

CABINET

25 MARCH 2022

REPORT OF THE LEADER OF THE COUNCIL

A.8 FREEPORT EAST FULL BUSINESS CASE

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To ask Cabinet to support the submission of the Freeport East Full Business Case, to approve the Council's participation in the governance of Freeport, the approach to business rate retention set out in the report, and to recommend to Full Council seeking approval that Freeport East is consistent with the Council's priorities and policy framework as set out in the Corporate Plan 2020-2024, in particular a growing and inclusive economy.

EXECUTIVE SUMMARY

East Suffolk Council as the Lead Authority, alongside Freeport East, is now required to submit a Full Business Case (FBC) on behalf of partners to Government by 15 April 2022. This Business Case will continue to be developed up to that point in consultation with local authority partners and land owners within Freeport East. Freeport East Shadow Board is due to consider the Full Business Case at its meeting on 6 April 2022 and is also a required approval body following the Full Business Case guidance.

Background

- Throughout 2020, the Council worked with public and private sector partners on a bid to present the case for developing Freeport East as one of the Government's nominated Freeports.
- In the March 2021 Budget, Government announced the intention to designate sites in Essex and Suffolk as 'Freeport East'.
- At their meeting on April 2021, Cabinet received the initial Freeport East report, which set out the purpose of Freeports and the process and roadmap the public / private sector partnership would follow to receive formal designation by Government.
- The Council's Freeport East Portfolio Holder Working Party took place on the 2 September 2021 and agreed to support the Leader of the Council in providing a letter of support in respect of the Freeport East Outline Business Case.
- That Working Party also recommended that the Council pursue steps that Hutchinson Ports Ltd could undertake as part of its commitment to Harwich International Port, the skills agenda so the local population could take on careers that would become available as a consequence of Freeport East, and the need to actively pursue the improvements to the A120 from the A12 through to Harwich.
- In September 2021 Cabinet endorsed the urgent decision taken by the Leader of the Council, on behalf of the Cabinet, to provide a letter of support for the principles in regard to retained business rates generated within the Freeport East Tax Site, to accompany the Freeport East Outline Business Case, which was submitted to

Government on 10 September 2021.

- On the 13 December 2021 the outline business case was formally approved by Government, the three tax sites in Felixstowe, Harwich and at Gateway 14 near Stowmarket were agreed, published on GOV.UK and Statutory Instruments laid to enshrine them in legislation.

Freeports

Government aims for Freeports to attract businesses that import, process and add value, and then re-export goods. At a Freeport, imports can enter certain sites with simplified customs documentation and without paying tariffs. Businesses operating inside designated areas in and around the port can manufacture goods using the imports and add value, before exporting again without full tariffs or customs procedures. If the goods move out of the Freeport into another part of the UK, they must go through the full import process, including paying any tariffs.

It is proposed that Freeports will be part funded by retained business rates, which is the share of business rates retained by central government. Government propose that for Freeports the retained business rate scheme will offer the opportunity for billing authorities to retain more business rates than they otherwise would have. This is effectively extra funding for the area. Money will be available to be spent supporting the development and delivery of the Freeport sites themselves, and to deliver on the wider Freeport policy objectives of improving infrastructure, skills, innovation, investment, trade and net zero initiatives, benefiting residents in the area surrounding the Freeport, including almost all of Tendring District

Freeport East

Freeport East is based around the Port of Felixstowe and Harwich International Port, and includes the Gateway 14 Site in Stowmarket, Suffolk. It comprises 275 hectares of space and facilities across three sites eligible for tax relief ("Tax Sites") at Felixstowe dock, Bathside Bay in Harwich, and Gateway 14 in Stowmarket. These sites are also eligible for customs duty relief, and there are four additional sites also eligible for customs reliefs ("Customs Sites").

The Harwich Tax Site is intended to be developed as a Clean Energy Hub and create 1,900 jobs. The tax site is largely comprised of areas to be reclaimed from the sea in order to provide a development platform. Significant third party funding in the region of £80m will be required for this site in addition to funding from the Port, potential future users of the site, and the £7m of seed capital funding by HM Government. Two additional Customs Sites are proposed in Essex including the site at Horsley Cross, which is not allocated in the Local Plan and requires planning permission. The sites in Suffolk, although of much smaller scale than Bathside Bay, are ready for development.

The Ports of Harwich and Felixstowe are both owned and operated by companies owned by the Hutchison Group Ltd. The Gateway 14 Site in Stowmarket is owned by Mid Suffolk District Council which is also the billing authority for that site. As part of the operation of the Freeport, the lead authority and the billing authorities have to work together to monitor the site. Responsibility for giving tax exemptions remains with HM Revenue and Customs.

Redistribution of retained business rates

To accompany the Final Business Case all partners have been asked to support the high-

level arrangements for business rates retention, under which the retained business rate monies will be divided into three pots. The proposed pots are all funded from Retained Business Rates:

- **Pot A** is the existing rates funding calculated on the same basis as would currently apply to the distribution of rates. Pot A is distributed to local authorities to ensure they do not lose out from Freeport. Councils allocate this funding to their general fund and can spend it as they see fit.
- **Pot B** provides funding from retained business rates to support or accelerate development of a Tax Site if it is required. An application for funding from Pot B by Hutchinson Group Ltd could assist with the development of Bathside Bay. At present the detailed approach to distributing Pot B is yet to be determined.
- **Pot C** provides a fund for economic development within the sub-region, aligned to achieving the wider Freeport Policy objectives including investment in skills, innovation, levelling up, trade, investment, infrastructure, security and net zero carbon.
- The Pot C fund will be administered by the lead authority, East Suffolk Council, and decisions on its use would be determined by the Freeport East Supervisory Board, of which it is proposed Tendring District Council is a member. Projects would need to impact on the area within the Freeport boundary [map](#). The funding within pot C will be defined by the scale of funding required by Pot B to develop the Freeport sites, and the time taken for the Tax Sites to be delivered and occupied and so to begin to generate business rates.

