

Report to: **Executive**

Date: **30 November 2023**

Title: **Plymouth and South Devon Freeport: Report of Task & Finish Group**

Portfolio Area: **Economic Development**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: The Full Council meeting to be held on 14 December 2023

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## **RECOMMENDATIONS:**

### **That the Executive:**

- 1. Thank the Task and Finish Group for their considerable and in-depth work reviewing the risks and opportunities of the Freeport; and**
- 2. Consider the 17 recommendations set out by the Task and Finish Group in section 2 of this report and make a recommendation to Full Council.**
- 3. Agree that the Executive's recommendations on the report are considered by Full Council on 14 December 2023**

## **1. Executive summary**

- 1.1 The Task and Finish Group arising from the Audit and Governance Committee conducted an investigation into the costs, opportunities, risks and governance of the Plymouth and South Devon (PASD) Freeport. This report to the Executive is a conclusion from that investigation and sets out recommendations for the Executive to consider. Given the current situation, the Task and Finish Group feel that it is important that all Members have a chance to understand the opportunities and risks that the Freeport represents and have an opportunity to consider and debate the topic.

1.2 The Task & Finish (T&F) Group feel that the complex Freeport project has been well managed and that a great deal of work has been done by officers. The T&F Group has appreciated the information provided by Council officers and Members upon which this report is based.

1.3 The following aspects were investigated by the T&F Group:

- i. Costs & financial returns
- ii. Benefits and opportunities
- iii. Risk management
- iv. Governance and engagement

1.4 The Council has published Frequently Asked Questions and Answers regarding the Plymouth and South Devon Freeport on its website at the link below:

<https://www.southhams.gov.uk/ferry-and-harbour/plymouth-and-south-devon-freeport>

## **Task And Finish Group Report of the Audit and Governance Committee**

### **2. Summary Recommendations**

1. That the Executive considers the recommendations in this report and presents an update on the Freeport to Full Council, including a copy of this report, at an early opportunity.
2. That the Council works to simplify the land acquisition plan and separate the two transactions. The purchase of Sherford can go ahead as approved by the Council; but the Langage purchase should be put on hold and be subject to a later approval by the Council if and when necessary.
3. If land values or the situation changes, the Council may want to update any valuation as required.
4. That the Council strives to achieve best value in any land sale, balanced against best outcomes in employment and economic investment.
5. That the latest financial projections, showing best estimates of business rates income, interest rate payments and the worst-case scenario (as reviewed by the T&F Group) is set out in a report to the Executive with any recommendations being presented to the Full Council.
6. The Executive takes a close look at the current finance projections, as well as the worst-case scenario, to ensure that costs and financial risks are understood and acceptable to the Council. We suggest a stage gate process so that a future explicit investment decision (such as Langage) is made using the most up to date information.

7. That the Director of Place reports every three months on the progress of the that part of the development of the Freeport in South Hams to the Executive, comparing actual progress of the development and occupancy to the plan; and that mitigating actions are put in place where necessary.

8. That the Monitoring Officer provides a report to the Executive on the strength of the legal agreements entered into by the Council and in particular those parts relating to the land assets and income stream.

9. The Council encourages the Freeport company to investigate the possibility of the Gateway policy being strengthened, or other controls could be put in place to ensure that the land is only used for suitable purposes that are consistent with the Freeport principles.

10. That the Council works with and/or encourages the Freeport company to develop clear outcomes and tangible delivery plans for the benefits to the environment, the green economy, skills, well-paid jobs, small business, and social outcomes in the South Hams area of the Freeport, through which progress can be monitored and evaluated so that these wider benefits can be realised. The T&F group see these wider benefits crucial to long-term legitimacy of the Freeport.

11. That the Council works with and/or encourages the Freeport company to enhance the focus on net zero and the green economy as a priority objective for the Freeport. This objective should be supported through the establishment of a net zero Advisory Board to deliver this part of the mission.

12. The Council seeks to encourage the Freeport company to ensure that all construction at Sherford and Langage should explicitly consider net zero targets, an environmental impact assessment should be done, and mitigation should be carried out if needed.

13. That the Council requests the Freeport company to publish its risk management framework and update it on a six-month basis.

14. That the Council develops and publishes its own risk policy and risk register for its involvement in the Freeport, so that each risk can be managed and so that the plan can be reviewed by Audit and Governance and others.

