

Report to: **Special Executive**  
Date: **31 March 2022**  
Title: **Plymouth and South Devon Freeport Update**  
Portfolio Areas: **Cllr Hilary Bastone – Economy**  
Wards Affected: **All**  
Urgent Decision: **N** Approval and clearance obtained: **Y**

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**RECOMMENDATIONS:**

**That the Executive RECOMMEND to Council to:**

- 1. Approve South Hams District Council’s full participation in the Plymouth and South Devon Freeport.**
- 2. Approve the formation of a company limited by guarantee and for South Hams District Council (SHDC) to be a founder member alongside Devon County Council (DCC) and Plymouth City Council (PCC) to operate the Freeport**
- 3. Delegate authority to the Director of Place and Enterprise, in consultation with the Leader of the Council, Executive Member for Economy and S151 Officer to:**
  - a. submit the Full Business Case (FBC) for the Plymouth and South Devon Freeport**
  - b. approve the articles of association and reserved matters for the Freeport company and enter into member agreements between SHDC, PCC and DCC, and other relevant legal agreements**
  - c. Enter into the business rates retention sharing agreement with DCC, as set out in 4.22 to 4.24 of the report**
  - d. Enter into land owner agreements aligned to Freeport objectives**
  - e. Acquire land at Langage to deliver Freeport objectives**
- 4. Approve borrowing up to £5m from the Public Works Loan Board (funded from the retained business rates income generated), at such time as is advised by the S151 Officer, to match fund the Freeport Government seed funding relating to the delivery of the Langage site**

**5. Utilise funding from the SHDC Business Rates Retention Earmarked Reserve in 2022/23 (£6,000) and 2023/24 (£57,000) to provide upfront funding to the freeport, which will then be repaid in 2024/25 from the retained business rates income generated from 2024/25 onwards.**

## 1. Executive summary

- 1.1 The Outline Business Case (OBC) [Minute Reference E.83/21] for the Plymouth and South Devon Freeport has been received and approved by the Department for Levelling Up and Local Communities (DLUC). DLUC subsequently set out a number of critical actions that had to be undertaken in February, including agreeing draft Heads of Terms (HoTs) with land owners, which have also been completed successfully.
- 1.2 The Full Business Case (FBC) has now been prepared and the financial model finalised as set out in this report. Submission of the FBC in April is the next step and recommendation 1 and 3a above relate.
- 1.3 As previously indicated to members, SHDC needs to consider borrowing of up to £5m from the Public Works Loan Board (PWLB) to match the Government seed funding for the delivery of the Langage site. The decision is set out in recommendation 4.
- 1.4 The financial model shows that over the long term there is a 45% surplus of retained business rates from which to pay for the public sector borrowing and operating costs of the Freeport. Stress testing of the model shows that even the worst case scenario is able to finance borrowing and operating costs.
- 1.5 In the first two years it is possible that the Freeport business rates retained will need cash flow support from the Business Rates Retention Reserve, to be paid back from year 3 onwards. The decisions relating to retained business rates are set out in recommendation 3c and 5.
- 1.6 The arrangements for the Freeport would see the formation of a company limited by guarantee, with PCC, DCC and SHDC as founder members and certain reserved matters (including use of excess retained business rates). The company would have a mix of public sector and private sector directors. The decision is set out in Recommendations 2 & 3b.
- 1.7 This highly ambitious project has the following anticipated outcomes:
  - 3,584 direct jobs created with an average wage level of at least £13.92 per hour
  - 10% of jobs created to be filled by inactive claimants and registered unemployed
  - 3,000 m<sup>2</sup> of skills infrastructure
  - 2,400 m<sup>2</sup> of new innovation space
  - 137.9 hectares of land developed
  - 5 new businesses each year
  - 2-3 new FDI each year
  - 40 Business / Higher education collaborations annually from 2022
  - £4m a year in private investment in research & development
  - 10 new products developed for market

## **2. Background**

- 2.1 Members were formally introduced to the Freeport project via a report to Executive September 2021 [minute reference E30/21] and an informal all member briefing. Approval to submit the OBC was granted at the Executive meeting in September.
- 2.2 Subsequently a further report was considered at Executive [minute reference E.83/21] on 27<sup>th</sup> January. All members' briefings have also been held.
- 2.3 Whilst much of the background has been considered before, as this is the final report on this significant project it has been set out again for completeness:

