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| **DECISION-MAKER:** | COUNCIL |
| **SUBJECT:** | DECISION ON THE SOLENT FREEPORT PROPOSALS, SUPPORT FOR THE SUBMISSION OF THE FULL BUSINESS CASE (FBC) AND IMPLICATIONS FOR THE COUNCIL'S MEDIUM TERM FINANCIAL PLAN |
| **DATE OF DECISION:** | 23 MARCH 2022 |
| **REPORT OF:** | COUNCILLOR MOULTON - DEPUTY LEADER AND CABINET MEMBER FOR GROWTH |



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| **STATEMENT OF CONFIDENTIALITY** |
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| None |

| **BRIEF SUMMARY** |
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| This report considers the developing full business case (FBC) for the Solent Freeport and the national approvals process by HM Treasury (HMT) and the Department for Levelling Up, Housing and Communities (DLUHC) and seeks strategic support in submission of the business case, to HM Government (HMG), in April, as a Board and member of Solent Freeport Consortium Limited (SFCL). |
| Southampton City Council (SCC) has, to date, supported the process of establishing the Solent Freeport, with representation by the Leader of the Council on the Solent Freeport Consortium Limited (SFCL) company from 2020/21 and beyond. The Outline Business Case (OBC) submission was approved by Cabinet in November 2021 and a Site Specific Agreement on a portion of the wider Waterfront Tax area, known as the Redbridge (Tax) site agreed in January 2022. |
| Following a comprehensive assessment process, the Solent Freeport Outline Business Case (OBC) has now been approved by HMG. The tax site designation process involved a separate assessment by HM Treasury (HMT). This process has now concluded with three Tax sites progressing to designation with the necessary Statutory Instruments having been laid before Parliament for designation on or before the 22 March 2022. It is now likely that the Solent Freeport will become operational after the submission and HMG approval of the FBC. As such this final report considers the financial implications for the Council's Medium term Financial Plan associated with the FBC proposals, as a partner and in agreeing a Memorandum of Understanding (MOU) for the Use of Retained Business Rates. |

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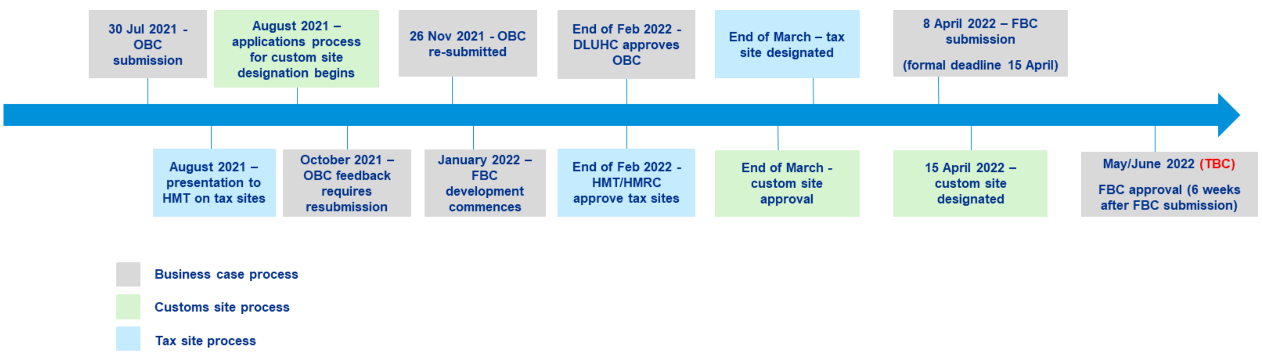
| **RECOMMENDATIONS:** | |
| (i) | Council supports and endorses the strategic submission of the Full Business Case (FBC), in April 2022, as a Board Member and partner of Solent Freeport Consortium Limited, as part of National Freeport Programme Application process the final agreement of a Memorandum of Understanding (MOU) in relation to retained Business Rates and membership on the proposed Freeport Investment Committee. |
| (ii) | To delegate authority to the Acting Chief Executive to make any minor amendments to the FBC, MOU and associated documents and submit as appropriate after consultation with the Leader of the Council, Executive Director for Finance and Commercialisation and Service Director Legal and Business Operations. |
| **REASONS FOR REPORT RECOMMENDATIONS** | |
| 1. | The implications of the approval of the Solent Freeport proposal are wide ranging and complex. The approvals process is fast-moving and detailed with several government departments involved and agencies such as BEIS, DLUHC and HMRC. |
| 2. | The Solent Freeport partnership is complex with a variety of public and private interests and approvals to be managed in unison, as far as possible. Private sector partners also have significant and complex decisions to make and further risks may evolve for all partners. The management of risk by the SCFL Board and the Local Authority partners, particularly the Tax and Customs site partners will be important and will need to be offset against the wider economic benefits. |
| 3. | One alternative option is for SCC not to support the emerging Solent Freeport Consortium proposals; however, support has been provided to date and with a very challenging approvals process. With most, if not all, significant approvals being made by HMG, nationally, SCC not supporting the proposals might only carry limited weight. |
| 4. | In future years the Solent Local Authorities might seek to influence the strategic development of the Solent Freeport through a combined or devolved position. Any future devolution 'package' could support the accelerated delivery of Freeport infrastructure and devolution aside, local authorities will continue to play a key and active role in shaping Freeports and not just in the short-term. |
| **DETAIL (Including consultation carried out)** | |
| 5. | The following chart describes the Solent Freeport's current designation timeline from the submission of the OBC to the approval of the FBC: |