15. That the Freeport company be encouraged to monitor the movement of businesses into the Freeport to ascertain any possible localised economic displacement and produce such a report with possible remedial measures should such displacement becomes apparent SHDC should consider the use of a proportion of retained business rates generated through the Freeport to mitigate any localised economic damage, such as through localised stimulus spending.

16. That the Executive reviews the delegated powers and authority related to the Freeport and determines if any changes are needed.

17. That the Council together with the Freeport company instigates a communication and engagement programme to publish information explaining the benefits of the Freeport to the local parish and the wider South Hams region, to inform public opinion and help answer any questions that might arise.

## **2.1 Background**

2.2 The T&F Group recognises the potential benefits that the Freeport offers for residents of the South Hams. However, there are a number of costs and risks which we wish to highlight and will need to be well managed going forward.

2.3 As of September 2023, SHDC has entered into legal agreements relating to the Freeport. Costs incurred by SHDC so far have been £75,300 (Appendix B). Additional anticipated costs for SHDC are in the order of £5 million in the early years of the project, raised from PWLB borrowing and paid for by business rates generated from the Freeport over the life of the project. Therefore the Freeport is projected to be self-financing, in that the business rates generated will pay for the borrowing costs.

2.4 The Council has signed an MoU (Memorandum of Understanding) with Government along with a partnership agreement with Devon County Council and Plymouth City Council both of which impose legal obligations on the Council. Any unilateral withdrawal from the Freeport will result in the Council being in breach of its obligations. Furthermore, we believe it makes sense to continue to pursue the Freeport project for the following reasons:

- i. The Freeport will bring new investment, projected to be over £300 million, and an estimate of 3,500 jobs across Plymouth and South Hams, together with enhancements to skills and infrastructure.
- ii. 100% of the business rates paid by businesses operating in that part of the Freeport within South Hams will be retained in a South Hams District Council ringfenced business rates account, rather than the 14% normally retained by the Council, to be used for the delivery of Freeport objectives<sup>1</sup>. This results in a potential fund of £24m (see 3.4 for how this is allocated) over 25 years (after the deduction of expenses) for investment in the South Hams area for Freeport-related investments.

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<sup>1</sup> The expenditure of retained business rates is set out in the business rates sharing agreement between SHDC and DCC, as outlined in section 3.4 of the report

- iii. Although there are risks within the project there are also very grave risks from withdrawing at this stage, in reputational, legal and cost terms. **The T&F Group believes that on balance the benefits of the Freeport outweigh the costs and risks involved, so long as these are understood and continue to be well managed.**
- 2.5 Furthermore, if the Council proceeds with the Freeport project there is an opportunity for SHDC to shape the goals and the work of the Freeport to align it more closely to the priorities of the Council. In particular, we see an opportunity for clearer and stronger Freeport outcomes that would help the environment, the green economy, local skills, well-paid jobs, small business, and social outcomes, and **we recommend more focus on these desirable outcomes.**

### **3. Cost and Financial Returns**

- 3.1 Total capital investment in the Freeport is predicted to reach £314m over 25 years with £25m of seed capital (Government grant) from the Government, £29m from local council funding and up to £250m from business (private sector investment).
- 3.2 Around £5m of the investment would come from SHDC and most of this investment will be used to purchase land, as the Council is responsible for making land at Sherford available for the Freeport. To enable this SHDC intends to borrow funds from the Public Works Loan Board (PWLB) for the investment. In March 2022 the Council approved borrowing up to £5m (this was increased to £5.5million in March 2023). Other Freeport funding will come from the SHDC Business Rates reserve.
- 3.3 This investment will be recouped as a capital receipt through the sale of land (which is the intent at the current time), and in addition the PWLB loan will be repaid by business rates income from Langage and Sherford from the retained business rates fund.
- 3.4 Of the £40m projected surplus after 25 years, 20% is to be allocated to Devon CC, and 20% for SHDC specific priorities, leaving £24m for spending in the South Hams area. This spending will be on Freeport related projects guided by the three Councils, with priorities being on skills, innovation, and carbon net zero projects, and to reduce and mitigate and displacement of jobs.