### **THE PLYMOUTH AND SOUTH DEVON FREEPORT PROPOSAL**

#### **The Vision**

- 2.4 The Freeport will supercharge the local and regional economy by building on our unique national capabilities in Marine, Defence and Space to form globally impactful superclusters and a UK Innovation Superpower.
- 2.5 As a South West Powerhouse, the full potential of the region will be realised by concentrating around the largest UK Naval port and Europe's only horizontal launch spaceport, high value primes and their rich supply chains.
- 2.6 The Freeport will deliver Levelling Up stimulus and drive local skills, jobs and higher wages. As an innovation hotbed, it will fuse already strong innovations with global leading projects and prototyping on synthetic testbeds and ocean proving grounds – spinning off viable products and early stage production runs in a supportive tax and regulatory environment.
- 2.7 Our Freeport will see the evolution of sub-sector specialisms including marine autonomy, maritime decarbonisation, digital oceans, smart port shipping, Offshore Renewable Energy support solutions, defence mission modules and small satellite fabrication.

#### **The Partnership**

- 2.8 We are working in close partnership with the Department for Levelling Up, Homes and Communities and a number of other government departments, including HM Revenues and Customs, the Treasury and the Department for International Trade.
- 2.9 Our Freeport programme is supported by a local partnership between the public and private sectors, bringing together:-
  - Three local authority partners – Plymouth City Council, Devon County Council and South Hams District Council
  - Two Universities - the Universities of Plymouth and Exeter
  - Anchor tenants and landowners - Princess Yachts, Langage Energy Park Limited and Babcock International
  - Port Operators, the Ministry of Defence, Associated British Ports and Cattewater Harbour

## **The Tax Sites**

- 2.10 It is proposed to designate three tax sites at South Yard in Devonport, Langage Energy Park and part of Sherford Employment Zone providing a combined footprint of around 130 Hectares (Ha) for development. The master plans for these sites are appended.

## **South Yard**

- 2.11 South Yard encompasses PCC's Oceansgate development and the existing facilities owned by Princess Yachts, Babcock International and the Ministry of Defence. The site is economically underdeveloped with much of it being made up of underutilised buildings, some of which are the subject of preservation orders. PCC are in negotiating with the MOD to acquire an extended lease over underutilised facilities that remain within their control.
- 2.12 The total value of the developments proposed at this site, which include a new marine innovation centre, mobility hub (car park and EV charging) and manufacturing facilities is circa £63m and it is anticipated all of the development will come forward between 2022 and 2025, with the exception of later phases (3.2 and 3.3) of Oceansgate.
- 2.13 The Freeport project team are currently negotiating with the Treasury about the final boundaries to be applied to the site as they have challenged the development status of the some of the footprint we delineated in our Outline Business Case.

## **Langage**

- 2.14 Located on greenfield land in close proximity to the A38 Expressway, the site is allocated for in the Joint Local Plan for employment purposes. It will be developed as a tax site incorporating a customs zone to provide industrial and manufacturing space for high value manufacturing and engineering companies, focusing primarily but not exclusively on the marine, defence and space sectors. The site will also be home to a green hydrogen plant and a mobility hub (EV charging etc) to facilitate deliver of critical sustainable and low carbon transport options.
- 2.15 Development is anticipated to come forward in two phases, taking place between 2022 and 2027.
- Phase 1a will be delivered first encompassing a 25,000m<sup>2</sup> Customs Zone on land owned by Langage Energy Park Ltd. PCC already own a small parcel of land at Langage, but Phase 1b land will need to be acquired from its current owners before development can commence for that phase.
  - Phase 2 includes approximately 40 acres of solar farm owned by Langage Energy Park Ltd (LEPL). This occupies around 50% of LEPL's developable site. LEPL has development plans which would enable their plot to be developed in line with

Freeport objectives but this would require moving the solar panels.

## **Sherford**

- 2.16 Located on the opposite side of the A38 Expressway to the Langage site, the Sherford Employment Zone forms part of the employment allocation of the Sherford new community. Part of it, will be developed as a tax and customs site with coterminous boundaries, providing integrated warehousing, storage and engineering space. This development is expected to come forward in the first phase of developments, taking place between 2022 and 2025.
- 2.17 The anchor tenant at this site will be Babcock International who propose to build an Integrated Logistics Hub providing a 35,000 m<sup>2</sup> of state of the art logistics facility. It is a huge investment worth over £62m designed to meet the supply the needs of the Royal Navy and capable of providing significant additional customs capacity.

