



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

17 June 2021

Report of the Executive Director - Place

Update on East Midlands Freeport

(Strategic Leadership, Culture, Tourism and Climate Change)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is a key decision because it is significant in terms of its effects on communities living or working in an area comprising two or more divisions/county electoral areas.

3. Purpose

3.1 To provide an update to Cabinet regarding recent progress and next steps being taken in the preparation of a full business case for the East Midlands Freeport.

3.2 To seek Cabinet approval for the Council to join the Freeport 'Set Up' Board and the Leader of Derbyshire County Council (DCC) to be the nominated representative.

4. Information and Analysis

4.1 Background

At the meeting on 4 February 2021, the Leader and Cabinet Member – Strategic Leadership, Culture, Tourism and Climate Control agreed to support a bid led by the D2N2 Local Enterprise Partnership to create a freeport in the Derbyshire, Nottinghamshire, Leicestershire area which will bring additional powers and tools to improve the regional economy as we ‘build back better’ from COVID-19 and respond constructively to the opportunities generated by the UK’s exit from the European Union (EU). The Government’s Bidding Prospectus described Freeports as: “... a flagship government programme that will play an important part in the UK’s post-Covid economic recovery and contribute to realising the levelling up agenda, bringing jobs, investment and prosperity to some of our most deprived communities across the four nations of the UK with targeted and effective support.”

The Government proposes a range of benefits will be available to freeports in the following policy areas:

- Customs
- Tax. This includes measures on:
 - Stamp Duty Land Tax (SDLT) Relief
 - Enhanced Structures and Buildings Allowance
 - Enhanced Capital Allowances
 - Employer National Insurance Contributions Relief
 - Business rates
- Planning
- Regeneration and infrastructure: successful bidders will be able to access a share of £175 million of seed capital funding, depending on the submission of an outline business case (OBC).¹⁹
- Innovation

4.2 An expression of interest was submitted to Government on 5 February by the Derby, Derbyshire, Nottingham, Nottinghamshire (D2N2) Local Enterprise Partnership (LEP), supported by Derbyshire, Nottinghamshire and Leicestershire county councils, South Derbyshire, North West Leicestershire and Rushcliffe district councils and a range of private sector landowners, including Toyota Manufacturing UK.

4.3 The bid document set out the vision and ambitions for the East Midlands Freeport, along with an overview of site-specific proposals. These were detailed in the report to the Leader on 4th February but are summarised below:

Vision:

To provide the East Midlands with a once-in-a-generation opportunity to supercharge the local economy and, working alongside the emerging East Midlands Development Corporation proposals, drive a '30-year leap' in regeneration, business development and productivity.

Objectives

- ***To establish and safeguard the East Midlands as a national hub for global trade and investment***
- ***To promote regional regeneration and accessible job creation***
- ***To create a hotbed for innovation in the net zero transition***

Strategic Opportunities

- *The strategic location of the freeport site adjacent the M1, A50 and A38 and major rail network provides a unique selling point with almost 90% of the population and the nation's seaports being within a four-hour drive.*
- *East Midlands Airport, at the heart of the freeport zone, has the unique advantage of being the country's largest, dedicated cargo airport – and 7th largest in Europe. Its 24hour operation (with capacity to grow) provides businesses access to international markets beyond the European Union, including North America, Latin America and the Caribbean, Asia, and the Middle East.*
- *Being home to large, global automotive, aerospace and manufacturing companies such as Toyota, Rolls Royce and Bombardier, along with world-class universities and over £650m of active research projects, the East Midlands offers key sectoral specialisms that support Government's ambitions for freeports, including transport technology, energy and low-carbon technologies.*
- *The Freeport presents a significant opportunity to drive forward the 'good growth' agenda and deliver large scale economic regeneration for Derbyshire, including clear targets for zero carbon activity. This opportunity aligns with the interventions highlighted in the Derbyshire COVID Economic Recovery Strategy and other national policy agendas such as the 10 Point Plan announced by the Government to support green recovery.*

Site Specific Proposals

One 'freeport zone' is proposed focused around the East Midlands Airport as the primary customs site, bringing forward 523ha of largely underdeveloped land across three designated 'tax sites' - one located in each of the three counties. It is expected the tax sites will accelerate development and an investment pipeline of over £600 million, creating jobs across all skill levels and supporting regional and national economic recovery.

