Case that was submitted by the partners of Freeport East and approved by Government in December 2022. Outline forecasts suggested that the total funds available under the freeport business rate model could be up to £300m over 25 years. The first year of the 25 year period is 2023/24 and the final year is 2046/47.

The purpose of this strategy is to provide a more detailed articulation of how funds will be allocated and utilised in support of the Freeport East vision and the mechanisms, governance and processes required to deliver that.

It is noted that each relevant Billing Authority has separately sought approval for business rate retention mechanisms. This strategy draws upon those policies but, reflecting the essence of the freeport model as a joint endeavour, goes further in terms of how business rates collected will be deployed in the best interests of the overall success of Freeport East.

This strategy is owned and approved by the Freeport East Supervisory Board which comprises appointees of each of the Founder Members of Freeport East Ltd. This includes the three Billing Authorities and both Suffolk and Essex County Councils.

The strategy will be reviewed every year by the Freeport East Board.

Once approved, this strategy will be made available for public access on the Freeport East website. Some of the processes set out in this strategy may also call for wider consultation with the business community and/or public, which will be dealt with on a case-by-case basis.

## Scope of this strategy

The business rate income subject to this strategy is as set out in the Non-Domestic Rating (Designated Areas) Regulations 2023 and includes premises wholly or partially within the three tax site location that are also designated by HM Government in legislation[1].

The three Freeport East tax site locations are in Felixstowe, Harwich and Stowmarket.

Gateway 14 in Stowmarket was originally set up as a single site in single ownership and developed by Gateway 14 Ltd. In due course, where Gateway 14 Ltd enters into freehold sales, the tax site will be split into individual plots for ownership purposes, albeit remaining under the banner of the Gateway 14 .

In the case of the Felixstowe, there are two discrete sites. One site is owned by the Felixstowe Dock and Railway Company and comprises approximately 32 hectares of brownfield or under-utilised port land. The second is occupied by Maritime Transport Ltd under the terms of a long lease, the site of the former Anzani House, and is approximately 5 acres of brownfield land.

In the case of Harwich, there are also two discrete sites. The first is the area known as Bathside Bay, which is a mixture of existing quay, under-utilised warehousing and cleared land and shallow water and owned by Harwich International Port. The overall site comprises approximately 132 hectares and is currently the subject of planning permissions for redevelopment for port infrastructure (the Green Energy Hub). The second is approximately 4 acres and known as Iconfield Park, where the owner is J&J Holdings. It is largely under-utilised industrial derelict land with some existing engineering workshops and offices.

Baseline business rate income for each of these three tax site locations is as set out in the Non-Domestic Rating (Designated Areas) Regulations 2023 and laid out in the table below. All business rate income over the specified baseline in each year of the 25-year period commencing on the 1st April 2023 shall accrue for the purposes of the freeport and be subject to the content of this strategy.

[1] www.gov.uk/government/publications/maps-of-freeport-east-tax-sites

If in any year the amount of retained business rate income for a tax site is lower than the baseline amount then the collected business rate income subject to this strategy for that site and year will be zero.

| Tax Site | Billing Authority | Baseline business rate income to be applied from 1st April 2023 |
|---|---|---|
| Harwich | Tendring District Council | £841,447 |
| Gateway 14 | Mid Suffolk District Council | £0 |
| Felixstowe | East Suffolk District Council | £774,808 |

In consideration of the approach and governance for spending of retained business rates, the new Subsidy Control Act will be an important consideration alongside other relevant legislation. Subsidy control assurance is to be provided by the public body which provides public funding and therefore is most likely to be the role of the Accountable Body (East Suffolk Council) or a relevant Billing Authority. In delivery of the governance processes set out in this strategy, all partners and particularly Freeport East Ltd will need to be cognisant of the implications of the Subsidy Control Act, particularly where funds are being deployed to support private sector activity.

## Structure of this strategy

This strategy is structured into five sections as set out below:

- Section 1 - Aims and objectives - outlines the key aims of Freeport East, which provide the focus for spending plans and associated governance processes for use of the retained business rates. If the outputs and objectives of individual projects are aligned to these aims and met, then they will support us in delivering the vision for Freeport East
- Section 2 - Key principles for high level allocation of retained business rates income – outlines the means by which retained business rates will be allocated for different high-level purposes, together with exploration of some of the key mechanisms and considerations for how funds are used in support of the Freeport East vision
- Section 3 - Decision-making – following the high-level allocations made, this section outlines the basis upon which individual projects and interventions will be brought forward and assessed and the governance in relation to those decisions.
- Section 4 - Financial management – outlines the mechanisms to be deployed by the Accountable Body, Billing Authorities, Freeport East Ltd and others to ensure effective and efficient financial management of the retained business rates
- Section 5 - Programme management – outlines the key operational processes to be used in delivering all spending activity utilising the retained rates, principally under the guidance of the Accountable Body.

# 2. Aims and objectives

## Freeport East objectives

Freeport East is a public-private partnership, based on a shared endeavour and common objectives to drive a more sustainable and diverse regional economy and to address the inequalities that prevent members of our communities benefiting from equal access to good education, skills and employment opportunities.

The vision for Freeport East is to help facilitate a better place to live, work and invest with a multi-faceted approach that attracts and facilitates greater domestic and international inward investment, whilst also ensuring that the benefits of growth are felt more broadly and equally.

In order to do this, we intend to utilise the funds captured within the scope of this strategy across the following broad areas of activity:

- Site development for inward investment
- Skills
- Net Zero
- Innovation
- Trade & Investment
- Local growth & infrastructure

The strength of particular interventions across these areas will be judged not only by their ability to support private-sector-led growth, but also to facilitate wider socio-economic benefits, such as improvements in our natural environment, strengthening public services, increasing health & wellbeing outcomes and child poverty rates. Naturally some interventions will deliver more strongly in specific areas, and these funds are only a small part of wider public and private sector spending in our region – but in totality, we will be focusing on a portfolio of actions that can collectively strengthen the region for years to come.

## Freeport East Aims

The overall aims of Freeport East, against which spending proposals will ultimately be judged are to be able to contribute effectively to:

- create, strengthen and extend the UK's primary hub for global trade and investment
- facilitate a more diverse, sustainable and inclusive regional economy that creates a variety of well-paid jobs and career paths for local people
- level-up the region, reduce inequalities and broaden access to opportunity, particularly in relation to education and employment

- drive innovation, in order to 1) deliver an increase in public and private R&D spend; 2) strengthen the physical and virtual networks to allow innovation to flourish; 3) use innovation as a key enabler of inward investment and 4) help direct emerging innovations to tackle local socio-economic challenges
- support the Government's Net Zero Ambitions including through delivering a cleaner, greener energy sector, protecting and nurturing our local biodiversity and supporting those sectors that are able to contribute to cleaner growth

## Key target outputs for use of retained business rates income

Outputs will be more specifically defined as part of specific funding proposals and in line with sub-strategies. Whilst there is an interest in targeting and tracking a wide set of outputs across all interventions, in practice this will need to be balanced against the resource demands of sensibly tracking such outputs. Where possible, business cases and appraisals will seek to be clear about where outputs are likely to be used to inform decision-making only and the basis of those estimated outputs, versus those that are essential to be monitored over the long term. These are likely to dovetail with cases where DLUHC are able to specifically provide additional M&E capacity support.

However, high level outputs of the overall combination of outputs will seek to mirror those set out in the DLUHC Monitoring and Evaluation framework and which therefore reflect the original policy intent of the freeports programme.

