

14th January 2021

South Yorkshire Freeport Bid

Purpose of Report

This report presents the Board with background information regarding the Government's Freeport Policy and an update on the work being done to prepare a formal submission including setting out the key issues relating to the submission and its links with the Strategic Economic Plan.

This paper will be accompanied by a presentation to the LEP Board.

Thematic Priority

The priorities covered by this report are:

1. Ensure new businesses receive the support they need to flourish.
2. Facilitate and proactively support growth amongst existing firms.
3. Attract investment from other parts of the UK and overseas and improve our brand.

Freedom of Information and Schedule 12A of the Local Government Act 1972

This paper will be made available under the SCR Publication Scheme.

Recommendations

That members note the content of the report and provide a steer on the key discussion points / issues set out in the paper.

1. Introduction

1.1 UK Freeports policy – principal objective

In November 2020 the Government published a bidding prospectus for the establishment of up to ten Freeports in the United Kingdom. The overall policy objective from a national perspective is to enable the establishment of new hubs to enhance trade and investment, promote regeneration and job creation and create dynamic environments where businesses, local government and academic institutions can collaborate to foster innovation.

1.2 What are they?

- Freeports are secure zones where business can be carried out inside a country's land border, but where different customs rules and other favourable arrangements apply.

The specific benefits of a freeport must be contained within a 45km perimeter of the principal freeport site.

The benefits of a freeport:

- Raw materials imported from overseas can be processed into final goods with duties only levied when they enter the domestic market. This gives rise to advantages where duties on finished goods are lower than on the raw materials, as well as where finished goods are re-exported to certain markets.
- For local places there are regeneration benefits, the potential to attract new investment and business growth, greater clustering and innovation activity, internationally recognised status and significant support from Government Departments in making Freeports a success.
- Akin to how Enterprise Zones have operated, whilst the businesses on the Freeport sites will benefit from tax benefits such as Business Rate relief the Government will continue to pay those business rates to the local area for reinvestment in economic development **and** to manage any local displacement activity as a result of business relocation to a Freeport site.

1.3 Summary of the specific benefits to both businesses and ‘places’

Tariffs and import VAT	Duty suspension: Suspension of tariffs and import VAT on goods brought in from overseas, unless and until the goods enter the domestic market.
	Duty inversion: A benefit generated when duties on finished products are less than on their constituent components, meaning raw materials can be imported tariff free into the freeport, manufactured, and then brought into the domestic UK market at lower finished goods tariff rates, where applicable.
	Exemptions for re-exports: Where raw materials / components brought into the freeport are processed into finished goods in the secure zone and then re-exported with no UK tariffs or import VAT applied.
Customs Processes	Simplified import procedures. For goods subsequently moved into free UK circulation, and for exports, businesses will still need to complete standard export declaration procedures, albeit these are expected to be electronic in nature. We will also be able to propose customs sub-zones away from the primary customs site, but within the 45km diameter outer freeport boundary.
Tax incentives	These include centrally-funded business rate discounts, local retention of incremental rates income and employer NICs, structures & buildings and plant & machinery capital allowance and stamp duty incentives. In England, the business rates relief is up to 100% for five years for new, relocating and expanding businesses. Local retention of incremental business rates, by councils, is for 25 years. The employer NIC incentive is a 0% rate for 3 years per employee on up to £25k p.a. of earnings.
Planning reforms and (for England)	Expansion of permitted development rights for sea ports, to align with airports, along with simpler area-based planning (e.g. Local Development Orders). In England there is a £175m ‘seed capital’ pot for, for example, land assembly, site remediation and/or small-scale transport

seed capital	infrastructure. To be matched/part-matched by private sector, council borrowing or other public body funding.
Innovation	<p>Support to unlock innovative activity in Freeport locations. Potential Freeports could focus on any, or all, of these in outlining their innovation ambitions.</p> <ul style="list-style-type: none"> - Port-specific innovation – innovation that directly benefits air, rail or maritime ports, e.g. autonomous cranes and cargo-handling equipment, digital security, customs software that can track goods across a broader area, etc. - Port-related innovation – innovation that indirectly benefits air, rail or maritime ports or their supply chain, e.g. autonomous transport, modern methods of construction, industrial decarbonisation etc. c - Non-port-related innovation – innovation unrelated to air, rail or maritime ports that can take advantage of port-proximate locations or the Freeport wider offer, e.g. pharmaceuticals, quantum technologies, advanced materials, robotics, AI etc.