Site 1: East Midlands Airport and Gateway Industrial Cluster (EMAGIC)

- *EMAGIC is located in Leicestershire and consists of underdeveloped land within the Airport and East Midlands Gateway estates. The site has direct access to the strategic highway network (M1/A453/A42/A50), the airport apron, and includes Maritime's Rail Freight Terminal opened in 2019.*

EMAGIC is a proven logistics location that will attract investment in high-tech air logistics, smart warehouses, and advanced manufacturing.

- *The site is expected to contribute £600 million in GVA annually, and 9,900 jobs (with £390 million and 5,300 jobs on-site).*

Site 2: Ratcliffe-on-Soar (Ratcliffe)

- *The site is located in Nottinghamshire next to the A453, a mile from the M1 and adjacent East Midlands Parkway Station; as such, it provides easy access to both passenger and freight rail services. The existing coal-fired power plant is due for decommissioning by 2025, leaving the site primed for regeneration.*
- *The site is proposed to be developed as an industrial centre housing advanced manufacturing. It is a key site for a Gigafactory and has potential for advanced manufacturing, including fuel cells and hydrogen production. A network of low carbon energy supply is being investigated and promoted for adoption across the region.*
- *At full build out, the Freeport site is expected to generate 16,900 on site jobs, and another 15,000 through supply chains, and add £1.27bn in GVA annually (£840 million direct and £430 million indirect).*

Site 3: East Midlands and Intermodal Park (EMIP)

- *This is the only part of the freeport zone located in Derbyshire and is adjacent the Toyota plant at Burnaston. The undeveloped site is masterplan-ready and accessible through the trunk road (A38/A50) and rail freight networks.*
- *A strategic rail freight interchange is proposed, representing the next generation of rail-connected distribution parks, with a focus on hydrogen and innovation in green fuel. It will support modal shifts for businesses, including Toyota, Nestle, and JCB, from road to rail freight, reducing carbon emissions.*
- *The site is expected to contribute £910 million in GVA annually and 19,900 jobs (of which £600 million and 10,600 jobs are on-site).*

4.4. The bid document also set out the interdependencies between the proposed East Midlands Freeport and the East Midlands, locally led development corporation (DevCorp) currently being progressed in Nottinghamshire and Leicestershire. Aspects of two of the sites are in both the Freeport and the DevCorp (ie EMAGIC and Ratcliffe Power Station); the third site, the Intermodal Park in South Derbyshire which is of greatest interest to the County Council, sits outside the current DevCorp geography.

4.5 Up to the point of submission on 5th February, 2021, the D2N2 LEP provided the organisational capacity and acted as the 'lead accountable body' in helping drive bid preparation, including chairing a working group of chief/ senior officers and commissioning Vivid Economics to provide detailed support to the bid-writing process.

4.6 Update

Members may be aware that Government confirmed the East Midlands Freeport had been successful in being shortlisted to progress to the next stage in its Budget on 3rd March 2021, one of only eight in England. Other shortlisted locations are Felixstowe and Harwich (referred to as Freeport East), Humber, Liverpool City Region, Plymouth, Solent, Thames and Teesside.

