



Agenda Item

DERBYSHIRE COUNTY COUNCIL

**MEETING OF CABINET MEMBER – STRATEGIC LEADERSHIP,
CULTURE, TOURISM AND CLIMATE CHANGE**

3 September 2021

Report of the Executive Director – Place

**Proposal to Support Submission of an Outline Business Case to
Create an East Midlands Freeport**

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is a Key Decision.

3. Purpose

3.1 This report seeks approval for the Council to support submission of an Outline Business Case (OBC) to the Ministry of Housing, Communities and Local Government (MHCLG) to create a freeport in the Derbyshire, Nottinghamshire, Leicestershire area. The East Midlands Freeport (EMF), if approved, will bring additional powers and funding to improve the regional economy as the Council 'builds back better' from COVID-19 and responds constructively to the opportunities generated by the UK's exit from the European Union (EU).

4. Information and Analysis

4.1 Overview of Freeports: National Policy Context

Freeports are a type of special economic zone designed to create a favourable business environment which attracts inward investment and international trade to support jobs and growth.

- 4.2 Within freeports, trade is facilitated by reducing the direct and administrative costs of trading goods with the rest of the world. Goods entering a freeport zone are not subject to typical import procedures but can be processed and re-exported from the zone '*without being considered to have entered the host country*'.
- 4.3 Freeports are a flagship Government programme that are expected to play an essential part in the UK's post-Brexit and post-Covid economic recovery programme, contributing to the levelling up agenda and bringing jobs, investment and prosperity through benefits and incentives within the policy.
- 4.4 In addition to customs and tariff benefits, freeports are also able to access significant tax benefits, including business rates relief and the ability for local areas to retain business rates to reinvest into their local communities. Within this context, securing a Freeport for the East Midlands could bring significant benefits to Derbyshire, particularly considering the specific economic challenges around social mobility and low skill levels in this part of the County.
- 4.5 **Background**
In February 2020, the Government launched a consultation on proposals to create a limited number of freeports across the UK to help 'level up' under-performing regions, promote regeneration and generate innovation and international trade. In late November 2020, a bidding prospectus was launched that set out further details on the freeport model and related bidding process.
- 4.6 Work to develop a freeport proposal was led by the Derby, Derbyshire, Nottingham, Nottinghamshire (D2N2) local enterprise partnership (LEP), working with colleagues in Leicestershire County Council (LCC), Leicestershire District Council (LDC) and the Leicestershire LEP. The freeport proposal for the East Midlands constitutes the following sites:
- The East Midlands Airport (EMA) as the main customs site
 - Ratcliffe on Soar Power Station in Rushcliffe
 - East Midlands Intermodal Park (EMIP) site at Burnaston in South Derbyshire.
- 4.7 Further to approval by the Cabinet Member – Strategic Leadership, Culture and Tourism on 4 February 2021 (Minute No. 09/21 refers), an expression of interest for the East Midlands Freeport was made to MHCLG on 5 February 2021 and Government confirmed the region had been shortlisted as one of 13 potential freeports in April 2021. The East Midlands Freeport Board must now submit an OBC by 10 September

2021; this will be evaluated by MHCLG and successful OBCs will then be required to develop a Full Business Case (FBC) for submission on 12 November 2021.

- 4.8 It is worth noting that the EMF complements parallel work taking place to create a development corporation for the East Midlands (EM Devt Co) based around three sites, some of which overlap the EMF, at Toton and Chetwynd Barracks, Ratcliffe on Soar Power Station in Nottinghamshire and East Midlands Airport area in Leicestershire.
- 4.9 **Progressing the East Midlands Freeport Bid Since January 2021**
Further to confirmation of the shortlist, Government produced additional guidance and feedback on the initial expressions of interest for each Freeport partnership. That guidance included a requirement that a local authority was identified to lead the development of the OBC (Lead Authority). Through discussion, it was agreed that LCC should provide that function for the Freeport given that the critical port of entry for customs and tax is in the County of Leicestershire. Government also confirmed seed funding of approximately £25m to the East Midlands Freeport to support mobilisation costs and the development of detailed proposals and spending plans within the business case; essentially, the seed fund is constrained to capital spend and driving delivery of key components in the short term, and at pace.
- 4.10 Following confirmation of LCC as lead authority considerable progress has been made, specifically the establishment of interim governance arrangements to oversee preparation of the Freeport proposals and work to progress development of the OBC. These arrangements include:
- Establishment of the Freeport Board – As agreed by Cabinet on 17 June 2021 (Minute No. 91/21 refers), Derbyshire County Council is a member of the Freeport Board and is represented by the Leader, Councillor Barry Lewis.
 - Development of the wider ‘delivery architecture’ and specifically, the creation of nine working groups focused on the key components required to complete the OBC, including: Operating Model, Tax and Customs, Skills, Infrastructure and Risk Management.
 - Appointment of an independent Chair of the Board (Penny Coates), who has an extensive background in the commercial sector, including the aviation industry.
 - Appointment of external, specialist support to drive and corral work on the development of the OBC.
 - Appointment of an interim Programme Director (David Leighton) to provide programme management support; David has a background in the commercial sector, including port-based industries.

