COUNCIL – 19 JULY 2021

SOLENT FREEPORT UPDATE

1. Recommendations

1.1 That the Council supports the principles set out in the report relating to the Retained Business Rates Policy, Decision Making and Governance, Funding and Finance to be included within the Solent Freeport Outline Business Case to Government, noting that more detail will be available as the project moves to the Full Business Case stage;

1.2 That the Leader of the Council sign a commitment letter, confirming support to the Outline Business Case and Freeport objectives;

1.3 That up to £50,000 per annum for a 3 year period be made available by this Council (as guarantor to prudential borrowing or cash) to support the delivery of the Freeport; and

1.4 That the Leader of the Council, Cllr Edward Heron, be formally appointed as a Director of The Solent Freeport Consortium Limited

2. Introduction

2.1 On the 25th February 2021, the Council gave its support to the Solent Freeport bid, including undeveloped and underdeveloped land known within the bid as "the waterside" tax sites cluster which include Fawley former Powerstation, Exxon land, ABP and Marchwood Solent Gateway.

2.2 The Solent LEP believe the Freeport proposal has the potential to attract £2billion investment and create 52,000 jobs; through opening the potential to bring tax reliefs, simplified customs procedures and streamlined planning processes to promote regeneration and innovation.

2.3 It is estimated that the Solent Freeport status will add an additional £3.57 billion to UK plc through the GVA uplift, including £1.97 billion in direct GVA in the Solent and £1.6 billion in the wider UK supply chain.

2.4 The Solent Freeport is one of the eight prospective Freeports in England, announced at the March 2021 budget, to move to the next phase of designation; the set up phase. This will require the submission of an Outline Business case (OBC) to Government by the 30th July.

2.5 The Outline Business Case (OBC), is being prepared by KPMG with significant input from the public and private sector, directed through the Solent Freeport Operational Group which the Executive Head for Planning, Regeneration and the Economy sits on, and overseen by the newly incorporated Solent Freeport Consortium Ltd (SFCL).

3. The Solent Freeport Consortium Ltd

3.1 On 15th March 2021, the Solent Freeport Consortium Limited (SFCL) was incorporated. The Articles of Association confirm;

'The company's objects are specifically restricted to the promotion and delivery, and support for the promotion and delivery, of programmes and initiatives which are capable of establishing and maintaining the Solent Freeport as a national hub for global trade and investment, promoting regeneration and job creation, serving as a hotbed for innovation and advanced manufacturing, and support to the UK's net zero targets.'

3.2 The SFCL board is comprised of 10 Core Members, representing the major land owners of the tax and custom sites, the billing authorities (NFDC, Southampton City, Eastleigh and Havant Councils and the Solent LEP, with 5 Associate Members. Decision making and governance will feature strong collaboration between the SFCL, its tax and custom site members and the billing authorities.

3.3 Following the approval of the new Articles of Association for the SFCL, the Local Enterprise Partnership is now in the process of establishing the new Board of Directors for the Solent Freeport Consortium Limited.

4. The Outline Business Case

4.1 The process for gaining Government approval of the Solent Freeport proposal requires submission of an Outline Business Case (OBC) by the 30th July 2021, with a Final Business Case (FBC) to follow in the Autumn. The Government provide guidance on what should be included within the OBC and the Full Business Case with the most pertinent policy points around finance that need consideration summarised below:

4.1.1 **Retained Business Rates Policy**

Drawing on the proposals submitted in the original Freeport bid and subsequent discussions, it is proposed that the OBC set out the following Business Rate retention policy, with the details to be confirmed, as appropriate, through the Freeport Company's investment policies and voting rights, following formal approval by all participating local authorities and the Freeport Company Board.

<u>Priorities for the use of Solent Freeport retained business rates:</u>

- Firstly, on funding the Solent Freeport operational expenditure as required – if funding from partners is insufficient (see Funding section below).
- Secondly on specific additional Local Authority operating expenses associated with delivering the tax and custom sites within the Solent Freeport that cannot be met from landowner or end user contributions – e.g. via ground rent.
- That the remainder of the funds are pooled across Local Authorities for use in delivering specific investments in projects and programmes based on delivering the objectives of the Solent Freeport, subject to the Governance arrangements set out below.

<u>Projects and programmes within scope for funding through retained business rates:</u>

- Identified Freeport infrastructure and connectivity needs, in line with agreed local and regional ambitions and strategies with a focus on facilitating inclusive and sustainable economic activity within the Freeport.
- The UK's Net Zero ambitions as well as regional environmental ambitions,

including the Freeport's own net zero strategy.

