

<b>Title of Report</b>	<b>FREEPORT PROPOSITION</b>	
<b>Presented by</b>	Councillor Robert Ashman Planning and Infrastructure Portfolio Holder	
<b>Background Papers</b>	Response to UK Government – Consultation on Freeports (Appendix A)	<b>Public Report:</b> Yes
		<b>Key Decision:</b> Yes
<b>Financial Implications</b>	<p>A budget of £10,000 was allocated to the commissioning of the consultants (Vivid Economics) for their work on the consultation response and the proposition. This cost was split equally across the organisations involved in the Freeport working group.</p> <p>There are a number of tax incentives associated with Freeports for predominantly new or expanding businesses, however, these are paid for by Government and so not a cost to the local authority.</p> <p>If the Freeport bid is successful it will enable the Council to retain the business rates growth for the designated area above an agreed baseline which will be guaranteed for 25 years. The principle behind this arrangement is that it gives councils the ability to reinvest receipts into the Freeport tax site and the certainty to borrow to invest in regeneration and infrastructure that will support further growth.</p>	
	<b>Signed off by the Section 151 Officer:</b> Yes	
<b>Legal Implications</b>	<p>If the East Midlands Freeport is given approval by Government a governance arrangement would be required for this. The details of this are yet to be developed but it is expected that this would align with the Development Corporation.</p> <p>The Council are receiving external legal advice on the Development Corporation and further advice will be sought on the issue of the Freeport and potential alignment to the Development Corporation in due course.</p>	
	<b>Signed off by the Monitoring Officer:</b> Yes	
<b>Staffing and Corporate Implications</b>	No staffing implications. The proposal supports economic recovery and corporate Delivery Plan priorities.	
	<b>Signed off by the Head of Paid Service:</b> Yes	
<b>Purpose of Report</b>	<p>Aligned to the East Midlands Development Corporation, partners in the region are bidding for a Freeport that will bring additional powers and tools to improve the economy as we build back better from COVID-19. This report seeks Cabinet approval for the Leader to sign a letter of support for the bid.</p>	
<b>Reason for Decision</b>	<p>The Freeport proposition for East Midlands Airport has the potential to attract investment and spur local and regional economic growth as well as enhancing international trade. This means new jobs and associated</p>	

	infrastructure to benefit our local residents and communities.
<b>Recommendations</b>	<p><b>THAT CABINET:</b></p> <ol style="list-style-type: none"> <li><b>1. ENDORSES, IN PRINCIPLE, THE SUBMISSION OF A FREEPORT PROPOSITION PAPER TO GOVERNMENT FOR THE EAST MIDLANDS TO INCLUDE THE EAST MIDLANDS AIRPORT AND EAST MIDLANDS GATEWAY SITES; AND</b></li> <li><b>2. APPROVES THE LEADER PROVIDING A COMMITMENT OF THE COUNCIL'S SUPPORT AND AGREEMENT TO THE PROPOSED FREEPORT FOR THOSE AREAS FOR WHICH NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL HAS STATUTORY RESPONSIBILITY INCLUDING PLANNING AND BUSINESS RATES TO SUPPORT THE DELIVERY OF THE PROPOSAL.</b></li> </ol>

## **1. BACKGROUND – WHAT IS A FREEPORT**

- 1.1. In February 2020 the Government launched a consultation to inform a future Freeports policy. A formal response was submitted on behalf of the East Midlands region which was developed by a working group of key local stakeholders including North West Leicestershire District Council and led by the D2N2 Local Enterprise Partnership (LEP) and Leicester and Leicestershire LEP, supported by a consultant team, Vivid Economics.
- 1.2. The Freeport proposition for East Midlands Airport has the potential to attract investment and spur local and regional economic growth as well as enhancing international trade. This means new jobs and associated infrastructure to benefit our local residents and communities.
- 1.3. Freeports are a type of special economic zone. As with other economic zones, they are designed to create a favorable business environment which attracts inward investment and international trade to support jobs and growth. Within Freeports, trade is facilitated by reducing the direct and administrative costs of trading goods with the rest of the world. Goods entering a free zone are not subject to typical import procedures. The goods can be processed and re-exported from the zone without being considered to have entered the host country.
- 1.4. This does not, however, imply that the activities carried out within the Freeport are exempted from other regulatory requirements of the host country such as employee rights or health and safety.
- 1.5. The aims of the zone are therefore to sustain and boost competitiveness by making the customs procedures simpler for firms within the zone and delaying the point at which they have to pay duties, therefore enhancing cash-flow.
- 1.6. In the UK, Freeports are a flagship government programme that are expected to play an essential part in the UK's post-Covid economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment and prosperity across the four nations of the UK through the benefits and incentives within the policy.
- 1.7. In addition to the customs and tariff benefits Freeports will also be able to access significant tax benefits, including Stamp Duty Land Tax Relief, Enhanced Structures and Buildings and Capital Allowances, Employer National Insurance Contributions Rate Relief and Business rates relief. The majority of reliefs will be accessible to new and expanding businesses for a period of 5 years from October 2021.

