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| Report of: | Charlotte Benjamin, Director of Legal and Governance Services Andy Preston, Executive Member – The Mayor |
| Submitted to: | Individual Executive Member Meeting – The Mayor – 2 February 2021 |
| Subject: | Middlesbrough Council Support for Tees Valley Bid for Freeport Status |

Summary

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| Proposed decision(s) |
| That the report be noted and to endorse the submission of a Tees Valley Combined Authority (TVCA) led bid to the Government by 5 th February 2021 for a Freeport in the Tees Valley sub-region. |

| Report for: | Key decision: | Confidential: | Is the report urgent? |
|--------------------|----------------------|----------------------|------------------------------|
| Decision | Yes | N/A | Urgent |

| Contribution to delivery of the 2020-23 Strategic Plan | | |
|---|--------------|-----------------|
| People | Place | Business |
| N/A | N/A | . |

| Ward(s) affected |
|-------------------------|
| N/A |

What is the purpose of this report?

1. The purpose of this report is to seek an Executive decision to endorse the submission of a Tees Valley Combined Authority (TVCA) led bid to the Government by 5th February 2021 for a Freeport in the Tees Valley sub-region. It is proposed that Middlesbrough Council’s endorsement of the bid is signified by the Elected Mayor signing the bid on behalf of the Council.

Why does this report require a Member decision?

2. The bid for Freeport status must be supported by the leader of each Local Authority- in this case the Elected Mayor of Middlesbrough - within whose area the proposed Freeport zone lies. An Executive decision is sought to endorse the bid and to enable

the Mayor to signify the Council's endorsement by signing the bid. Should the bid be successful, then further discussions will take place with TVCA and Government in order to finalise proposals for the Freeport, prior to a further report being brought back to full Executive for approval.

Report Background

Government Freeport Agenda

3. As set out by the Government, Freeports are a flagship programme that will play an important part in the UK's post-COVID economic recovery and contribute to realising the levelling up agenda by bringing jobs, investment and prosperity to some of the most deprived communities across the UK, with targeted and effective support. The government recognises that different regions will have different existing strengths, institutions and local economic strategies.
4. The Government intends to select successful Freeport locations that account for and take full advantage of the diverse potential and comparative advantage of different regions of the UK. The Government has confirmed that they remain committed to running a fair, open and transparent bidding process to ensure Freeport locations are selected on the basis of their ability to fulfil our objectives.

Freeport Bid Submission Process

5. The Government published its Freeport Prospectus on 16th November 2020 which provided detail on the UK Freeports model and sets out how bidders can apply for Freeport status in England.
6. The bid to Government will be prepared and made by the TVCA by the 5th February 2021 deadline as set out by the Government. Post the submission HM Treasury will evaluate the bids throughout spring 2021.
7. A winning bid must be rooted in the Tees Valley's globally competitive strengths and meet the Government's three criteria: creating hubs for global trade; regeneration and levelling up; and creating hotbeds of innovation. The competition criteria are a good fit for the Tees Valley, including the need to demonstrate how the proposed Freeport supports the UK's Net Zero ambitions.
8. Prior to submission on 5th February 2021, the final bid will need to be agreed and signed by the Local Authorities included in the bid and the relevant persons from the TVCA/LEP. The agreement from Middlesbrough Council is sought through this decision, with the signatory being the Elected Mayor.
9. Upon a positive decision at the Individual Executive Member – The Mayor meeting, the agreement from the TVCA/LEP would be sought at a future TVCA Cabinet meeting on 29 January 2021.
10. Post a successful submission and assessment process, the TVCA will enter into formal discussions with Government. Upon successful award, in readiness for adoption of agreed boundaries and associated tax sites/measures in summer 2021 a full business case and subsequent passage of legislation will take place throughout 2021 and into 2022 depending on Government priorities.

11. It is anticipated that once the final details of the Freeport are established via discussions with Government and TVCA a further report will be brought back to full Executive for agreement.

Freeport General Proposals

12. Upon a successful bid to Government the exact nature and composition of the Freeport in the Tees Valley will be subject to further discussions with HM Treasury.