These outputs will therefore be likely to include:

- Jobs
- Inward Investment

In addition, more specific outputs will reflect local priorities and sub-strategies and may be particularly relevant to certain funding proposals or areas of work. For example, across areas such as inequalities, innovation and net zero, outputs applied from time to time may include:

- Land brought forward for development
- New floorspace created
- Number of persons enabled to access employment and education opportunities
- £ increase in R&D/innovation spending
- Total MW (or equivalent) of new clean energy capacity
- Total sqm of additional PV solar roof installations across new developments in the Freeport East Outer Boundary

Any combination of outputs will be kept under review including the means of estimating and tracking those.  Wherever possible we will seek to ensure these flow from our business plan and strategy as well as DLUHC M&E to ensure top-to-bottom visibility on impacts of the programme and spending within Freeport East.

# 3. Key principles for high level allocation of retained business rates income

## Scale, timing and uncertainty of retained business rates income

Implementation of this strategy will depend on the ongoing revision of forecasts of business rate growth, combining forecasts of various degrees of (un)certainty. A single combined business rate income forecast over the remainder of the 25 year period, utilising the Freeport East single financial model, will be produced at least bi-annually and will be reviewed by the Freeport East Finance and Audit Committee.

An annual update on future forecast business rate income across the sites will be published as part of the Freeport East Business Plan process. This will include a single year-ahead retained business rates forecast that will be part of the one year Business Plan cycle.

Appendix A provides a technical note outlining how the forecasting process will be undertaken. It should particularly be noted that all numbers in this document are provided in 2023 real terms, i.e. they are not adjusted for inflation that will arise over the 25 year period. In practice, it is assumed that business rate income will grow broadly in line with inflation and that expenditure will grow at a similar rate. For simplicity, all numbers in the document are maintained in 2023 real terms and will be adjusted year-by-year as this strategy is updated.

At the current time, as of November 2023 the current forecast is for a high-low range of between approximately £300m and £210m of total income over the 25 year period, from 2023/24 through to 2046/47.

Of this, £61m reflects business rate growth that is already supported by existing contracts/leases/sales of plots on one or more of the tax site locations and therefore of high certainty. We refer to this as our FIRM forecast (see Annex A). Our current ANTICIPATED forecast would be approximately £75m. As set out in Annex A this includes future rates income where we know there are current commercial arrangements under discussion that make this future income likely.

**Finally, a summary of the November 2023 HIGH LEVEL forecasts for business rate income** are provided in the table below. These are over and above the baseline income set out in the relevant legislation and the table above. It should be noted that these are merely indicative and reflective of various uncertainties. A full technical note on the forecasting model is provided at Appendix A:

| Tax Site | Local Billing Authority | High Outcome | Low Outcome |
|---|---|---|---|
| Harwich | Tendring District Council | £105m | £22m |

| | | | |
|---|---|---|---|
| Gateway 14 | Mid Suffolk District Council | £141m | £136m |
| Felixstowe | East Suffolk District Council | £55m | £51m |
| **Total** | | **£301m** | **£209m** |

*All figures are quoted in real terms in 2023 figures.

In the first five years, HIGH LEVEL forecasts for High and Low scenarios are:

| **Tax Site** | **Local Billing Authority** | **High Outcome First Five Years (23/24 to 27/28)** | **Low Outcome First Five Years (23/24 to 27/28)** |
|---|---|---|---|
| Harwich | Tendring District Council | £1m | £0.6m |
| Gateway 14 | Mid Suffolk District Council | £18.4m | £15m |
| Felixstowe | East Suffolk District Council | £1.8m | £1.2m |
| **Total** | | **£21.2m** | **£16.8m** |

For spending that is based on in-year income (i.e. where expenditure is largely matched in-year with available income), the forecasting process will principally be used to provide an important forward-look on upcoming income, to ensure that appropriate planning and processes are in place to deliver expenditure in a timely manner.

However, it is acknowledged that to deliver the maximum impact from the expenditure, it would be preferable for a significant proportion of it to be undertaken as early in the 25-year period as possible. This will require one or more mechanisms to bring forward future income for current expenditure (e.g. by borrowing against future business rate income) (see section on Forward Funding).

Where such proposals or mechanisms are envisaged, the forecasting model referred to here will likely need to be supplemented by more detailed, project-specific bespoke modelling to ensure that commitments are not made that cannot be funded in the future, and which do not inadvertently constrain other future options, or incur unreasonable opportunity costs.

The following section sets out the principles and ordering of how retained business rate income shall be allocated towards different high level applications.

## Primary allocations for Freeport East delivery costs & committed spend

Prior to making allocations of funds towards investments or programmes , a set of primary uses will need to be satisfied and accounted for first, on an annual basis.

### Top slice for Freeport East Ltd delivery costs

The primary use of any retained business rate income in any given year will to be cover the running costs of Freeport East Ltd. Freeport East Ltd plays a critical role as counterparty to the Government to ensure the freeport initiative is delivered effectively and efficiently, including acting as the gateway to investment incentives and decision-making body on how a range of public funds are utilised in support of the freeport vision. Freeport East Ltd also sets the vision and strategy for the freeport, works to attract inward investment and oversees and delivers a range of interventions to fulfil the freeport objectives on skills, net zero, local growth and innovation. The requirement to ensure that Freeport East Ltd is adequately funded is also captured in the MoU with Government and the Delivery Plan Framework.

On an annual basis, an allocation will be made to cover Freeport East Ltd operating costs, based on a budget approved annually by the Freeport East Board and Members.

For years 1-5 the full year budget for Freeport East Ltd is estimated at up to £1.25m per annum, recognising the benefits of investing in capacity early to drive greater long-term benefit. However, this is an upper range and any final budget would need be agreed by the Freeport East Board and Company Members on an annual basis.

In the initial years, these costs are also supported by a Capacity Grant provided by DLUHC, before the retained business rates are available. Where there remains a gap between these mechanisms, the Accountable Body will need to work with other partners to provide an appropriate cashflow mechanism to support Freeport East Ltd costs that will be repaid in future years. Any such mechanism may involve associated financing costs that would also need to be covered by this allocation in future years.

Given the ramp-up in costs during the set-up phase and ongoing use of the DLUHC capacity funding together with availability of interest on cash balances, the actual forecast for costs to be set against retained business rates in year 1 (23/24) is now zero, meaning a total forecast of £5m in the first five years, or an average of £1m per annum. The forecast of delivery costs on a five year basis is as follows:

| Years | 1-5 | 6-10 | 11-15 | 16-20 | 21-25 | **Total** |
|---|---|---|---|---|---|---|
| Freeport East Ltd | £5m | £5m | £5m | £4.5m | £2.5m | **£22m** |

| | | | | | | |
|---|---|---|---|---|---|---|
| delivery costs | | | | | | |

Where other funding streams for Freeport East Ltd are subsequently identified then these would be used to reduce the call upon the retained rates. Examples of this could include other funding received by Freeport East for services provided or under grant arrangements. No such income is included in the current forecasts.

*For the purpose of subsequent estimations, we currently assume that total Freeport East Ltd delivery costs over the 25 year period will total to £22m.*

## Top slice for Accountable Body administration costs

To recognise the additional costs incurred by the Accountable Body in delivering their role in support of the freeport, a top slice will allow for reimbursement of appropriately incurred costs from the retained business rates income.

On an annual basis, an allocation will be made to cover Accountable Body administration costs, based on a budget approved annually by the Freeport East Board and Members.

For years 1-5 the costs for Accountable Body administration costs are estimated to be up to £100k per annum. These would be focused on costs of commissioning new external advice and additional resources brought into the Accountable Body to deliver the Freeport role.

