

Cabinet

10th May 2023

Report of the Chief Executive – Mrs Karen Jones

Matter for Decision

Wards Affected: Port Talbot, Briton Ferry West, Margam and Taibach

Celtic Freeport

Purpose of the Report

1. To formally report the outcome of the Welsh Freeport Competition announced by the UK and Welsh governments.
2. To seek authority to take forward the work involved in submitting an Outline Business Case – this being the next stage of the Freeport policy process.

Executive Summary

On the 22nd March 2023, the Council and its Freeport partners, received notification that, following a joint decision between the UK and Welsh governments, Celtic Freeport and Anglesey Freeport have been selected as the successful bids in the Welsh Freeport competition.

The next stage in the process is to develop and submit an outline business case within a broad 12 -16 week window. This will be followed by the production of a full business case (likely to take around 12 months).

This report provides a summary of the process that will need to be followed to submit the Outline Business Case and identifies the delegated authority sought by officers to contribute to this work.

Background

At its meeting on the 21st November 2022, Cabinet resolved 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;

- Members grant delegated authority to the Chief Executive, in consultation with the Leader of Council to agree amendments to the Bid prior to its Full submission to the Welsh Government;
- Members approve Neath Port Talbot County Borough Council's nomination as the Accountable Body for the proposed Freeport; and
- 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; and
- 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.

Freeport Programme

The Freeport Programme in Wales seeks to create 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 such as those experienced during the COVID-19 pandemic. It is also designed to 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.

The policy represents a key commitment within the UK Government's Levelling Up White Paper. UK Government have indicated that the Freeport initiative will be the cornerstone of the Government's plan to level up opportunity across the country. The UK Government see the overriding objective of the Freeport policy as being 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 Government response to the UK's departure from the EU and more latterly part of the national economic recovery plan following the Covid 19 pandemic.

The Freeport Programme seeks to incentivise private businesses to invest in new opportunities in Wales, particularly in relation to climate resilience and making maximum progress towards decarbonisation whilst also addressing inequality.

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

- 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.

The Welsh and UK Governments published their joint prospectus for applications in September 2022. Within a Freeport there can be up to three tax sites and 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.

The Freeport Programme in Wales is designed to help to promote regeneration across local economies and communities, 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 is expected to contribute to enhancing 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 is also aligned with wider policy objectives that aim to make Wales a more sustainable nation, improving social, economic and cultural well-being.

The Freeport Programme provides access to a mixture of financial incentives, based on good governance and supporting a strong partnership between local, private and public sector stakeholders through social partnership with the support of both the Welsh and UK governments in attracting investment; and supporting a strong local and regional skills base.

Celtic Freeport

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 existing regional collaboration through, for example, the Swansea Bay City Deal and the South-West Wales Corporate Joint Committee. The Freeport partnership is a new partnership that harnesses the unique strategic capabilities that each port. Studies have confirmed that both ports are critical if the UK is to exploit the opportunity to leverage maximum economic benefit from the licencing of floating offshore wind energy developments in the Celtic Sea. Both ports will also be crucial to realising wider decarbonisation ambitions, in particular green hydrogen production; carbon capture technologies and the associated decarbonisation of industry in pursuit of net zero carbon targets.

The bid outlines 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).

Celtic Freeport partners were advised that the bid submitted to the Welsh and UK Governments on the 23rd November 2022 had been successful on the 22nd March 2023.

Subject to the development and approval of the outline and Full business cases, the Celtic Freeport will receive £26 million of Government funding. This is additional to the other policy benefits referenced earlier in this report. The £26 million consists of seed capital of £25million and £1 million revenue contribution to the business case development. Funding is unlocked by presenting acceptable investment proposals to governments in line with HM Treasury Green Book. Some benefits are unlocked at the Outline Business Case and the remainder at the Full Business Case stage.

To progress the proposals to the Outline Business Case stage, revised governance arrangements need to be established. These arrangements are set out in the Memorandum of Understanding (MOU) that would be signed by the four partners – Neath Port Talbot County Borough Council, Pembrokeshire County Council; Associated British Ports and the Port of Milford Haven. Authorisation for the Chief Executive to sign the MOU is a key decision requested in this report.

The MOU details the work to get to the next key milestone (ie the OBC):

- The identification and mobilisation of resources to undertake the work needed to construct the outline business case, including the appointment of an Interim Chief Executive on a consultancy basis; the engagement of external consultants to provide expert technical and professional input to the Outline Business Case development and other and administrative support to facilitate the partnership;
- The setting up of a company limited by guarantee to operate the Freeport and associated arrangements, including company and board appointments and remuneration arrangements. These must all be in compliance with the Welsh prospectus which will make provision for social partnership to deliver fair work commitments and wider social outcomes;
- Arrangements for applying the seed capital; and
- Arrangements to deal with retained business rates, including consideration of the merits of pooling such funds (subject to a future report to members), or not together with the governance arrangements to be established to make investment decisions and provide assurance to governments on the use of public funds.

The full MOU is appended for reference.

The work will also need to establish the arrangements that will be needed on completion of the OBC to move towards the submission of the Full Business Case (FBC).