- Allocation of LCC officer resources as match funding to resources provided by Government and have procured Ernst Young (EY) to provide consultancy support to develop the OBC.
- Allocation of Derbyshire County Council officers to provide input into the various working groups to ensure the best interests of the Council - and the residents and businesses of the County – are represented.

4.11 At the time of writing, the final version of the OBC was not available, but a draft OBC is attached to this report as an exempt appendix. By virtue of Paragraph 3 of the Schedule 12A of the Local Government Act 1972, the appendix is considered exempt as it contains information relating to the financial and business affairs of partners collaborating with Derbyshire County Council to develop the OBC. Having regard to all the circumstances, on balance, the public interest in disclosing the information does not outweigh the reason for exemption because the information would add a limited amount to the public understanding of the issues but would significantly damage the Council's and partners' commercial position. The version of the OBC in the Exempt Appendix is subject to amendment at the Freeport Board on 2 September 2021 and through the working groups, ahead of submission to Government by 10 September 2021. An update on the decision of the Freeport Board on 2 September and any amended version of the OBC will be provided to the Cabinet Member at the meeting.

4.12 **Implications for Derbyshire County Council**

The report considered by the Cabinet Member – Strategic Leadership, Culture and Tourism in February 2021 set out the key considerations for the County Council in the development and delivery of the East Midlands Freeport. Specifically, the need to assess and resolve issues around impact on road and rail networks, future infrastructure requirements, planning requirements, financial implications (including the use of business rates) and governance were all noted, alongside the potential for the Freeport to drive real economic benefits for the county.

4.13 These issues have continued to be explored through development of the OBC which is set out using the Treasury's 'five case model' and provides a focus on strategic, economic, financial, commercial and management aspects of the OBC. The County Council officers providing input to the work on the Freeport bid have been sighted on key developments within the OBC as they have emerged and are satisfied with the headline proposals in the draft document – and that there is sufficient opportunity prior to submission of the OBC, to clarify a number of transport and infrastructure-related matters, including resolving the use of seed funding at the EMIP site to support hydrogen and low carbon ambitions, bridge

connectivity across the A50 and further development of the skills academy.

- 4.14 More detailed work will still need to take place prior to submission of the full business case (FBC) regarding traffic impact assessment and the potential implications of the collective Freeport proposals on the wider highway network, including the A50 and junctions 23a to 24a of the M1. Also, to fully articulate the economic case around skills development and investment strategies in support of the levelling up agenda.
- 4.15 The OBC does not commit the Council to expenditure at this stage and the risks in respect of the Council's key considerations are either dealt with in the OBC or will be the subject of further detailed work in the FBC. The Council is properly represented in the working groups and at the Freeport Board so this report recommends the Cabinet Member – Strategic Leadership, Culture, Tourism and Climate Change gives support, in principle for the OBC by endorsing its content and submission and that a separate report is presented to Cabinet to consider the FBC in due course. Assuming the FBC is submitted on 12 November 2021, it may be necessary to consider a special Cabinet meeting, but this can be confirmed when the Government provides feedback on the OBC.
- 4.16 There are no immediate or significant implications for the Council's own infrastructure. Access to EMIP will be via a connection to the Strategic Road Network on the A50 and local connection to the Toyota site at Burnaston (TMUK) will be via a private asset. There could potentially be wider-area traffic impacts arising from the collective sites and additional activity generated by EMF status which may need mitigation where, for example, a junction onto the local road network requires improvement. These impacts are yet to be tested though and will be evaluated through planned traffic assessment work linked to preparation of the FBC.
- 4.17 Planning matters for EMIP are still expected to be managed through a Development Consent Order for which the Council's role is managed in producing a Local Impact Report rather than as the regulatory planning authority. This will not be insignificant but is a 'business as usual' process which would have been required irrespective of Freeport status.
- 4.18 It is considered that EMIP, irrespective of Freeport status, represents a major opportunity for employment and skills within the County, and a significant generator of business rates. The impacts of EMIP itself - and Freeport status - on inward investment across the wider area are uncertain at this stage, however, there is no doubt there will be benefits from the additional critical mass of development within a corridor which