## **Anchor Tenants**

- 2.18 The proposal benefits from two anchor tenants who are currently based at South Yard.
- Babcock International – which works in partnership with the MOD at Devonport and has an overseas client base, providing through-life support for submarines, surface ships and associated systems and equipment. Babcock’s facilities at Devonport include the UK’s sole licensed site for the refitting and refuel/defuel of nuclear-powered submarines, as well as docks to maintain, refit and modernise surface warships.
  - Babcock currently employs over 7,200 people locally and has strong links with supply chain companies, with opportunities for onshoring overseas clients. The Freeport represents a significant opportunity for them to expand operations in new economic areas through innovation and by developing an Integrated Logistics Hub at one of the tax sites as well as the re-development of redundant sites ‘behind the wire’ in South Yard.
  - Princess Yachts which employs 3,000 staff on the South Yard Site to meticulously sculpt some of the most technically advanced and beautiful yachts in the world. The company has an advanced concept for a new 88ft super yacht which will be the first to integrate all of its sustainability initiatives through the use of efficient design, electrification and sustainable materials. The Freezone will offer an opportunity to create a flagship centre for luxury yacht manufacturing, creating 450 direct jobs.
- 2.19 At Langage, the Freeport will bring forward private investment for a 10MW hydrogen plant which will be online by the end of 2024. This will align with the Government’s Hydrogen Strategy

to underpin clean growth and low carbon transport for shipping and HGVs. The plant will utilise a live wire connection to the onsite solar farm and sleeved Power Purchase Agreements to ensure 100% green energy usage. Langage Energy Park Ltd (LEPL) is one of a handful of companies nationally able to deliver this type of plant, which mirrors a sister project in Manchester which is due to go live in 2023.

### 3. Land Owner Agreements

- 3.1 The Freeport team have extensively engaged with all our landowners co-designing and then issuing a series of bespoke heads of terms, a gateway policy, site benefits analysis, a new revenue budget and a detailed delivery programme.
- 3.2 The heads of terms define the parties to each of the agreements, the Landowner, relevant Local Authority and the Freeport, and commit them to work together to developing the site in accordance with the Plymouth and South Devon Freeport vision. The boundaries of each the tax sites are defined and the indicative capital sums to be invested in the site by each of the parties.
- 3.3 From the agreements above, SHDC will be the local authority and rating authority for all of the Sherford and Langage agreements, entering into them with the respective landowners and the Freeport Authority. Where SHDC may ultimately become the land owner (Phase 1b), it will have to enter into an agreement with the Freeport Company to deliver against the Freeport vision.

### 4. The financial model

#### Capital Investment

- 4.1 Total capital investment in the Freeport is predicted to reach £314m as shown below. This is made up of £25m in Government seed capital grant with a local match funding (from PCC, DCC and SHDC) of £29m as per 6.7. A further £10m will be raised through levelling up grant income and we anticipate total private sector investment will be close to £250m.

Source	Total Value £'000
HM Government Seed Capital Grant	£25,000
Local Authority borrowing/forward funding (PCC, DCC and SHDC) – see table below at 4.7	£29,076
Grant Income (Levelling Up)	£10,000
Private Sector Investment	£249,670
<b>Total Capital Investment in the Freeport</b>	<b>£313,746</b>

#### Total capital investment for the Freeport

- 4.2 At Langage £33m in public investment will be provided to support land assembly, site preparation and transport links. This will leverage £118m in private investment to build advanced manufacturing units and logistics facilities and a further £28m to deliver a Green Hydrogen plant.

- 4.3 At Sherford £1m in public and £5m in private investment will support site preparation and transport links, private sector investment in off-site costs will be £3m and Babcock marine will invest £62m in developing a new state of the art integrated logistics hub.
- 4.4 In South Yard public investment of £17.3m and a £10m levelling up fund grant will deliver a new Innovation Centre and Mobility hub at Oceansgate. Princess Yachts will invest £22m to deliver a new factory to build the next generation of super yachts, supported with £0.9m of public investment and Babcock will invest £6.5m in new and upgraded infrastructure.
- 4.5 Associated British Ports will invest £5.7m supported with a £1.3m public sector investment in the developing new port infrastructure to ensure adequate additional capacity and to provide containerised freight facilities.

**Public Sector funding (PCC, DCC and SHDC)**

- 4.6 The local authority partners will forward fund the required local match funding for the £25m seed capital grant (Government Grant), subject to each individual local authority approving this.
- 4.7 The suggested public sector investment is set out below. PCC will be responsible for South Yard. DCC will fund the infrastructure / roads for Langage and Sherford and SHDC would fund the land assembly. Of particular interest from a wider "Better Lives Better for All" perspective is the proposal to build a dedicated pedestrian and cycle bridge across the A38 at Deep Lane Junction.