- Innovation and skills developments aligned with HM Government and local objectives to regenerate deprived communities, again with focus on the specific objectives of the Solent Freeport.

4.1.2 Decision making and Governance

The decision-making process for the specific allocation of the retained business rates to projects and expenditure will feature strong collaboration between the SFCL, its tax and custom site members and the ratings authorities. It is proposed that the Solent Freeport Consortium Board makes recommendations on the allocation of funding based on an agreed investment policy and prioritisation approach which would reflect:

- The scale of the benefits generated by proposals relative to the funds committed.
- The needs of communities across the Freeport.
- The distribution of benefits across the Freeport area of other elements of the Freeport programme.
- The distribution of contributions towards the business rates pool.
- Opportunities to gear in other funding for Freeport programmes.

To help inform decisions it is proposed that the SFCL establish regular reporting of the collection and spending of the growth in business rates and its other programmes to analyse the distribution of benefits across the Freeport geography.

4.1.3 Funding and Financing

Government expects Freeports to be self-funded in the medium term; however, subject to the outcomes of future Spending Reviews, it intends to provide short-term gap funding to prospective Freeports to help cover costs associated with the set up phase and the first years of Freeport delivery.

While it is expected that further revenue funding will come forward to help short-term funding up to 2024/25, this is not guaranteed and is unlikely to be sufficient to cover set up and transitional costs. These costs are likely to be capitalised by SFCL, and to the extent that there is a shortfall, it is proposed that the SFCL shall be financed through this initial phase via borrowing with a guarantee from the Freeport Local Authorities. It would be prudent for the District Council to set aside funding to cover the value of the guarantee, which is anticipated to be up to £50,000 per annum for a 3 year period.

In the medium-term (2025/26 onwards), to achieve financial self-sufficiency as required by Government, and fund the expenditure of the Solent Freeport Consortium Limited it is proposed that:

- In the first instance funding contributions are sought from the tax and custom site beneficiaries and associate members for example, via ground rent contributions, and agreed in Site Specific Agreements. These will need to be negotiated prior to these sites "going live" and the contributions will need to reflect the level of benefits that are likely to be achieved between the tax and custom sites.
- Where agreements cannot be achieved to fund the full expenditure required, revenue from retained business rates will be used. (See discussion of retained business rates policy above)

- If there remains a funding gap, top up contributions will be sought from all Freeport partners.

5. Financial Implications

5.1 At this initial stage, there are a range of high-level principles that will have potential future financial implications. The scale of retained business rates generated by the Solent Freeport is inherently uncertain in terms of both quantum and timing and is likely to be unclear for sometime given its dependency on the type and timing of development which comes forward. It is clear, however, that the overall financial scale of the 25 year project will be significant, likely running into hundreds of millions of pounds.

5.2 Further detail and clarity is required on the role of the Council as Billing Authority and how it may be required to act as guarantor (thus creating a contingent liability) against any prudential borrowing required to finance the activities of the SFCL. It is also unclear at this stage what role the authority may play between the SFCL and the facilitation of prudential borrowing in terms of underwriting any borrowing required to deliver capital infrastructure projects against future business rate income.

5.3 To support the work of the Consortium in progressing the necessary Solent Freeport Bid documents, the Council and the other key stakeholders (Private and Public Sector) may be required to underwrite or contribute towards the initial set up and transitional costs associated with finalising the Freeport status.

5.4 The Council's Section 151 Officer will consult with the Leader of the Council, Finance Portfolio Holder and Chief Executive on any requests for gap funding or for the Council to act as guarantor, as a key partner and stakeholder, noting that Partner funding will be the last port of call after all other avenues for funding have been exhausted. Up to £50,000 per annum for a 3 year period is requested to be made available (albeit not a commitment at this stage) to act as the Council's potential contingent liability / cash contribution.

For Further Information Please Contact:

Alan Bethune
Executive Head of Financial and Corporate Services
Section 151 Officer
Telephone: (023) 8028 5001
E-mail: Alan.Bethune@nfdc.gov.uk

Claire Upton-Brown
Executive Head of Planning Regeneration and the Economy
Telephone: (023) 8028 5409
Email: Claire.Upton-Brown@nfdc.gov.uk

Background Papers:

Freeports Bid – Cabinet Feb '21