1.4 How Freeports can be constructed

Access to a 'port' is clearly a key element of any freeport. However, the prospectus makes clear that not all of the benefits have to be physically contiguous / directly linked to the 'port' site. This enables any bidding area to include other sites that fit the criteria to be submitted alongside the 'port' site.

Specified Freeport sites can be split (should the bidder choose to do so) into 'customs' sites and 'tax' sites.

Tax sites

For a site to be designated a 'tax' site – securing business rates and other tax relief for businesses located there a site has to be currently 'underdeveloped', align with the bidding area's focus (e.g. advanced manufacturing and engineering), have the support of the landowner as well as being of an appropriate scale and with the opportunity to create business/sectoral clusters and productivity growth.

Customs sites

For a site to be designated a 'customs' site there has to be demonstrable import/export activity, alignment with the bidding area's focus and be able to meet stringent HMRC regulations / requirements.

1.5 The bidding process:

Areas that wish to make submission must submit a response by the 5th February that provides a detailed response covering:

- The freeport boundary, tax & customs sites; local authority/LEP support; economic geography; meeting security requirements; and mitigating displacement of economic activity.
- Detail on planning; likely commercial demand; the approach to business rates retention; innovation; managing negative externalities; how this can support net zero ambitions; environmental regulations/standards; governance; management; risk; monitoring & evaluation; investments & funding; complementary investments; business types; and specific trade & investment support sought.
- Governance and accountability structures.

2. Proposal and justification

2.1 Submission development

South Yorkshire is in the process of preparing for submission a detailed proposal centred around the air and rail ports in Doncaster – with further sites being considered across the region for inclusion as additional tax and customs sites.

There is strong technical fit with the requirements set out in the Government's prospectus, with the strategic road, rail and air networks focused around Doncaster Sheffield Airport and the IPort of particular fit.

2.2 Strategic rationale and interface with the SEP.

Alongside the technical fit being proposed the SEP offers a clear policy driver for the Freeport opportunity (and emerging proposal). In particular:

1. **Expanding and strengthening our Innovation Clusters.** We have world-class exportable translational research and innovation centred around a number of outstanding facilities which build on our region's long industrial heritage in and passion for manufacturing. They are able to attract domestic and foreign direct investment we need to expand and grow trade and exports from across the region. Our Strategic Economic Plan promises to accelerate innovation-led economic growth by supporting much greater density to harness the benefits of clustering.
2. **Scaling-Up Sustainable Advanced Manufacturing.** Our current capabilities mean we have in-depth knowledge and skills in advanced manufacturing. Given these foundations, we are uniquely positioned to expand and to export our products and services around the world as well as fulfil major specialist, low-carbon opportunities in high-speed rail, wind turbine production, cleaner aviation and more sustainable manufacturing processes - delivering net-zero emissions locally and contributing to the UK's Net Zero energy and transport agenda.
3. **Tackling Deprivation and Levelling-Up.** Sheffield, Rotherham, Barnsley and Doncaster are home to some of the most deprived communities in the UK according to the IMD. Local business partnerships, regional growth and skills plans and increased private sector investment will ensure that we are growing the economy for all; creating higher value jobs, opening up new opportunities for local people and boosting productivity, upskilling our region and levelling up our country.
4. **Connecting our Region and the World.** As set out in our Strategic Economic Plan we are at the forefront of intelligent mobility and the infrastructure of tomorrow, and with excellent connectivity internationally and around the rest of the UK via fibre, air, rail, road and sea we have the potential to integrate supply chains across the country and boost trade with international partners.