In order to progress with the governance and management arrangements, and the OBC and FBC process, the Celtic Freeport partners propose to continue with the Bid chairman (Mr Roger Maggs MBE) as the interim chairman and with the Bid director (Mr David Gwynne) as interim Chief Executive until the appointment of permanent chairman and chief executive.

Financial Implications

Future revenue costs incurred in progressing with the set up costs associated with the establishment of a Freeport should be funded by c£1m of Government funding which will be made available for development costs. However, experience from elsewhere in the UK suggests that the costs to achieve the Full business case may be in the region of £2 million.

It is proposed that the additional costs over and above the £1m of government funding be recovered from the Freeport company at the appropriate time. In the short term, funding in excess of the £1million provided by the Government is proposed to be split equally between the four partners.

In terms of the wider financial benefits that are attached to the Freeport programme, initial estimates suggest the Celtic Freeport could deliver a possible tax benefit of up to £0.5 billion in the form of retained business rates for the two participating local authorities. Furthermore, there will be positive economic impact through the creation of well paid, green employment. The Outline Business Case and Full Business Case

will draw out these benefits in more detail and will be reported back to members in future reports.

Successful Freeport designation aims to open up further funding. This includes £25 million 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

An Integrated 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 2, which members are asked to consider as part of determination.

A fuller integrated impact assessment will be developed as part of the Full 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.

Workforce Impacts

It has already been agreed that Neath Port Talbot Council will perform the role of Accountable Body – the requirement to designate one of the councils as accountable body being a condition of the governments. Additional capacity will be needed to support this role mainly in the Environment Directorate and in the financial and legal functions. There will also be a need to build capacity into the economic development function to support supply chain and learning/skills development activities. In addition, there will be impacts on regulatory functions in due course as the Council will have a role in planning and permitting any off shore wind turbines/port development.

There will also be a time commitment for senior officers required to participate in the governance structures. This report seeks authority to participate in the governance arrangements for the next phase of the project. Governance arrangements for future phases will be subject to future reports.

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.

This Council will be the Accountable Body for the Celtic Freeport. 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

The financial risks to the Council are considered low at present, estimated to be in the range £150,000 to £250,000. In the short term these costs would be met from the Council's reserves but it is proposed that they be recovered in due course from the Freeport company.

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.

There is a risk that economic activity will simply be replaced rather than be additional. This risk will be mitigated through tax site delivery agreements and through criteria established to guide the allocation of public funding.

There is a risk that the Freeport would result in poor quality of employment. Undertakings were set out in the Bid to support Fair Work which involved a commitment to securing trade union involvement in the governing body of the Freeport supported by a workforce consultative committee. The other levers indicated above are also available to support the objective of Fair Work.

Risk management arrangements will be further developed as the Outline Business Case and Full Business Case are developed and approved.

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. There is however, no statutory requirement to consult on the matters set out in this report.

Recommendation

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

- (a) Members note the success of the Celtic Freeport in achieving Freeport status
- (b) Members approve the entering into of the Memorandum of Understanding included at Appendix 1
- (c) Delegated authority be granted to the Chief Executive (in consultation with the Leader and relevant Cabinet Member) to agree any minor variations to the proposed Memorandum of Understanding that maybe necessary;
- (d) The Chief Executive of Neath Port Talbot Council be identified as the representative to the project board established pursuant to the Memorandum of Understanding and be granted delegated authority to make any decisions necessary pursuant to the objectives of the project board detailed in this report and be granted delegated authority to nominate an alternative to attend in her place, who shall be entitled to make any decisions necessary pursuant to the objectives of the project board as detailed in this report.
- (e) Approves the commitment of £250,000 revenue to prepare the Outline Business Case and Financial Business Case and notes any requests for additional financial commitment will be brought back to Cabinet for further approval;
- (f) Approves the entering into of discussions with UK and Welsh Government for the preparation of Outline Business Case and Full Business Cases;
- (g) Approves the entering into of any grant agreement between the Council and the UK/Welsh Government to receive public funds from the Government;
- (h) Notes the establishment of a company limited by guarantee and that a report will be brought back to members to agree the mechanism of any legal interest that the Council will have in such a company and the nomination an officer of the Council as a director of the company limited by guarantee;
- (i) Endorse the appointment of Mr Roger Maggs MBE as Chair of the Celtic Freeport during the production of the Outline and Full Business cases and endorse the appointment of Mr David Gwynne as interim Chief Executive of the Celtic Freeport;
- (j) Approves the procurement and appointment of external consultants necessary to produce the Outline Business Case and Full Business Case on behalf of Celtic Freeport on a cost recovery basis, with financial contributions being as identified in this report and where deemed appropriate by the Chief Executive (in consultation with the Leader and relevant Cabinet Member) to exclude requirements of the Contract Procedure Rules in the interests of

ensuring appropriate individuals with experience of Freeports can be appointed;

- (k) Note the requirement to establish suitable governance mechanisms to allocate seed capital and retained business rates. A further report to be provided in due course to confirm the details of such mechanisms.

Reason for Decision

Freeport status will 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. Celtic Freeport 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 1 – Memorandum of Understanding

Appendix 2 – Integrated Impact Assessment

List of Background Papers

Cabinet decision of the 21st November 2022

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