Administration costs for other local authorities are covered by the amounts they receive under the Pot A mechanism (see Pot A later).

*For the sake of subsequent estimations, we currently assume that total Accountable Body administration costs over the 25 year period will total to £2.5m.*

## Prior commitments or repayments arising from previous years

Where repayment obligations have been created to support expenditure in prior years (e.g. to support a borrowing mechanism that accelerates spending in early years) then these will need to be accounted in the current year prior to further expenditure being considered or committed.

Similarly, where commitments have previously been made on a multi-annual basis (for example to a multi-year skills programme) then these will also need to be accounted for in the current year prior to further expenditure being considered or committed.

As at November 2023, the only pre-committed sums to date relate to forward funding provided by the Freeport East Local Authority Members.

The five local authorities each contributed £80k per year for two financial years to provide early stage funds to accelerate delivery across the freeport area. These funds were made available as forward funding for Pot C activities (see later section on purpose on Pot C). These funds will be available for repayment to each relevant Local Authority, as and when the respective tax sites in their Districts create sufficient contributions to support the repayment, after other delivery costs are adequately covered, from year 6 onwards (i.e. 2028/29). Even once repayment is possible, Local Authorities may also choose to defer or void these repayments as a means of strengthening freeport delivery.

## MoU Sanctions

In extreme circumstances there may be occasions where the Accountable Body suffers sanctions in relation to its responsibilities under the MoU. This principle is set out in the Members Agreement. In accordance with that agreement the Accountable Body would be able to propose that these are covered from the retained business rates allocations at the time of such unforeseen circumstances arising.

## Annual contingency allocation

Prior to further allocations or commitments, an appropriate contingency will also be carried to manage any variations in areas of expenditure in relation to freeport operating costs and existing commitments, including unforeseen legal events and MoU sanctions.

A contingency allocation will be agreed as part of the annual expenditure forecasting process and if necessary, increased during the year with approval of the Freeport East Ltd Board.

*For the sake of subsequent estimations, we currently assume that the contingency allocation over the 25 year period should be set at up to £2.5m (i.e. £100k on average). Unused contingency allocations would be returned for use in line with the remainder of this strategy.*

## Banking Mechanism for site contributions to freeport delivery costs

In any given year, particularly in the early stages of the freeport, it is possible that contributions from individual sites to the freeport delivery costs could be highly variable. This would principally be the case where one site has not yet created sufficient retained business rate income to make a proportionate contribution for the freeport delivery costs.

As set out separately, it is expected that over the 25-year period the contribution to the freeport delivery costs will be supported equally by business rate income from the three tax sites. For example, assuming the total outturn freeport delivery costs over 25 years was £27M then we would expect each site to have supported a total of £9m each.

In order to target an equal contribution over 25 years, whilst also recognising that some sites will create business rate income earlier than others, a Banking Mechanism will be used. This will enable Freeport East to record tax sites, on an annual basis, with an "intention to fund" in relation to that same years freeport delivery costs, and then repay those costs at a later date. Such an "intention to fund" could be provided when a tax site is providing zero income or where the income is lower than the relevant contribution to delivery costs for that same year. In the latter circumstance it would allow, in the early years, some funds to be passed straight through to Free Cash Flow. Overall, this will mean that a site that has developed earlier, will pay a greater contribution to freeport delivery costs in the early years, and less in later years as others sites catch up with their contributions. Conversely, sites that develop later will be seeking to cover a fair proportion of the delivery costs over a shorter period of time, with greater annual contributions as a consequence.

It is important to note that this does not create any form of liability for the owners or occupiers of any tax site, nor for the relevant Billing Authority – the “intention to fund” is set against the future business rate income itself, and merely creates a clear record that, as soon as is possible, the business rate income from a tax site will be used to contribute to the freeport delivery costs of earlier years, when there was insufficient business rate income to contribute at the time.

At years 5, 10, 15 and 20 a review will be undertaken of the outstanding “intention to fund” sums under the Banking Mechanism. If necessary these will be recalibrated at the time against forecast business rate income from that year onwards, to ensure that sites do not end up carrying “intention to fund” sums that cannot be repaid from that site. At the review points in years 5, 10, 15 and 20, the Board will have the opportunity to review site progress against the “intention to fund” sums being incurred and consider any amendments at that point in time, including a re-set of the contributions between the sites and/or a reduction in future delivery costs. By commencing this process in year 10 we consider there will be sufficient time for all sites to cover any extant “intention to fund” sums built up at that time.

## Secondary Allocations to Pots A, B and C (Freeport East Free Cashflow)

*For the sake of subsequent estimations, we currently assume that the total allocation for freeport delivery costs and associated contingencies over the 25 year period, as set out in the previous section, will be £27m.*

In any given year, once the costs of Freeport East delivery and previously-committed spend (including those for multi-year programme commitments and repayments against pre-agreed borrowing mechanisms) has been accounted for, then Freeport East will allocate any remaining business rate income across three Pots – A, B and C. This shall be referred to as the **Freeport East Free Cashflow**.

As set out in the relevant freeport guidance, the MoU with DLUHC, and the FBC, the overriding principle of the freeport is a) to create the greatest amount of locally retained business rates through support for individual tax sites whilst b) ensuring as much of those resultant business rate income is pooled across the freeport area to deliver interventions that are of highest value in supporting a more diverse and inclusive economy and tackling all relevant aspects of the levelling-up agenda, particularly inequalities in access to education, skills and employment.

The high level purpose of the pots for distribution of the Freeport East Free Cashflow are:

- Pot A – to partially cover "lost income" for local authorities when compared to a counterfactual scenario of "no freeport development" and to support local services to support businesses

- Pot B – to support the development of tax sites in line with the vision and objectives of the freeport in order to attract earlier, higher value and higher business rate income investments

- Pot C – to support the overall Freeport East geography to meet the vision of the freeport initiative

In any given year, allocations to Pots A, B and C will vary according to need and profiling of spend, but over the 25 year period will be managed to ultimately balance against the percentage allocations set out later in this section.

## Pot A Allocations

Pot A is used to provide an income to the relevant Billing Authority to partially offset the lost income that would have occurred had the freeport not been in place, with the purpose that those funds are then used to support vital services in the local area that businesses would benefit from.

Pot A funds can only be distributed to the relevant Billing Authority from business rate income that arises from the tax site locations within that same Billing Authority jurisdiction. It is therefore a requirement that a tax site location must have contributed sufficient business rate income before Pot A income can be received by that same Billing Authority. Such income will also need to have been sufficient enough to cover liabilities for freeport delivery costs before any distribution of income under Pot A can be made.

*Over the course of 25 years Pot A will be the lower of:*

*a) 20% of total retained business rates from the relevant tax site; or*

*b) the value of the reasonable counterfactual for local authority income that would have arisen from that site under the no-freeport scenario.*

This latter calculation will reflect that, as well as the slower and lower value development potential of any site in a non-freeport scenario, local authorities would receive only a proportion of business rate income on that site. The non-freeport counterfactuals are as set out in the following table:

| Tax Site | Billing Authority | Counterfactual income over 25 years |
|---|---|---|
| Harwich | Tendring District Council | £1,000,000[2] |

[2] Based on a partial development of existing landed areas of Bathside Bay but without any reclamation project.

| | | |
|---|---|---|
| Gateway 14 | Mid Suffolk District Council | £25,500,000[3] |
| Felixstowe | East Suffolk District Council | £2,750,000[4] |

In relation to each tax site, the Pot A funds are split on an 80/20 basis between the district-level Billing Authority and the County level Authority, as set out in the following table.

| Tax Site | Billing Authority proportion of Pot A | County Council proportion of Pot A |
|---|---|---|
| Harwich | 80%<br>Tendring District Council | 20%<br>Essex County Council |
| Gateway 14 | 80%<br>Mid Suffolk District Council | 20%<br>Suffolk County Council |
| Felixstowe | 80%<br>East Suffolk District Council | 20%<br>Suffolk County Council |

The counterfactual development scenarios (i.e. without the freeport) show slower build-out and a less comprehensive approach to addressing barriers to investment. Pot A funds are therefore profiled to reflect a gradual increase over time, rather than applying at a fixed rate of total income from the first year onwards. This also means that funds can flow into Pots B and C faster in earlier years, allowing for broader-based investments across the freeport areas.