Funding requirement - capital

The Council is not being asked to commit capital funding to the Freeport East programme. It is being asked to support a change to the redistribution of rates in a way which does not affect its current financial position but which reduces the amount of retained business rates which could in future be available under any rate retention scheme.

Work is ongoing with partners to address the identified funding gap for Bathside Bay, including the potential use of retained business rates, provided modelling continues to demonstrate sufficient future income to allow this, as well as wider 'Pot C' investment to deliver the economic development objectives of Freeport East.

As part of these ongoing discussions local authorities including Tendring District Council would **not be asked** to provide any direct funding or take on any financial / borrowing risk.

Retained rates modelling for the Freeport East tax sites has been revised for the Full Business Case. The modelling uses a methodology commissioned and approved for the Enterprise Zones in Norfolk and Suffolk, modified to estimate rates for the Freeport. This revised modelling indicates that there will be sufficient funding from retained rates to make development of the full Harwich tax site at Bathside Bay viable.

As a result, Freeport East will work with the Freeport Hub and other governmental agencies such as the Department for International Trade and the UK Infrastructure Bank to provide upfront funding on the basis that in principle, some, or all of the retained rates in Pot B generated from the Harwich tax site would be allocated to repay this upfront funding. The Council will be party to these negotiations as the rates billing authority for the Harwich tax site in control of rates. The Council will explore appropriate mechanisms to allow the

Pot B income to be transferred to another party over the lifetime of the Freeport to repay the upfront funding into the tax site.

In relation to any funding requirements for transport or other infrastructure, the detailed investment needs arising from the proposed green energy hub at Bathside Bay will become known as further details regarding the proposed uses are developed. Infrastructure requirements directly related to the green energy hub could be addressed through developer contributions as part of the planning process to gain or vary the necessary planning consents. Wider infrastructure provision could be funded through 'Pot C' retained business rates

Funding requirement - revenue

The revenue costs of the Freeport East Delivery Team are being met from the £1m Government capacity funding until they can be supported by income from a top-slice of retained rates. However, **around £400,000 a year from 2022/23 will also be required over and above Government funding for revenue projects to meet the Freeport East policy objectives**, primarily skills, innovation, and net zero. These revenue projects are not set out in the Full Business Case and will be proposed and agreed by the Freeport East supervisory board once the Freeport East entity is formed.

In total the commitment may amount to £0.8m-£1m of revenue prior to rates income being received in 2024/25 to cover Freeport policy objectives. This funding is to be undertaken on a one-fifth share for each of the five authorities, **equating to £160,000 in total** each, £80,000 in the financial years 2022-23 and 2023-24. In the Financial Year 2024/2025 projected rates income would mean there would be no need for further forward funding for that year, with rates income increasing to the point where it is expected that forward funding would be repaid by 2026-27.

Governance

The Outline Business Case proposed a Company Limited by Guarantee as the vehicle for decision making. However an options appraisal process is currently underway on the best future model so that the form of the entity that governs Freeport East can best follow its functions. The current draft Full Business Case refers to the governing entity rather than specifying a company.

A shadow board is currently established and includes a number of partners including:

- Tendring District Council
- Essex County Council
- Suffolk County Council
- East Suffolk Council
- Mid Suffolk District Council
- University of Essex
- Hutchison representative
- New Anglia LEP and South East LEP

Under current proposals for the governing entity, Tendring District Council would be a member, and appoint a Director to the board, along with East Suffolk and Mid Suffolk District Councils and Hutchison Port. Essex and Suffolk County Councils and the Local Enterprise Partnership (LEP) would be members but each County and LEP would rotate board members annually.

The Terms of Reference for the governing entity within the Full Business Case currently propose that decisions will be taken by unanimity, which seeks to overcome the larger number of Suffolk than Essex authorities, and the imbalance between public and private sector partners. Partner authorities will continue discussion of the proposed governance model. The Leader will consider the risks and issues before making a final decision on participation in the governing entity.

Recruitment to the position of Freeport East Chair and Chief Executive is currently underway. These roles will be paid for by the initial government funding to set up Freeport East, and in the longer term by retained rates flowing from the Freeport sites. The individuals, once appointed, will replace the Acting Chair and Chief Executive, who are in place on an interim basis. Tendring is engaging on this process through its place on the Supervisory Board.

Skills

The Full Business Case will include a Skills Plan, currently in draft. This is expected to include innovation hubs at Bathside Bay focused on clean energy and at Gateway 14, more widely scoped. A focus for the skills work will be retraining people made redundant through the pandemic to work at tax and customs sites, and also careers aspirations for children in schools.

RECOMMENDATION(S)

It is recommended that Cabinet:

- a) Gives its support to the Freeport East Full Business Case to be submitted by East Suffolk Council to Government;**
- b) Agrees to the approach to local business rate retention set out in the Full Business Case summarised in this report;**
- c) Agrees that the Leader and Officers participate in the governance proposals set out in the Full Business Case on the principle that Tendring District Council becomes a member of the body set up to govern Freeport;**
- d) Subject to (c) above, any decision to formally become part of the governing body will be taken by the Leader, in accordance with previous delegations, following consultation with his Portfolio Holder Working Party;**
- e) Approves the Leader of the Council appointing a Member representative to that governing body;**
- f) Assigns £160,000 to pay for projects in support of Freeport East to be agreed through Freeport governance structure and notes that the Full Business Case sets out the expectation that this sum should be repaid to the Council from future retained business rates; and**
- g) Recommends to Full Council that Freeport East is confirmed within the Council's Budget and Policy Framework, and included as part of the Corporate Plan 20-24, previously adopted by Full Council.**

REASON(S) FOR THE RECOMMENDATION(S)

Support for the Full Business Case is recommended because it sets out a path to develop Bathside Bay through Freeport East as a clean energy hub, delivering economic growth

and jobs to Tendring District.

The Council's Economic Strategy 2020 to 2024 states that a key action should be to "Work with Essex County Council to facilitate senior level discussion with the owners of Harwich Port so secure an agreed long-term strategy for the Port. Based on these discussions, develop a clear plan for investment in quayside infrastructure." The Strategy also notes that the 2013 Strategy it supersedes had also sought to see the Port developed at Harwich.