13. Please note that, as set out below, some details with regard to the proposed locations of customs and tax zones are confidential bearing in mind the competitive bidding process with the Government and, therefore, these are considered to be exempt from disclosure under Paragraph 3 of Part 1, Schedule 12A, Local Government Act 1972 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)). Verbal information may be disclosed during the Executive meeting with regard to these zones but, at this point, Executive will be asked to resolve to exclude the press and public in order to maintain confidentiality.

14. Notwithstanding the future discussions with Government and potential refinement, the principle of the Freeport proposals remain the same. They will designate land in an area and then allow incentives on that land; making it attractive for future development and economic growth. The designated land will include the following:

- Custom Zones will:
 - Be physically defined land which can be made secure.
 - Allow businesses in the zone to receive tariff benefits, including duty deferral while goods remain on site and duty inversion if the finished goods exiting the Freeport attract a lower tariff than their component parts.
 - Be subject to the UK's trade agreements, businesses may also be able to take advantage of customs duty exemption on goods that are imported into a Freeport, processed into finished goods and subsequently re-exported.
 - Authorise businesses in the zone to use simplified import procedures.
 - Be subject to simplified planning processes.
 - Be located at sites in the borough of Redcar & Cleveland and elsewhere in the Tees Valley. Due to the bidding process to Government being competitive, to reveal full details publicly at this time, ahead of the submission deadline, may potentially disadvantage the bid's prospects of success.

- Tax Zones will:
 - Be physically defined land.
 - Allow businesses to benefit from Stamp Duty Land Tax (SDLT) relief.
 - Allow businesses to benefit from Enhanced Structures and Building Allowance (SBA), providing enhanced tax relief for firms constructing or renovating structures and buildings for non-residential use within Freeport tax sites. This accelerated relief is intended to allow firms to reduce their taxable profits by 10% of the cost of investment every year for ten years, compared with the standard 3% p.a. over 33 and a third years available nationwide. This relief would be claimable where qualifying expenditure is incurred, all associated construction contracts are entered into and the asset in question is brought into qualifying use between 1 April 2021 and 30 September 2026.

- Allow businesses to benefit from Enhanced Capital Allowances (ECA) for companies investing in qualifying new plant and machinery assets
- Allow businesses to benefit from National Insurance (NI) relief, so they won't be required to contribute NI for their staff assuming they spend 60% of their time working on the zone.
- Allow businesses to benefit from 100% Business Rates relief.
- Be subject to simplified planning processes.
- Be located at sites in the borough of Redcar & Cleveland. Again, due to the bidding process to Government being competitive, to reveal full details publicly at this time, ahead of the submission deadline, may potentially disadvantage the bid's prospects of success. Therefore, the proposed sites are not explicitly defined in this report but may be presented to Executive (and Scrutiny) via a verbal/presentation update during the meeting.

Freeport Governance

15. The Government does not define a specific governance model for the operation of Freeports. Subject to ongoing discussion with the Government and the TVCA the proposed governance model for the Tees Valley Freeport is via a 'board', managed by the impartial TVCA, which will consist of the following representatives:
- Local Authority Elected Member
 - TVCA Mayor
 - Local MP(s) with constituency interest in the Freeport area
 - Concerned port operators in the Freeport area
 - Significant landowners in the Freeport area
 - Significant businesses or operators in the Freeport area
 - Institutions of innovation such as universities
16. Operators/businesses that are included in the Freeport custom/tax zones will operate independently and the board will not intervene in their day-to-day operations. Again, subject to ongoing discussion with the Government and the TVCA the main role and responsibilities of the board will be to:
- Ensure the physical security of the custom zone areas.
 - Assess whether a business can benefit from the tax incentives etc. It is important to note that the board cannot influence whether a business locates in the custom/tax zone (as each business operates normally and normally an external body cannot dictate whether investment takes place on their land/site).
 - Ensure that the Government rules and regulations are being adhered to by businesses in the custom/tax zones.
 - Influence/liaison with Government.
17. Operators/businesses will ultimately be responsible for the adherence to regulations relating to HMRC and UK Border Force, Security & safety (tracking products), illicit trade activities, money laundering, terrorist financing etc. Whilst there will be initial "seed" funding from Government the costs of setting up and operating a Freeport thereafter will be shouldered by the operators/businesses and not the Council.