In relation to the Felixstowe and Harwich tax sites this means no Pot A funds would be distributed for the first 10 years on either site. Any Pot A funds deferred in the first ten years would then expect to be wholly disbursed within the following 5 to 10 years (i.e. before end of year 20).

In the case of the Gateway 14 tax site, the Suffolk County Council proportion will be allocated from year 6 onwards (i.e. no Pot A funds for the first five years). The Mid Suffolk District Council proportion will follow a formula for the first 10 years where it would be **the lower of** 16% of the Free Cash Flow on the Gateway 14 tax site or the figures set out in the table below.

| Year | Year | Maximum Pot A allocation to Mid Suffolk District Council |
|---|---|---|
| 1 | 2023-24 | Zero |



[3] Reflecting significantly slower expected build out and lower value use cases through absence of tax reliefs, wider freeport visibility, seed capital and Skills & Innovation Centre. This figure also includes any proposed allocation in relation to prior LEP support for the G14 Enterprise Zone, to be determined between MSDC and SCC.

[4] 10% of proposed freeport scenario reflecting severely limited capacity for private sector investment without seed capital funds to address remediation and other infrastructure barriers

| | | |
|---|---|---|
| 2 | 2024-25 | £277k |
| 3 | 2025-26 | £277k |
| 4 | 2026-27 | £422K |
| 5 | 2027-28 | £734K |
| 6 | 2028-29 | £808K |
| 7 | 2029-30 | £650K |
| 8 | 2030-31 | £650K |
| 9 | 2031-32 | £650K |
| 10 | 2032-33 | £650K |

Again, any deferred Pot A funds from the early years period, would be planned to be fully disbursed over the next 5 to 10 years and in any case fully by year 20.

While funds under Pot A are returned to the relevant Local Authorities, there will remain a strong expectation that the funds are used to support the overall vision of the freeport and should be identifiable as such. Responsibility for accounting to DLUHC for the use of the Pot A funds will remain with the Accountable Body, irrespective of which local authority receives the funds.

*As of the November 2023 forecasts, Pot A estimates for 25 years across each site would be:*

| Tax Site | Recipient Local Authority | High Outcome[5] | Low Outcome[6] |
|---|---|---|---|
| Harwich | Tendring District Council | £3.8m[7] | £0.8m |
| Harwich | Essex County Council | £1m | £0.2m |
| Gateway 14 | Mid Suffolk District Council | £20.4m | £20.4m |
| Gateway 14 | Suffolk County Council | £5.1m | £5.1m |
| Felixstowe | East Suffolk District Council | £11m | £7.5m |
| Felixstowe | Suffolk County Council | £2.7m | £1.8m |

[5] Based on current High Income scenario for Freeport East on page 8
[6] Based on current Low Income scenario for Freeport East on page 8
[7] 80% of the maximum Pot A allocation of £6.2m

Each local authority will have the option to defer or waive any proportion of their Pot A allocation. Where a proportion of the Pot A allocation is waived, it will be made available for use under other areas of spending.

## Pot B Allocations

Pot B provides funds to expedite and increase the attraction of individual tax sites to inward investment in line with the vision and objectives of the freeport, including the sectoral targets for individual tax sites that were indicated in the Full Business Case. This applies to all components of the three tax site locations, across the different identified ownerships.

It is a pooled fund that can be utilised across all tax sites. However, initial priority will be given to identifying opportunities for use of Pot B funds from a particular site to maximise the rate-producing potential of that same site, before considering the use of those funds elsewhere (e.g. business rate income on Harwich Iconfield Park would first consider Pot B uses on that site before pooling of remaining funds). The rationale is that helping tax sites to bring forward investment that is faster and delivers higher rates of business rate income, aligned with the freeport vision and objectives, will itself create greater retained business rate income for the freeport overall. Awards made under the Pot B allocation would be supported by a clear site development plan as well as a relevant business case (as set out in section 4).

A key factor in the use of Pot B will also be in judging how such a funding contribution would enable a site to deliver on the ambitions set out in the Full Business Case in terms of the *types* of businesses and their sectoral split. When assessing the ability of an investment to deliver higher rates of business rate income, the counterfactual may not therefore be "any development" that may otherwise have occurred, but the degree to which the *types* of business outcomes targeted in the Full Business Case would have occurred without the proposed funding support.

Over the course of the 25 year period, the Pot B allocation will be up to 35% of the business rate income of each of the tax sites (i.e. Total Pot B over 25 years = (35% * Harwich) plus (35% * Gateway 14) plus (35% * Felixstowe)).

Pot B allocations are limited in this way to recognise the uncertainties that still come with investments into the tax sites (and therefore the risk of prioritising further site re-investment disproportionately over other beneficial uses of rates income) and to ensure a proportionate allocation of funds are available to support wider initiatives.

*As of the November 2023 forecasts, Pot B estimates across each site would be:*

| Tax Site | High Outcome Pot B Limit |
|---|---|
| Harwich | £33m |
| Gateway 14 | £49m |

| | |
|---|---|
| Felixstowe | £16m |
| **Total** | **£98m** |

The types of expenditure that may be relevant for Pot B spending are likely to relate to addressing key barriers to development and investability, such as power connections, local transport links or other factors that would otherwise stymie investment. Certain types of expenditure may also create added value for an inward investor that could help drive higher retained business rate income, such as access to certain innovation facilities or green logistics options.

A key determinant of whether proposed expenditure from Pot B is considered appropriate for approval will be its ability to drive a higher total business rates income level from any particular site. If a proposal delivers high socio-economic returns but does not drive higher business rate income, then it may be better suited for consideration under Pot C.

Each year, the Board will review the forecast of Pot B funds together with an indicative pipeline of potential uses to consider whether funds should remain ring-fenced or be re-allocated to support other tax sites or into Pot C. This would be intended to avoid a situation of dormant Pot B funds that could be better utilised elsewhere to support the freeport objectives. Where accumulated funds within Pot B remain unallocated for year 10 onwards there would be a strong expectation that they would be likely to be reallocated. In any case, any such reallocations would only occur following Board approval and would not cut across repayment mechanisms that extend beyond year 10 and which may have been created to bring forward expenditure against future business rate income.

## Pot C Allocations

Pot C is a wholly pooled fund that reflects business rate income collected across all tax site locations and can then be utilised anywhere across the Freeport East geography and wider travel to work area.

Pot C will be at least 45% of the retained business rate income on each relevant tax site location. Based on November 2023 forecasts and the high and low scenarios set out previously, this would suggest a range of approximately £90m to £145m for Pot C based on 45% of the 25 year forecast income.

Pot C is designed to support a range of interventions across the Freeport East geography that will support the high level aims and objectives of the freeport, including reducing inequalities, growing a more diverse and sustainable economy, establishing deeper innovation clusters that drive productivity, increasing access to education and employment and driving decarbonisation and net zero.