This strategic rationale is fully aligned with the practical and expedient elements – namely, that we have a rehost to an airport and rail port – and amazingly well connected. ...

2.3 Project Governance, timeline and stakeholder engagement

- This is an important region-wide project. The MCA is acting as the project SRO and is working with Peel Group, Verdion (owner of the IPort) and DMBC to develop the proposal.
- These four partners have appointed a consultancy organisation to support the development of the bid.

- Economic development officers from across South Yorkshire have been engaged in the process, including in exploring possible customs and tax sites beyond the 'port' elements at Doncaster Sheffield Airport and IPort.
- **Business engagement** - this is an important part of the proposal and a major workstream for the project group. 1:1 engagement is taking place with major importers and exporters in the region, alongside working with the Chambers of Commerce, Manufacturers Forum and other business groups.

Timeline for bid submission

It is a challenging schedule. The prospectus and the invitation for bids to be developed was published on the **16th November**. The bid submission deadline is **Feb 5th 2021** with a decision from Ministers expected in **Spring 2021**.

2.4 Issues for the LEP to be aware of that the project team will be working on over the final weeks:

- **Finalising the non-port customs and tax sites** – discussions with private sector partners and local councils continue to take place to refine our final submission
- **Displacement:** ensuring that we have a clear focus in our proposal that a freeport must be about growing the business base, supporting regeneration objectives and attracting new FDI rather than displacing existing activity within the region in line with our Strategic Economic Plan. **Where displacement does take place** then appropriate mechanisms must be in place to ensure there is no material dis-benefit to individual places as a result of freeport status.
- **Governance:** determining the outline of an appropriate governance model for the Freeport that balances the public and private sector interests and ensures full accountability of decision-making.
- **Alignment of wider skills, business support, trade and investment and innovation policy work** – both to strengthen the proposal but to also make sure from the start that these issues are central to the delivery of the Freeport.

3. Consideration of alternative approaches

3.1 There are a number of alternative approaches:

- 1) Do not submit** – there are potential policy intellectual challenges to the Government's Freeport agenda. There are legitimate challenges to the efficacy of freeports in delivering on economic, social and environmental agendas. However, the benefits and drivers of the UK Government's agenda, in relation to Freeports, do align with our own Strategic Economic Plan. Given the private sector support that is currently in place, the strategic fit with the SEP and the benefits that can accrue to both the region and businesses there is a clear rationale for submitting a proposal.
- 2) Submit a different proposal** – the project team is working with a wide-ranging set of stakeholders to secure the broadest possible long-list of sites and approaches to take. Using the criteria set out in the Prospectus as a driver for decision-making alongside a collaborative and open approach to the development of the proposal it is anticipated that the approach set out in this paper will yield the greatest chance of success.

4. Implications

4.1 Financial

Alongside the other partners, the MCA has allocated resource to support the initial development of this scheme.

As the proposal develops, decisions will be required around the financial governance of the Freeport operating model and its relationship with the MCA. This will include determining how the model is paid for, how investment is facilitated, and how value generated from the site from business rates is deployed.

4.2 Legal

There are no specific legal implications arising from the initial bid. The bid will propose an outline governance structure suitable for the proposal to be submitted. Thereafter, and if successful, work with the Government and the bid partners will establish the final form of governance structure to be included in the full business case. This will set out each partners' obligations. These final arrangements will require MCA approval before implementation. There will be a need for specific legislation to enact the final freeport designation and confirm its tax and incentive status. The overall process is likely to be concluded in late 21/22.

4.3 Equality, Diversity and Social Inclusion

Should the South Yorkshire Freeport Proposal be successful in moving to the next stage the development of an Outline Business Case will require the MCA and its partners to undertake full assessments of equality, diversity and inclusion impacts.

5. Communications

5.1 At this stage there are limited communications implications. The proposal will be submitted with some potential communications focused around securing support for the region's submission and our ambitions.

6. Appendices/Annexes

6.1 None

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