Local Authority	Forward Funding £000s
Devon County Council	14,289
South Hams District Council	4,625
Plymouth City Council	10,162
<b>Total</b>	<b>29,076</b>

**Total Public Sector Borrowing**

- 4.8 ***The borrowing for South Hams District Council would total £4.625million as shown in section 4.7.*** This borrowing would be taken out with the PWLB (Public Works Loan Board) on an annuity basis over a 25 year period. The borrowing costs would total £267,000 per annum as shown in 6.11. A fixed interest rate of 2.5% has been assumed in the modelling with MRP (capital repayment) on an annuity basis over 25 years. The borrowing would be fully repaid after 25 years. The interest rate is fixed at the point the borrowing is taken out, for the full 25 years.



## Business rates

- 4.9 The repayment of the borrowing would be through the additional business rates income generated by the Freeport. The Freeport would be self-financing. If interest rates were to increase by 0.25%, this would increase the annual cost by £7,158.
- 4.10 The table below shows the projected business rates income from Langage and Sherford and the borrowing costs (debt charges) that would be incurred by SHDC (£267,000 per annum). This is the South Hams ringfenced business rates account. A separate ringfenced account will operate for Plymouth City Council. A net residual income of £199,000 is achieved by 2024/25, increasing to £1m by 2025/26.
- 4.11 Sensitivity testing of the financial model has considered a range of possible reasonable worst case scenarios including slower than predicted occupancy rates.

South Hams ringfenced Business rates account	22/23	23/24	24/25	25/26	26/27	Yrs 6-10 27/28 -	Yrs 11-15 32/33 -	Yrs 16-20 37/38 -	Yrs 21-25 42/43 -	Total
	£'000	£'000	£'000	£'000	£'000	31/32 £'000	36/37 £'000	41/42 £'000	46/47 £'000	
Retained Business Rates - Langage	0	7	600	1,224	1,564	10,817	12,190	13,456	14,862	54,719
Retained Business Rates - Sherford	0	0	0	420	428	2,272	2,508	2,768	3,058	11,454
<b>Total South Hams Retained Business Rates</b>	<b>0</b>	<b>7</b>	<b>600</b>	<b>1,644</b>	<b>1,992</b>	<b>13,089</b>	<b>14,698</b>	<b>16,224</b>	<b>17,919</b>	<b>66,173</b>
Total debt charges - Langage DCC	0	0	(96)	(339)	(629)	(4,434)	(4,434)	(4,434)	(4,434)	(18,800)
Total debt charges - Langage SHDC	(6)	(63)	(267)	(267)	(267)	(1,334)	(1,334)	(1,334)	(1,334)	(6,206)
Total debt charges - Sherford	0	0	0	0	0	0	0	0	0	0
<b>Total South Hams Debt Charges (Langage)</b>	<b>(6)</b>	<b>(63)</b>	<b>(363)</b>	<b>(606)</b>	<b>(895)</b>	<b>(5,768)</b>	<b>(5,768)</b>	<b>(5,768)</b>	<b>(5,768)</b>	<b>(25,006)</b>
Lifecycle costs - Langage	0	0	(38)	(37)	(45)	(569)	(962)	(1,133)	(1,757)	(4,541)
Lifecycle costs - Sherford	0	0	0	(1)	(7)	(169)	(333)	(388)	(394)	(1,291)
<b>Total South Hams Lifecycle Costs</b>	<b>0</b>	<b>0</b>	<b>(38)</b>	<b>(38)</b>	<b>(52)</b>	<b>(738)</b>	<b>(1,295)</b>	<b>(1,521)</b>	<b>(2,151)</b>	<b>(5,832)</b>
Freeport operating costs - Langage	0	0	0	0	0	(1,145)	(1,264)	(1,395)	(1,540)	(5,343)
Freeport operating costs - Sherford	0	0	0	0	0	(572)	(632)	(697)	(770)	(2,672)
<b>Total South Hams Contribution to Freeport Operating Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,717)</b>	<b>(1,895)</b>	<b>(2,092)</b>	<b>(2,310)</b>	<b>(8,015)</b>
Residual Business Rates - Langage	(6)	(57)	199	581	624	3,334	4,196	5,160	5,796	19,829
Residual Business Rates - Sherford	0	0	0	419	421	1,531	1,543	1,683	1,894	7,491
<b>Total South Hams Residual Business Rates</b>	<b>(6)</b>	<b>(57)</b>	<b>199</b>	<b>1,001</b>	<b>1,044</b>	<b>4,865</b>	<b>5,739</b>	<b>6,844</b>	<b>7,690</b>	<b>27,320</b>
<i>Risk sensitivity</i> (% that business rates income would need to fall so that residual business rates income would be Nil)			33%	61%	52%	37%	39%	42%	43%	41%

## Business rates income and borrowing costs – Langage & Sherford

- 4.12 The assumptions used within the financial model for business rates income are that there will be 16% occupancy of the light industrial business park by 2024/25 and 90% occupancy of the warehouse, with the hydrogen plant complete by 2025/26. Other industrial sites will be between 11% and 90% occupancy by 2024/25. The risk sensitivity shows that business rates income would need to fall by an average of 41% over the 25 years for the residual business rates income (after borrowing costs are repaid) to be Nil on an annual basis.