The governance as set out above will be subject to further refinement post a successful bid submission and further discussions with Government and TVCA.

Potential Freeport Economic Impact

18. The TVCA have undertaken (via Vivid Economics consultants) an assessment of the Freeport proposals on the Tees Valley economy. In principle the Freeport status will seek to realise the following benefits across the Tees Valley:
- Create 20,000+ jobs.
 - £2bn added to GVA.
 - Increased speed and size of investment on Teesworks and other sites.
 - Reinvigorated and decarbonised chemical and process cluster.
 - Realising the offshore wind opportunity.
 - Biomanufacturing jobs of the future.

Who has been consulted and engaged?

19. The TVCA is responsible for preparing the Freeport bid for the Tees Valley to Government; notwithstanding this, the Council and local businesses, landowners and organisations are a key consultee in the process and bid submission process. The TVCA has undertaken the following consultation:
- Business and key stakeholders workshop on 2nd December 2020.
 - Ongoing consultation and engagement with key Tees Valley businesses, land owners and organisations with regard to involvement in the Freeport bid process from the beginning of December 2020 onwards.
 - Discussion at Tees Valley Management Group on 9th December 2020.
 - Ongoing dialogue with officers and Elected Members of the Council from the beginning of December 2020 onwards.
 - Workshop with key Elected Members and Officers from Tees Valley Local Authorities on 11th January 2021.
20. Whilst the TVCA is responsible for the bid, the Council is required to sign the final submission of the bid made to Government.

Impact(s) of recommended decision(s)

Legal

21. The governance implications with regard to this report are set out in paragraph 15 above. The Freeport arrangements would be implemented by way of legislation.

As identified within the report, some details relating to the sites proposed as part of the bid are confidential, therefore, to reveal full details publicly ahead of the submission deadline may impact negatively on the prospect of the bid's success.

It is considered that the public interest in withholding that information at this stage outweighs the public interest in it being disclosed, on the basis that (a) there are significant benefits for the Borough in the event that the bid is successful, and (b) that full details of the bid will, in any event, be released in due course should the proposals be approved and be progressed to the next stage, prior to final approval being sought from Executive.

Financial

22. Whilst there will be initial “seed” funding from Government the costs of setting up and operating a Freeport thereafter will be shouldered by the operators/businesses and not the Council. The financial risks to the Council associated with the Freeport proposals will be limited to the issue of (i) business rates and (ii) planning application fees.

(i) Business Rates Retention

In principle the Council will retain the growth in business rates going forward, the only caveat being that it will need to show how rates will be used to support investment and growth in the local area.

(ii) Planning Application Fees

Custom/Tax zones will be subject to simplified planning processes, primarily through Local Development Orders (LDOs). LDOs allow certain developments to take place without the need to apply for planning permission and therefore would not be subject to a planning fee. It is anticipated that the majority of the development on the zones will be major and/or likely have significant impacts and therefore would be subject to Environmental Impact Assessment regulations which preclude permission through the LDO route. It is therefore assumed that any impact on planning fee income to the Council would not be significant.

The specific financial impact of the Freeport proposals will be subject to further refinement post a successful bid submission and further discussions with Government and TVCA.

Policy Framework

23. The decision will not amend the Council’s policy framework. The decision is aligned with the Mayor’s priorities and the Strategic plan 2020 – 2023.

Equality and Diversity

24. This proposal does not raise any impacts for those individuals or groups with protected characteristics.

Risk

25. At the Council meeting on 2 September 2020, the Mayor advised that it was the ambition of the Council to become carbon-neutral by 2029 and for the town to become carbon-neutral by 2039. TVCA have confirmed that Tees Valley Freeport bid’s narrative will be focussed upon clean, green manufacturing industries. This will be confirmed by the TVCA upon submission of the bid to Government on 5th February 2021.

Actions to be taken to implement the decision(s)

26. Endorse the submission of the bid.

Background papers

27. No Background Papers were used in the preparation of this report.