4.7 Alongside the announcement, Government issued additional guidance to help the shortlisted freeport geographies progress through the next stages of the freeport process. This guidance confirmed an ambitious timetable that will see the first freeports formally designated by the end of 2021 – with clear implications for the need to work at pace over the coming months including:

- Detailed governance arrangements, risk register and implementation plan to be submitted by end of April
- Outline business case to be submitted by Summer 2021
- Tax sites and details confirmed by Summer 2021
- Customs sites and details confirmed by Autumn 2021
- Full business case submitted by Autumn 2021

4.8 Government has also advised of the need to work with them closely on: developing a more detailed governance model to provide confidence in our ability to deliver; appropriate measures for the effective management of public funds – including application of capacity support funding; the process for working on, assessing and approving business cases; and, respective roles and responsibilities at each stage.

4.9 One notable shift in emphasis within the guidance was that Government now expects accountable bodies for the freeports to be ‘legally constituted’. Within the current East Midlands partnership this means that leadership of the delivery arrangements has needed to change from the D2N2 LEP to one of the local authorities. Given the primary customs site is the East Midlands Airport and located in North West Leicestershire, Leicestershire County Council (LCC) has confirmed it will fulfil the role of accountable body (AB). Its key roles as AB include being responsible for: Government funding and monitoring/ reporting against the use of these funds; upholding procurement practices; providing effective support to the Freeport Board in delivering its purpose, in achieving formal designation as a Freeport and progressing to delivery; maintaining appropriate project documentation e.g. project plans and risk registers; ensuring the Board operates in line with transparency, propriety and inclusivity standards; publishing relevant

papers, minutes and a register of interests; and acting as a single point of contact for Government officials.

4.10 Since mid March, LCC has been undertaking work to ensure the requirements of the early 'next steps' (outlined in 4.7 and 4.8) have been met. Given the sizeable nature of the task Ernst and Young has been commissioned by LCC to support this work and provide immediate additional capacity. An overview of progress to date is provided in para 4.12 below.

4.11 Alongside the guidance, Government also has provided detailed feedback on the content of the original expression of interest document and confirmed additional (new) areas of work. In summary, over the course of developing the outline and detailed business cases, this will include clarifying and confirming:

- Which policy levers and powers will be utilised to enhance trade and investment in the Freeport area, wider region or nationally
- Alignment to local economic strategies, skills baseline and the full nature of the skills offer within the Freeport, including confirming how deprivation and unemployment will be tackled
- The programme of work to authorise the proposed tax and customs sites and agree a package of practical trade and investment support for the Freeport - including confirmation of site boundaries and verifying that final proposals meet the necessary criteria/ requirements
- A detailed breakdown of seed funding request, including requirements for new physical and digital infrastructure
- A detailed resourcing plan and delivery plan with clear milestones
- A detailed risk register - including the various stages of agreement with key site proposals and land uses (e.g. Gigafactory development)
- Robust adherence to the requisite standards and details on the proposed systems and infrastructure for controlling the movement of goods
- Detailed funding and resourcing plans – including collection and evaluation of data on tax reliefs and modelling growth in future business rate income across the site
- Wider planning stakeholder engagement arrangements – including how local development orders (LDOs) may be used to support delivery
- Plans and mitigations to address equality issues
- Plans for tackling transition around net zero and how reductions in emissions will be monitored and reported

- How the Freeport Regulator Engagement Network (FREN) or regulatory flexibilities will be utilised in relation to the 'living lab' demonstrators for alternatives fuels

4.12 Progress to Date

In line with the timetable set out in paragraph 4.7, some key work areas have been progressed, led by LCC and supported by Ernst & Young. These include:

- Confirmation of the title of the Freeport as the East Midlands Global Gateway Freeport (EMGGF).
- A revised vision for the EMGGF to be '*the UK's pre-eminent green, multimodal inland freeport and gateway to global trade, economic growth and job creation*'.
- Meetings commenced between Sir John Peace, Chair of Midlands Engine, and relevant local authority leaders and key partners to commence discussions on the full nature of the Freeport 'set up' phase.
- Development and submission of governance proposals, including terms of reference for the EMGGF 'Set Up Board', an interim governance arrangement for the pre-delivery phase of the Freeport which will ensure the necessary financial and human resources are in place to oversee the coordination of the different strands of activity required for full business case development.
- Development and submission of a strategic risk register for Freeport delivery
- Development and submission of a Diversity Statement
- Development and submission of an Implementation Plan
- Development and launch of a recruitment process to secure an independent Chair for the Set Up Board
- Development of person specification and job role for a dedicated Freeport Programme Manager