In short, Freeport East is the best opportunity to see Bathside Bay developed in a generation.

The Council should support the retained rates model as the financial model for the development of Bathside Bay requires subsidy, given the level of initial infrastructure investment required. The retained rates model enables that investment.

The Council is the District authority for Harwich taking a community leadership role, it is the billing authority for business rates, and the planning authority for development at the Port. The Council has an interest in seeing the best investments come forward from the retained rates from the Freeport. As such, it is recommended that the Council participate as part of the governance of the Freeport, so that we can influence its development.

The Council should, alongside the other four authorities, provide cash flow to enable early investment in socially beneficial projects through the Freeport, given the long term benefits that will flow from it, and the likelihood of repayment of the sum, once firms on the new developments start to pay business rates. Subsidiary Control requirements must be kept under review through this process although, at this stage of the project there are no adverse implications.

ALTERNATIVE OPTIONS CONSIDERED

Option A

For the Council to not endorse the Full Business Case, not take part in the business rates policy or the governance of Freeport East. This option would make the development of the Bathside Bay and the Port at Harwich unviable in its current form, as the Council is the billing authority and is required to support the local retention of business rates that will in part fund the development of the Port. Developing Bathside Bay has been an aspiration in Harwich for generations and is a specified goal in the Council's adopted Economic Development Strategy. This Option is against the thrust of Council policy and is not recommended.

Option B

To support the development of Freeport East and endorse the Full Business Case, but not to take part in its governance arrangements or fund any costs. This option would not automatically stop Freeport East or the developments at Bathside Bay coming forward. It would reduce the amount of Council resource required to support the project which comes with intensive partnership working.

However, it would reduce the Council's influence over Freeport East, most importantly once the business rates are paid by new firms moving into Freeport East with the potential to invest that funding into projects in Tendring District. It will also reduce our engagement with the Port on the development of Bathside Bay. In addition, not taking part in the governance could be seen by our partners and Government as a signal that the Council is not fully supportive of Freeport East, making further investment to develop from

Government to develop Bathside Bay harder to secure.

Option C – Recommended Option as set out in this report to support the Freeport East Full Business Case, endorse the locally retained Business Rates approach, take part in the Governance of Freeport East and financially support Freeport East projects alongside other local authority partners in the first two years, with the potential for re-imburement.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

As set out in the September 2021 report to Cabinet, the delivery of Freeport East will contribute to the Council's priority to 'A Growing and Inclusive Economy' including:

- Developing and attracting new businesses
- Supporting existing businesses
- More and better jobs

The Council's contribution to the Freeport bid was a key action point of the Back to Business agenda, to support the District's recovery from the Covid-19 pandemic.

At its meeting in April 2021, Cabinet approved the inclusion of the Freeport East project within the Corporate Key Priority Actions for 2021/22 and at its meeting in February 2022 Cabinet agreed the inclusion of Freeport East as key action within its 2022/23 priorities (under D1, Develop and Attract new business)

The Council's Economic Strategy 2020 to 2024 states that a key action should be to "Work with Essex County Council to facilitate senior level discussion with the owners of Harwich Port so secure an agreed long-term strategy for the Port. Based on these discussions, develop a clear plan for investment in quayside infrastructure."

Improved public health is also a community leadership ambition, and it is clear that in the long term health outcomes improve when there is an increase in jobs and economic activity, which a thriving Freeport at Harwich could provide.

OUTCOME OF CONSULTATION AND ENGAGEMENT

Cabinet members have discussed the Freeport, most recently at their meeting in September 2021. They have been briefed on the contents of this report and are supportive of the recommended approach.

All member were briefed on Freeport East on 23 February 2022, setting out the purpose and location of developments, and operation of the Freeport, including as a clean energy hub at Harwich.

A Member Working Party took place on 2 September 2021 and a second took place on 16 March 2022. At the first meeting the Working Party highlighted the importance of the delivery of Bathside Bay, improvements to the A120, support for skills development so residents can apply for the jobs that come forward once Bathside Bay is developed, and a focus on the careers service within local schools so pupils understand the opportunities coming forward through Freeport East. These points have been raised with the Port as they bring forward their economic strategy for as part of the planning application for

Bathside Bay and inform the Full Business Case. The A120 will be not be fully upgraded before commencement of the planning consent; the Clean Energy Hub has fewer vehicle movements than a container Port. The Council has highlighted the importance of A120 upgrades to Highways England as part of their route strategies consultations, and with Transport East.

The Freeport East Portfolio Holder Working Party on 16 March received an update on the progress with the Freeport East programme and the development of the Full Business Case, and discussed the issues within it. The Working Party noted that the Leader of the Council (as the Portfolio Holder with responsibility for Freeport East) intends to recommend to Cabinet that it should endorse the Freeport East Full Business Case and formally supported the Leader of the Council in making that recommendation to the Cabinet. The Working Party further agreed that the Chief Executive be requested to investigate the possibility of holding a 'Business Summit' to enable the Council to engage with local businesses on the opportunities arising from Freeport East and that, ideally, this summit meeting should be held at the Port of Harwich as part of a "Business Week" of activities.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

Is the recommendation a Key Decision (see the criteria stated here)	YES	If Yes, indicate by which criteria it is a Key Decision	X Significant effect on two or more wards Involves £100,000 expenditure/income X Is otherwise significant for the service budget
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	16 February 2022

X **The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

The Monitoring Officer is aware and supportive of the proposals set out in this report for the Council's engagement with Freeport East.

Government policy is still in a formative state and further legislation may be needed in order to fully implement Freeports. The designation under the Finance Act 2021 does not itself have any direct legal effect, but it is a clear statement of intent by the Government.