Whilst all interventions under Pot C should also be considered in light of increasing the attractiveness of the area to inward investment, thereby increasing business rates income on both tax sites and non-freeport sites, the purpose of Pot C is principally about delivering wider benefits that help to reinforce the Freeport East geography as a great place to live, work, invest and grow.

Initial thematic areas in which funding allocations are intended to be allocated would be:

- Skills
- Innovation
- Net Zero & Decarbonisation
- Inward Investment & Trade
- Local Growth & Transportation

It is acknowledged that some major tax site investments could benefit from both Pot B and Pot C allocations. This would apply where an investment is helping to bring forward inward investment as well as creating significant wider socio-economic benefits and delivering on other Freeport East aims and objectives. The primary example of this would be the Bathside Bay site in Harwich. The use of Pot B funds for Bathside Bay could be justified to address site delivery barriers that prevent wider inward investment and creation of business rate income. At the same time, it may also be proportionate to utilise Pot C funds to address barriers to development for the site given the significant catalytic effect the project would have on the wider Tendring and Freeport East economies as well as delivering on local and national net zero, employment and innovation objectives. Any such proposal would be considered by the Board at the appropriate time, but any projects that could span Pots B and C would be encouraged to provide an early indication to Freeport East to aid effective financial and process planning.

## Other considerations for funding allocations

### Forward funding

In many intervention areas, it is apparent that investing funds earlier in the 25-year life of the freeport model will help deliver greater overall benefits. For example, it would be preferable to invest in skills support or local transport interventions before a significant demand for new employment. Similarly it would be better to invest in site infrastructure that addresses delivery barriers in order to reap greater business rates income and employment benefits. This can only be done if there are effective mechanisms to bring forward future forecast business rate income. Most simply, this would be a form of borrowing against future business rate income to make investments now. However, any such approach brings a degree of risk which will need to be carefully considered by the Freeport East Board.

We are continuing to explore different options, including through discussion with Government, in relation to creating effective mechanisms for forward funding. At the current time, we consider there are three high level forms of mechanism that could be utilised to help bring forward funding in this way. Each of these options are hypothetical at this stage and actual deliverability would depend on the specifics of the financial case and intended use:

1. **Internal local authority allocations** – local authorities that are part of the Freeport East geography could use existing reserves to help provide a forward funding mechanism, especially where those same local authorities will be receiving the future business rates income directly themselves.

2. **Assignment of future business rate income to tax site landowners and/or related delivery partners** – a mechanism could be created to assign an agreed proportion of the future business rate income on a site to enable a public or private sector partner to deliver upfront investments. This would bring the added benefit of aligning incentives such that the tax site landowner benefits from its own investments and actions in terms of developing a site and attracting tenants.

3. **External borrowing** – retained business rates could be used to borrow funds, such as from the Public Works Loan Board or the UK Infrastructure Bank. Such borrowing would require well-established mechanisms for forecasting and managing business rate income to meet the requirements of a third party lender.

## Additionality alongside other funding sources

As set out in DLUHC guidance for freeports, it is important that retained business rates income should not merely be seen as a substitute for other funding sources and should be aiming to enhance the benefits that can be delivered for the region by going above and beyond what other agencies may be able to do. In particular, retained rates business income should not be seen as a substitute for other public funds, nor unnecessarily veer into core spending responsibilities of public agencies.

Spending interventions should also be compared to a counterfactual – what would happen in the absence of funding - based on evidence of one or more market failures.

In addition, funding proposals and business rates should always consider match funding to varying degrees. Not only does this serve to minimise the call upon retained business rates alone, but it is also broadens the management of risk and ensures that other parties who may have greater agency around outcomes are also incentivised and aligned in terms of delivery and financial contributions.

## High priority for cross-boundary, multi-outcome interventions

In line with Freeport East being a collective endeavour that seeks to deliver change across political boundaries, we will need to work hard to ensure we design and deliver interventions that support the development of the freeport overall. By delivering interventions that are spread across the freeport geography and particularly tackle areas of highest socio-economic need we increase our ability to help level-up opportunities and outcomes.

This means an emphasis will be placed on articulating aggregated interventions that collectively benefits the freeport vision, even if individually delivered in discrete geographic areas, e.g. supporting the expansion of an innovation cluster may merit discrete expenditure in different areas but which collectively deliver across the freeport area.

## Assessing Value for Money

The assessment of value for money will be central to all appraisals of spending proposals. The core methodology for such assessments will follow HM Treasury's Managing Public Money guidance on use of public funds, and its Green Book guidance for economic appraisal and evaluation. This comprises the five-case model that works through the Strategic, Economic, Commercial, Financial and Management cases for a particular funding proposal. We will reflect the important recent emphasis on the Strategic Case, and the acknowledgement of limitations of the Economic Case in directing funding towards low-demand areas.

We will also seek to be mindful of the moral hazard associated with selecting shorter-term, lower value, lower risk projects and shying away from tackling complex, multi-stakeholder problems to transform areas with high levels of need. In the context of Freeport East funds being targeted at going and above beyond other funding functions that can be delivered by other public agencies, it follows that part of this stretch should be manifested in a form of higher risk appetite, a willingness to tackle intractable, long-term challenges and a bias towards utilising cutting-edge or innovative approaches.

### Freeport East Calibrated Benefit Cost Ratio

Under the five case model, the Strategic Case carries significant importance in decision-making, especially in the context of Levelling Up, which seeks to counter lower economic indicators in certain areas (e.g. in deprived areas, the benefit associated with certain forms of value capture are naturally lesser than in more economically successful areas, even though the cost inputs may be broadly the same).

The freeport policy objectives create an opportunity and imperative to ensure that funds respond to the needs of more deprived areas. This may manifest in different ways. The Freeport East Board have already incorporated differentiated decision-making in how they have sought to target the first round of spend under the Freeport East Clean Growth Fund and Freeport East Skills & Innovation Facility. In these cases, it has been done through setting thresholds for allocations of funding to particularly align with indices of deprivation.

In other cases, the scale of investment may merit a more formalised economic analysis based around a Freeport East Calibrated Benefit Cost Ratio (e.g. by using average benefits per output across the Freeport East region). Such a ratio could be presented to decision-makers, where appropriate and proportionate, alongside the Exchequer Benefit Cost Ratio to ensure that lower demand areas are not disadvantaged.

## Managing opportunity costs and no-regrets options

There are many more potential uses of retained rates income than there are likely to be funds available. As well as delivering value for money on a case-by-case basis, it is therefore important that, as far as possible, the best overall combination of spending options are chosen over time. It will never be possible to do this perfectly, but key considerations are around how opportunity costs are managed whilst facilitating no-regrets decisions and avoiding delayed or deferred decision-making.

### Visibility of forward pipeline

We will aim to provide decision-makers with maximum feasible visibility of the forward pipeline of projects, and therefore comparable choices, in order to ensure that the opportunity cost of each investment decision are transparent. To do this we will build an understanding of the needs and opportunities of the local area as well as deploying "call for proposal" windows that seek to allow multiple projects to be prioritised, rather than decision-making on a first-come-first-served approach. This will rely on an effective forecasting mechanism such that we are well-informed as to which funds will be available over what timeframe – but it will also involve carefully selecting those areas in which well-defined calls for proposals can be sought, to provide reliable data whilst avoiding wasting the resources of those required or requested to submit proposals. For 2023/24 and 2024/25 we have set out in section 4 our proposed priorities.