- 1.8. Councils will be granted the ability to retain business rates above an agreed baseline to reinvest into their local communities over a 25 year period. The principle behind this arrangement is that it gives councils the ability to reinvest receipts into the Freeport tax site and the certainty to borrow to invest in regeneration and infrastructure that will support further growth.
- 1.9. Support will also be provided by the Government to successful bidders to contribute towards infrastructure costs and facilitate planning to create an environment to attract investment into the Freeport area and create jobs and growth.
- 1.10. **East Midlands Freeport Bid**

In accordance with the Government's Freeport's Bidding Prospectus, the emerging East Midlands Freeport proposal includes three Tax Sites. Tax Sites within a Freeport are to be distinct and secured areas for the development of facilities to support uses where a range of taxation benefits to occupiers will apply. The East Midlands is developing a proposition based around East Midlands Airport/East Midlands Gateway with two additional key sites, at the Ratcliffe on Soar power station site in Rushcliffe, Nottinghamshire and at the East Midlands Intermodal Park site in South Derbyshire. There are clear interdependencies between the Freeport and Development Corporation, although the Intermodal Park site is not currently within the Development Corporation programme; this will be subject to further discussion between local partners and Government.

- 1.11 In relation to the site within North West Leicestershire, the Tax Site at East Midlands Airport/East Midlands Gateway is to be focussed on the existing Western Maintenance Area in the centre of the Airport (13-20 hectares), the existing Airport Jetparks Car Parks to the west of the DHL Cargo Hub (6-7 hectares) and 53 hectares of undeveloped plots at East Midlands Gateway strategic rail freight interchange which was granted permission (development consent order) by the Government (National Strategic Planning Project) in January 2016. The wider Airport site will form the Principal Port for the Freeport.

## **2.0 GOVERNMENT CONSULTATION ON FREEPORT POLICY**

- 2.1 The Government Consultation, launched in February 2020, on Freeports set two broad policy objectives: regeneration and innovation. The Government seeks to 'level up' the country's most deprived areas, delivering high skilled job opportunities for people in underperforming regions. Moreover, the UK Government also wants to encourage innovation by using Freeports as platforms for innovative business cluster
- 2.2 The East Midlands Freeport consultation response submitted in July 2020 was comprehensive and developed in partnership with the public and private sector including North West Leicestershire District Council and East Midlands Airport and it included some key messages for Government including:
  - Freeports attract investment and spur local economic development
  - Multimodal freeports can enhance international trade
  - Appropriate governance structures are critical to ensure the success of freeports
  - Local support is essential to build consensus around Freeport sites
  - Freeports can and should be hotbeds for innovation
  - Freeports in the East Midlands context - the success of Freeports will largely depend on site selection. Priority should be given to areas that are struggling to 'level up'; but have an appetite for growth. This is particularly the case for a highly connected, and outwardly facing region such as the East Midlands region, where labour productivity is lagging despite having employment levels in line with the UK.
- 2.3 An area of particular interest for the Council is the planning implications of the designation of a Freeport for any or all of all the East Midlands Airport site. As part of the package of incentives for Freeports one example is a simplified/expedited planning process.

Examples mentioned in the consultation include the use of Local Development Orders, these are used to establish a clear framework for development in an area/on a specific site. Another option referred to is permitted development rights in line with the operation of a Freeport, this currently exists at East Midlands Airport.

