

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

Cabinet
21st November 2022

Appendix B - Not for publication pursuant to Regulation 5(2) & (5) of Statutory Instrument 2001 No. 2290 and Paragraph(s) 14 of Part 4 of Schedule 12A to the Local Government Act 1972. Pursuant also to Paragraph 21 of the Schedule, and in all the circumstances of the case, the public interest in maintaining the exemption is considered to outweigh the public interest in disclosing the information.

Report of the Chief Executive – Mrs Karen Jones

Matter for Decision

Wards Affected: Port Talbot, Margam and Taibach

Freeport Bid Submission

Purpose of the Report

1. To seek approval for Neath Port Talbot Council to support a bid to the Welsh and UK governments for a Freeport covering the port of Port Talbot and the port of Milford Haven and surrounding areas.
2. To seek delegated authority to the Chief Executive to agree the final draft of the submission in consultation with the Leader of Council.

Executive Summary

The UK and Welsh Governments have launched a Freeport initiative aimed at boosting economic growth by creating special economic zones around ports which would provide an array business incentives. This policy is designed to take advantage of the UK's new economic freedoms following Brexit, contribute to the 'levelling up' agenda and support the country's economic recovery from the Covid downturn. The recently launched Freeport Prospectus set out the bidding criteria and set the 25th of November 2022 as the deadline for submissions.

Following an earlier report to Cabinet, it is proposed that the Council supports a consortium bid involving Neath Port Talbot County Borough Council, Pembrokeshire

County Council, Associated British Ports and Milford Haven Port Authority for a Freeport covering the Port of Port Talbot and the Port of Milford Haven and surrounding areas.

The key areas of economic activity within the Freeport comprise of three tax sites and one customs site at each port where tax, planning and business incentives apply. These sites will be the main focus for economic growth; however Freeport status will stimulate further growth within the surrounding area inside and outside of the Freeport.

This paper is seeking Cabinet approval for the proposed submission. At the time of writing the submission is still being finalised therefore the presentation by Associated British Ports and the Bid team will also be made at the meeting of the Cabinet Scrutiny Committee on the 21st November 2022 to inform members deliberations.

The basis of the submission is that a Freeport will provide the opportunity for significant economic growth which will build on the already strong port and logistics sector and specifically to help lever future opportunities in respect of the developing offshore wind sector, supplementing the growth in the wider renewables sector across the region. The submission supports the Council's own wellbeing goals set out in the Corporate Plan and also contributes to green economic growth in Wales and across the UK.

Background

Freeport Programme

The Freeport Programme in Wales represents a new opportunity to help Wales continue to develop a globally competitive, entrepreneurial, inclusive and sustainable economy, whilst building the strength and resilience to overcome economic shocks experienced during the COVID-19 pandemic. It represents a key commitment within the UK Government's Levelling Up White Paper and will make a positive contribution to the Welsh Government's commitments to the economy, fair work and the seven well-being goals set out in the Wellbeing of Future Generations (Wales) Act 2015 which deliver long term benefits to improve the economic, social, environmental and cultural wellbeing of Wales.

The Freeport Programme will look to incentivise private businesses to invest in new opportunities in Wales, particularly in relation to climate resilience and making maximum progress towards decarbonisation. The Freeport Programme in Wales will build on existing local strengths and will make the nearby Welsh cities, towns and villages even better places to live and work.

UK Government have indicated that the Freeports initiative will be the cornerstone of the Government's plan to level up opportunity across the country. The overriding objective of Freeports is to boost trade, jobs and investment through streamlining regulations, speeding up planning processes and accelerating development and

housing delivery in and around Freeports. This policy is also a response to the UK's departure from the EU and more latterly part of the national economic recovery plan following the Covid 19 economic shock.

Measures to make Freeports attractive to domestic and international investors will include:

- Tariff flexibility
- Simpler customs processes
- Tax measures to incentivise investment
- Planning reforms
- Additional funding for infrastructure improvements

Freeports are secure customs zones located at ports where business can be carried out inside a country's land border but where different customs rules apply. They can reduce administrative burdens and tariff controls, provide relief from duties and import taxes and ease tax and planning regulations. Typically, goods brought into a Freeport do not attract a requirement to pay duties until they leave the Freeport and enter the domestic market. No duty at all is payable if they are re-exported.

Welsh Government published their prospectus for applications in September 2022 (a copy of which is enclosed at **Appendix A**, which sets out a Freeport model which would include multiple customs zones located within or away from a port to maximise flexibility in addition, Special Economic Zones designated over or around the customs zones would be created to maximise business investment in the Freeport.

