
NON EXEMPT

HAVANT BOROUGH COUNCIL

COUNCIL

16 March 2022

Freeports Programme – Update in respect of the Memorandum of Understanding (MOU) and Full Business Case (FBC)

FOR DECISION

Cabinet Lead: Cllr Narinder Bains, Deputy Leader and Cabinet Lead for Community Safety and Organisational Development

Key Decision: NO

Report Number: HBC/033/2022

1 Purpose

- 1.1 In March 2021, the Solent Freeport was announced in the budget as one of eight Freeports shortlisted by Government. The Solent Freeport includes the Dunsbury Park site, which is one of the Havant's key strategic employment sites. Its inclusion in the Freeports Programme presents an exciting opportunity to further economic growth of the borough. Subject to the approval of a Full Business Case by Government, the Solent Freeport will be confirmed in the summer, with the Freeport becoming operational later this year.
- 1.2 This report was submitted to Cabinet on 07 March 2022 to provide an update on the programme and to highlight the opportunities for Havant borough. Delegations were sought to enable formal sign off in respect of the Full Business Case and Memorandum of Understanding (MOU), which will form part of the formal submission to central Government.

2 Recommendation

- 2.1 Council is recommended to:
 - 2.1.1 Note the update in respect of the development of the Solent Freeport Programme and with regard to the opportunities for Havant borough.
 - 2.1.2 Note the update on progression of the Full Business Case (FBC).
 - 2.1.3 Note the update on progression of the Memorandum of Understanding (MoU).

3 Executive Summary

- 3.1 The Solent Freeport was announced by Government in the budget in March 2021 and includes the Dunsbury Park site, which is one of the Havant's key strategic employment sites.
- 3.2 The aim of a Freeport is to create jobs, generate investment and deliver a range of high value opportunities for the local area, while generating national benefits through trade and innovation. Dunsbury Park sits within Havant Borough and the Council has a key role to play as both rating and planning authority as well as ensuring the Freeport delivers real benefits for its residents and businesses.
- 3.3 The Government process to formally designate a Freeport requires significant upfront work by the partners and there is now a requirement for a Full Business Case (FBC) to be submitted in April 2021. A formal decision by Government is then expected in the summer, with the Solent Freeport becoming operational by the end of the year. The Council will be required to approve the FBC prior to submission to Government.
- 3.4 In parallel, there is a requirement for the Council to sign off a Memorandum of Understanding (MOU) to enable agreement to be reached on how any uplift in business rates generated will be managed, to include details of any pooling arrangements.

4 Additional Budgetary Implications

- 4.1 None. Financial implications considered in section 7.

5 Background and relationship to Corporate Strategy and/or Business Plans

Background

- 5.1 The Freeports Programme is one of the Government's flagship initiatives, forming part of its Levelling Up package, established to support the UK's post-Covid and post Brexit economic recovery.
- 5.2 The overarching aim of a Freeport is to bring jobs, investment and high value opportunities to some of the Country's most deprived communities, while at the same time generating national benefits through trade and innovation.
- 5.3 In November 2020 HM Government formally launched the bidding process for Freeports in England. This prospectus set out the objectives of the Freeport policy, which are threefold:
 - 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.

- 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.
- 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.

5.4 In the March 2021 Budget, the Chancellor announced that the Solent Freeport bid was one of eight shortlisted by the HM Government, marking the start of the Freeport designation process for the Solent region, and alongside the other seven English Freeports, the Solent has been working through the business case approvals process ever since.

5.5 The Solent Freeport Programme is being led by the Solent Local Enterprise Partner (LEP) alongside a partnership of local authorities and private sector organisations. Governance and working arrangements were established early on in the process to ensure clear, robust and fair decision-making.