- 2.4 A request for Government support/funding was included in the consultation response for areas, such as North West Leicestershire, that may not have experience of either a local development order or permitted development rights. Until the Government response is issued however it is not clear if this support will be provided.
- 2.5 In addition the response covered the issue of displacement, it suggested that cost-benefit analyses should compare the projected investment stimulated by a policy against a business-as-usual. Such an analysis must consider how much of the investment would have gone ahead without the Freeport, either in a different UK location (displacement) or at the same site (deadweight). It went on to say that it is important to note that displacement is not necessarily bad. National displacement is inevitable if the Freeport policy is to achieve ambitions around clustering, innovating regeneration and levelling up. The challenge will be associated with ensuring that local (and regional) displacement remains as low as is possible.
- 2.6 To minimise the risk of displacement the Freeport should target areas with capacity in the local labour market, where new employment opportunities can be created through the Freeport Policy. Furthermore, benefits could be targeted specifically to businesses which may otherwise choose not to invest, or to invest outside of the UK, as opposed to generic benefits.
- 2.7 The Government issued its [response to the freeport consultation](#) in October 2020, and the key points can be found at Appendix A. In summary:
  - The Freeports consultation proposed a brand-new, bespoke Freeport model, with a comprehensive package of measures designed to boost trade, employment and innovation.
  - Overall, respondents welcomed the ambition of the proposals, the emphasis on local economic geography and regeneration, the flexibility of the customs model, and the focus on innovation.
  - Ports and businesses shared how Freeports could contribute to their sector's success and future growth potential, while many local authorities and public-sector bodies were optimistic about the potential of Freeports to help transform local economies.
  - However, some respondents, including several non-government organisations and individuals, expressed views about potential negative impacts on areas including port security, safety, workers' rights and the environment. Some respondents also expressed views around economic displacement – particularly in deprived areas – and the risk of Freeports being used for tax evasion or money laundering.
  - Currently the government is proposing that where there are non-contiguous sites included in a Freeport proposal (as is the case in the East Midlands) the tax benefits would be reserved for only one site, other sites would be customs sub zones. The prospectus which has now been issued however states; *Bidders should aim for a single tax site to benefit from the tax offer. However, where there is an economic case to do so, they may define up to 3 single, individual areas as the location of the tax sites.*

- 2.8 The Government's Freeport prospectus and call for sites was released on 17 November 2020. The deadline for responses is 5 February 2021, MHCLG will then assess bids with a decision made in Spring 2021.
- 2.9 The prospectus places a requirement on local authorities to endorse the bids with a letter which must:

*Be signed by the Leader of each local authority that is responsible for planning and business rates collection in whose area any of the proposed Freeport sites will sit. This letter should commit their full support and agreement to the proposed bid specifically those areas for which they have statutory responsibility including planning and business rates to ensure the delivery of the proposal.*

### **3.0 THE FREEPORT PROPOSITION**

- 3.1 The intention is to submit a Freeport proposal for the East Midlands to Government on 5 February 2021. The proposition paper for a Freeport is currently being worked on by Vivid Economics who have been appointed by D2N2 LEP on behalf of all members of the Freeport Working Group. This will help to shape and inform any future submission to Government. The region's bid has the support of Councils, Local Enterprise Partnerships, Universities, the Midlands Engine, partners for the emerging Development Corporation and private sector business representatives including the relevant land owners.
- 3.2 Vivid Economics is engaging with private landowners to assess the redline boundaries of a potential freeport in the East Midlands. The objective is to understand current site use, planned investments, and appetite for future development. Through these stakeholder engagements, Vivid Economics has been able to assess several sites that could benefit from the designation of a Freeport, bringing forward land that could encourage investments and deliver significant economic benefits to the region. This includes East Midlands Airport and East Midlands Gateway.

### **4.0 PLANNING IMPLICATIONS**

- 4.1 If the East Midlands Freeport is given approval by Government, a governance arrangement would be required. The details of this are yet to be developed, but it is expected that this would align with the Development Corporation.
- 4.2 Planning matters will be considered in accordance with the Council's constitution. However, there are a range of implications specifically for Local Planning Authorities arising from a Freeport bid. These focus on the need to create an appropriate planning environment to ensure the quick and efficient delivery of the Freeport proposal. These issues are being addressed by the three relevant Local Planning Authorities, with input from the three County Councils from a highways and infrastructure perspective. . Therefore, this is not a consideration or recommendation of this report.
- 4.3 In supporting the bid proposal, the Council does not fetter its discretion as the local planning authority, as applications will be subject to consideration and determination in accordance with National and Local Planning Policy and the Council's scheme of delegation.
- 4.4 In terms of infrastructure requirements, these focus around East Midlands Airport and J24 of the M1. The emerging bid is complementary to the East Midlands Development Corporation bid and infrastructure requirements are expected to focus on the movement of goods between the sites by highway and railway. Leicestershire County Council will remain the Highway Authority and work alongside Highways England, Nottinghamshire and

Derbyshire County Council Highway Authorities, the Council Network Rail and local partners to develop the wider infrastructure components of the Freeport bid.