Within a Freeport there can be up to three Tax Sites and but an unlimited number of customs sites.

The tax sites will be areas where the following benefits will apply:

- Land Transaction Tax Relief
- Enhanced Structures and Buildings Allowances
- Enhanced Capital Allowances
- Employer National Insurance Contributions Relief
- Business Rates Relief
- Local retention of business rates

- Permitted development rights

The Customs Sites offer the following benefits to businesses located within them: duty deferral, duty inversion on finished goods exiting the Freeport attract a lower tariff than their component parts, duty exemptions on goods imported into the Freeport, suspension of import VAT on good entering the Freeport and the authorisation to use simplified import procedures.

A Freeport Programme in Wales will help to promote regeneration across local economies and communities by driving inclusive and sustainable growth locally, regionally and nationally. A Freeport will support the [Welsh Government's Mission](#) to build a prosperous, green and equal economy based on the principles of fair work, sustainability, and the industries and services of the future. The Freeport will further enhance Wales' ability to attract investment and new businesses, bringing growth and prosperity to some of our most deprived communities and supporting delivery of key economic growth commitments set out in the [UK Government's Plan for Wales](#).

The Freeport programme also generates commitment to supporting Wales becoming a more sustainable nation through improving the social, economic and cultural well-being of Wales, specifically applying the sustainable development principle designed to maximise contribution to achieve each of the Well-being goals as set out by [the Well-being of Future Generations \(Wales\) Act 2015](#).

The Freeport Programme will provide access to a mixture of financial incentives, embedded by good governance that supports a strong partnership between local, private and public sector stakeholders; with the support of both the Welsh and UK governments in attracting investment; and supporting a strong local and regional skills base.

Work to date

At its meeting of the 29th June 2022, Cabinet authorised officers to engage in further exploration, research and discussions to explore the potential of the Council submitting a Freeport bid, either in isolation or in partnership with other organisations.

Since the launch of the prospectus in September 2021, officers across Neath Port Talbot Council have been working in partnership with Pembrokeshire County Council, Associated British Ports and Milford Haven Port Authority to develop a Freeport proposal that would focus on the ports of Port Talbot and Milford Haven.

A memorandum of understanding was entered into between partners to govern the development of a bid. Members are asked to consider and support the submission of the Freeport bid included with these papers to Welsh Ministers by the 24th November 2022.

The proposal

The Council and Pembrokeshire County Council (“Pembrokeshire”) have worked alongside Milford Haven Port Authority (“MHPA”) and Associated British Ports (“ABP”), to develop a single Freeport bid that builds on collaboration through, for example, the Swansea Bay City Deal and the South-West Wales Corporate Joint Committee, and best harnesses the clear synergies and collaboration between the two ports, most notably in working together to deliver the significant opportunity of floating offshore wind in the Celtic Sea and the wider renewables agenda.

The bid represents a strategy to catalyse investment and development around the two ports, both of which are critical yet underutilised national assets. This development includes capital-intensive investments that are best placed to take advantage of the specific package of tax measures afforded by a Freeport, such as:

- the floating offshore wind (FLOW) manufacturing and lifecycle cluster that is central to ensuring UK content for the Government’s decarbonisation and energy security strategies, and which can only happen here,
- other zero-carbon industries (e.g. hydrogen),
- advanced manufacturing, and
- new innovative technologies (e.g. sustainable aviation fuel).

An interim chair of the Bid consortium has been identified; this interim chair would be Mr Roger Maggs, the current Chair of the Port Talbot Enterprise Zone. It is intended Mr Maggs will assume this role as Chair on a non-remunerated basis until a decision has been made by ministers as to the successful bid(s).

Freeport outer boundary

Applicants must define an Outer Boundary that reflects “a coherent economic geography”. It should be no larger than a 45km circle, with no Freeport sites more than 45km apart, however, bids proposing sites outside the Outer Boundary will be considered, where this can be supported by a clear economic rationale, including a significant relationship between the activity in the proposed customs or tax sites outside the Outer Boundary, and the area within the Outer Boundary.

To reflect the unique multi-port bid, Celtic Freeport is proposing a bespoke outer boundary with two distinct zones centred on the wider journey to work areas at Milford Haven and Port Talbot. This approach will allow us to maximise the long term gains from retained Non-Domestic Rates across key communities, labour markets and immediate supply chains.

For comparative purposes, a ‘strictly compliant’ 45km circle will also be presented, which will encompass the 2 tax sites and the customs site at Milford Haven. This circle needs to be in Pembrokeshire so that only 1 tax site is located outside the boundary. Notwithstanding this both councils would commit to sharing in the benefits of the Freeport, including by pooling the retained business rates revenues.