### No regrets interventions

Notwithstanding the need to maximise visibility of future options and manage opportunity costs effectively, there is also a need to ensure that effective decision-making and delivery is not unnecessarily delayed, either in the pursuit of perfection or as a result of the lowest common denominator. Decision-makers will be supported to make "no regrets" decisions where possible. This is more likely to be possible there the spending levels are involved do not impinge on multiple other options but would recognise that the success and public support for the overall freeport initiative will depend on bringing forward investments sooner rather than later.

The implementation of the Clean Growth Fund and Skills & Innovation Fund using £800k of brought-forward Pot C funds, are models of prioritising particular no regrets decisions and which are designed to facilitate wider benefits that will repay in tax site income and wider socio-economic benefits over time.

# 4. Decision-making

This section sets out the processes through which decision-making will be delivered on specific projects.

## Twenty-Five Year and Five-Year Forecasts

Freeport East Ltd will maintain both a twenty-five-year forecast and a rolling five-year forecast that brings together the best available information on existing and new site occupation and indicative allocations across the cost requirements and pot allocations set out in section 3. The twenty-five year forecast will also include actual received income and expenditures made in any period prior to the date on which the forecast is considered.

The two forecasts will provide context and a "lead-in" to individual project decisions as and when they need to be made during that period. The distinction between different levels of certainty of income (as set out in the technical note at Annex A) as well as the different time periods will provide an important mix of data to support effective decision-making.

The forecasts will be reviewed bi-annually by the Freeport East Board, with relevant support from the Finance & Audit Committee.

Both forecasts will follow the principles and provisions set out in this strategy to maintain an effective forward-look on potential income and expenditure to support effective decision-making.

## Annual Budget Allocation

Each year, as part of the Freeport East business planning process, the Freeport East Board will approve a proposed allocation of the retained business rates for the same one year period covered by the Business Plan. The allocation will reflect the principles and provisions of this strategy, together with all relevant existing decisions made by the Board from time to time, including prior commitments already made. The annual budget allocation approval will allow for spending to be delivered in the same year, i.e. it will be actionable with as much appropriate detail necessary to allow the Executive Team to deliver through the course of the financial year.

## Funding Allocation process

### Strategic Direction of Funding

In formulating proposals for how retained rates funds should be utilised as part of the annual process the Freeport East FBC/strategy, vision and business plan will be the basis for these proposals. Freeport East Ltd, together with its associated governance and through wider engagement as appropriate with other stakeholders, will provide the steer for what funds should be made available for proposals and under what conditions and criteria. Freeport East will also provide leadership on using freeport-specific analysis and studies, for example into possible transport and connectivity interventions, to determine prioritised interventions that support the freeport vision.

## Call for Proposals

Wherever possible, Freeport East will utilise a Call for Proposals model to solicit the widest possible inputs on appropriate forms of spending. The audience for any such Call for Proposals will vary according to the specific needs. For Pot B, this is likely to be more restricted, given the focus on advancing development on the existing tax sites, than for Pot C which has much wider application. The intention to and benefits of consulting widely shall not undermine the need for Freeport East to use its strategic leadership role to appropriately shape the focus and criteria for a particular funding allocation. For example, Freeport East has already instigated two such Calls for Proposals in relation to the Clean Growth Fund and Innovation and Skills Funds. In these cases the Call for Proposals is against an already defined need and target outcomes, such that external stakeholders are able to respond more specifically to a specific opportunity.

Any Call for Proposals will set out the eligibility of different types of organisations to bid for funding, and the format and minimum information requirements for an Expression of Interest (which may include inter alia: problem, proposed intervention, anticipated timing, anticipated amount of funding required, Upper and Lower Tier Authority sponsors). This will recognise the different types of possible Calls (e.g. ranging from major infrastructure interventions that may require a public sector sponsor through to small business support grants that would open to all relevant applicants).

As part of the process of projects being added to the pipeline, they will be discussed as appropriate as part of expert-led thematic analysis and in any relevant thematic working group to ensure that projects are cross-authority where relevant, or otherwise complementary across the Freeport East area.

Initially, in 2023/2024 we propose the following call for proposals should be prioritised:

- Pot B expenditure – a call for proposals from local authorities and tax site landowners to propose appropriate interventions that could enable earlier, higher quality and higher business rate income on tax sites; and

- Freeport East Growth Fund and Freeport East Skills & Innovation Facility using Local Authority Forward Funding under Pot C – an initial call for proposals has already been made. Depending on the volume of applications, the proposed funding of £800k could be increased and support further proposals.

In parallel, we will continue to build visibility on the pipeline of potential future Pot C projects, principally through bespoke Freeport East analysis in relevant thematic areas and through engagement with local authorities and other public bodies.

In 2024/25, we would then seek to prioritise:

- Pot B expenditure – continued engagement with local authorities and tax site landowners to focus on those proposed interventions that demonstrate value for money and contribute effectively to accelerate or increase the quality of business rate income on tax sites. Such proposals could be brought forward to the Board at any point to reflect the pace of individual site development;

- Freeport East Clean Growth Fund and Freeport East Skills & Innovation Fund – assessment of ongoing progress and impact, with a view to determining whether these funds should become rolling models of support in future years under Pot C.

- A first formal process to commence allocations against future Pot C income guided by a strategic focus to be agreed by the Freeport East Board.

## Assessment Gateways

In formulating proposals for how retained rates funds should be utilised and depending on the nature and size of specific proposals we will set out a form of gateway process. The elements set out subsequently are indicative at this stage but provide an outline of the type of gateway process we would expect to implement which would be detailed in relation to specific funding allocations.

### Gateway 1: Strategic Outline Business Case (SOBC) / Site Development Plan (SDP)

For higher value projects (i.e. in excess of £10m or where they are novel, contentious or highly innovative) Freeport East would look to assess a SOBC and/or SDP to gauge an understanding of a proposal at a high level. Part of the purpose of this exercise would also be to provide a steer on the relative benefits of expending further time and resource on developing a certain proposal.

### Gateway 2: Outline Business Case

For individual or cumulative projects up to a total of £1m, an outline business case may be considered sufficient to enable a positive funding decision and to reflect the need to keep decision-making processes sufficiently agile and light-touch to enable robust decisions and minimise burdens on delivery partners.

As defined in relation to specific funding allocations, such a business case would be expected to be in a format satisfactory to Freeport East and for the purposes of ensuring appropriate governance and financial compliance through the Board.

Larger projects, or those where Freeport East determines there is a need for greater examination and articulation of the proposal, will be put through the Full Business Case process.

Unsuccessful projects will be provided with feedback, whilst successful projects may have conditions imposed that would be reflected in the ultimate funding agreements put in place via the Accountable Body.

### Gateway 3: Full Business Case

For larger projects, Freeport East would require the submission and appraisal of a full business case that is compliant with the HMT Green Book methodology and the five case model. This would ensure an appropriate examination of the funding proposal and it's contribution to the delivery of the freeport objectives. It would also allow for systematic comparison between options, noting that the demands on use of the retained business rate income are likely to be high and therefore comparative analysis and consideration of opportunity costs are likely to be a critical aspect of the process.

Projects that are not successful at this stage would be provided feedback and there may be an opportunity for a resubmission of a similar or reconfigured proposal once any weaknesses are addressed.

As noted above, smaller projects which are considered particularly risky, novel or contentious may also be required to deliver a full business case for assessment by Freeport East.

Where relevant, Freeport East will also align its own appraisal and timelines to match those of other public and private funding providers.

Successful projects will be provided with an outline of the funding process to be implemented and Freeport East would continue to support the process, even where grant funding agreements are subsequently put in place directly with the Accountable Body. In addition, Freeport East may seek to agree conditions and requirements as part of the funding delivery, for example to ensure effective oversight and to maximise the benefits of the project to other freeport initiatives and stakeholders.