## 5.0 FINANCIAL AND ECONOMIC IMPLICATIONS

5.1 Section 151 Officers and Chief Executives are working through both the opportunities and implications of provisions in the Freeport prospectus for the treatment of Business Rate relief, uplift and reinvestment. Much like an Enterprise Zone, billing authorities will have the scope to retain the business rates growth for the designated area above an agreed baseline which will be guaranteed for 25 years and reinvest the receipts, including for borrowing to fund infrastructure or other upfront costs. Government anticipate that Business Rate relief will be available to businesses within the successful sites from October 2021 to September 2026 which acts as a further incentive for inward investment.

5.2 The shape of the East Midlands bid in respect of Business Rates remains under development but it is proposed that each authority will be asked to agree to the reinvestment of additionally retained business rates subject to an agreed baseline to the effect that there is no detriment. This position will extend to the agreement with the proposed East Midlands Development Corporation (EMDC) allocation enabling delivery of its infrastructure programme. Business rates uplift (after no detriment) will be used to support:

1. Delivery of identified infrastructure and connectivity needs in line with agreed local and regional ambitions and strategies;
2. Maximising carbon neutral ambitions and credentials of developments and areas – appropriate interventions to be determined; and
3. Supporting “levelling up” objectives in deprived communities.

5.3 For North West Leicestershire, the priority for reinvestment of retained rates will include infrastructure investment and connectivity improvements to better support employment and skills opportunities. Clearly the potential to reinvest retained rates, is a key consideration in determining the Council’s support for the bid.

5.4 In terms of economic benefits, the East Midlands Development Corporation proposals, which currently cover 2 of the 3 Freeport sites, set out how 84,000 new jobs will be generated in the region and c£5bn additional GVA. The economists supporting the Freeport bid continue to assess the positive additional benefits that the Freeport could bring. It is anticipated these will include increased certainty, acceleration of delivery (earlier achievement of new jobs and productivity) and increases in the number of new jobs and additional GVA. Any update will be reported to Cabinet at the meeting and considered in determining the County Council’s support for the bid.

## 6.0 LEGAL IMPLICATIONS

6.1 At this stage the bid does not have to provide detailed proposals on governance. The Council will continue to work with the Development Corporation, the LEPs and partner Council’s as well as the key land owners to develop governance proposals as part of the full business case, should the initial bid be successful.

## 7.0 NEXT STEPS

7.1 Work has been done by the consultant team and working group to develop the proposition for an East Midlands Freeport to be developed into the proposal to be submitted to Government. The proposition includes East Midlands Airport and so this report is to gain Members endorsement of the **principle** of an East Midlands freeport proposition.

7.2 As stated above, the Government's Freeport prospectus and call for sites was released on 17 November 2020. The deadline for responses is 5 February 2021, MHCLG will then assess bids with a decision made in the Spring 2021.

<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	Supporting businesses and helping local people into local jobs
Policy Considerations:	None Identified
Safeguarding:	None Identified
Equalities/Diversity:	Inclusive growth is a key theme in the business case ensuring that, as far as possible, the Freeport brings benefits for all. As well as creating jobs the focus is on the quality as well as the accessibility of those jobs.
Customer Impact:	None identified
Economic and Social Impact:	The Freeport proposition for East Midlands Airport has the potential to attract investment and spur local and regional economic growth as well as enhancing international trade. This means new jobs and associated infrastructure to benefit our local residents and communities. It should also mean, developed alongside proposals for the development corporation.
Environment and Climate Change:	None identified
Consultation/Community Engagement:	Consultation response on the Freeport submitted July 2020
Risks:	<p>There is a risk that the Freeport and the Development Corporation develop as two separate propositions and so do not deliver coordinated development on the site. However there are already strong links between the work streams and this would be maintained as the work progresses.</p> <p>There is a risk that a landowner or key local stakeholder chooses not to progress to bid stage which would put at risk the whole proposal for the East Midlands.</p>
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