Freeport tax sites

Tax sites are the areas where the Freeport tax measures are available. They are also the areas within which business rates growth is retained by the local authority for 25 years. Applicants can propose up to 3 tax sites with a total area not exceeding 600ha.

Following a due diligence process supported by independent expert advice, a portfolio of tax sites has been selected which aims to:

- deliver net UK and Welsh GDP that cannot be generated elsewhere,
- assist in a successful net zero transition,
- improve energy security, and
- bring new opportunities to deprived communities.

The tax sites are as follows:

- 1) 236 hectares of a portfolio of sites around Milford Haven which is deemed contiguous due to the connections between them and the fact that land between otherwise separate sites is undevelopable
- 2) 22 hectares for hydrogen development on the North of the Haven.
- 3) 342 hectares of land in Port Talbot comprising land at Baglan Bay Energy Park, Port Talbour Harbourside and ABP Land

The bid team has been working closely with landowners as well as developers/investors/customers, including agreeing a detailed vision for each site with landowners and refining boundaries so that only the best land, focused on the best opportunities is included.

As the Freeport becomes operational, Tax Site Delivery Agreements will involve all parties – public and private – whose actions are necessary to ensure timely delivery and benefit maximisation on tax sites. They will ensure all reasonable efforts are taken to realise the vision for additionality and green growth, supporting fair work practices and making contributions to the Freeport Company.

Freeport customs sites

Customs sites are the areas within which the Freeport customs measures are available. There is no limit to the number or size of customs sites that can be proposed.

Two customs sites are proposed, one at each port.

The bid team is working with MHPA and ABP to understand that the security infrastructure and authorisations at each customs site.

Mitigating displacement

To comply with the bidding rules, but also to support engagement with regional partners, the bid team has been focussed on ensuring the proposition focuses on investment that is additional to the area and does not simply displace economic activity from elsewhere in South-West Wales.

The following features of the proposal will enable this to be achieved:

- Selection of tax sites that target investment that is new to the UK and located where it can best support growing well-paid employment for people in the region.
- Obligations on landowners and developers (via Tax Site Delivery Agreements) to take best endeavours to deliver development on their land that is additional and consistent with the programme's policy objectives, including avoiding displacement.
- An outer boundary that recognises the wider journey to work areas around Freeport locations (which inevitably transcend local authority boundaries).
- Promotion of major schemes, such as in the renewables sector, which will require skilled labour, thereby protecting existing jobs for residents in my area and also creating new high quality employment opportunities.
- Clear benefits for the wider supply chain, with positive impacts for businesses – small and large – across the region.
- The involvement of ABP, whose other facilities across Wales, including at Swansea, can deliver complementary activity to support new business at Port Talbot.
- A focus on skills development across the region, for example through programmes supported by the local retention of business rates growth on tax sites.
- Involvement of key regional stakeholders such as the South-West Wales Industrial Cluster and the Regional Learning & Skills Partnership for South-West Wales, as well as our regional academic institutions such as the Universities of Swansea and South Wales.
- Commitment to the fair work principles and the Well-being Future Generations Act 2015.

Financial Implications

In relation to the direct financial impact on the Council, if successful, any future revenue costs incurred in progressing with the establishment of a Freeport should be funded by c£1m of Government funding which will be made available for development costs and also through a suitable business model to support the day to day operation of the Freeport.

There are also wider economic benefits which are detailed below:

The development of a Freeport enables access to additional funding sources including grants and the retention of business rates relating to new business that locate within the Freeport Tax Sites. There is a compelling economic case for the Freeport equivalent to a possible tax benefit of up to £0.5 billion. Welsh Government will be determining how business rates retention will operate in Wales.

This funding can then be utilised to support the wider development of the Freeport area.

Successful Freeport designation will open up further funding. This includes £21 million (or potentially more, as set out in an 'extended' case) of dedicated Freeport capital seed funding from Government which will be used to enhance the pace of delivery across the Freeport, and to unlock further public and private sector investment. This will be mainly deployed across key sites for priorities that are primarily focused on transport access, land remediation and enablement, and other key infrastructure projects. It is also envisaged that some of the seed capital funding is used for skills, innovation, and low carbon projects, which address Freeport related opportunities and challenges. The Council continues to assess the potential funding streams to understand the proposed level of investment available to support the process.

Integrated Impact Assessment

A first stage Impact Assessment has been undertaken to assist the Council in discharging its legislative duties (under the Equality Act 2010, the Welsh Language Standards (No.1) Regulations 2015, the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016. An integrated impact assessment is enclosed at Appendix C, which members are asked to consider as part of their deliberations.