| Overview of the national Freeport programme and the Solent Freeport proposals | |
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| 6. | Freeports are an important HMG programme that may play an important part in the UK's post-Covid and post-Brexit economic recovery. Its aim is to contribute to Government's levelling up agenda by bringing jobs, investment, and high-value opportunities to coastal communities and some of our more disadvantaged communities, while at the same time generating national level benefits through trade and innovation. |
| 7. | In November 2020 HM Government formally launched the bidding process for Freeports in England. This prospectus sets out the objectives of the Freeport policy, which are threefold:<br>i. Establish Freeports as national hubs for global trade and investment across the UK – bringing new investment into the surrounding region and increase trade through generating trade growth and enable trade processes to become easier and more efficient.<br>ii. Promote regeneration and job creation – leveraging ideas and investment from the private sector to deliver jobs, sustainable economic growth and regeneration in the areas which need it most.<br>iii. Create hotbeds for innovation – leveraging both public and private investment in R&D to develop and trial new ideas and technologies in and around the Freeport. |
| 8. | On the 8 April 2021 the Government published details of the selection and decision-making process followed by officials and ministers according to the process and rationale which were published in the Freeport prospectus. Fourteen bids passed the initial assessment and were then assessed on detail relating to benefits for trade and investment, innovation, regeneration, business cases and private sector involvement, and importantly Net Zero and sustainability. |
| 9. | Now that the UK has left the EU, it is no longer subject to the EU's state aid rules. Nevertheless, the UK remains bound by World Trade Organization rules on subsidies and its commitments under free trade agreements, including that with the EU. |
| 10. | Critics of Freeports point to the risk that they will simply transfer business away from other areas (displacement) of the UK without increasing the overall size of the economy. There have also been concerns about risks relating to money laundering and tax evasion, although these risks will be mitigated through existing, strong regulatory measures. |
| 11. | The Solent Freeport encompasses an area which includes the cities and major international ports of Southampton and Portsmouth and the deep water channel running through Southampton Water containing the Waterfront tax site. It contains further smaller tax sites at Southampton Airport and Dunsbury Park, Havant and a further customs site at Portsmouth International Port. |
| 12. | Freeport status means that normal tax and customs rules do not apply and varying forms of tariff flexibility, tax measures and planning concessions deployed by the Government should help to incentivise private sector investment. While these same benefits are offered in some 48 existing Enterprise Zones across the UK, the key difference is that a Freeport is designed to specifically encourage companies that import, process, add-value and re-export goods. |
| 13. | Designated Freeports offer a number of policy levers, including:<br>• Tax sites gives businesses operating within them access to certain tax benefits i.e. Enhanced Capital Allowances, Enhanced Structures and Buildings Allowance, |

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| | Stamp Duty Land Tax reliefs, Employers National Insurance Contribution relief, and Business rate relief<br>• Customs sites gives businesses tariff benefits for non-GB goods imported into them<br>• Retained business rates allows local authorities to retain the growth in non-domestic rating income in Freeport tax sites for 25 years, which are expected to be used to reinvest in supporting Freeport objectives<br>• Seed capital funding of up to £25m for the Solent to kick-start delivery of Freeport objectives and infrastructure investment. |
| 14. | The following table summarises the tax and customs sites within the Solent Freeport, and where they sit within the Local Authorities of the Solent region: |

***Table 1. Solent Freeport tax and customs sites***

| Local Authority | Tax site | Customs site |
|---|---|---|
| Havant Borough Council | (1) Dunsbury Park (Havant) | |
| New Forest District Council | (2) Southampton Water, including:<br>• Marchwood Port<br>• ABP Strategic Land Reserve<br>• ExxonMobil<br>• Fawley Waterside | (1) Marchwood Port<br>(2) Strategic Land Reserve |
| Southampton City Council | (2) Southampton Water, including:<br>• Redbridge | (3) Redbridge / DP World Terminal[i] |
| Eastleigh Borough Council | (3) Navigator Quarter | |
| Portsmouth | | (4) Portsmouth International Port /Portico |

*Since the bid was submitted it has become clear that the initial Customs Site regime will not provide additional benefits for container operations over what is available through existing UK customs arrangements. The Redbridge / DP World sites will not be taken forward as part of the first wave of Customs Sites. The Primary Customs site for the Solent Freeport will be at Marchwood Port (Solent Gateway).*

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| 15. | The Primary Customs site at Marchwood Port and the wider Waterfront Tax site spans 477 hectares and the Redbridge Tax site component in Southampton is less than 20 hectares, forming less than 5% of the wider Waterfront tax site. The Redbridge site is therefore a small component of the wider Waterfront area and as such much of the new development and infrastructure will be located in the neighbouring New Forest district. Many employment opportunities located in the New Forest, however, will be provided to residents of the wider city region and so access, transport and skills will be key components in accessing new jobs. The Solent Freeport tax sites are forecast to generate the following economic outputs. |

16. Over £1.6bn of private investment, of which over £1.0bn has already been identified and is in the pipeline. This includes:

- Targeted investments which further enhance the local economic clusters in marine technology, advanced manufacturing and logistics;
- Investments from internationally mobile, high innovation firms, attracted due to the tax benefits offered by the Freeport status;
- A total of 26,000 jobs created in the Solent and £2.0bn of GVA;
- A significant increase in port capacity and resilience, leading to lower port handling and costs for UK trade.