- 3.5 Borrowing was originally intended for the purchase of the Langage site, and the Council agreed in September 2022 to make a CPO (Compulsory Purchase Order) application. A decision was then made in March 2023 to reallocate the Langage funds to be used for either the same purpose or for the acquisition of land at Sherford instead.
- 3.6 Some members of T&F Group feel that decisions like this, close to the May 2023 election, were not ideal and heightened a sense of cynicism and public doubt around the project. The T&F group is concerned about the public perception of the project and hopes that more open information and accountable decision-making will restore confidence.
- 3.7 The business case submitted by the Council and approved by government was to purchase land at Sherford, which would then be sold on to an appropriate developer / occupier. In this way, releasing seed funding (Government grant funding) for investment in Langage, if needed.
- 3.8 However, the flow of money and approvals is complex (as set out in Appendix A) and it is important to clarify that there is no obligation nor approval in place for the Council to acquire both Sherford **and** Langage.
- 3.9 **We recommend that the Council works to simplify the land acquisition plan and separate the two transactions. The purchase of Sherford can go ahead as approved by the Council; but the Langage purchase should be put on hold and be subject to a later approval by the Council if and when necessary.**
- 3.10 We understand that officers have land valuations from one valuer following the red book process. **We recommend that if the land values or the situation changes, the Council may want to update any valuation as required.**
- 3.11 We also understand that if any losses on the sale of land are made (after deduction of SHDC's selling costs) these would fall proportionately on SHDC, in accordance with the ratio of seed funding to match funding. A lower sale value would mean that the capital receipt which is retained by SHDC is lower in value.
- 3.12 This would not cause a loss to SHDC's finances as the borrowing on the land would continue to be paid for from the business rates income generated by the Freeport. The T&F Group highlight this risk, but also the mitigation that the land sale capital receipt is not required to repay the PWLB borrowing, as this will continue to be repaid from the business rates generated in the Freeport. **We recommend that the Council strives to achieve best value in any land sale, balanced against best outcomes in employment and economic investment.**

- 3.13 The income stream to fund interest and capital payment is dependent on retained business rates income from occupiers of the Freeport. We recognise that the financial success depends on a number of factors such as on-time delivery of the land, the occupancy rates, and inflation (which increases business rate income).
- 3.14 The financial viability is also affected by the interest rate to be paid on the £5.5m borrowing, which has increased since the initial plans were made. **We recommend that the latest financial projections, showing best estimates of business rates income, interest rate payments and the worst-case scenario (as reviewed by the T&F Group) is set out in a report to the Executive with any recommendations being presented to the Full Council.**
- 3.15 **We recommend that the Executive takes a close look at the current finance projections, as well as the worst-case scenario, to ensure that costs and financial risks are understood and acceptable to the Council. We suggest a stage gate process so that a further explicit investment decision (such as the purchase of Langage) is made using the most up to date information.**
- 3.16 The report to Council in March 2022 stated that "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; other industrial sites will be between 11% and 90% occupancy by 2024/25". The most up to date assumptions used within the September 2023 financial modelling are 25% occupancy at Langage in 25/26, 46% occupancy in 2026/27 and 60% occupancy by 27/28. Occupancy at Sherford is projected to commence in 2027/28.
- 3.17 If development is delayed and the tenant occupies the sites late, then the retained business rate income stream is delayed and net income would be reduced. Information provided to the T&F Group suggest that some aspects of the Freeport timescale, planned in January 2023, are already up to five months late by August 2023.
- 3.18 Slippage of the infrastructure development has mitigated this and positively impacted the cash flow in the early years, as shown in Appendices C and D which compares the net income model shown to Council in March 2022 with the latest one provided to the T&F Group in late August 2023. In these 18 months the net income in the first 5 years of operation has changed from net positive projection of £2m to a net deficit of £288,000. This cashflow impact is because of the delay in occupancy and due to the fact that business rate income from both Langage and

Sherford has moved back approximately 2 years. Overall, it can be seen from the graphs in Appendices C and D that the total forecast for business rate income is greater than was previously forecast.