In the event that the bid is successful, a fuller integrated impact assessment will be developed as part of the final business case development. The fundamental intent of the bid is to boost economic growth which is expected to impact positively on the socio- economic profile of the area. The bid addresses the Wellbeing of Future Generations (Wales) Act 2015 policy objectives and fair work - these being a requirement to be met within the scoring criteria contained within the Prospectus.

Legal Impacts

The submission of the bid is in accordance with the general power of competence on local authorities contained in the Local Government and Elections (Wales) Act 2021.

The Prospectus requires that a local authority acts as the lead body for the bid. It is proposed that Neath Port Talbot County Borough Council is the lead body for the bid and accordingly the Accountable Body.

As the Accountable Body we would be agreeing to be accountable to both governments for the expenditure and management of centrally funded public money:

- (1) Receive funding on behalf of the Freeport from the Welsh and UK Governments.
- (2) Ensure that such funding is used appropriately in accordance with the law, good financial management and any applicable grant conditions.
- (3) Establish and maintain financial systems to account for all public funding received and disbursed.
- (4) Ensure that all required information on expenditure, activities and outcomes are properly recorded and reported.
- (5) Ensure that good governance is embedded in the decision-making arrangements.

Risk Management

An alternative option open to Cabinet is not to proceed with the submission of a Freeport bid with the consequence that Neath Port Talbot would miss out on the significant economic growth opportunities that the Freeport opportunity could create and the seed funding of £21 million.

Risks attached to the role of accountable body are considered to be low and can be mitigated through the use of appropriate legal agreements between the relevant stakeholders. The cost of services provided as part of the accountable body role will be recovered from parties. This type of arrangement exists in a number of settings, and can be managed effectively.

As indicated above, the risk that economic activity will simply be replaced rather than be additional will be mitigated by linking the Freeport directly to the off-shore wind farm and renewable energy sectors. These are emerging sectors and economic activity is therefore expected to comprise of new jobs that will support this emerging economy. The use of the land within the proposed tax sites will be regulated through a legally binding agreement so providing a further lever to secure additionality. Finally, the two local authorities will determine the distribution of retained business rates and this is a further lever to support additionality.

The risk that a Freeport would result in poor quality of employment is mitigated by the undertakings set out in the Bid to support Fair Work. It is also a requirement of the Prospectus that trade union representation is secured in the governing body for the Freeport supported by a workforce consultative committee. The other levers indicated above are also available to support the objective of Fair Work.

Risks related to tax evasion and other similar matters are addressed in the submission as required in the Prospectus.

Consultation

The Freeport bid has been developed by the two local authorities, Associated British Ports and Milford Haven Port Authority, working in consortium. Wider consultation has also taken place with a wide range of public and private sector organisations including business networks within the Freeport proposed area.

Recommendation

It is recommended, that having due regard to the integrated impact screening assessment that:

- Members approve the submission of a bid for a Freeport covering the port of Port Talbot and the port of Milford Haven and surrounding areas, in the form annexed at Appendix B, subject to any variations that may be necessary prior to submission.
- Members grant delegated authority to the Chief Executive, in consultation with the Leader of Council to agree amendments to the Bid prior to its final submission to the Welsh Government
- Members approve Neath Port Talbot County Borough Council's nomination as the Accountable Body for the proposed Freeport.
- Members authorise the Leader of Council to submit a letter to the Welsh Government reflecting Neath Port Talbot County Borough Council's support for a Freeport covering the port of Port Talbot and the port of Milford Haven.
- Members authorise the Chief Executive in consultation with the Leader to take action as may be necessary to promote the merits of the Bid post submission up to the point of Ministers decisions on the success/otherwise of the bid.

Reason for Decision

Achieving Freeport status could act as a catalyst for significant economic growth within the locality and the wider region linked to the emerging off-shore wind sector and wider renewables agenda. The proposal will also support work to decarbonise industry, housing and transport at local regional and national levels helping to meet the net zero carbon targets. Green economic growth will help to address structural issues of poverty and deprivation in the local and regional economy stimulating the local supply chain and increasing the skills and qualifications of the resident population.

Implementation of Decision

The decision is proposed for immediate implementation with the consent of the Chair of the Cabinet Scrutiny Committee.

Appendices

Appendix A – Freeport Prospectus

Appendix B – Draft Freeport Bid Document (Exempt Under Paragraph 14)

Appendix C – Integrated Impact Assessment

List of Background Papers

None

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