5.6 Designated Freeports offer a number of policy levers, including:

- a) **Tax sites** - giving businesses operating within them access to certain tax benefits i.e. enhanced Capital Allowances, enhanced Structures and Buildings Allowance, Stamp Duty Land Tax reliefs, Employers National Insurance Contribution relief, and Business rate relief
- b) **Customs sites** - giving businesses tariff benefits for non-GB goods imported into them
- c) **Retained business rates** - allowing 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
- d) **Seed capital funding** - up to £25m to kick-start delivery of Freeport objectives.

5.7 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.

5.8 Dunsbury Park is one of four Tax Sites forming part of the Solent Freeport proposition, alongside four Customs sites – see table 1 below.

Table 1. Solent Freeport tax and customs sites

Local Authority	Tax site	Customs site
Havant Borough Council	(1) Dunsbury Park	
New Forest District Council	(2) Southampton Water, including: <ul style="list-style-type: none"> • Marchwood Port • ABP Strategic Land Reserve • ExxonMobil • Fawley Waterside 	(1) Marchwood Port (2) Strategic Land Reserve
Southampton City Council	(2) Southampton Water, including: <ul style="list-style-type: none"> • Redbridge 	(3) Redbridge / DP World Terminal <i>(not to be taken forward as part of first wave of Customs sites)</i>
Eastleigh Borough Council	(3) Navigator Quarter	
Portsmouth		(4) Portsmouth International Port /Portico

5.9 Dunsbury Park is a local and sub-regionally important business gateway owned by Portsmouth City Council but sits within Havant Borough, with the Council being the relevant ratings and planning authority. The site is currently underdeveloped, yet strategically located on the A3(M) and provides a gateway to trade flows through Portsmouth International Port, Port of Southampton and Marchwood Port. It is purpose-built, with enabling infrastructure in place and existing planning permission to develop 665,000sqft of warehouse, manufacturing and office space and will provide a large number of high quality jobs in close proximity to Leigh Park, one of the most deprived areas in the Borough and in Hampshire.

Freeport designation process

5.10 In order for a Freeport to be considered formally designated it will require:

- i. Government approval of Outline Business Case (OBC) and Full Business Case (FBC) – ‘the Business Case Process’
- ii. Government approval of proposed tax sites – ‘the Tax Site Process’
- iii. Government approval of proposed customs sites – ‘the Customs Site Process’

5.11 Appendix 1 sets out details about the process and provides a timeline of the delegation process.

5.12 The Outline Business Case (OBC) was submitted to central Government in July 2021. Following feedback, it was revised and re-submitted with amendments to Government in October 2021. It was approved by Government in February 2022.

- 5.13 In February 2022, the Council entered into a Site Specific Agreement (SSA) between the Borough Council, Portsmouth City Council and the Solent Freeports Consortium limited. The purpose of this Agreement is to set out the high level principles as to how the Owner (Portsmouth City Council), the Rating Authority (Havant Borough Council) and the Freeport Company will work together with a view to achieving the Freeport Objectives once Tax Site Designation has been granted. The completion of that agreement will enable Dunsbury Park to be formally designated as a freeport tax site and benefit from the HMRC led incentives as part of the Solent Freeport Programme.
- 5.14 The Full Business Case is currently in a draft form and due to be submitted to Government by 15th April 2022. The primary purpose of the FBC is to ensure that prospective Freeports have duly considered all of the factors critical to successful delivery of a Freeport. However, it is also the mechanism through which prospective Freeports must provide final assurance to the Government that public funds granted to the Freeport will be effectively managed.
- 5.15 In tandem with the Full Business Case, ratings authorities will be required to agree to 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/uplift in Business Rates generated by the designated tax sites within the Solent Freeport, to achieve the aims and objectives of the Freeport as set out by HM Government. This includes potential pooling of the rate receipts, funding criteria and the strategy for re-investment in the Solent area.
- 5.16 A baseline will need to be agreed, which should reflect the buildings currently in occupation at Dunsbury that fall inside the designated Freeport area (as shown in appendix 2). Those existing properties at Dunsbury which do not fall within the designated Freeport area, will continue to pay business rates direct to the Council and will be accounted for in the normal way i.e. shares to central government, Borough and County. Any growth (additionality) would be pooled, although this is still in discussion with s151 officers.