The current version of the Full Business Case does not specify a Company Limited by Guarantee as the governance model and refers to an entity. A governance options appraisal is under discussion by partners at a special Shadow Board meeting on 21 March. However, the options analysis by Freeport East currently recommends a Company

Limited by Guarantee, in line with the Outline Business Case. It remains Tendring District Council's position that form (i.e. the entity) follows function, and further consideration of the powers and the functions of the entity should be considered, hopefully the meeting on the 21 March will explore this detail.

Freeport East recommends that those partners who feel able to sign up progress with a Company Limited by Guarantee, leaving space for other partners to join later.

The key benefit to a company and the reason for the option appraisal recommendation is that this form of governance can bring together the private and public sector into a form of governance in which each participates on the same footing, and Government guidance requires that the public and private sectors take part in Freeport governance.

There are also delivery pressures to make progress with the governance model. The Government seed capital grant of £25m rests on Full Business Case approval, and making progress with governance is one of the criteria.

There are also risks with a Company Limited by Guarantee. Directors need to act in the interest of the company, not their nominating authority. There may be instances where these interests are in tension – for example in the location of the allocation of retained rates funding. There may also be instances where local authority neutrality on the location of investment acting in the interest of Freeport East could benefit Tendring, given business rates will first be generated outside the district on tax sites in Felixstowe and Gateway 14, but Harwich has strongest case for regeneration, and the tax site requiring most investment.

There is also a risk of setting governance in stone too early. Experience from other major partnership projects suggests that many of the operational details of Freeport East are likely to take months of discussion amongst partners to resolve after the Full Business Case is submitted: for example, the detail of the operation of the funding Pots B and C. It is important that any decisions on governance (the form of Freeport East) do not constrain decisions on operations (the function) of Freeport East ahead of time.

Freeport East is a major programme of activity. The Council has included development of the Port at Harwich within our Economic Development Strategy, and we have included Freeport East within the corporate actions the Council monitors. It is however important to fully integrate Freeport East and its governance within the Council's Policy Framework as a programme with its financial consequences related to business rate retention: support for the Full Business Case, ultimately at Full Council, will achieve this.

The Leader committed to setting up a Portfolio Holder Working Party in relation to Freeport East and so far has received across party support in the way the project is progressing. The Council's Corporate Plan for 2020-24 was adopted in January 2021, prior to any decisions being made on Freeport status. A recommendation should be made therefore, to Full Council for confirmation that Freeport East does form part of the Council's Budget and Policy Framework and inclusion within the current Corporate Plan, whilst accepting that the decisions made in relation to the Freeport will remain executive functions (unless reserved to Full Council through legislation or Financial Procedure Rules).

The operation of subsidy control within Freeport East, including its governance, is yet to be determined, and will need to be considered in its decision making, for example through the operation of Pot B funding for infrastructure. At this stage the decisions relating to Business Rates are to provide support at a high level and the impact of future expectations will form part of future decision making.

FINANCE AND OTHER RESOURCE IMPLICATIONS

Business rates

Freeport finances operate by retaining rates by businesses which move into a Freeport or expand within it. This arrangements lasts for a 25 year period. The rates are retained for local investment in the three areas:

- To ensure local authorities do not lose out from the local tax reliefs available to businesses through Freeport (called '**Pot A**'). Councils allocate this funding to their general fund and can spend it as they see fit.
- To fund the **Freeport infrastructure** to develop the sites, for example to pay for land reclamation or other required infrastructure (called '**Pot B**').
- To **support public benefit in the sub region**, including economic development, skills and innovation (**Pot C**). This fund is administered by the lead authority, East Suffolk Council, and decisions on its use would be determined by the Freeport East Supervisory Board. Projects would need to impact on the area within the Freeport boundary [map](#), and be aligned to the Freeport's objectives. This funding could also be used to enable the timely delivery of the tax sites on a case by case basis (similar to Pot B above.). Proposals will be put forward by Freeport East's sub-boards, be agreed via the Management and Supervisory Boards of Freeport East, with decisions actioned by East Suffolk Council as the Lead authority.

In addition, some of the retained rates will be used to pay for the overhead costs of the body managing Freeport East (see below for more detail).

By supporting the Freeport East Full Business Case the Cabinet endorses this approach to business rates.

The Council as the billing authority will be responsible for determining the suitability of end occupiers of tax sites for business rate relief. The Council will engage with partners in Freeport East who will recommend a common approach across the Freeport area. Decisions on which firms occupy the Freeport tax sites rests with the land owners.

East Suffolk Council will as the lead authority will hold and transfer retained rates funding and Capital seed funding.

Tax sites

This approach to retaining business rates, along with other tax benefits for firms, applies within specified areas known as the Freeport tax sites. The sites are designated and recognised in law as geographical areas where businesses can benefit from tax reliefs to bring investment, trade and jobs. Maps can be viewed on www.gov.uk: [Maps of Freeport East tax sites - GOV.UK \(www.gov.uk\)](#). The tax sites for Freeport East have been designated with effect from 30 December 2021.

Interim funding for 'Pot C' Freeport East

The revenue costs of the Freeport East Delivery Team are being met from the £1m Government capacity funding until they can be supported by income from a top-slice of retained rates.

However, around £400,000 a year from 2022/23 will also be required over and above the governmental funding for revenue projects to meet the Freeport East policy objectives, primarily skills, innovation, and net zero. These revenue projects are not set out in the Full Business Case and will be proposed and agreed by the Freeport East supervisory board once the Freeport East entity is formed.

In total the commitment may amount to £0.8m-£1m of revenue prior to rates income being received in 2024/25 to cover Freeport policy objectives. This funding is to be undertaken on a one-fifth share for each of the five authorities, **equating to £160,000 in total** each, £80,000 in the financial years 2022-23 and 2023-24. In the Financial Year 2024/2025 projected rates income would mean there would be no need for further forward funding for that year, with rates income increasing to the point where it is expected that forward funding would be repaid by 2026-27.

If, theoretically, one local authority does not agree to contribute their share of the forward funded revenue then the shortfall will need to be covered by the other partners.