- 4.13 East Devon's Enterprise Zone has found that it has generated more business rates income at a quicker delivery than that originally envisaged. Further details are in Appendix 2.
- 4.14 Recommendation 4 of this report is to approve borrowing up to £5m from the Public Works Loan Board (PWLB), at such time as is advised by the S151 Officer as match funding to the Freeport Government seed funding relating to the delivery of the Langage site. This is slightly more than the £4.625m outlined in the Final Business Case, to allow for the maximum borrowing position. This would principally be for the assembly of land at Langage and would be funded from retained business rates generated from the Sherford and Langage zones.
- 4.15 Recommendation 5 of this report also recommends utilising funding from the SHDC Business Rates Retention Earmarked Reserve in 2022/23 (£6,000) and 2023/24 (£57,000) to provide upfront funding to the freeport, which will then be repaid in 2024/25 from the retained business rates income generated from 2024/25 onwards. This is shown in the table in 4.11.

### The aggregate business rates position for the whole freeport

- 4.16 Local Authority debt (borrowing) will be serviced primarily through the business rates generated by the Freeport. The uplift in NNDR (Business Rates) generated on the Freeport tax and Customs sites collected by the local authority partners will be held in ring fenced Freeport accounts by the precepting authorities. We estimate that this will generate £72m of business rates income over a period of 25 years (shown in the table below). In Plymouth retained business rates income will be supplemented by other income from South Yard including rental income from Oceansgate.

	2022/23	2023/24	2024/25	2025/26	2026/27	06 - 10	10 - 15	16 - 20	20 - 25	Total
SUMMARY	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NNDR Retention	0	7	712	1,793	2,186	14,219	15,945	17,601	19,440	71,902
Other Income at South Yard	94	139	163	198	356	2,954	3,609	3,763	3,642	14,919
Total debt charges	(29)	(209)	(671)	(1,005)	(1,295)	(7,765)	(7,765)	(7,765)	(7,765)	(34,269)
Lifecycle costs	0	0	(168)	(170)	(187)	(1,456)	(2,088)	(2,396)	(3,117)	(9,582)
Total Operating Costs	0	0	0	0	0	(2,290)	(2,527)	(2,789)	(3,080)	(10,686)
Residual Income	66	(63)	36	815	1,060	5,663	7,174	8,414	9,119	32,284
Risk sensitivity			5%	45%	48%	40%	45%	48%	47%	45%

### Business rates income and borrowing costs – Whole Freeport area

- 4.17 The first call on the retained business rates will be the repayment of public sector forward funding (see 4.24 – i.e. to repay the borrowing costs) to support Freeport investment. The funds generated will also be used to support operating costs after the first five years. The predicted surplus of £32m after these costs are met will be reinvested to meet wider Freeport objectives with the early priorities being innovation and skills funding and offsetting the impact of any displacement of economic activity from the surrounding area.
- 4.18 Sensitivity testing of our financial modelling has considered a range of possible reasonable worst case scenarios, including increased capital costs or construction delays, rising inflation and/or interest rates, a shortfall in private investment, and slower than predicted occupancy rates.

### Operating model

- 4.19 The Freeport operating Company will create 7 new posts (4.5 FTE) including a Freeport CEO. An additional indicative sum is included in the operating model to secure a customs site operator when our main customs sites at Langage and Sherford are operational.

Freeport Operating Costs	Start Date
Freeport CEO	Jun-22
Freeport Manager	Jun-22
Skills Coordinator	Jun-22
Project co-ordinator (P/T)	Jun-22
<i>Customs &amp; security operator (via SLA)</i>	Apr-24
Marketing, Trade and Investment Manager	Jun-22
Innovation Manager	Jun-22
Finance Manager	Jun-22
<b>Annual Total Expenditure</b>	<b>£398,500</b>

### Freeport company resources

- 4.20 In the first year of operation 2021/22 additional non repeating expenditure will be required to support specific functions required to achieve Freeport mobilisation. These include staffing and consultancy costs incurred before the Freeport team is recruited, marketing expenditure to ensure our investor pipeline is robust and additional planning capacity to ensure expeditious processing of the large volume of planning applications we expect the Freeport to generate in its build out phase.