Potential benefits and opportunities

- 5.17 It is hoped that the Freeports Programme will deliver a wide range of both fiscal and economic benefits for Havant Borough and the wider region.
- 5.18 In terms of fiscal benefits, businesses locating at the Dunsbury Park tax site will receive;
- a. Stamp Duty land tax relief
 - b. Enhanced capital allowances
 - c. Enhanced structures and buildings allowances
 - d. National insurance contribution rate relief
 - e. Business rate relief.
- 5.19 Generally the tax incentives would apply until September 2026.

5.20 It is estimated that the policy levers available through Freeport designation will deliver significant benefits to the region, including:

- Leveraging c£1.6 billion in private sector investment on Solent Tax Site, based on active discussions with private firms looking to invest in new manufacturing and port based operations and infrastructure, with this being enabled principally by an estimated **c£225m tax benefits to the private sector**, through a combination of accelerated tax reliefs on new investment, centrally funded business rate reliefs, lower employer national insurance payments on new employees and savings in stamp duty;
- **Providing significant, additional funds** through pooled retained business rates, to deliver supporting infrastructure, innovation, skills, and a steppingstone to net zero programmes. These new funds are generated by an Enterprise Zone type arrangement on the Solent's tax sites, with the revenues being pooled for deployment across the wider Solent freeport area. As with Enterprise Zones, these revenues are dependent on the Tax Sites attracting new investment and thus generating business rate revenues. Based on the private interest in Tax Sites to date, the estimated pooled business rate revenue potential currently stands at some £570m (estimated and to be reviewed) over 25 years
- **Delivering increased port capacity** and throughput of international trade through the region's key ports.

5.21 Collectively, this is expected to deliver a significant number of jobs both in the Solent and wider UK economy. The Solent LEP commissioned an economic impact assessment which estimated around 28,000 jobs over 25 years and £2.0 billion GVA would be generated directly in the Solent as a result of the Freeports activity. Table 2 below sets out a summary in respect of the estimated jobs, with a forecasted 3,500 potential additional jobs associated with Dunsbury Park. More detailed work will be required to consider this as the programme develops.

Table 2. Estimated job impacts from Solent Freeport (thousands) from the original bid

	Local Authority	Direct jobs	Indirect jobs	Total
	Havant BC			
Dunsbury Park		1.7	1.8	3.5
	Eastleigh BC			
Navigator Quarter		3.2	3.3	6.5
Southampton Water - total		23.4	23.2	46.7
<i>Southampton Water - SCC</i>	<i>Southampton CC</i>	1.8	1.7	3.5
<i>Southampton Water - NFDC</i>	<i>New Forest DC</i>	21.7	21.5	43.2
Total		28.4	28.3	56.7

- 5.22 It is not envisaged that the Tax Site will require the use of simplified powers such as a Local Development Order, because the site is in public ownership (owned by Portsmouth City Council). In addition, there are no land assembly issues, the majority of the site already benefits outline planning permission and the adopted Local Plan clearly supports the principle of employment development in this location.