- 3.19 In the event that SHDC and DCC borrowing is fully drawn down and there was no business rate income from any tenant, it would result in a maximum of £366,000 cost per year for South Hams District Council (£5.125m borrowed over 23 years at 4.5% fixed interest costs). Therefore, it is essential that the development and borrowing costs stay synchronised so as to mitigate this risk.
- 3.20 **We recommend that the Director of Place reports every three months on the progress of that part of the development of the Freeport in South Hams to the Executive, comparing actual progress of the development and occupancy to the plan; and that mitigating actions are put in place where necessary** and phasing the payment for the land purchase at Sherford to be the most favourable for the Council (for example, in the case of stage payments, using the Government seed funding first and the Council's borrowing in the latter stage payments). This then delays the borrowing costs until later years when there is more business rates income to meet the costs.
- 3.21 However, it should also be noted that the latest projection and modelling **shown in Appendix D** shows an increase in the amount of residual business rates income building up over the 25 years due to the higher business rates income, as a result of higher projected inflation. In March 2022, the residual business rates income was projected to be £27.32million over the 25 years, with a 41% risk sensitivity. The latest modelling in September 2023 shows the residual business rates income is projected to be £40.989million over the 25 years, with a 47% risk sensitivity. This means that the projected business rates income would have to fall by 47% (roughly half) before the costs within the ringfenced business rates account (such as the borrowing costs) would not be covered by the business rates income generated by the Freeport and not be self-financing.
- 3.22 If, for any reason, the Freeport is wound up or its conditions varied by a future Government, the expected benefits and income might be lost. **We recommend that the Monitoring Officer provides a report to the Executive on the strength of the legal agreements entered into by the Council and in particular those parts relating to the land assets and income stream.**

#### **4. Benefits and Opportunities**

- 4.1 It is claimed that the Freeport will supercharge the local and regional economy by building on our nationally unique



capabilities in marine, defence and space, including low carbon applications.

- 4.2 Expected benefits of the freeport include: the attraction of new businesses; the creation up to 3,500 new jobs paying at or above the national average (with an average wage level of at least £13.92 per hour); skills development, innovation, and the support of climate goals.
- 4.3 To ensure that the Freeport attracts businesses that are consistent with Freeport principles it has put in place a Gateway policy. This ensures that business rates relief are only applied to businesses that meet the criteria. However, some organisations, which may not be compliant, are interested in acquiring the Sherford site. The current plan is for SHDC to purchase the site to ensure that we have full control and therefore can preserve the integrity of the Freeport and ensure land is used aligned to its strategic purpose.
- 4.4 This scenario highlights that Gateway policies, however robust can only levy financial sanctions, rather than place an absolute barrier to non-aligned use in the Freeport and reinforces the policy of the Council acquiring the site.
- 4.5 **We recommend that the Council encourages the Freeport company to investigate the possibility of the Gateway policy being strengthened, or other controls could be put in place to ensure that the land is only used for suitable purposes that are consistent with the Freeport principles.**
- 4.6 There are a number of other potential benefits to our region including training, skills, cycle tracks, innovation and zero carbon commitments. However, the action plans to deliver these benefits for the region are still at an early stage in planning. We see an opportunity for clearer and stronger Freeport outcomes in line with SHDC priorities, by using the retained business rates surplus.
- 4.7 **We recommend that the Council works with and/or encourages the Freeport company to develop clear outcomes and tangible delivery plans for the benefits to the environment, the green economy, skills, well-paid jobs, small business, and social outcomes in the South Hams area of the Freeport, through which progress can be monitored and evaluated so that these wider benefits can be realised. The T&F group see these wider benefits crucial to long-term legitimacy of the Freeport.**
- 4.8 The Langage site includes the proposal to build a 10MW green hydrogen hub, the first of its kind in Devon and Cornwall. In March 2023 the Government announced financial support to the

project through its Hydrogen Business Model. The Freeport has an ambition to act as an exemplar to deliver net zero for the wider region significantly ahead of 2050, but there is no Advisory Board in the Freeport company tasked with making sure this goal is met, unlike for other areas such as skills and innovation.

- 4.9 **We recommend that the Council works with and/or encourages the Freeport company to enhance the focus on net zero and the green economy as a priority objective for the Freeport. This objective should be supported through the establishment of a net zero Advisory Board to deliver this part of the mission.**
- 4.10 **We recommend that the Council seeks to encourage the Freeport company to ensure that all construction at Sherford and Langage should explicitly consider net zero targets, an environmental impact assessment should be done, and mitigation should be carried out if needed.**

## 5. Risk Management

- 5.1 In addition to the points noted above, the project raises a number of strategic, financial, operational and reputational risks for SHDC. Although risks for the Freeport body have been identified, and some initial risks are outlined in the Council paper of March 2022, we believe there is no full risk analysis or management plan in place for the Council itself. We see the following as some of the potential risks for the Council arising from this project and the *mitigations* discussed with the T&F group:
- i. Risk that a new Government changes the way the Freeport operates, or the way that retained business rates can be used.
  - ii. Risks that costs escalate, or that the projected income stream fails to meet its target so that income does not cover the loan repayments costs. This could be caused by a lack of tenants, delays in the developments or other factors beyond the control of the Council.  
*The break-even point needs to be monitored and the synchronising of borrowing against income maintained, so that the costs of borrowing do not exceed the ability to repay the loan. Income would need to drop by nearly half before the income and costs break-even point is breached.*
  - iii. Risk that land values decline after an SHDC purchase, leading to a reduced capital receipt.  
*The current valuation and historic land values do not suggest this would be the case, but it is a possibility.*
  - iv. Risks that the operational or other costs increase.