Overall it is estimated (KPMG) that approximately 65% of all tax benefits through time will be levied on the Waterfront tax site if the necessary infrastructure is delivered in the New Forest.

The estimated pooled business rate revenue currently stands at £570m over 25 years across all of the Tax sites. In terms of Business Rates Retention, over 25 years. It is also estimated that up-to 51.5% of retained rates, over £200 million will be levied from the Waterfront tax site, however the Redbridge site makes up only 5% of the total size of the Waterfront tax site and it is forecast that the Redbridge site will generate just 6% of all the retained Business Rates over 25 years.

17. Estimated job impacts from Solent Freeport (thousands) from the original bid

| | Local Authority | Direct jobs | Indirect jobs | Total |
|---|---|---|---|---|
| Dunsbury Park | Havant BC | *1.7* | *1.8* | *3.5* |
| Navigator Quarter | Eastleigh BC | *3.2* | *3.3* | *6.5* |
| Southampton Water - total | | *3.4* | *23.2* | *46.7* |
| *Southampton Water - SCC* | *Southampton CC* | *1.8* | *1.7* | *3.5* |
| *Southampton Water - NFDC* | *New Forest DC* | *21.7* | *21.5* | *43.2* |
| Total | | *28.4* | *28.3* | *56.7* |

Note: Numbers may not add due to rounding
Numbers subject to be updated at FBC stage

**Freeport Governance:**

18. Delivery of the Solent Freeport is being led by Solent Freeport Consortium Limited (SFCL) incorporated in March 2021. The Board is the key decision making body. It has 12 directors and includes the Leader of SCC as a Core Member.

**Appendix 1**: Solent Freeport Consortium Limited – Board and Associate Members

19. Portsmouth City Council is the nominated Accountable Body for the Solent Freeport Consortium Limited (SFCL) and also acts as the Accountable Body for the Solent LEP. The chair of the Solent LEP Board has been recruited, through a competitive process as the new Chairperson of SFCL and has, to date, acted as interim Chair of the SCFL. The Senior Responsible Officer (SRO) for the Solent Freeport is currently the Chief Executive and Executive Director of the Solent LEP.

20. The primary roles of SCC as a partner is on the SFCL Board, as the key decision-making body. In addition, SCC is a signatory to a Site Specific Agreement on the

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| | Waterfront Tax site in relation to Redbridge land owned and controlled by Associated British Ports and with-in the Port of Southampton estate. |
| **The Freeport designation process:** | |
| 21. | In order for a Freeport to be considered formally designated it will require:<br>1. HMG approval of Outline Business Case (OBC) and Full Business Case (FBC) – 'the Business Case Process'<br>2. HMG approval of proposed tax sites – 'the Tax Site Process'<br>3. Government approval of proposed customs sites – 'the Customs Site Process' |
| 22. | The business case process is led by the Department of Levelling Up, Housing and Communities (DLUHC). The purpose of the business case process is to enable prospective Freeports to fully consider all factors that are critical to the successful delivery of a Freeport, and assure HMG that public funding both directly (such as seed capital funding) and indirectly (such as forgone tax revenue) delivers value for money. |
| 23. | The focus of the OBC was on the overarching strategic vision for the Freeport as a whole, including how the Freeport levers will be used to address longstanding challenges in the region, and was a critical stepping-stone to the approval of the Solent's proposed Tax Sites. The other critical stepping-stone was the agreement of a series of Site-Specific Agreements between the Freeport Company the Solent has established to deliver the Freeport, the landowners of each of the Tax Sites, and the relevant Local Authority. These agreements are designed to ensure that activity on Solent Tax Sites delivers genuinely additional growth and employment for the Solent and that those investing in these sites are fully engaged in the Freeport's supporting skills, innovation, and net zero programmes. The FBC involves adding further detail to the vision set out in the OBC, particularly regarding the use of seed capital funding and retained business rates, alongside refining the content of the OBC in line with government feedback. |
| 24. | Now that the OBC and three of the four Tax sites have been approved this will allow the Solent Freeport to submit a FBC by mid-April 2022. Approval of the FBC (which may take 6 weeks from submission) will lead to the Solent signing a series of Memorandums of Understanding (MoUs) with Government on how the Freeport will operate, which in turn will unlock the central funding for business rates reliefs on Tax Sites; retained business rates from those sites for 25 years; and the £25m of Seed Capital funding. |
| 25. | The Tax site process is led by HMT, and its purpose is to verify that prospective Freeports' proposed tax sites adhere to the criteria set out in the Bidding Prospectus, in terms of both physical size and shape and potential to meet the policy objectives. This is important to ensure that the selected tax sites maximise the benefits of the Freeport whilst minimising any deadweight or displacement and the case provided by prospective Freeports will help the Government and Freeport governing bodies evidence the value of the policy. As noted above, the Solent is using Site Specific Agreements with landowners to mitigate risks in this area. Now that the OBC and three Tax sites have been approved it is expected tax sites will be designated, through Statutory Instruments, by the end of this month (March 2022). |
| 26. | With-in the Site Specific Agreements the parties (landowner, SFCL and relevant Local / Ratings Authority will agree that the type and scale of development on the Tax sites and any development / investment should be consistent with the Solent Freeport objectives and the vision for the individual Tax sites, including the Redbridge Tax site. |