Opportunities for Havant Borough

- 5.23 Havant Borough is already a significant advanced manufacturing and engineering base. It is hoped that the Freeports Programme will provide new employment opportunities. increase skills and talent amongst local residents and support the broader regeneration ambition for the borough.
- 5.24 Dunsbury Park has the potential to be a unique centre for Small, Medium Enterprise (SME) growth. It will be a key centre for innovation & upskilling in growth industries giving SMEs the opportunity to work together and to grow their business. The fiscal incentives offered by tax site status will encourage investment by advanced manufacturing companies, replacing lower productivity, lower wage employment (e.g. in warehousing and logistics) with higher productivity and higher wage employment opportunities for the local labour force.
- 5.25 Dunsbury Park (previously Dunsbury Hill Farm) is identified as a key strategic employment site for the Borough and the wider sub-region in the adopted Local Plan (Core Strategy) 2011. The site benefits from outline planning permission reference APP/12/00338 for 61,779 square metres of employment floorspace plus a hotel with conference facilities comprising 5,574 sq. m on Phases 1 and 2. There is potential for the site to accommodate at least a further 15,000 sq. m on Phase 2, as the quantum of development envisaged by the outline consent can now be entirely delivered within Phase 1.
- 5.26 Further land to the north identified in the draft FBC could provide potential expansion subject to appropriate suitability being shown.
- 5.27 There is a key opportunity to develop a Skills & Innovation Centre as a priority capital investment as part of the Freeport. An outline proposal for a 30,000 sq ft innovation, educational and skills centre has been developed as a potential Freeport project to be located at Dunsbury Park. This has been included in the investment pipeline for future 'Seed Capital' funding from Government and will be part of the Full Business Case submission. The centre can potentially play a key role in enabling local residents to take up future employment opportunities at Dunsbury in high value sectors (e.g.: advanced manufacturing & engineering).
- 5.28 The adjoining Leigh Park area is within the 10% most deprived communities nationally and has some with very specific challenges relating to socio-

economic deprivation and unemployment. The Freeport will enable these challenges to be directly addressed, ensuring local residents within Leigh Park have greater opportunity to access sustainable employment and training opportunities through a range of practical policy measures. This includes but not limited to

- Apprenticeships
- Work placements
- Targeted recruitment through the local job centre
- Employability training
- Coaching and mentoring
- Guaranteed interviews for local residents
- Work experience
- Educational outreach.

5.29 Through the construction phase, this will be delivered through local employment and training agreements and through the occupancy phase, as a condition of the tax incentives offered to occupiers.

5.30 This complements other regeneration activity through which the Borough Council is working with partners to address economic and health related inequalities in Leigh Park. This includes the Link Up Leigh Park Programme (also known as Economies for Healthier Lives). This is a programme funded by the Health Foundation's to provide additional capacity to support young people into work and improve health outcomes locally.

5.31 Collectively across the Solent region it is hoped that the Freeports Programme will generate a socio-economic dividend that will support the levelling up of coastal communities across the Solent, address a number of identified market failures and long-standing structural challenges, and strengthen the Solent's contribution to the UK's path to Net Zero. It will also ensure the Solent continues to perform a critical role contributing to national ambitions for a global Britain.

Relationship to strategy

5.32 Havant Borough Council's role in the Freeports Programme aligns strongly with the following themes as set out in Corporate Strategy 2022-25:

- **Theme 1 - An environmentally aware and cleaner Borough:** the programme will align to aspirations for a cleaner, greener borough with projects targeting low or zero carbon where appropriate.
- **Theme 2 - A safe environment, healthier and more active residents:** the programme and projects will seek to support positive place-making.
- **Theme 3 - A thriving local economy:** the programme will help to drive forward economic growth and supporting a thriving and prosperous economy.

- **Theme 4: A revitalised borough with infrastructure that meets our ambitions** – the programme and projects will seek to deliver infrastructure that will support a growing economy.
- **Theme 5: A responsive and commercial Council:** the programme will seek to support the Council's Financial Strategy through the range of fiscal benefits.

5.33 The designation of Dunsbury Park as a Tax Site will support the delivery of the Borough's largest employment allocation in the adopted Local Plan. The new business development will consolidate and reinforce the Borough's reputation as a centre for high technology and advanced manufacturing. The Tax Site designation will reinforce Dunsbury Park as a key employment hub.

5.34 The Freeport Programme will directly support a number of the priorities and objectives in the refreshed Regeneration Strategy, to be known as the Regeneration & Economy Strategy. Shaped around the three key themes of Successful People, Sustainable Places and Better Business, the Strategy highlights the potential of the Freeports Programme to support delivery of a range of outcomes, with specific reference to enhancements of skills opportunities for Leigh Park residents.

5.35 The Freeport Programme will support the ambitions and priorities set out in the Council's recently adopted Climate Change and Environment Strategy, including promotion of opportunities for innovative green industries and scope to deliver a range of net zero initiatives.