## Assurance at Gateways 1, 2 and 3

Key criteria will be set out in relation to specific funding allocations and based on the specific outcomes or need that a funding allocation is seeking to address. However, this strategy sets out some of the broader considerations that will inform the specific cases.

### Pass / fail criteria

It is possible that certain pass/fail criteria will be utilised to ensure a focus on compliant proposals. The criteria will be assessed by Freeport East Ltd, with advice from independent technical specialists as appropriate and oversight from the Accountable Body where required. These pass/fail criteria may include:

- Strategic alignment – fit with the freeport vision, strategy, business plan, relevant sub-strategy and criteria related to the relevant "Pot" from which funding is proposed;
- Value for Money – based on a minimum Exchequer Benefit Cost Ratio and/or Freeport East Calibrated Benefit Ratio
- Affordability – Impact on current retained rates funds held in reserve/future income
- Compliance – With procurement, Subsidy Control and other relevant regulations
- Deliverability – No major interdependencies / barriers to delivery

### Prioritisation criteria

Again, specific prioritisation criteria will be set in relation to specific funding allocations. These will be used to determine the ranking of options in relative priority and therefore the allocation of funds. These will be used to determine choices between options that are being proposed at the same time but will also be used to track and monitor comparative decisions that may be taken over time.

Specific criteria will be set out in relation to the relevant allocation but may likely include:

- Contribution to the Freeport East objectives
- Freeport East Calibrated Benefit Cost Ratio
- Opportunity cost - Impact on current reserve/future income stream
- Wider intangible benefits in terms of strengthening the outcomes, coherence and wider opportunities for Freeport East

## Formal decision-making

To summarise the key methods of governance for each of area of spending allocation:

- For Freeport delivery costs, the Freeport East Board will agree an annual budget, and then submit to Members for approval as part of the annual Freeport East Business Plan

- For Pot A, retained business rates income will be distributed in accordance with this strategy and the annual allocation agreed by the Freeport East Board. Decisions on use of the funds will be taken by the local authorities as per their respective constitutions with regard also to this strategy and the Freeport vision, with reporting to Freeport East and the Accountable Body as required to satisfy the requirements of the MoU with DLUHC (for example in relation to reporting under the Monitoring & Evaluation framework);

- For Pot B, the Freeport East Executive, with input from the Management Committee, will recommend funding proposals, based on the principles of Green Book business cases and Site Development Plans or equivalent plans for wider interventions, for approval or rejection to the Freeport East Supervisory Board, which will take the final decision in line with its usual governance arrangements and delegations; and

- For Pot C, the Freeport East Executive, with input from the Management Committee will recommend appropriate assessments, based on the principles of Green Book business cases but proportionate to the level of spend involved, for approval or rejection to the Freeport East Supervisory Board, which will take the final decision in line with its usual governance arrangements and delegations

## Transparency

To the extent possible and in compliance with relevant legislation and commercial considerations, decisions will be published as per the governance arrangements of the Freeport East Supervisory Board. This will be done via the Freeport East website.

# 5. Financial Management

## Implementing effective financial processes

### Annual Forecasting and Cash Transfer Cycle

Each year Billing Authorities will complete their NNDR1 (January) and NNDR3 (August) reporting processes to DLUHC to provide an upfront estimate (NNDR1) and outturn validation (NNDR3) of all relevant business rate income relating to the freeport tax sites.

NNDR1 data will be shared with the Accountable Body and Freeport East Ltd to ensure that forecasts of income are consistent and kept up to date.

A transfer equal to all recorded business rate growth subject to the scope of this strategy will be passed across to the Accountable Body by each Billing Authority no later than 30 days of the deadline date for completion of the NNDR3 return in each year. In circumstances where Billing Authorities receive more regular payments against NNDR1 estimates, then funds will be transferred across within 30 days of the relevant date of receipt of those funds. It is currently understood that DLUHC will make equal monthly instalments to each Billing Authority based on the forecast provided in the NNDR1, starting from May of the same year. It is therefore expected that monthly transfers will be made to the Accountable Body throughout the year.

Where there are subsequent amendments to the NNDR3 Return as part of the audit exercise, a reconciliation will take place and payments will be made to or from the relevant Billing Authority as required.

The Accountable Body, East Suffolk Council, will pool all such receipts and report to the Freeport East Finance and Audit Committee at least twice a year on the status of the pool and in accordance with HM Government requirements, including under the memorandum of Understanding with DLUHC.

### Single Freeport Business Rates Account

Pooled business rate funds will be held by the Accountable Body in a single identifiable and auditable account. The Accountable Body will seek to earn a return on any uncommitted funds held in the single account in line with its Treasury Management policy which will be reported to the Finance & Audit Committee for oversight on a regular basis and at least annually as a minimum. Unless otherwise agreed by the Supervisory Board, all interest accruing on the pooled funds will be added to Pot C.

### Longer term forecasting

Annually, each Billing Authority will be required to provide to the Accountable Body and Freeport East Ltd an annual updated forecast of business rates expected to be received in each tax site for the remaining period of the 25 years. These forecasts will be used to inform and keep up to date a single harmonised financial model across all Freeport East tax sites that enables consistent matching of income and expenditure and commitments.

# 6. Programme management

## Pipeline management

Freeport East will manage a pipeline of future funding opportunities that could ultimately benefit from the support of funding mechanisms set out in this strategy.

Placing a particular project, proposal, programme or intervention on the pipeline at any time will not guarantee that any funding will be provided, nor that a full assessment has been undertaken that suggests that proposal would be suitable funding.

Pipeline opportunities may arise through bespoke Freeport East analysis or be provided by relevant partners, such as location authorities, tax site owners and a range of other stakeholders. Freeport East will formally request submission of pipeline ideas from relevant partners as well as update from time to time as new information emerges.

A new version of the pipeline will be published annually as part of this retained rates strategy.

Maintaining a future pipeline of opportunities will serve multiple purposes, including:

- Providing visibility internally on future opportunities to encourage discussion and consideration amongst partners about how best to bring proposals forward, as well as match with other available funding sources that may strengthen deliverability

- Provide visibility externally on the types of funding support that Freeport East may be able to consider providing and support investors and other stakeholders who may find this visibility aids their own decision-making

- Strengthening decision-making at any point in time, in particular in relation to opportunity costs and efficiency by having sight of other options and upcoming decisions

- Supporting resource efficiency and forward planning, especially given the very limited assessment resources available to Freeport East.

- Support the planning of specific calls for proposals. For example, where it is known that a cohort of strong proposals around a specific theme are already well-developed then it may create the basis for a formal call for proposals to provide early indication of Freeport East funding support.

The pipeline will provide proportionate information in relation to individual funding options as well as providing a degree of qualitative prioritisation where is it is possible to do so in a proportionate manner.

As part of the annual process of updating this retained rates strategy, pipeline opportunities may be withdrawn or reconfigured where for example they have already been completed, are no longer deemed necessary or have found other funding sources to support them.

## Funding agreements

At the current time, it is anticipated that all funding agreements will be entered into directly by the Accountable Body with relevant delivery partner and/or funding recipients. This process would follow a positive formal decision by the Freeport East Supervisory Board.

Where a forward funding or borrowing mechanism is proposed or a multi-year funding agreements is to be put in place, these would also be expected to be documented with the Accountable Body in so far as required.

The Accountable Body will include all necessary conditions and requirements in their funding agreements to ensure that they, and the Freeport East Supervisory Board have sufficient oversight, assurance and remedies to ensure funding is delivered appropriately and the desired outcomes are achieved. In extreme circumstances, the Accountable Body will consult with the Freeport East Board prior to implementing any remedy or funding withdrawal under a funding agreement.