<b>Non repeating (one-off) costs</b>	
Planning support	60,000
Programme Management	52,877
Other staff costs (Q1 22/23)	100,000
Consultancy costs (Q1 22/23)	125,000
Additional Marketing budget to support pipeline development (Q1 2021/22 until -Q2 2022/23)	90,600
<b>Total</b>	<b>428,477</b>

#### **Other one off costs**

4.21 Our operating model will be fully funded through landowner contributions supplemented with our government Freeport revenue grant over the first 5 years. We anticipate a small in year revenue overspend in 2021/22 and this has been covered with the application of a PCC grant which will be repaid in subsequent years.

<b>Funding</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Government funding for Outline Business Case (OBC)	300,000					
Government funding for Full Business Case (FBC)	187,500					
Government funding		467,460	45,040			
PCC internal grant	97,244		(92,470)	(1,560)	(1,591)	(1,623)
Plymouth City Council	50,000					
<b>Income subtotal</b>	<b>634,744</b>	<b>467,460</b>	<b>(47,430)</b>	<b>(1,560)</b>	<b>(1,591)</b>	<b>(1,623)</b>
Income from landowners		175,000	357,000	364,000	371,350	378,700
Oceansgate (PCC)		25,000	51,000	52,000	53,050	54,100
<b>Income subtotal</b>	<b>-</b>	<b>200,000</b>	<b>408,000</b>	<b>416,000</b>	<b>424,400</b>	<b>432,800</b>
<b>Total Operating Income</b>	<b>634,744</b>	<b>667,460</b>	<b>360,570</b>	<b>414,440</b>	<b>422,809</b>	<b>431,177</b>
Freeport Operating costs As per 4.19 of the report		(269,583)	(329,970)	(414,440)	(422,809)	(431,177)
Non-repeating (one-off) costs As per 4.20 of the report		(397,877)	(30,600)			
<b>Total Operating Expenditure</b>		<b>(667,460)</b>	<b>(360,570)</b>	<b>(414,440)</b>	<b>(422,809)</b>	<b>(431,177)</b>
<b>Operating Profit / (Loss)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### **Freeport company funding and expenditure**

## **Business Rates Retention Sharing Agreement with DCC**

- 4.22 South Hams District Council is the administering and billing authority for business rates for the Langage and Sherford areas of the Freeport. The Council will maintain a separate ring-fenced account for the business rates growth from both Langage and Sherford, which will be reconciled to the NNDR1 / NNDR3 Government returns to DLUHC. The NNDR form denotes this as a "designated area". The retained business rates growth will be combined for the purposes of this joint agreement.
- 4.23 The Business Rates Retention Sharing Agreement with DCC will set out the priority order in which business rates income will be utilised to fund.
- 4.24 Retained business rates from the Freezone areas in Langage and Sherford will be applied in the following priority order:
1. To repay the annual costs of borrowing including:
    - a. Interest costs
    - b. Higher of the repayment of principal and Minimum Revenue Provision (MRP – this is the capital repayment of debt)
  2. Covering any previous deficits financed by South Hams / Devon CC (if the unlikely event where business rates income was insufficient to meet obligations – borrowing or operating costs)
  3. Lifecycle costs – maintaining the infrastructure
  4. Meeting the South Hams / Devon CC proportion of the operating costs of the Freeport as set out in the Final Business Case (75% of Freeport operating costs to be met by the South Hams account and 25% from the Plymouth account). The Freeport operating costs (budget) will be subject to annual review by the local authority partners and an initial limit of £350,000 contribution from the South Hams account in year 6.
  5. To meet the freeport priorities of SHDC and DCC.
  6. The remaining surplus is to be invested according to the sharing agreement and with due regard to the priorities mutually agreed between the partners to meet wider Freeport objectives, with the early priorities being innovation and skills funding and offsetting the impact of any displacement of economic activity from the surrounding area.
  7. South Hams DC and Devon CC will jointly agree the use of business rates to finance additional investment.

### **Accountable Body**

- 4.25 Plymouth City Council will act as the sole accountable body for Freeport seed capital grant. A delivery plan incorporated within a member's agreement will be agreed to govern how this money will be managed and accounted for.
- 4.26 Plymouth City Council and South Hams District Council will establish ring fenced funds to receive the retained business rates and allocate them in accordance with a Business Rates retention policy agreed by the Local Authority Partners through the Member Steering Group (once the Freeport Operating Company is established). This will include the central government reimbursement of funds allocated to support the 5 years business rates relief we expect to give businesses that comply with our gateway policy.
- 4.27 The Member Steering Group will receive an annual audit report prepared by the S.151 officers of the Local Authority supported by the Freeport finance manager.