6 Options Considered

6.1 There are two specific options considered in relation to Council involvement in Freeport programme;

6.11 Participate in the Freeport programme – this is deemed to be the preferred way forward given the opportunity for the Borough to actively participate in a flagship Government initiative. The principal rationale being the opportunity to address local need and bring significant economic benefits in terms of local employment opportunities, increased trade, innovation and new investment to the Borough.

6.12 Not participate in the Freeport programme – this is not considered the preferred option as effectively the Borough would forego the economic and fiscal opportunities identified in this report. This would also potentially undermine the areas standing within the Solent economic sub-region and the ability for the Borough to attract investment from Government in the context of the Levelling Up agenda and associated funding streams.

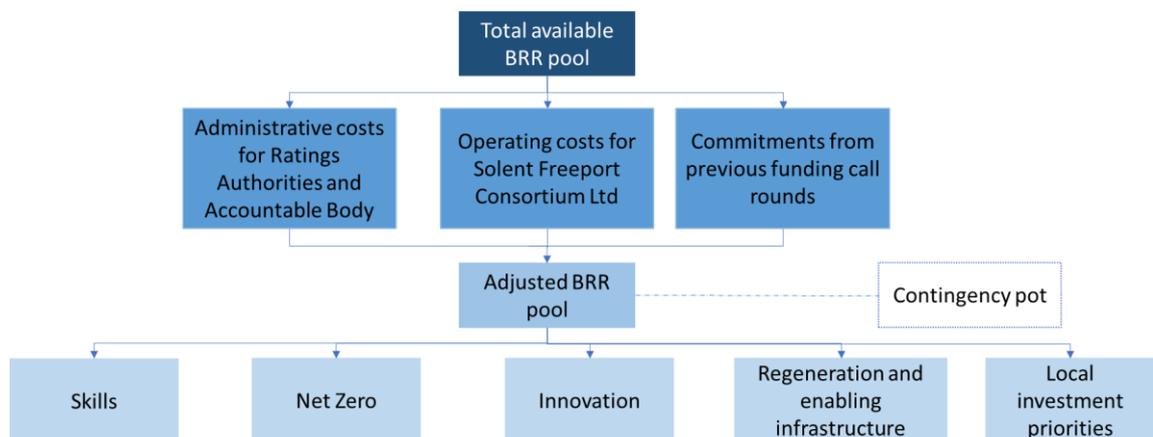
7 Resource Implications

Financial Implications

- 7.1 There will be a wide range of financial implications associated with the Freeports Programme. The intention of the programme is to create a range of fiscal benefits, generate financial uplift through increased retained business rates and to encourage inward investment.
- 7.2 Full details of how that will be structured and what financial liability or obligations will be included in the Full business case. The main financial area to consider are as follow:
- 7.3 To note in all cases these are current understanding, and we are currently confirming with KPMG. The updated draft MOU will be available the week commencing 7 March 2022.

Councils obligations of funding

- 7.4 Our current understanding is that once the Freeport is formed any additional set up costs incurred by the Council for the freeport, such as software etc, would be re-imbursed by the Freeport from retained business rates.



Pooling arrangements

- 7.5 The high-level estimates in the MOU show that over 25 years the estimate is for approx. £80 million pooling. These are under current assumptions and assume most sites are let with 10 year contracts, throughout the period.
- 7.6 These assumptions for growth, only cover the current planning permission area and not any future expansions
- 7.7 Havant Borough Council will continue to receive payments for baseline properties on site when the Freeports area come live. The current baseline estimate is this will be for one property. Those existing properties at Dunsbury which do not fall within the designated Freeport area (three), will continue to

pay business rates direct to the Council and will be accounted for in the normal way ie shares to central government, Borough and County. Any additionality i.e., growth, will be pooled.

- 7.8 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 be pooled. After rate relief comes to end 100% of the additionality collected will be passed to the freeport
- 7.9 Full details of breakdown of current estimates are included in the MOU and below.