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| 27. | Additional tests and eligibility criteria will be an important mechanism to ensure new net investments and associated activities are genuinely additional to the region, minimise deadweight and displacement (i.e. transference of existing business rate activity rather than genuine growth in business rates) and to ensure that Tax Site benefits flow to enhanced outcomes for the subregion and the city. Tax benefits might enable previously unviable investment to materialise, particularly those investments in capital intensive industries, requiring large sites. |
| 28. | Each Freeport Customs site will need to be approved by HM Revenue and Customs (HMRC) prior to designation. This will involve HMRC checks to ensure the operator is legitimate, the location is secured, and that the businesses operating within the customs site are complying with relevant security standards. There are also additional checks relating to specific conditions of designation, for example IT system to ensure it can keep records in specified format. Businesses wishing to access the customs benefits of a Freeport will need a separate Freeport Business Authorisation. Each customs site operator is responsible for liaising with HMRC through its application process. In order for the FBC to be approved, the Solent Freeport will need at least one customs site designated by the FBC deadline (15 April 2022). As noted above, there is no time limit on when other Solent customs sites can be brought forward once the Freeport is formally established following the approval of the Full Business Case. |
| 29. | Business Rate Relief (BRR) is available on certain business premises within Freeport Tax Sites. The relief is available to new and certain existing businesses in the Tax Site from the date the Tax Site is formally designated and shall apply for 5 years from the point at which the End User first receives relief. The local retention of incremental business rates generated on Tax Sites is expected to be one of the most valuable elements of the Freeport package in terms of delivering medium and long-term objectives for the Solent's economy and communities. Retained business rates over a 25-year period provides a step-change in resource funding available for initiatives that are key to the Solent's success and the objectives of the SFCL, including skills, infrastructure, net zero initiatives and innovation. This funding will be targeted to deliver sustainable growth, productivity and regeneration across the Wider Solent Freeport Area. The funding will be deployed in conjunction with other funding streams and be designed to gear in significant investment contributions from the private sector. |
| **Business Rates Memorandum of Understanding (MOU)** | |
| 30. | Whilst not explicitly mandated, HMG expects rates to be pooled in order to ensure funding is used most effectively. Page eight of the Freeport FBC guidance:<br>*"All prospective Freeports will need to agree a Memorandum of Understanding (MoU) with DLUHC on the use of retained business rates (covering the points [regarding Strategic Focus, Financial Modelling and Governance] and in line with FBC) before proposed Tax sites can be finally designated for business rates retention purposes. This MoU should be agreed with DLUHC following FBC submission and will set out the process for agreeing variations to its terms with DLUHC as required and appropriate."* |
| 31. | The draft MOU, attached at Appendix 2, sets out the terms by which the Relevant Authorities will manage the Business Rate Growth generated by the designated Tax Sites within the Solent Freeport Consortium (SFCL) to achieve the aims and objectives of the Solent Freeport. |

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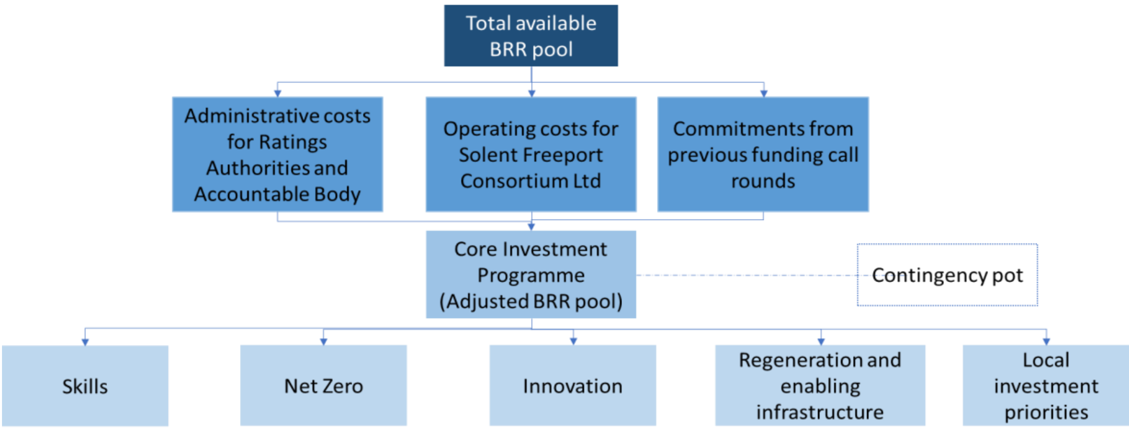
| **Freeport Investment Committee** | |
| 32. | Alongside the Business Rates MOU governance will be provided through a Solent Freeport Retained Rates Investment Committee (RRIC). The RRIC is the forum through which the Solent Freeport Consortium Limited (SFCL) and relevant Rating Authorities will work together to agree on the use and allocation of retained rates generated at tax sites via a Solent wide BRR pool. |
| **Allocation of retained business rate pool** | |
| 33. | <br>Further details of the BRR MOU and the proposed RRIC are described below in the ‘Resource Implications’ section. |
| **The Levelling-Up agenda:** | |
| 34. | The Levelling Up White paper described Twelve “national missions”, a “Systems” approach to devolution and Solent Freeport opportunities. This paper seeks to ensure that the Council, as a key partner, provides a degree of political support for the Solent Freeport proposals, to align internal processes to maximise Levelling Up opportunities and to strengthen sub-regional partnerships. |
| 35. | Whilst the Solent Freeport has the potential to generate net new investment in the Solent sub-region, a strategic aim is to also aim promote regeneration and job creation as part of the Government’s policy to level up communities. We have communities experiencing severe deprivation and spatial inequality particularly in our urban areas of Southampton, Portsmouth, Gosport and Havant, as well as on the Isle of Wight. |
| 36. | The indices of multiple deprivation (IMD) measure relative deprivation in small areas called lower-layer super output areas (LSOA). Wider Solent Freeport area contains more than 20 LSOA neighbourhoods within the top 10% most deprived in the country, including communities across the city and with-in Redbridge, Weston and Thornhill. With-in Southampton the ward adjacent to the main Customs site, Redbridge has higher unemployment than the national average and is amongst the 20% most deprived LSOAs in the country and is adjacent to 4 LSOAs which are all ranked in the top 10% most deprived. |
| 37. | East Hampshire, Havant, Portsmouth and Southampton all feature as ‘Priority 2’ for the Government’s Levelling Up Fund, with Gosport a ‘Priority 1’ area, reflecting the inequalities which exist within the sub-region. |
| 38. | Tax sites are located within and surrounded by areas amongst some of the more disadvantaged in the South East of England and as such strong sub-regional |