### **5. Gateway Policy and Business Rates Relief Policy**

- 5.1 Government requires Freeports to clearly demonstrate that they avoid displacing activity from elsewhere and provide genuine additionality – bringing in new jobs and investment. Central to this is the Gateway Policy as per Appendix 5.
- 5.2 The proposals at Langage unlock a key employment sites that has been stalled for many years. The growth would either not have happened at all in the absence of the Freeport, or would have happened much more slowly. Whilst South Yard has existing development, the site is significantly underutilised in part due to the condition of the existing buildings.
- 5.3 The Freeport is focussed on attracting new high value investment within target sectors to the Freeport. These sectors are advanced manufacturing and engineering with a particular focus on marine, defence and space including low carbon applications.
- 5.4 To ensure this is realised we will establish robust governance and management structures which align prospective tax and custom site tenants with the delivery of the identified Freeport benefits and objectives. The adoption of a Gateway Policy mitigates against risks to delivery of these benefits by providing clarity on the eligibility of prospective businesses and/or organisations into the Freeport sites.
- 5.5 The Gateway Policy will form the basis for agreements between the Freeport Company, private sector landowners and tenants who will ultimately be the beneficiaries of the tax site levers including Business Rates Retention (BRR). Compliance with the gateway policy will be the trigger for the application of discretionary Business Rates Relief.

- 5.6 UK companies and/or organisations looking to locate within the Freeport, will need to meet certain gateway criteria, which are likely to include:-
- Businesses will need to clearly demonstrate how the proposed Freeport operations fall into one or more of the sectors above;
  - Businesses will need to clearly demonstrate how the proposed Freeport operations represent incremental investment and employment additional to existing operations;
  - Local businesses will not be precluded from applying to locate within the Freeport but will need evidence new economic activity; and,
  - If a business is relocating for purposes of growth then evidence will be required to prove that no appropriate expansion space was available at the current site.
- 5.7 Landowners can discuss other uses with the local authority, should they be able to demonstrate they have made best endeavours to comply with the Gateway Policy requirements, without a pipeline of suitable prospects coming forward.
- 5.8 Businesses that do not meet the Gateway Policy will not benefit from Business Rates Relief. The decision as to who meets the policy and not will be a reserved matter for the 3 Councils.

## **6. Governance**

- 6.1 The governance partners will include the Local Authorities, the University of Plymouth (on behalf of the Universities of Plymouth and Exeter), Babcock International, Princess Yachts and Langage Energy Park Ltd.
- 6.2 In previous reports to members, the intention to establish the Freeport as a legal entity was set out, with the preferred option being a Company Limited by Guarantee. The Freeport team have received counsel about the suitability of this model from legal advisors Womble Bond Dickson and pending agreement across all three local authority partners, anticipate issuing instructions to create a suitable company model.
- 6.3 The Freeport Company will be based on a flow of powers from Government. The Local authorities will commission a Freeport operation company to manage the Freeport within a defined scheme of delegation and Local Authority reserved matters.
- 6.4 The legal model will be a company limited by guarantee with the Local Authorities as founding members. The Company 'members agreement' will give the Local Authorities the control needed whilst giving the Freeport company the autonomy to run the Freeport within defined limits.
- 6.5 The decisions that are reserved for the 3 Local Authorities will include; agreeing the company annual delivery plan (and funding for it) and the use of any excess retained business rates after debt and operating costs. Excess retained business rates

can only be spent in accordance with Freeport objectives.  
Further details on Governance are contained in Appendix 2.

## **7. Freeport Outcomes**

- 7.1 The Freeport proposal is highly ambitious and transformative, the top ten outputs anticipated are: -
- 3,584 direct jobs created with an average wage level of at least £13.92 per hour
  - 10% of jobs created to be filled by inactive claimants and registered unemployed
  - 3,000 m<sup>2</sup> of skills infrastructure
  - 2,400 m<sup>2</sup> of new innovation space
  - 137.9 hectares of land developed
  - 5 new businesses each year
  - 2-3 new FDI each year
  - 40 Business/Higher education collaborations annually from 2022
  - £4m a year in private investment in research & development
  - 10 new products developed for market
- 7.2 We expect the Freeport to deliver wider benefits such as an uplift in land value, labour supply, a skills uplift and the jobs/GVA arising from the construction of the Freeport. Our economic modelling estimates the total value of these and other benefits at £409.5m over a 15 year timeframe.



## 8. Risks

8.1 The finance section above deals with the retained business rates and the risks associated. The top seven other risks from the Risk Register (a live document) as scored after mitigation have been extracted into the report below.