Tax site	Rating Authority	Estimated BRR over 25 years (£m)	Hectares	£m BRR per ha
Dunsbury Industrial Park	Havant	81	47	1.7
Navigator Quarter	Eastleigh	134	50	2.7
Southampton Water	SCC/NFDC	446	333	1.3
Southampton Water - SCC	Southampton	30	30	1.0
Southampton Water - NFDC	New Forest	416	303	1.4
Total		661	460	1.4

Future Borrowing

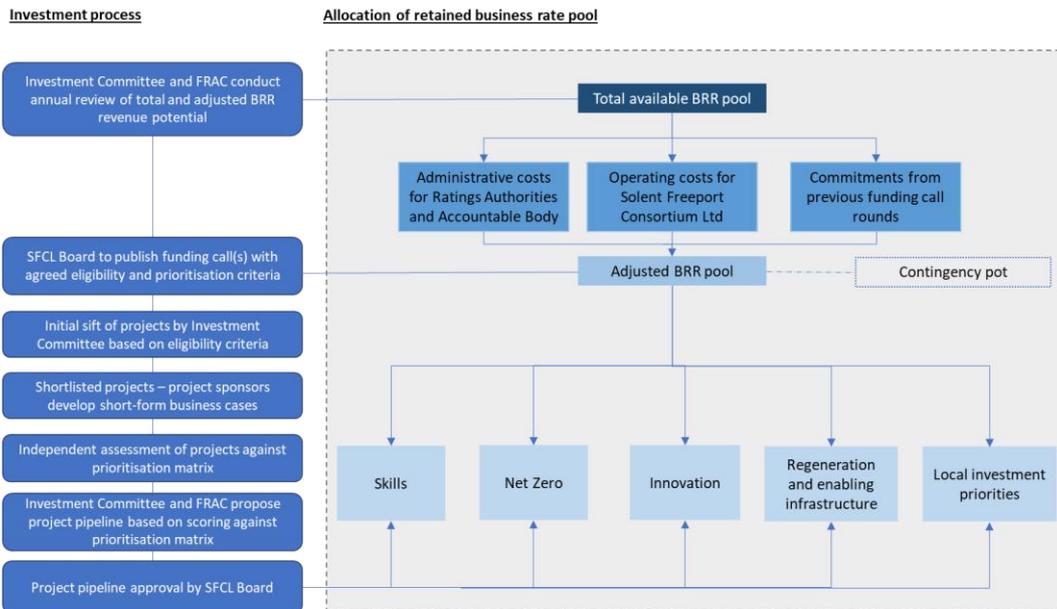
- 7.10 Portsmouth City Council is the administering authority and have taken on responsibly for any future borrowing for capital project, which will be financed by the pooled retained business rates

Local investment fund

- 7.11 As part of the current set up of the Freeport area, the Councils involved are requesting for some retained business rates. This will be dependent on MOU and other assumptions and central government agreement

Investment Board

- 7.12 The Freeport will set up an investment board to determine how the monies generated through retained rates will be spent. Havant BC will have a member on this board. Future bids for moneys forward from the Freeport will go via the investment board, which will look at all bids submitted across the Freeport area.



7.13 Agreeing to the MOU will enable the Council to be party to future agreements about the pooling and management of any business rates uplift. It will be important that any agreement reached reflects a fair and equitable process and delivers the best outcomes to our residents and businesses.

Matthew Tiller, Deputy s151

Section 151 Officer comments

Date: 1.3.22

Financial information is include in report. Further details will be included in the MOU and FBC

Human Resources Implications

7.14 Appropriate resources will need to be identified to ensure the Council can be fully represented in the Solent Freeport programme and to promote the interests of its residents and businesses. This will be required cross service involvement including form finance, legal, regeneration & economy development, revenues & benefits, planning and communications.

7.15 Appropriate resourcing structures and working arrangements will be put in place to reflect the requirements at each stage of the programme delivery. Alignment to existing workstreams will ensure efficiency and deliver better outcomes.