Forward funding infrastructure

The Government’s Freeport Bidding Prospectus, the Setup Phase and Delivery Model Guidance, and the Final Full Business Case Guidance have all made reference to the possibility of local authorities borrowing against future retained business rate growth in a tax increment financing (TIF) model, under the Prudential Framework, including from the Public Works Loan Board and, for eligible capital spend, the UK Infrastructure Bank.

Local authorities have a duty to ensure that borrowing and investment is prudent, affordable, and sustainable and must be subject to their own assessment of risk. Local authority Section 151 officers have considered this issue and concluded that these criteria could not be met. As a result forward borrowing could not be undertaken by local authorities. The reasons for this include:

- the scale of investment required, particularly in respect of the Harwich Tax Site;
- risk regarding development of the sites and the realisation of rates income;
- timing of the investment compared with payback period through retained rates;
- location of the sites in three different billing authority areas and their differing investment requirements;
- private ownership of two of the three sites; and
- potential subsidy control issues.

As a result the Full Business Case Commercial Case includes **a firm statement that local authorities will not be undertaking any forward borrowing against retained rates income.**

Capital seed funding

The government will provide £25m of capital funding once they have approved the Full Business Case. The funding from government will be spent across the tax site as follows.

Site	Funded activities	Seed funding requirement	Strategic / economic benefit alignment
Felixstowe Tax Site	Site preparation works including provision for	£12.0m	Levelling up of service offering from (low value, low margin) simple

	the development of HV network		logistics to (high value) manufacturing / processing
	Additional information: we estimate peak job creation at 6,000 FTEs and private sector funding requirements of £89m (real, 2021 prices).		
Gateway 14	Site preparation works & supporting infrastructure to incentivise net zero & skills / innovation centre developments	£6.0m	Net zero agenda, innovation & skills development
	Additional information: we estimate peak job creation at 4,900 FTEs and private sector funding requirements of £27m (real, 2021 prices).		
Harwich Tax Site	Small scale site preparation works.	£7.0m	Enabling works in support of the wider development of Bathside Bay to address market failures in the offshore wind sector
Total		£25.0m	

Financing of the Harwich Tax site at Bathside Bay

Previous financial modelling within the Outline Business Case for the Harwich tax site indicated total gross retained rates income in the region of £70m over 25 years. As a result the Harwich tax site would generate insufficient rates income for that Pot B allocation to cover the capital investment required for site development, in addition to private investment. So the full development of the site was not viable.

However, retained rates modelling for the Freeport East tax sites has been revised based upon live enquiries and industry demand for the site for the Full Business Case. The modelling uses the PWC model and methodology commissioned and approved for the Enterprise Zones in Norfolk and Suffolk, modified to estimate rates for the Freeport. This revised modelling indicates that there will be sufficient funding from retained rates to make development of the full Harwich tax site at Bathside Bay viable with income in the region of £125m over 25 years.

As a result, Freeport East will work with the Freeport Hub and other governmental agencies such as the Department for International Trade and the UK Infrastructure Bank to provide upfront funding on the basis that in principle, some, or all of the retained rates in Pot B generated from the Harwich tax site would be allocated to repay this upfront funding. The Council will be party to these negotiations as the rates billing authority for the Harwich tax site in control of rates. The Council will explore appropriate mechanisms to allow the Pot B income to be transferred to another party over the lifetime of the Freeport to repay the upfront funding into the tax site.

The Harwich tax site will be built out fully, also enabling the full benefit of jobs, with an estimate of peak job creation at 1,900 full time equivalent employees.

Resource implications

The Freeport Programme has resource implications. The Freeport Team will manage the majority of the work. However, there will continue to be subgroup meetings, management

boards and Supervisory boards. This puts a resource requirement onto the nominated Cabinet Member and on staff. A new Essex County Council post hosted within the Council is starting for a year from March 2022 which will provide some additional capacity to support on projects with a common interest with the County Council, including Freeport East.

X The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:

The S151 Officers has contributed to and supports this report and endorses the approach to engagement with Freeport East as set out and the Business Rates proposals.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	The Council has, along with partners, taken a prudent decision to not forward fund tax sites ahead of business rate income. Rather we will provide an enabling approach to business rates that supports the development of the Port without risk to the Council's finances.
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B) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and	The Council has worked intensively with partners in Freeport East to ensure that it has the necessary information and negotiations to make an informed decision on endorsing the Full Business case. There has been on going engagement on the Shadow Board, Freeport East Working Party, Monitoring Officers and S151 officers groups. The Council is taking the Freeport East Full Business Case decision to a working party, Cabinet, and Full Council to ensure full engagement.
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C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	The financial modelling of the main site in Tendring, Bathside Bay, has demonstrated that it is possible to build out the full site if a third party can provide up front financing, enabling an increase in additional jobs from 400 (with just smaller enabling works) to 1,900 (for the full project). This demonstrates an understanding of the relationship between costs and performance leading to improved outcomes.
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MILESTONES AND DELIVERY

For the overall Freeport there are the following milestones:

- 15 April – Submit Full Business Case
- Summer 2022 - Government endorses Full Business Case
- Summer / Autumn 2022 - Designation of Freeport
- Summer / Autumn 2022 - Release of £25m seed capital funding to Freeport East
- The government intends to offer SDLT relief on land purchases within Freeport tax sites in England where that property is to be used for qualifying commercial activity. It is intended that this relief will apply from 1 April 2021 until 31 March 2026

For the Harwich Tax Site, Bathside Bay the forecast is for units to become live commencing 2024/25 and full build out in 15 years.

- | | | |
|--|--------|--------|
| • Planning application | Jul-21 | Mar-22 |
| • Design & procurement | Jul-21 | Jun-22 |
| • Small scale preparation (£7m seed funding from Government) | Apr-22 | Dec-22 |
| • Phase 1 Large scale land reclamation & construction works | Jan-23 | Dec-24 |
| • Phase 2 Large scale land reclamation & construction works | Dec-24 | Dec-25 |
| • Phase 3 Large scale land reclamation & construction works | Dec-25 | Dec-26 |
- 2025-2026 Business rates flow into Pot's A, B and C for local investment.
 - 2027 onwards Proposals for regeneration developed and funded.
 - September 2046 – Business rates on sites flow to central government.