4.13 Worthy of note within the body of this report is the overall shape of the governance arrangements for the Set Up Board. It is proposed the Board will have a total of 16 members made up of an independent Chair and up to a further 15 individuals selected from across the private and public sector, including landowners (7 Board members), upper and lower tier local authorities (total of 6 Board members); others, such as representatives from the East Midlands Development Corporation and local members of parliament. It is proposed the local authority representatives are senior elected members.

4.14 In addition to the overarching Board, a number of sub committees are proposed to cover activity such as: Investment & Growth; Innovation &

Net Zero; Nominations; Security and Risk; and Skills. A wider Engagement Network is also proposed to ensure the views of key stakeholders such as LEPs, the Chamber of Commerce, Midlands Engine, Midlands Connects, colleges and universities are secured to inform the detailed development of the Freeport.

- 4.15 Although good progress has been made in developing the overarching decision-making arrangements, more work is required to confirm the delivery arrangements that will drive development at each of the three sites and preparation of the outline business case. The previous working group that had been involved in preparing the initial expression of interest bid has been stood down so putting in place the appropriate officer and project arrangements to drive the necessary work over the coming six months is now essential. It is likely these arrangements will become clear within the next few weeks.
- 4.16 It is likely that Derbyshire County Council, as transport and highway authority for the EMIP area, will need to contribute directly to these arrangements and existing resources within the Economy and Regeneration Service are being prioritised and re-aligned accordingly; additional resources will be procured as necessary.
- 4.17 In addition, Ernst and Young are currently undertaking individual discussions with each of the Freeport partners to ascertain views on critical elements such as ambitions, key principles, issues and key areas requiring clarification. These discussions are due to take place week commencing 24 May and will inform the Council's views of current levels of risk, likely work packages and level of preparedness for progressing the outline business case. Any relevant update regarding these discussions will be reported to the Cabinet meeting on 10th June or will be subject to a future report, as appropriate.

5. Consultation

- 5.1 No public consultation has been required in relation to this decision. However, over the period mid March to end of May, engagement has been undertaken with Government departments, East Midland Freeport partners and with relevant elected members in DCC to ensure progress is being maintained and the proposals set out in this report are in line with expectations.

6. Alternative Options Considered

- 6.1 Cabinet could decide not to agree an elected member representative or agree that a different Cabinet Member should represent the Council on

the Set Up Board. These are not considered appropriate options as other local authority partners are in the process of confirming elected representation at the highest (Leader) level on the Board and Derbyshire County Council's interests would be best served by ensuring comparable representation.

7. Implications

7.1 Implications of this decision are set out in Appendix 1.

8. Background Papers

8.1 None

9. Appendices

9.1 Appendix 1: Implications

10. Recommendations

That Cabinet:

- a) Notes that Government confirmed the East Midlands Freeport (EMGGF) has been successful in being shortlisted to progress to the next stage of freeport development in its Budget on 3rd March 2021.
- b) Notes the issues and progress that has been made regarding the initiation of 'set up' arrangements and specifically, the submission of various documents to Government
- c) Notes the proposed Governance arrangements as set out in this report
- d) Agrees that Derbyshire County Council should be part of the Freeport Board and specifically approves the Leader of Derbyshire County Council as the Council's representative on the Set Up Board.
- e) Delegates authority to the Leader to appoint a replacement representative on the Set Up Board in the event that he is unable to attend.
- f) Notes the more detailed work that will need to take place over the coming six months and specifically, the potential impacts on resources for Derbyshire County Council.
- g) Notes that a report outlining the key risks and resourcing implications be submitted to Cabinet once they have been confirmed.