Information Governance Implications

- 7.16 None arising from this report. Information Governance will be considered at detailed project level and managed appropriately and in accordance with regulations and guidelines.

Other resource implications

Monitoring Officer comments

Date: 1 March 2022

The Government wants to level up the UK by ensuring that towns, cities, and regions can benefit from the opportunities that leaving the EU brings. One major policy initiative is the formation of a number of new Freeports. In a Havant context it's intended that this will attract inward investment and generate employment opportunities, this being in alignment with themes outlined within the Corporate Strategy.

Government intends to offer up to full relief from business rates on certain business premises within these tax sites and will therefore have allocated capacity funding to support the development of the business cases to Portsmouth City Council as the lead authority. There is no Council budget allocated to the Freeport project and if any financial decisions are required then they will need to be undertaken in accordance with the Budget and Policy Framework and Financial Procedure Rules.

The impact of this Report is not to commit the Council financially; further reports being required and if resources are required. Any additional reports will set out any further financial implications.

As there could be a risk of key milestones being missed if decisions are taken solely around the Cabinet cycle, it's proposed that certain delegations to the Chief Executive be approved in order to eliminate this risk.

Mark Watkins, DMO

- 7.17 None identified.

8 Legal Implications

- 8.1 Freeports were established under the Finance Act 2021 but Freeport designation will be achieved under secondary legislation and we currently await Dunsbury Park's designation as a tax site.
- 8.2 Central Government required a formal agreement to govern how Dunsbury Park would operate as a tax site and the Site Specific Agreement (SSA) achieves this by placing obligations on the landowner to use 'best

endeavours' to use the land in line with the Freeport objectives and those obligations are in turn will be passed on to end users of Dunsbury Park.

- 8.3 The MoU, mentioned above, is currently in draft form and will require further legal input to assist officers in mitigating any risks to the Council.
Andrew Kinghorn (Contracts Lawyer) 16 February 2022

9 Risks

- 9.1 It is recognised that there will inevitably be a series of risks associated with the Freeports Programme and some of these may have a direct impact on the Borough Council. These are likely to fall into the following categories.

- Financial – risk of budget overspends and financial impact on Council.
- Legal – any legal risks arising from contractual obligations or liabilities.
- Quality – risks associated with non-delivery of objectives of the programme and lack of quality.
- Reputational – risk to the Council's in terms of relationships and reputation.

- 9.2 These risks will be identified and considered in detail at programme level. Risk registers will be created as part of the programme management documentation and monitored in accordance with best practice to ensure risks are appropriately managed.

10 Consultation

- 10.1 Engagement and consultation has been undertaken with the wide range of key partners and stakeholders within the wider Solent Freeport partnership, including the relevant local authorities and private sector partners.
- 10.2 Engagement has taken place with key business and a number of strategic employers through the Havant Business Partnership Forum.
- 10.3 Moving forward, engagement and consultation will remain important to ensure stakeholder buy-in and to get the best outcomes for local business and community. This will be considered further within the delivery programme.

11 Communication

- 11.1 Communications in respect of the wider programme are currently being managed centrally by the Solent LEP. The Borough Council's communications team play an active role and represent the borough's interests and ensure effective coordination with wider activity.
- 11.2 A Solent Freeport [website](#) has been developed and is currently managed by the LEP. Work is also underway to enhance the Dunsbury Park [website](#), hosted by Portsmouth City Council.

11.3 A robust and effective communication strategy will remain an important feature of the programme. Effective promotion of the inward investment opportunities for potential occupiers or Dunsbury and in respect of the supply chain, will also remain critical to ensure successful outcomes.

12 Appendices

Appendix 1 – Solent Freeport Designation Process
Appendix 2 – Plan of Freeport Tax site

13 Background Papers

None

Agreed and signed off by:

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S151 Officer: 28 February 2022
Director: 28 February 2022
Portfolio Holder: 28 February 2022

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