ASSOCIATED RISKS AND MITIGATION

There are a number of risks with the development of Freeport.

There is a risk that the Freeport requires significant staffing resources. This is a relatively small risk, as the burden of work is shared across five authorities, and the process of development of the Full Business Case has shown that it is possible for larger partners, such as Essex County Council, to put in more resource to support delivery. There is also a permanent staffing resource proposed within the Freeport.

Conflict of interest risk. There is a risk that the interests of the Freeport company come into conflict with Council, for example in the location of generation investment from 'Pot C'. The governance of the Freeport needs to be set up in a way that ensures that each authority has a strong voice, to ensure that the breadth of interests across the Freeport are balanced. (It is worth noting that with the Harwich Tax site likely contributing the least to Pot C, at least in early years, Tendring could benefit from project spend being determined by need not contribution.)

Financial risks. As the finance section sets out, the main potential financial risk of forward funding development of Bathside Bay site has been ruled out in the Full Business Case. However, the Council has been asked to contribute £160,000 to projects within the Freeport, and it is possible that the expected funding to repay this investment does not come forward. We need to assign budget to the programme that does not rely on the being repaid.

Delivery risks. There remains significant risk that Bathside Bay is not delivered through the programme. The site requires significant commercial and government investment, and there is no guarantee that commercial partners or government agencies will come forward. Hutchinson Ports has a good relationship with Government, and a strong public affairs function. And it has completed significant commercial work with the Clean Energy Sector to promote the site to new firms. However, it is not guaranteed that these discussions will turn into investments.

Benefit risk – There is a risk that even if Bathside Bay is delivered to its full capacity,

Tending residents do not benefit significantly because commuters from outside the district are employed on the site. The work on skills development as part of the Freeport has started with a skills working group to develop Skills plans that identify programmes to provide residents skills to enable them to take up opportunities, linked to the local enterprise partnership skills panels. The Freeport is working with the County Councils and Chambers of commerce in Essex and Suffolk, Colchester Institute, Suffolk New College, West Suffolk College, and training provider networks. Projects will come forward to be funded from 'Pot C'.

The environmental risks with the development of the Harwich Tax sites have been dealt with in detail through the recent planning process and there is environmental mitigation plans in place for Bathside Bay. More broadly, the development of a clean energy hub is a significant environmental opportunity for the district to support the shift from fossil fuels to renewable energy.

EQUALITY IMPLICATIONS

An equality impact assessment has been completed the Council's involvement in this programme. It has two main findings. As a jobs programme, Freeport East will impact primarily on people of working age, or younger people who will become of working age. It is not targeted at older people. However, there is no need to change the operation of the programme, which legitimately primarily benefits people of working age.

Green energy sector jobs are predominantly taken up by men. The International Renewable Energy Agency states that "Wind energy sector is male dominated, with women representing just 21% of the workforce" in its 2020 Annual Review, page 13. As such, there will be a need to be a focus on supporting women's entry into the workforce.

The Full Business Case highlights that Freeport East aims to have a workforce that is representative of the local community. Freeport East will publish a diversity statement and an annual report to the Supervisory Board on progress in encouraging diversity and will nominate a diversity champion from the board to embed diversity across Freeport East to ensure objectives are met.

SOCIAL VALUE CONSIDERATIONS

There is very significant social value potential with the Freeport programme. The development has the potential for 1,900 jobs at the Harwich Tax site, and a skills development programme that will help residents to learn the skills to access the jobs. The Freeports are able to spend business rates for a period of 25 years locally, on the development of the infrastructure to create the sites in the first place (Pot B) and on local regeneration schemes, including skills development so people can access the jobs (Pot C). The economic strategy submitted as part of the recent Planning process associated with Bathside Bay includes 10 day local advertising to give residents an opportunity to access jobs ahead of competitors from outside the District.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

The shift to the UK becoming Carbon neutral by 2050 - in part - relies on shifting energy use from petrol and gas to electricity, and shifting electricity production from carbon intensive means, like gas fired power stations, to renewables, like wind, solar and nuclear.

The development of off shore wind farms in the north sea is a crucial part of the government's strategy to reach net zero by 2050. In addition, some larger forms of

transport like shipping, aircraft and lorries, may find it difficult to move from petrol to electric power given the amount of energy needed to move them. As a result hydrogen may become a means to power larger transport.

The Clean Energy Hub at the Harwich Tax site is designed to support the expansion and management and operations of wind turbines in the north sea. As such it is part of the effort to shift the country's energy supply towards net zero. The development of hydrogen technology is another route to supporting the energy transition needed to deliver the UK's climate ambitions. The carbon that is used now to develop the Clean Energy Hub is supporting the move away from fossil fuels and towards renewable energy, which is a key part of the overall national climate change approach.

OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

<p>Crime and Disorder</p>	<p>It is recognised that the customs arrangements related to Freeport East will create security risks, as is typical for all customs sites. A sub group will focus on security issues, and will operate based on a robust threat, vulnerability and risk assessment. This will consider both physical and cyber-security risks to remove the opportunity for crime, terrorism and illicit trading. The risk assessment will include all the relevant security stakeholders, including local and national Policing, Border Force, MHCLG, Home Office, HMRC and other relevant agencies. Appropriate measures will be established to ensure the physical site and the systems utilised within are kept secure.</p> <p>From the outcomes of the risk analysis, a Security Concept of Operations and a layered Protective and Criminal Activity Detection Plan will be developed, ensuring compliance with the OECD Code of Conduct for Clean Free Trade Zones. These plans will also ensure that all businesses operating within the Freeport East area will have mandatory minimum security and reporting requirements placed upon them.</p>
<p>Health Inequalities</p>	<p>The impact of the Freeport on jobs is expected to have a consequential positive impact on health inequalities. The former Director of Public Health at Essex County Council Dr Mike Gogarty has highlighted that in the long term the economic benefit that comes from work has a positive impact on people's health, and that bringing jobs into a location is one of the best public health measures that can be taken.</p>
<p>Area or Ward affected</p>	<p>All Wards.</p> <p>The policy will have particularly significant impact on Harwich and Kingsway, Dovercourt Bay and Dovercourt Vines and Parkston where the major Tax site is located at Bathside Bay.</p>

PART 3 – SUPPORTING INFORMATION

BACKGROUND

Throughout 2020, the Council worked with public and private sector partners on a bid to present the case for developing Freeport East (which includes Harwich International and Felixstowe Ports), as one of the Government's nominated Freeports.