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| | partnerships and local programmes will be required to address sustained issues of deprivation and additional opportunities to match Solent Freeport funding against local authority accountable status for the new UK Shared Prosperity Fund. |
| 39. | An MOU between DLUHC and the SFCL will examine how net new investment will support regeneration activities across the Solent sub-region and through additionality provide more jobs for deprived people in the LSOA areas. However, additional detail and proactive work with Local Authority partners is now required to strengthen the Freeport proposals. This strengthening work will consider:<br>• How will wider interventions contribute towards regeneration, skills and Levelling-Up?<br>• How will other initiatives in local economic growth, in place and in housing delivery complement and link to the Freeport to maximise local impact? |
| **Skills & Training** | |
| 40. | A Freeport Skills Charter will be established at the outset that will be agreed with all Freeport sites, as part of the Site Specific Agreements and all future occupiers and businesses within the Freeport will contribute to its delivery. DLUHC have also requested more detail on the proposed 'Skills Charter' including firm commitments on its scale and contributions. |
| 41. | Southampton would seek to ensure this Freeport Skills Charter continues to support the City's Future Work Programme and National Employment Support City Agreement with Department of Works and Pensions, secured in January 2021. |
| **Clean Growth and Decarbonisation** | |
| 42. | It is proposed that various industry-leading green technology initiatives and facilities already exist within the Solent, and that the Freeport will enable the region to support the UK's pathway to Net Zero by developing innovative approaches and leveraging investment across the tax and customs sites in new technologies and processes through the creation of a Solent Green Growth Institute |
| 43. | All sites within the Freeport will have defined proposals to bring forward or accelerate delivery of clean growth initiatives, including where these align with wider sector-based net zero and decarbonisation approaches being brought forward by government. For example, Portsmouth International Port aims to become the UK's first zero emission port, leading the transition to low carbon marine fuels. |
| 44. | The innovation, Net Zero and skills priorities for the Solent Freeport will need to build on and complement the Government's growth objectives in 'Build Back Better' (March 2020), the 'Ten Point Plan for a Green Industrial Revolution' (Green Back Better) (Nov 2020) and the maritime decarbonisation plans outlined in Maritime 2050. |
| 45. | In addition, Local Authority partners are well place to ensure a synergy with local plans and strategies. The collective ambition and commitment to achieving clean growth within the Solent is reflected within the recently published HIOW 'Greenprint for South Hampshire' which provides an overarching framework for policy-making, collaboration and co-operation led by the Green Halo Partnership, Universities of Portsmouth and Southampton and the Southern Policy Centre. |
| 46. | The Solent Freeport has an important role to play delivering the Greenprint's five key priorities around:<br>• Net Zero with Nature;<br>• a natural health service;<br>• world class blue/green environments; |