11. Reasons for Recommendations

- 11.1 To ensure the Council is sharing updates on the progress of the EMGGF and is aware of the implications given the scale and nature of the resulting regeneration which will be brought forward through the Freeport proposal.
- 11.2 To ensure that DCC has appropriate representation on the Set Up Board.

12. Is it necessary to waive the call in period?

- 12.1 No.

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Implications

Financial

- 1.1 The report sets out an update of progress on arrangements for the development of the East Midlands Global Gateway Freeport. There are no funding implications directly associated with this report but potential resourcing requirements and financial risks and opportunities for the County Council will become apparent as more detailed work progresses to prepare the outline business case. Some minor, initial costs have been incurred already (£3,631) to cover external legal advice in the preparation of the Expression of Interest, taken from Economy and Regeneration core budget. It is expected that a further report outlining the wider financial implications will be submitted to Cabinet for consideration in due course.

Legal

- 2.1 The National Insurance Contributions Bill, which was announced in the Queen's Speech 2021 includes provisions relating to freeports. It is intended that the Bill will support existing legislation particularly in respect of finance and customs and excise. Amendments to the Regulations regarding permitted development rights and business rates are expected in due course.
- 2.2 The first task for all the Freeports is to confirm the governance arrangements set out in the bid so that there is a formal partnership in place for Government to have a dialogue with. This requires confirmation of Board membership, roles and responsibilities and how it will work with wider partners across the region. The proposed governance arrangements were submitted to Government on 23 April 2021 and are awaiting approval.
- 2.3 The Set Up Board is an interim board to act as the governing body of East Midlands Global Gateway Freeport during the pre-delivery Set Up Phase of the Freeport, before it transitions to a Board suitable for the Delivery Phase.
- 2.4 In the set up phase, the Board will ensure that the necessary financial and human resources are in place for Freeport to oversee the coordination of the different strands of activity that will be required to prepare and submit a full business case to MHCLG, achieve formal designation as a freeport and to pursue objectives that will facilitate the delivery activities of the Freeport during the Delivery Phase.

- 2.5 The Set Up Board is an unincorporated entity and at this stage it is not clear whether the governance arrangements for the Delivery Phase will take a formal company/partnership structure. As more detailed work progresses to prepare the outline business case potential implications and risks will be identified and it is expected that a further report will be submitted to Cabinet for consideration in due course.
- 2.6 The appointment of any individual to another body is a 'local choice' function under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 which means that it may be treated as an executive or non-executive function by the Council. The Council's Constitution includes the following:
"Cabinet Members may make decisions on:
(i) appointment of Members to outside bodies (Leader of the Council)".

In light of the fact that it is proposed the Leader is nominated as the Council's representative it is appropriate that the decision is made by Cabinet rather than the Leader himself.

Human Resources

- 3.1 As set out in the body of this report, it is likely the Freeport delivery arrangements will require existing staff resources within the Economy and Regeneration Service to be reprioritised and realigned to support the requisite work packages over the coming six months. Advance preparations have also been made to secure additional staff resources via recruitment agencies should the need arise and funding for these posts will be secured either through the Service's core budget or additional project funding which may need to be sourced.

Information Technology

- 4.1 None.

Equalities Impact

- 5.1 None directly as a result of this report but it should be noted that the Government's requirement to produce a Diversity Statement as part of the early Set Up arrangements has been met. This Statement includes an expectation that in the assessment and development of Freeport sites, and in the provision of skills, employment and transport opportunities, active consideration will be given to meeting the needs of all Derbyshire's communities and specifically, those with protected

characteristics. Relevant projects will be subject to Equality Impact Assessments as they are prepared.

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None arising directly from this report. Individual projects may involve the acquisition of property as they progress.