*The costs of operating the Freeport are set by the annual business plan, which is a reserved matter and therefore in the control of the Council.*

- v. Risk of land contamination or environmental or carbon impact from the works on the sites.  
*Each land parcel is subject to its own due diligence undertaken by the appropriate promotor / developer / land owner.*
- vi. Risk that there are fewer Freeport jobs created than projected, or that the jobs are lower paid, leading to reduced economic or social benefits for residents.
- vii. Risk that firms from other parts of the South Hams relocate into the Freeport, displacing jobs and reducing the net benefit for the region. This may be particularly the case for small and medium sized companies.  
*The gateway policy is specifically drafted to prevent this and needs to be applied robustly.*
- viii. Risk that the Freeport body becomes unmanageable due to political or other differences between the Members (Councils) and the other Directors and / or the landowners, leading to lack of progress and success.  
*Strong relationships are in place between the three local authorities, which are underpinned by tripartite agreements.*
- ix. Risk that any delay or cost escalation leads to a reputational impact on the Council.
- x. Risk that local training infrastructure cannot meet the skills needs of businesses locating to the Freeport thus adding inward migration pressure and associated impacts to the housing market, whilst also blocking local people from the economic opportunities offered.  
*The Freeport programme includes skills and training, delivered through a formal collaboration of the universities and colleges to mitigate this risk.*

- 5.2 **We recommend that the Council ask the Freeport to publish its risk management framework and update it on a six-monthly basis.**
- 5.3 **We recommend that the Council develops and publishes its own risk policy and risk register for its involvement in the Freeport, so that each risk can be managed and so that the plan can be reviewed by Audit and Governance and others.**
- 5.4 **We recommend that the Freeport company be encouraged to monitor the movement of businesses into the Freeport to ascertain any possible localised economic displacement and produce such a report with possible remedial measures should such displacement becomes apparent SHDC should consider the use of a proportion of retained**

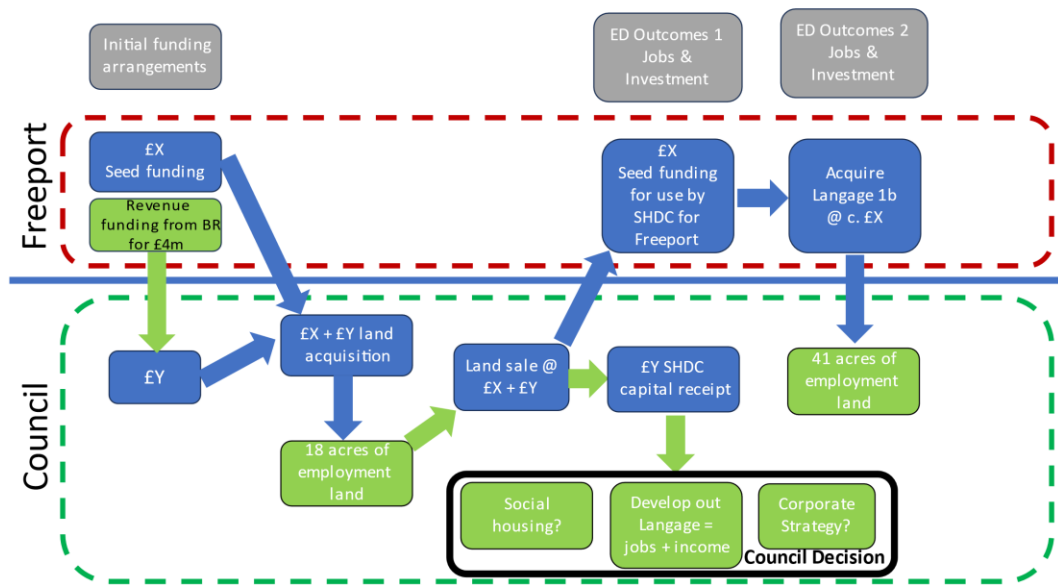
**business rates generated through the Freeport to mitigate any localised economic damage, such as through localised stimulus spending.**

- 5.5 There were also some risks identified at an earlier stage of the project relating to weakened planning controls and the extension of the Freeport (or enterprise zone) to a much wider area. This risk now seems not to be real as we understand that traditional planning rules still apply to the Freeport and the enterprise zone applies to Plymouth Oceansgate only. However, the Council should keep a watch on this potential risk.