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| | • creating great places through quality design and build; and<br>• a centre for excellence in green skills and jobs. |
| **The role of the Local Planning Authority (LPA)** | |
| 47. | SCC has a role in determining planning applications on the Redbridge site and the wider port estate, although it should be noted that there are considerable permitted development rights for port related operational changes. It is not yet known how or if planning regulations will change for Freeports. |
| 48. | The Freeport prospectus also encourages councils to make greater use of local development orders (LDOs). A LDO specifies one or more acceptable uses within a defined area and its implementation grants upfront permission for developments that conform to these uses as long as they fall within the parameters of the LDO. The Council will consider if an LDO is appropriate as it progresses the City Vision Local Plan. |
| 49. | Linked to this, as part of the 'Project Speed' agenda to deliver infrastructure projects more quickly and to a higher quality, the Government has also stated that it intends to create a quicker and simpler framework for assessing environmental impact. |
| **Southampton Port Health Service** | |
| 50. | The Port Health Service is responsible for carrying out all the statutory functions of the Port Health Authority in Southampton sea port and at Southampton airport. With regard to the Port, the service monitors over 1.2 million TEU (Twenty Equivalent Unit) container movements of cargo, over 79,000 shipping movements and 170 cruise ship arrivals annually with diverse environmental health control functions. |
| 51. | Any increase in activity with-in the Port of Southampton may carry operational and increased cost implications for the service. Increased activity will most likely be in the medium-term, aligned to port expansion or the expansion of the container port in the short-term although the Port of Southampton will not now be designated as the Primary Freeport Customs site. |
| **Consultations and briefings with Members to date:** | |
| 52. | • On 3 November 2020 the Place Leadership Team provided a detailed Freeport scoping report to Cabinet and the Executive Management team.<br>• In Jan - March 2021 Cabinet and EMT approvals were secured for submission of Expression of Interest in the UK Freeport Programme.<br>• In late January a detailed presentation was provided by the Solent LEP to the Solent Leaders Forum.<br>• Through-out 2021 and into 2022 briefings, updates and presentations have been provided to the Economic Growth Strategy Board, at CMBs, with Shadow CMB Place briefings and to both political groupings.<br>• On the 15 November a Cabinet paper sought the approval for the submission of the OBC.<br>• On 7 February 2022 an All members briefing by the Solent LEP and KPMG. |
| **RESOURCE IMPLICATIONS** | |
| **<u>Capital / Revenue</u>** | |
| 53. | Retained business rates allows local authorities to retain the growth in non-domestic rating income in Freeport tax sites for 25 years above an agreed baseline, which are expected to be used to reinvest in supporting Freeport objectives. At FBC stage, |

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| | prospective Freeports are required to set out a policy for using income from retained business rates. This must cover three areas set out below:<br>**Strategic Focus** — The objectives of the retained business rates fund and the rationale behind them, including how they relate to the objectives of the Freeport and the Freeports programme more widely. The criteria projects must meet to be eligible for funding and how these uphold the DLUHC's requirements and align with the objectives of the retained business rates fund.<br>**Financial Modelling** — The overall expected value of retained business rates profiled over time.<br>Approach to borrowing against rates, including when it is appropriate to start borrowing, and who will borrow.<br>**Governance** — How decisions regarding the use of retained rates will be taken and the process for prioritising and selecting projects for funding.<br>Where ownership of the business rates policy lies and including how and when it will be reviewed and evaluated. This should make clear how the Freeport governing body will ensure delivery of the policy. |
| **Strategic Focus and use of Borrowing for Investment** | |
| 54. | As part of the FBC, the Council and the other ratings authorities will be required to support a Memorandum of Understanding (MoU) on the matter of business rates retention. This agreement sets out the terms by which Ratings Authorities will manage the growth in Business Rates generated by the designated tax sites within the Solent Freeport. This includes a proposed joint pooling of the rate receipts, funding criteria and the strategy for re-investment in the Solent area. |
| 55. | The draft MoU is attached as Appendix 2, but is still being worked on, by the rating councils i.e. Havant Borough Council, Eastleigh Borough Council, New Forest District Council as well as Southampton City Council, by Portsmouth City Council in its role as Accountable Body for the Solent Freeport and by the Solent Local Enterprise Partnership (LEP). |
| 56. | For new properties and extensions to existing buildings, a business rate relief of 100% will be available to give up to 5-years to qualifying businesses. Compensation for this relief will be given by additional s31 grant from the Government, which would then be pooled. After rate relief comes to an end 100% of the growth in business rates collected will be passed to the freeport. |
| 57. | The first call on any retained business rates held in the pool will be to finance the administration costs of the Rating Authorities, the operating costs of the Freeport itself and any commitments for borrowing for investments made. Funds available after that will be able to be used for new investments proposed. |
| 58. | It is envisaged that the Freeport will borrow funds to invest, on the strength of the receipts being paid into the Pooled funds. Portsmouth City Council is the accountable body and has agreed to take on the risk and responsibly for any future borrowing for capital project, to be financed by the pooled retained business rates. Portsmouth City Council, given it is accepting the risks attached with borrowing financed from a pooled fund of receipts where there exists a degree of uncertainty on the proceeds, is therefore reserving a right not to proceed with a proposed scheme if deemed too risky. |

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| 59. | As set out in the draft MoU attached, borrowing by the Freeport will be used as follows:<br>• To invest in projects recommended by the Freeport Investment Committee and approved by the SFCL Board within the geography of the Solent Freeport as set out in the FBC.<br>• Borrowing will be used to enable and accelerate development.<br>• Borrowing will be used to meet the key priorities and themes priorities set out in the FBC.<br>• Projects and programmes to be funded from borrowing will be considered by the Freeport Investment Committee in line with eligibility criteria to be agreed<br>An indicative list of projects potentially funded via the pooled arrangements will be included in the FBC. |
| 60. | The objective of investment from retained business rate revenues is to maximise long-term sustainable and inclusive economic net gains to the Solent, promoting:<br>• skills and employment,<br>• productivity, including through innovation,<br>• trade and investment,<br>• regeneration, and<br>• a successful Net Zero transition.<br>Criteria will be applied to any proposal with the aim of accelerating investment, or creating investment that would otherwise not occur. More detail is provided in the attached MoU. Pooling will facilitate decisions taking into account the maximum benefit and value for money from an investment. Consideration will also be given to the linkage between a locality generating growth paid into the pool and the level of investment subsequently allocated to that area. |
| **Governance** | |
| 61. | An Investment Committee of the Freeport will lead on the strategy and prioritisation of investment and make recommendations to the SFCL Board for final decision. Membership and the draft Terms of Reference of the Investment Committee is set out in Appendix 3. It is currently expected that six members will have voting rights comprising of the following:<br>• The Leaders (or other Councillor as nominated by the Leader) of the Four Freeport Rating Authorities<br>• The Chair of the Investment Committee (to be a member of the Freeport Board)<br>• The Chief Financial (S151) Officer of Portsmouth City Council, the Accountable Body to the SFCL or their nominated representative.<br>Ex-officio Members:<br>• The Chief Executive Officer of the SFCL / The SFCL Senior Responsible Officer<br>• The Chief Financial (S151) Officers of the Four Freeport Rating Authorities or their nominated representatives.<br>No investment will take place unless it is recommended by the Investment Committee. The Accountable Body will always have the right to veto an investment on affordability grounds so as to not place the SFCL at financial risk. The draft MoU in Appendix 2 shows a diagram of the investment process to be followed (at Figure 2) for deciding how to invest retained business rates. |