A report in April 2021 set out to Cabinet the objectives of the Government's Freeport policy and an outline of the bid which Freeport East submitted.

Purpose of Freeports

The Government announced the formation of eight new Freeports to become innovative hubs, boost global trade, attract inward investment and increase prosperity in the surrounding area by generating employment opportunities. Freeports offer tax and customs benefits to boost economic growth.

What Freeport's offer

Freeports are secure customs zones located at ports where business can be carried out inside a country's land border, but where different customs rules apply. They can reduce administrative burdens and tariff controls, provide relief from duties and import taxes, and ease tax and planning regulations.

Customs: Typically, goods brought into a Freeport do not attract a requirement to pay duties until they leave the Freeport and enter the domestic market – and no duty at all is payable if they are re-exported. If raw materials are brought into a Freeport from overseas and processed into a final good before entering the domestic market, then duties will be paid on the final good. Freeports may also offer simplifications to the normal customs administrative processes on imported goods.

Tax benefits. Companies inside the sites pay lower property taxes on new buildings they buy (stamp duty land tax) and lower rates of national insurance for new staff they employ. In addition there is five years of Government funded rate relief to businesses that enter the tax site before 30 Sept 2026

Supply chain. Freeports also offer significant supply chain opportunities for businesses located in the wider geography outside the Freeport redline boundary.

How Freeports work: retained rates

The council area in which the Freeport tax sites are located will retain 100 percent of the business rates growth above an agreed baseline within those sites. This income will be guaranteed for 25 years, giving a long term stream of local finance.

To accompany the Full Business Case all partners have been asked to support the high-level arrangements for business rates retention, under which the retained business rate monies will be divided into three pots. The proposed pots are all funded from Retained Business Rates:

- Pot A is the existing rates funding calculated on the same basis as would currently apply to the distribution of rates. Pot A is distributed to local authorities to ensure they do not lose out from Freeport. Councils allocate this funding to their general fund and can spend it as they see fit.

- Pot B provides funding from retained business rates to support or accelerate development of a Tax Site if it is required. An application for funding from Pot B by Hutchinson Group Ltd could assist with the development of Bathside Bay. At present the detailed approach to distributing Pot B is yet to be determined.
- Pot C provides a fund for economic development within the sub-region, aligned to achieving the wider Freeport Policy objectives including investment in skills, innovation, levelling up, trade, investment, infrastructure, security and net zero carbon. This fund is administered by the lead authority, East Suffolk Council, and decisions on its use would be determined by the Freeport East Supervisory Board, of which Tendring District Council is a member. Projects would need to impact on the area within the Freeport boundary [map](#). The size of pot C will depend on the requirements of Pot B (development of Freeport sites) and the time taken for the Tax Sites to be delivered and occupied.

So the more development that takes within the Freeport sites, the more local rates are retained, the more local funding will become available.

Economic impact

One of the concerns for central Government is that the Freeport's attract businesses onto sites from the local area, or other areas of the UK, which would have expanded anyway. As such the tax benefits do not generate economic growth, they just move it, and do so at a cost to the tax payer from the reliefs offered. This is less of a risk from the Tendring perspective, as it will benefit the District regardless of where firms have come from. However, The Full Business Case has sought to articulate clearly how Freeport East adds to the UK economy, and the Clean Energy Hub is servicing a clean energy industry that needs new space to grow. Bathside Bay in particular offers an opportunity to attract, potentially, international clean energy firms into Tendring, and the scale of the site next to a deep water port offers wind turbine manufacturers a type of site that does not exist elsewhere in this part of the UK.

Freeport East development process to date

East Suffolk Council, as the Lead Authority for Freeport East, is now required to submit a Full Business Case (FBC) on behalf of partners to Government by 15 April 2022. This Business Case will continue to be developed up to that point in consultation with local authority partners and land owners within Freeport East. Freeport East Shadow Board is due to consider the Full Business Case at its meeting on 6 April 2022.

- Throughout 2020, the Council worked with public and private sector partners on a bid to present the case for developing Freeport East as one of the Government's nominated Freeports.
- In the March 2021 Budget, Government announced the intention to designate sites in Essex and Suffolk as 'Freeport East'.
- At their meeting on April 2021, Cabinet received the initial Freeport East report, which set out the purpose of Freeports and the process and roadmap the public / private sector partnership would follow to receive formal designation by Government.
- The Council's Freeport East Portfolio Holder Working Party took place on the 2 September 2021 and agreed to support the Leader of the Council in providing a

letter of support in respect of the Freeport East Outline Business Case.

- That Working Party also recommended that the Council pursue steps that Hutchinson Ports Ltd could undertake as part of its commitment to Harwich International Port, the skills agenda so the local population could take on careers that would become available as a consequence of Freeport East, and the need to actively pursue the improvements to the A120 from the A12 through to Harwich.
- In September 2021 Cabinet endorsed the urgent decision taken by the Leader of the Council, on behalf of the Cabinet, to provide a letter of support for the principles in regard to retained business rates generated within the Freeport East Tax Site, to accompany the Freeport East Outline Business Case, which was submitted to Government on 10 September 2021.
- On the 13 December 2021 the outline business case was formally approved by Government, the three tax sites in Felixstowe, Harwich and at Gateway 14 near Stowmarket were agreed, published on GOV.UK and Statutory Instruments laid to enshrine them in legislation.