## **6. Governance & Engagement**

- 6.1 In March 2022 the Council gave authority to the Director of Place and Enterprise, in consultation with the Leader of the Council, Executive Member for Economy and S151 Officer to purchase land at Langage (later amended to include Sherford.). **We recommend that the Executive reviews the delegated powers and authority related to the Freeport and determine if any changes are needed.**
- 6.2 While the planning policy around Sherford and Langage has been through normal planning consultation, the Freeport investment and the decision by SHDC to proceed has not had any public consultation, either in the relevant parishes or across the region.
- 6.3 **We recommend that the Council together with the Freeport company instigates a communication and engagement programme to publish information explaining the benefits of the Freeport to the local parish and the wider South Hams region, to inform public opinion and help answer any questions that might arise.**

## Appendix A: Funding Flow Chart



## Appendix B: Expenditure to September 2023

FREEPORT EXPENDITURE		£		
<b>COST CENTRE S1037/3677</b>				
<b>Financial Year 2022-23</b>				
Legal Fees for the Compulsory Purchase		43,764	paid	
<b>Financial Year 2023-24</b>				
Legal Fees for the Compulsory Purchase		3,036	paid	
Subsidy control advice at Sherford		3,500	not yet paid	
Land Valuation of Sherford		25,000	not yet paid	
<b>TOTAL</b>		<b>75,300</b>		
<b>Business Rates - Memorandum Account</b>				
<b>Plymouth and South Devon Freeport</b>				
Annual Landowner contribution for 2022-23 to the Freeport		50,000		
Funded by the Business Rates Retention fund.				
<b>TOTAL</b>		<b>50,000</b>		

## Appendix C: Net Business rates projections for PASD Freeport

South Hams and Devon County Council ringfenced Business Rates Account – Original financial forecasting as set out within the Council report on 31<sup>st</sup> March 2022

South Hams ringfenced Business rates account	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000	Yrs 6-10	Yrs 11-15	Yrs 16-20	Yrs 21-25	Total £'000
						27/28 - 31/32 £'000	32/33 - 36/37 £'000	37/38 - 41/42 £'000	42/43 - 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%