| **Financial Modelling** | |
|---|---|
| 62. | The following table summarise outputs from financial modelling undertaken on behalf of the LEP on the size of the potential business rates gain over 25 years which will benefit the Freeport. This is broken down by Tax Site and Relevant Authorities. |

***Table: Summary of estimated retained business rates revenue (as of 8 March 2022)***

| Tax site | Rating Authority | Estimated BRR over 25 years (£m) | Hectares |
|---|---|---|---|
| Dunsbury Industrial Park | Havant | *76* | *47* |
| Navigator Quarter | Eastleigh | *113* | *50* |
| Southampton Water | SCC/NFDC | *322* | *333* |
| Southampton Water – SCC | Southampton | *30* | *30* |
| Southampton Water - NFDC | New Forest | *292* | *303* |
| Total | | *511* | *460* |

Note: table subject to further review, figures may be updated

Work is still underway to refine the forecasts further. However, as per the table, much of the gain is forecast to be within the boundary of the New Forest District Council area, with the lowest gain within the Southampton City Council area.

| **Pooled Funds and Treasury Management** | |
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| 63. | Portsmouth City Council (PCC), as the Accountable Body, will manage and account for the pooled fund of retained business rates. Rating authorities will hand over these proceeds at the year-end to PCC, and funds on behalf of the Pool by PCC will be managed in accordance with its Treasury Management Strategy. Provided PCC adheres to the safeguards for managing funds within its Treasury Management Strategy, then should any losses be incurred, these are expected to be borne by the business rate pool. In that situation, there is a risk the Pool could be placed into a deficit (see paragraphs 64 to 68 below for more on risks). |

| **Business Rate Baseline and local funds** | |
|---|---|
| 64. | The Council will continue to receive payments for the current level of business rate receipts which will be determined as the ‘baseline’ properties on site when the Freeports area come live. A ‘no detriment’ to any council clause in the MoU will mean that provided the site is occupied, the council will continue to receive the ‘baseline’ starting point level of business rates. The baseline for the Council has yet to be finalised, but an indicative figure currently estimated at around £0.7M has been included in the draft FBC. Direct costs incurred by the council, for example changes to business rate billing systems, will be covered too. All additional business rates (i.e., growth), will be pooled. |
| 65. | The MoU also contains a provision that if the business rate system changes, the MoU itself will be reviewed. The intention is that the councils agreeing to the MoU should not be penalised at a later date by being ‘tied into the MoU ’ if there are national changes to the business rate system e.g. an increase in a local authority share of local business rates from 50% to 75%. |

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| 66. | As part of the current set up of the Freeport area, the Councils involved are considering an allocation for some retained business rates via the pool for their own local projects. This will be dependent on the final MOU and other assumptions and central government agreement. |
| **Solent Freeport Consortium operational costs** | |
| 67. | Each of the shortlisted Freeports has been provided with up to £1M of capacity revenue funding by Central Government to help them in the set-up phase and in early years operation and to date £450k of this has been drawn down by the Solent Freeport mostly to support the work on producing the OBC and FBC. Authorities and companies who are members of the Freeport Board have also been asked to contribute £50,000 each over the next three years in support of running costs. For Southampton, this sum will come from existing budgets including allocations made for supporting economic growth in the July 2021 and February 2022 Budget reports to Council. |
| **SEED Capital Funding** | |
| 68. | A further benefit of the Freeports is expected to be the availability of Seed capital funding of up to £25m from Government to kick-start delivery of Freeport objectives. A proposed list of priority investments where the £25 million can be used to enable critical Freeport infrastructure will be included in the FBC and has been agreed by the Board of the SFCL and with HMG. |
| **Business Rate Relief Scheme** | |
| 69. | The Council will agree a Freeport rate relief policy to encourage new occupiers that will meet the objectives of the Freeport. The policy is likely to be drafted with the other rating authorities to ensure consistency and to minimise displacement from one area to another to gain reliefs. Part of the aim of the scheme will be to ensure the businesses that wish to take advantage of the business rate relief on offer are proving ‘additionality’ of activity and business rates, not displacement of existing rates within the city. |
| **Property / Other** | |
| 70. | None, unless land owned by the Council on the boundary of the port estate can be utilised in future years to enable new Freeport infrastructure delivery. |
| **LEGAL IMPLICATIONS** | |
| **Statutory Power to undertake proposals in the report** | |
| 71. | The Council’s power to become a member of the Solent Freeport Consortium / Company derives from s.1 Localism Act 2011 (general power of competence which allows the Council to do anything a private individual may do provided it is not otherwise prohibited by law) and s.111 Local Government Act 1972 (power to do anything calculated to facilitate, conducive to or incidental to the discharge of any of the Council’s functions). The Freeport proposals are calculated to facilitate the Council’s economic development and regeneration functions through the delivery of improved regional trade facilities supporting the economic recovery of the Solent region including Southampton. |
| 72. | Freeports are established under the Finance Act 2021 with successful bids designated by secondary legislation following successful submission and approval of full business cases. The designation orders determine the extent to which customs zones and tax sites within Freeports operate under the new freedoms introduced under the Act and, specifically in relation to any proposed tax site in Southampton |