The tax sites

Freeport East has three main sites where tax benefits will accrue to companies expanding or moving in: Harwich, Felixstowe and Gateway 14.

Harwich Tax Site Green Energy Hub

This will develop a cluster of organisations that are driving forward the future of clean energy generation, focusing on hydrogen and offshore wind.

The UK is the world's largest market for wind. Before 2030, £16bn of capital expenditure is anticipated in East Anglia ONE North, TWO and THREE, Norfolk Vanguard and Norfolk Boreas: 35 percent of total investment in offshore wind in the UK. Freeport East intends to develop a renewable energy supply chain that exploits Freeport East's unique position at the centre of this industry and helps to deliver 60 percent UK content for offshore wind.

This programme will be enhanced with innovation and skills initiatives that will support the local workforce to access these new roles and opportunities. The increase in employment land and high value jobs will aid justification for increased transport and housing developments and lead to a supporting service industry that will aid the wider regeneration of the local area.

Felixstowe Tax Site

High value manufacturing, processing, and engineering hub to maximise the benefits being immediately adjacent to Felixstowe Port, the UK's gateway to Europe, Asia and the rest of the world. The investment into Felixstowe and its drive towards trialling innovative usages of hydrogen and new 'Internet of Things' technology will drive investment into Felixstowe and the wider area to support investment into housing, transport and skills facilities.

Gateway 14 Tax Site

The focus will be on innovative clients that align to the Net Zero vision for the site. High value logistics, manufacturing, R&D and professional services are the primary sectoral focus for the site. This will be enhanced with innovation and skills initiatives that will support the local workforce to access these new roles and opportunities. The increase in employment land and high value jobs will aid justification for increased transport and

housing developments and lead to a supporting service industry that will aid the wider regeneration of the local area.

Combined tax & customs sites

- Felixstowe (**primary customs site** and also a tax site);
- Harwich (also a tax site)
- Gateway 14 (also a tax site), Stowmarket

Customs sites

- Parker Avenue, in close proximity to the Port of Felixstowe
- Clickett Hill Road, in close proximity to the Port of Felixstowe
- Port One, Great Blakenham
- Horsley Cross, Tendring.

Inward Investment

Freeport East will result in hundreds of millions of investment in new infrastructure, subject to securing revenues to deliver the business cases. This includes private investment in the three tax sites.

Planning

The Local Planning Authorities (LPAs) of East Suffolk, Mid Suffolk and Tendring commit to the creation of a collaboration network to ensure the provision of complementary and consistent advice to landowners as they progress development at the designated tax and customs sites.

The LPAs will also work together to explore the potential to prepare fast-track processes and will work together to liaise with Government and other agencies/statutory consultees to expedite whatever other consents/responses/licenses may be required to ensure delivery is not delayed. This will require an early focus on the issues relating to individual sites in discussion with statutory consultees and the potential to simplify the planning regime to achieve the desired ends, whilst delivering high quality, sustainable development.

Another consideration will be the proactive review of legislation including permitted developments and associated criteria under the Ports Act 1991 to understand other mechanisms for accelerating the granting of permissions for sites already within port boundaries.

Governance of Freeport East

The Outline Business Case proposed a Company Limited by Guarantee as the vehicle for decision making. However an options appraisal process is underway on the best future model so that the form of the entity that governs Freeport East can best follow its functions. The current draft Full Business Case refers to the governing entity rather than specify a company.

A shadow board is currently established and includes a number of partners including.

- Tendring District Council
- Essex County Council,
- Suffolk County Council,
- East Suffolk District Council,
- Mid Suffolk District Council,

- Essex University,
- Hutchison representative
- New Anglia LEP and South East LEP

Under current proposals for the governing entity, Tendring District Council would be a member, and appoint a Director to board, along with East Suffolk and Mid Suffolk District Councils and Hutchison Port. Essex and Suffolk County Councils and the Local Enterprise Partnership would be members but each County and LEP would rotate board members annually.

The Terms of Reference for the governing entity within the Full Business Case currently propose that decisions will be taken by unanimity, which seeks to overcome the larger number of Suffolk than Essex authorities, and the imbalance between public and private sector partners.

Whilst the benefits to Tendring that could flow from the delivery of Freeport East and use of retained business rates could be significant, there are also risks and issues that need to be considered in the setting up of governance. Partner authorities will continue discussion of the proposed governance model. The Leader will consider the risks and issues before making a final decision on participation in the governing entity.

Skills

The Council welcomes the skills development and employment opportunities that Freeport East will bring. The Council will work with partners to maximise skills opportunities leading to employment for our residents. The Council is working with Essex and Suffolk County Councils on a skills and employment plan for the Full Business Case that sets out how our interventions will maximise new labour market opportunities for residents.

Schools. Working with the Tendring Education Strategic Board and Essex County Council, Freeport East will establish what resources schools and other providers need to support the preparation of students for future jobs in Tendring and surrounding areas, review existing delivery models, and agree expected outcomes, next steps, budget and resource needs.

Skills proposal in the Full Business Case currently include:

Energy Skills Centre at Harwich - Phase 2: Improved facilities to support low carbon hydrogen technologies, fuel cells, carbon capture, and distribution. It will also include training for nuclear developments at Bradwell and Sizewell, based on project progression, and Harwich International Port.

Green Energy Skills Centre - Colchester Campus

This development is for Further Education and Technical courses supporting training needs for zero emission vehicles, battery storage, low and zero carbon technologies, and green rapid mass transport systems, as cited by the Tendring Colchester Borders Garden Community Development Plan.

Sustainable Construction Training Centre - Colchester Campus

Scope to develop Further Education and Technical courses responding to high demand in skills shortage areas in modern methods of construction, retrofit, embodied carbon, renewable energies including solar panels and heat pumps and also the skills needed to support the large regional infrastructure and transport projects including two potential nuclear developments.

PREVIOUS RELEVANT DECISIONS

April 2021 Freeport East Cabinet Paper

September 2021 Freeport East Update and Business Rates Retention Cabinet Paper

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

None

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