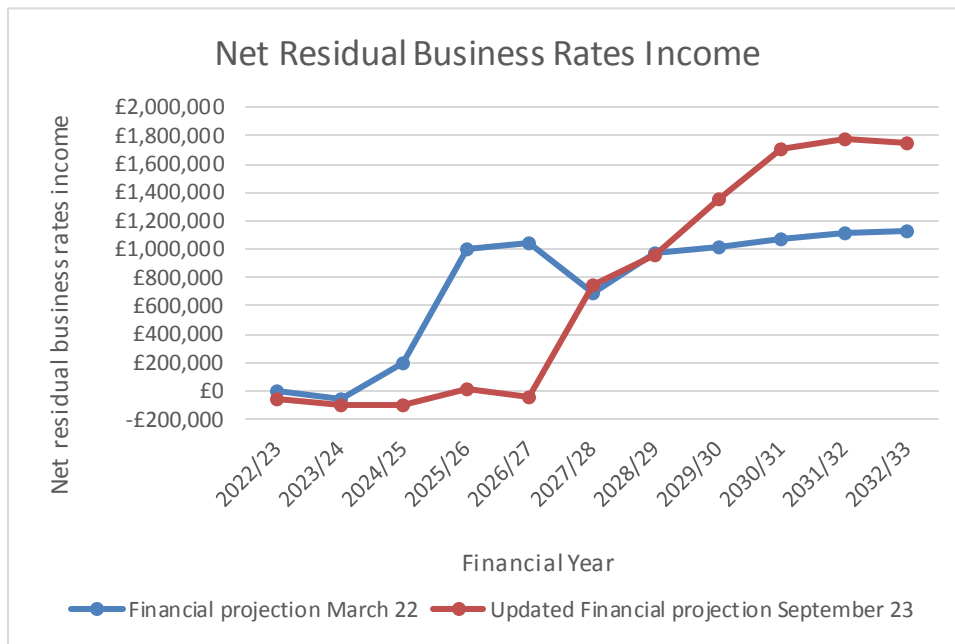
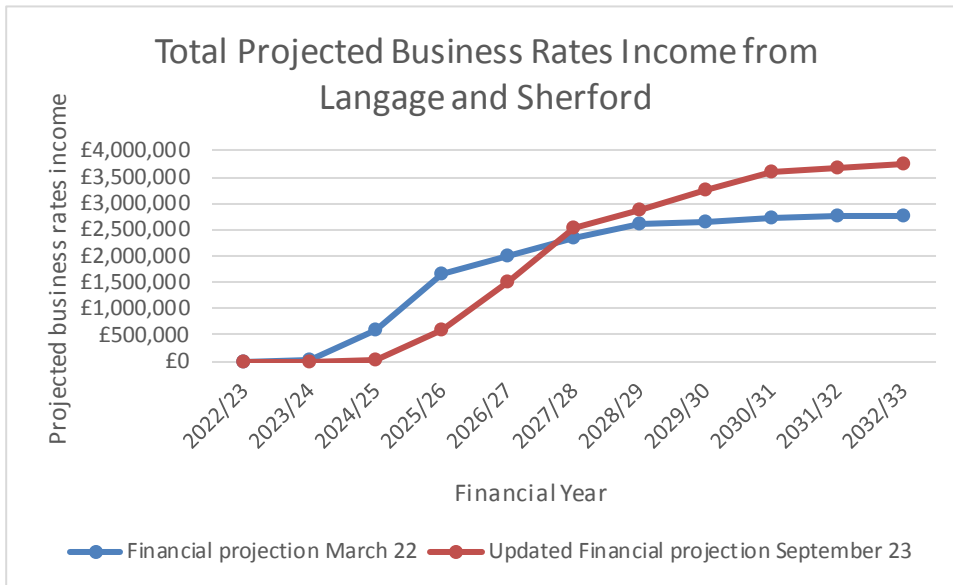
## Appendix D: South Hams and Devon County Council ringfenced Business Rates Account

Latest (September 2023) financial forecasting

South Hams	0	1	2	3	4	5	Yrs 6-10	Yrs 11-15	Yrs 16-20	Yrs 21-25	Total
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	28/29 - 32/33	33/34 - 37/38	38/39 - 42/43	43/44 - 47/48	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Retained Business Rates - Langage	0	0	8	600	1,505	1,961	14,043	16,466	18,181	20,074	72,838
Retained Business Rates - Sherford	0	0	0	0	0	589	3,126	3,451	3,811	4,207	15,184
<b>Total South Hams Retained Business Rates</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>600</b>	<b>1,505</b>	<b>2,550</b>	<b>17,169</b>	<b>19,917</b>	<b>21,992</b>	<b>24,281</b>	<b>88,022</b>
Total debt charges - Langage DCC	0	0	0	(322)	(1,021)	(1,021)	(5,105)	(5,105)	(5,105)	(5,105)	(22,784)
Total debt charges - Langage SHDC	0	0	0	(25)	(80)	(80)	(400)	(400)	(400)	(400)	(1,785)
Total debt charges - Sherford	0	0	0	(90)	(286)	(286)	(1,430)	(1,430)	(1,430)	(1,430)	(6,382)
<b>Total Debt Charges for SHDC and DCC</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(437)</b>	<b>(1,387)</b>	<b>(1,387)</b>	<b>(6,935)</b>	<b>(6,935)</b>	<b>(6,935)</b>	<b>(6,935)</b>	<b>(30,951)</b>
Life Cycle costs - Langage	0	0	0	(42)	(41)	(49)	(625)	(1,060)	(1,248)	(1,931)	(4,996)
Life Cycle costs - Sherford	0	0	0	0	(1)	(8)	(184)	(365)	(426)	(434)	(1,418)
<b>Total South Hams Lifecycle Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(42)</b>	<b>(42)</b>	<b>(57)</b>	<b>(809)</b>	<b>(1,425)</b>	<b>(1,674)</b>	<b>(2,365)</b>	<b>(6,414)</b>
Freeport operating costs - Langage	0	0	0	0	0	(237)	(1,257)	(1,392)	(1,532)	(1,695)	(6,113)
Freeport operating costs - Sherford	0	0	0	0	0	(119)	(631)	(696)	(768)	(848)	(3,062)
<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>(356)</b>	<b>(1,888)</b>	<b>(2,088)</b>	<b>(2,300)</b>	<b>(2,543)</b>	<b>(9,175)</b>
Landowner Contribution SHDC	(50)	(104)	(109)	(113)	(117)	0	0	0	0	0	(493)
<b>Total Landowner Contribution - Langage - SHDC</b>	<b>(50)</b>	<b>(104)</b>	<b>(109)</b>	<b>(113)</b>	<b>(117)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(493)</b>
Residual Business Rates - Langage	(50)	(104)	(101)	98	246	574	6,656	8,509	9,896	10,943	36,667
Residual Business Rates - Sherford	0	0	0	(90)	(287)	176	881	960	1,187	1,495	4,322
<b>Total South Hams Residual Business Rates</b>	<b>(50)</b>	<b>(104)</b>	<b>(101)</b>	<b>8</b>	<b>(41)</b>	<b>750</b>	<b>7,537</b>	<b>9,469</b>	<b>11,083</b>	<b>12,438</b>	<b>40,989</b>
<i>Risk sensitivity - South Hams</i>				1%	-3%	29%	44%	48%	50%	51%	47%