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| | port, the extent to which Business rates relief (and retention), stamp duty tax relief, structures and buildings allowances, capital allowances and national insurance relief (for employers) will apply. |
| **<u>Other Legal Implications</u>** | |
| 73. | Legislation designating Freeports conforms to Subsidy Control guidance (formerly State aid) and money laundering legislation (specifically relating to import / export transactions within Freeport sites). The Freeport bidding process and business cases being developed for submission include assessments of the impact of the proposals under the Equalities Act 2010 and are required to demonstrate compliance with s.149 (public sector equality duty). In the event the Solent proposals are selected for designation, the Council will be required to exercise a number of its regulatory functions (development control functions within the Freeport zone) having regard to the Freeport objectives, (this may include implementing a Local Development Order to enable development within the Freeport) together with its landholding functions where it owns, maintains, lets or disposes of property within the Freeport zone. A suite of legal documentation for Freeport members dealing with property matters etc. is being developed alongside the business case. |
| **RISK MANAGEMENT IMPLICATIONS** | |
| 74. | There is a risk that the business rate attracted to the Freeport represents a displacement from one area to another to gain reliefs. Local authorities are working on a common policy of relief to mitigate this risk, with clear criteria around the business activity representing new economic activity to qualify for the relief. |
| 75. | There is also a risk around undertaking the borrowing for the freeport pool fund, in advance of revenue from business rates with an assumption the business rate growth that will fund the costs of that borrowing. However, Portsmouth City Council as the accountable body has agreed to underwrite that borrowing risk, which is included in the MoU. |
| 76. | A ‘no detriment’ clause in the MoU is to help ensure that councils retain the existing level of business rates from the Freeport tax site locations. Should the Government review and change the business rate retention scheme, for example increasing the allocation to local councils from 50% to 75%, there is a risk that by locking into compensation via the existing baseline level (i.e. at 50%) , the council could lose funding. A clause will be included in the MoU to ensure a review of arrangement should Government amend the business rate system. |
| 77. | The Accountable Body will hold and account for pooled business rates, and is expected to invest any funds held in accordance with its Treasury Management Strategy which will include measures to manage investment risk. However, if after following its Treasury Management Strategy any loss of investment is incurred, the MoU specifies that such a loss “will be borne by the business rate pool”. This could mean, depending on the extent of any such loss, the pool would be in a deficit position and potentially a question may arise of financial support from freeport members, including local authorities, for the pool. Portsmouth’s Treasury Management Strategy is the prime safeguard against that situation, and the Chartered Institute of Public Finance and Accountancy (CIPFA) firmly recommend all councils place security of investment as the paramount concern, not investment yield. |
| 78. | The above risks have been considered by the Executive Directors of Place and Finance, Commercialisation & S151 Officer and it is proposed to collate a Risk Register based on an assessment of the final FBC and with a financial analysis in |

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| | relation to Business Rates, uplift, retention and pooling (NDR) and in supporting the operational costs of the proposed Solent Freeport. |
| **POLICY FRAMEWORK IMPLICATIONS** | |
| 79. | A full review of all council policy framework and core strategies have taken place and no conflicts have been identified. Southampton City Council corporate plan 2021-2025 supports the key priority for growth and supports Southampton's Maritime economy through being part of the National Freeport Programme UK. |
| 80. | The strategies reviewed were:<br>• Clean Air Strategy (2019-2025)<br>• Cycling Strategy (2017-2027)<br>• Economic Growth Strategy (2020-2030)<br>• Health and Wellbeing Strategy (2017-2025)<br>• Housing Strategy (2016-2025)<br>• Local Transport Plan (2019 – 2040)<br>• Safe City Strategy (2022-2027)<br>• Southampton City Council Corporate Plan (2020-2025)<br>• Draft City of Culture Strategy (2021)<br>• Local Spatial Plan and Planning Policies |

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| **KEY DECISION?** | No |
| **WARDS/COMMUNITIES AFFECTED**: | None |

SUPPORTING DOCUMENTATION

**Appendices**

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| 1. | Solent Freeport Consortium Limited – Board and Associate Members |
| 2. | Draft Business Rates Memorandum of Understanding (MOU) |
| 3. | Draft Terms of Reference of the Freeport Investment Committee |

**Documents In Members' Rooms**

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| 1. | None |

Equality Impact Assessment

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| Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out | No |

Data Protection Impact Assessment

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|---|---|
| Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out | No |

Other Background Documents

Other Background documents available for inspection at:

| Title of Background Paper(s) | | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |
|---|---|---|
| 1. | None | |