Freeport East will maintain a decisions register on its website to provide appropriate visibility of decisions.

## Spend management

Relevant controls on spending will be set out in funding agreements as required and will be recognise the different nature of spending proposals and how controls can best balance risk and accentuate efficient delivery and oversight In principle, they are likely to include provisions related to:.

- Releasing payments based on evidence of spend and availability of reserves
- Managing slippage across accounting periods during projects
- Managing underspends upon project closure / failure / withdrawal
- Repaying funds due to non-compliance with the funding agreement

This section will also confirm that the risks of overspends will lie with the funding recipient, save where explicitly addressed in approvals by the Freeport East Board and in the relevant funding agreement.

## Change control

Where considered appropriate by the Accountable Body, funding agreements will include provisions for change control.

Thes could relate to changes to delivery timescales, the identity of certain delivery partners or members of the governance and delivery team arrangements. On the other hand, use of the change control procedure should be kept to a minimum, and the focus should be on ensuring timely and efficient delivery of the funding and the desired outcomes.

Where proposed changes are material to the original funding decision by the Freeport East Board then Freeport East would be involved in any process to expect or refuse the proposed changes.

## Monitoring and evaluation

The Accountable Body will ensure that funding agreements provide the requisite degree of monitoring and evaluation data to satisfy Freeport East in its interest in driving success for the freeport, as well as to deliver accordingly under its' M&E obligations to DLUHC.

These M&E requirements will be set out upfront in calls for proposals and other related material to ensure that funding recipients are aware of their obligations. Most M&E requirements should be a function of seeking to maximise the benefit of Freeport East to local businesses and communities and should therefore be accepted as a means of all partners contributing to that success.

Following completion of funded projects, all relevant participants will be committed to appropriate lesson learning reviews. The outcome of such reviews will remain the property of Freeport East who will seek to share with partners and the general public to maintain maximum transparency.

## Risk management

The Accountable Body will share any such information arising from the funding agreements with Freeport East such as to ensure that Freeport East can ensure visibility and oversight of the funding decisions it has made.

The Accountable Body and Freeport East will convene at least quarterly to review progress against all funding agreements utilising freeport funds in order to assess, understand and mitigate risks. Where necessary, risks will be escalated to the Freeport East Board for visibility and action.

# Appendix A – Retained business rates income forecasting: Technical note

This appendix is intended to outline the structure, key assumptions and data sources to be used in the forecasting of retained business rates income. It will also seek to highlight key limitations and caveats.

## The Freeport East forecasting model

A single Freeport East retained rates model will be used to forecast future income and to model forecast and outturn expenditure and commitments over time. Based on having these future forecasts for overall retained business rates income, it will also be able to provide ongoing forecasts of the likely distribution of Pots A, B and C across the overall freeport, as well as on a site-by-site basis.

The model will also seek to relate this information to other key indices, such as floorspace projections and jobs figures.

The model will be built around different scenarios based on degrees of certainty of future income. This will be based on categorisation of forecast income on the basis of:

1. FIRM - Business rate income that is backed by existing or fully committed developments (e.g. developments already in situ or where land sale and construction agreements are in place with well-defined delivery and occupation dates)

2. ANTICIPATED - Business rate income forecast in relation to known pipeline opportunities with high expectation of completion (e.g. Heads of Terms are in place and commercial discussions are underway)

3. HIGH LEVEL - Broader business rate forecasts reflecting likely occupier take-up based on site development plans and informed judgement of the Freeport East team with input from tax site owners and other relevant stakeholders and experts.

In addition, a further scenario will reflect the degree of risk around development of the Bathside Bay project, recognising it is the largest and most complex single development within the Freeport East proposals. Whilst the core scenarios above will be based on the successful development of the site in accordance with the Green Energy Hub proposals, a fall-back scenario for forecasting purposes is based on income associated with a development solely of existing land (less than 25% of the full income scenario).

## Key assumptions

The model will incorporate the following set of core assumptions, which will be reviewed annually in line with publication of the forecasts.

Inflation

Growth Rate

Void Periods

## Data sources

The primary data sources for the model will be the forecasts of likely tax site occupation and therefore future business rates income based on information provided by tax site owners and the Billing Authorities. Freeport East will categorise this information for use in the model based on the nomenclature set out above.

Freeport East will regularly engage with both groups of organisations to keep data fresh and to update accordingly for reporting to the Freeport East Board and Finance & Audit Committee.

# Appendix B – Indicative longlist of future investments

## Pot B – Enhancements for site investments and maximising business rate income (indicative as of January 2024)

Gateway 14

- Support for G14 Skills & Innovation Centre
- Green energy and green transport innovations
- Grow-on space to attract specific market segments

Felixstowe (FDRC)

- No information as yet

Felixstowe (Maritime Transport/Anzani Avenue)

- Financial support to enable delivery of new clean fuels centre and related infrastructure

Harwich (Bathside Bay)

- Financial support for reclamation and infrastructure costs alongside other public and private sector investment

Harwich (Iconfield Park)

- No information as yet

Pot C – Freeport East

List A - Infrastructure Investments

Green Hydrogen-related innovation, skills, infrastructure and fuelling capacity in Felixstowe and other locations

Harwich Pop-Up Innovation Hub (as per joint UoE, TDC, FPE study)

Harwich Innovation Centre (as per FBC proposals, Innovation Study and joint UoE, TDC, FPE study)

Green Skills Infrastructure provision in North Essex – building on Colchester Institute footprint to expand skills provision in response to green sectors

A133/A120 Interchange & Mobility Hub – all-movements interchange hub (subject to FPE transport masterplanning work)

A120 widening and Bus Rapid Transit (subject to FPE transport masterplanning work)

A133 widening (subject to FPE transport masterplanning work)

Support for increase in Colchester-Harwich-Clacton rail service frequencies in partnership with Greater Anglia (subject to FPE transport masterplanning work)

Clean fuel bus service support across various Freeport East geographies (emphasis on building on private sector employment support as well as reaching areas of relatively poorer employment access) (subject to FPE transport masterplanning work)

Felixstowe-Harwich ferry infrastructure and service enhancements – to build on emerging employment opportunities and strengthening of economic cluster and opportunities (subject to FPE transport masterplanning work)

Haven Ports 5G digital infrastructure, including widening of existing 5g testbeds and trials programme beyond Port of Felixstowe

Targeted support at net zero infrastructure solutions (e.g. EV charging, green hydrogen fuelling) where this particularly tackles under-served areas and/or contributes to our vision for a Net Zero Freeport economic area, alongside other public and private sector partners.

Various enhancements to cycle and walking infrastructure to better connect people to employment & education opportunities and reduce wider traffic impacts (inc Harwich, Clacton, Felixstowe-Ipswich-Stowmarket corridor)

Non-tax site land aggregation and/or enabling works (various possible locations)

List B – Wider Investments, Projects and Programmes

Freeport East Clean Growth Fund (with possible progression into large-scale clean growth investment fund for example such as the Mayor of London's Energy Efficiency Fund)

Freeport East Skills & Innovation Fund (ongoing funding and expansion against original objectives)

Balance of funding in relation to LEP Enterprise Zone at Gateway 14 (allowance to ensure that any legal obligations for revenue in relation to the prior LEP designation on part of the Gateway 14 site can be accommodated)

Working with Institute of Export and local SMEs to maximise opportunities from Ecosystem of Trust pilots to strengthen trade with existing trade partners (such as EU) but also target new trade opportunities that support UK export objective but also international development (e.g with the Commonwealth)