	Net Residual Business rates per year; £ '000					Next 20 years	25-year Total
	2022-23	2023-24	2024-25	2025-26	2026-27		
Original plan (March 2022)	-6	-57	199	1,001	1,044	25,138	27,320
Current plan (August 2023)	-50	-104	-101	8	-41	41,277	40,989

## Appendix E: Comparison of Financial Projections between March 2022 and September 2023





## 7. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>As part of the Audit and Governance Committee's Workplan for 2023/24, the Committee agreed to establish a task and finish group to consider the governance and other arrangements relating to the creation of the Freeport (Min AG.8/23 refers)</p> <p>Although the task and finish group was to report back to the Audit and Governance Committee, with the view that the Committee would make any recommendations to the Executive, at the meeting of the Audit and Governance Committee on 28 August 2023 it was agreed that the Task and Finish Group would make any recommendations directly to the Executive.</p>
Financial implications to include reference to value for money		<p>The latest projection and modelling shown in Appendices C, D and E shows an increase in the amount of residual business rates income building up over the 25 years due to the higher business rates income, as a result of higher projected inflation. In March 2022, the residual business rates income was projected to be £27.32million over the 25 years, with a 41% risk sensitivity. The latest modelling in September 2023 shows the residual business rates income is projected to be £40.989million over the 25 years, with a 47% risk sensitivity. This means that the projected business rates income would have to fall by 47% (roughly half) before the costs within the ringfenced business rates account (such as the borrowing costs) would not be covered by the business rates income generated by the Freeport and not be self-financing.</p>
Risk		See Risk Management (Section 5).
Supporting Corporate Strategy		Economy

Consultation & Engagement Strategy		<p>How are stakeholders engaged?</p> <ol style="list-style-type: none"> <li>1) Built on the extensive public consultation through the Plymouth and South Devon Joint Local Plan</li> <li>2) Held two major stakeholder events with the chamber of commerce, local MPs and 100+ other delegates prior to submitting the Full Business Case to Government</li> <li>3) Secured formal political decisions from each of the three local authorities ensuring democratic accountability.</li> </ol> <p>Going forward the Freeport plans to:</p> <ol style="list-style-type: none"> <li>1) Deliver stakeholder event to cover cross cutting issues, such as clean growth and CNZ</li> <li>2) Continue to be subject to joint scrutiny by the local authority partners and government</li> <li>3) Publish board meetings on the website (complete)</li> <li>4) Adopt Freeport company policies covering feedback and FOI and Nolan requirements</li> <li>5) Follow normal local authority statutory processes</li> </ol>
Climate Change - Carbon / Biodiversity Impact		Decarbonisation and green economy are a golden thread running through the Freeport requirements (as set out by Government). This report makes further recommendations that can be acted upon to further these benefits.
Comprehensive Impact Assessment Implications		
Equality and Diversity		
Safeguarding		
Community Safety, Crime and Disorder		
Health, Safety and Wellbeing		
Other implications		

### **Supporting Information**

#### **Appendices:**

**Appendix A:** Funding Flow Chart

**Appendix B:** Expenditure to September 2023

**Appendix C:** Net Business rates projections for PASD Freeport

**Appendix D:** South Hams and Devon County Council ringfenced Business Rates Account

**Appendix E:** Comparison of Financial Projections between March 2022 and September 2023

**Background Papers:** N/A