Risk Description	Score	Mitigation	Score after
State subsidy framework could inhibit use of seed capital	16	Agreement reached with DLUHC that seed capital can be reallocated subject to a project change request. Legal advice suggests we need to carry out point by point review (7 principles) as this will provide best defence to challenge. Will need to demonstrate public interest outweighs market distortion.	16
Land acquisition (CPO) takes 3 years leading to reduced scale of Freeport deliverability	20	Early engagement to determine likely timescales. Realistic budget allocated to secure sites reflecting wider economic value	15
South Yard - Co-ordination of MoD services separation and diversion within the Base impacts on programme and cost	20	Secure funding for enhanced contingency allowances, reflective of work to date (e.g. HV).	12
Highways England stop further planning at any site until junctions are improved	20	25,000m <sup>2</sup> of employment space is consented and available for uptake at Langage and about 14Ha of space will become available at Sherford, for which S106 agreements already include for junction improvements. Work collaboratively with Highways England as part of infrastructure board to develop solutions and phasing.	12
Land acquisition is more expensive as a result of market trends due to shift in demand for warehousing facilities caused by increase in home shopping.	20	OBC takes account of current land acquisition costs. Some potential for increase still exists	12
Unexpected/increasing costs require additional funds to be secured or the scale back of plans (related to landowners and transport infrastructure costs)	16	Sensitivity testing on financial construction variables complete, but full transport impacts not yet known. Opportunity to phase infrastructure delivery to suit market uptake and balance public sector borrowing	12
Delays and protracted contractor/consultant procurement leads to delays in the development timetable, impacting build out and occupancy levels	16	Use framework procurement routes to speed up procurement time, writing good briefs, use frameworks for mini competitions. Potential to use direct awards and exemptions for specialist skills if time pressures cannot accept traditional procurement routes. Financial resources needed in December 2021 to commence work in early 2022.	12

## 9. Next steps

<b>Milestones/Latest Dates</b>	<b>Date</b>
Plymouth City Council Decision	23/03/2022
South Hams District Council Decision	31/03/2022
Devon County Council Decision	13/04/2022
At least one site specific agreement is signed by all parties	20/04/2022
Freeport Governing Body endorses the Full Business Case	21/04/2022
Strategic Advisory Group endorses the Full Business Case	21/04/2022
Plymouth City Council signs off on the Full Business Case as lead accountable body under delegated arrangements set out below	21/04/2022
Full Business Case is submitted to Department for Levelling Up, Homes and Communities	22/04/2022
Primary customs site is operational at Burrington Way and HMRC approvals are achieved.	06/06/2022
Tax site(s) covered by site specific agreements are legally established by statutory instrument	07/06/2022
Department for Levelling Up, Homes and Communities sign off Full Business Case and issue Memorandum to Freeport Governing Body	28/06/2022
Freeport governing body signs off on memorandum.	01/07/2022
Plymouth and South Devon Freeport is formally designated and section 31 grant letter is issued to Plymouth City Council	01/07/2022
Freeport is operational and works commence on site.	01/07/2022
All Sites will be online within 5 years of summer 2022.	31/03/2027

## 10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The proposed governance arrangements are set out in the Governance section and Appendix 2.
Financial implications to include reference to value for money	Y	<p>Recommendation 4 of this report is to approve borrowing up to £5m from the Public Works Loan Board (PWLB), at such time as is advised by the S151 Officer, as match funding to the Freeport Government seed funding relating to the delivery of the Langage site.</p> <p>This is slightly more than the £4.625m outlined in the Final Business Case, to allow for the maximum borrowing position. This would principally be for the assembly of land at Langage and would be funded from retained business rates generated from the Sherford and Langage zones.</p>

		Recommendation 5 of this report also recommends utilising funding from the SHDC Business Rates Retention Earmarked Reserve in 2022/23 (£6,000) and 2023/24 (£57,000) to provide upfront funding to the freeport, which will then be repaid in 2024/25 from the retained business rates income generated from 2024/25 onwards. This is shown in the table in 4.11.
Risk	N	Refer to section 8
Supporting Corporate Strategy		Economy
Equality and Diversity		An Equality Impact assessment has been carried out by Plymouth City Council as the accountable body.
Safeguarding		No direct implications
Community Safety, Crime and Disorder		No direct implications
Health, Safety and Wellbeing		
Other implications		

### **Supporting Information**

**Appendix 1 – Site Plans**

**Appendix 2 – Governance further detail**

**Appendix 3 – Customs site background**

**Appendix 4 - East Devon District Council Enterprise Zone**

**Appendix 5 – Gateway Policy**

### **Background Documents:**

None