already supports business, such as Toyota Manufacturing UK, JCB, Bombardier and Rolls Royce, alongside other commercial opportunities, such within the wider South Derby Growth Zone.

- 4.19 Further opportunities exist for EMF to be an exemplar and/or accelerator for existing aspirations such as Derbyshire being a centre of excellence for 'future fuels'; the seed funding available for EMF may be able to bring forward key moves towards this and also in the delivery of sustainable travel links between EMF sites and surrounding areas including the proposed Infinity Garden Village.
- 4.20 Beyond submission of the OBC, the Full Business Case (FBC) needs to follow swiftly and will provide a higher level of justification for the Freeport status itself and for Government's investment. This will need to set out evidence of transport impacts across the affected area (the A50 and M1 in particular) and finalise other core components such as site security for the defined customs sites.
- 4.21 The OBC submission also sets out governance arrangements. The proposed model is based on a non-constituted partnership body that is unincorporated and it is proposed that LCC will continue to play the role of lead authority and support the Freeport Board. Derbyshire County Council will not cede any power or responsibility to the Freeport Board as it is currently proposed and will retain sovereignty over relevant powers. It is also proposed the Leader of the Council will continue as the representative at the Freeport Board.

5. Consultation

- 5.1 Not applicable - public consultation on the proposal at this stage is not required.

6. Alternative Options Considered

- 6.1 Do nothing – doing nothing is not considered an option as Government has already shortlisted the EMF proposal and invited the submission of an OBC which either needs to be supported by Derbyshire County Council or not.
- 6.2 Do not support submission of the OBC – the OBC is intended to reflect the broad nature of the Freeport proposals, specifically highlighting the Strategic Case and benefits expected to be achieved from the development for the people of Derbyshire – and wider area. At the time of reporting, a small number of gaps remain in the draft OBC (attached to this report) but continued efforts through the EMF working groups will

ensure these are filled and that the final OBC meets Government requirements. On that basis, it is considered that to not support the submission of the OBC is an appropriate option.

7. Implications

7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8. Background Papers

8.1 None identified.

9. Appendices

9.1 Appendix 1 - Implications.

9.2 Appendix 2 – Draft Outline Business Case (Exempt).

10. Recommendations

That the Cabinet Member:

- a) Notes the overview of progress and proposals outlined in this report and the current draft Outline Business Case for the East Midlands Freeport which is attached at Exempt Appendix 2.
- b) Subject to due consideration of the final draft and any amendments from the EMF Board, delegates authority to the Executive Director - Place, in consultation with the Leader of the Council, to endorse the final Outline Business Case, ahead of submission to Government by 10 September 2021.
- c) Agrees that a further report to consider the Full Business Case and any implications for the County Council be submitted to Cabinet for consideration, should the Outline Business Case bid be taken forward by Government.

11. Reasons for Recommendation

11.1 All partners are required to affirm support for the Freeport to meet a key Government criteria for bid submission of the OBC. In the case of the County Council, there are clear synergies between the benefits offered by the Freeport and the stated priorities of Derbyshire County Council in the Council Plan to drive economic prosperity across the county in

support of the levelling agenda and commitments expressed in the Covid Economic Development Recovery Strategy.

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

- 12.1 Yes. The timescales for preparing the Outline Business Case and submitting it to Government are extremely challenging. This has impacted on the time available for the Council to formally consider and endorse the proposal.

Councillor Steve Bull, Chairman of the Improvement and Scrutiny Committee, Places has agreed that call-in should be waived on the basis that the decision proposed is reasonable in all the circumstances and to it being treated as a matter of urgency due to the nature of the decision required and the timescales involved.

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Implications

Financial

- 1.1 To date, in supporting preparation of the outline business case, the Council has received external support and advice, e.g. legal instruction, the total cost of which has been approximately £10,000. There are no further, direct financial implications arising from the recommendations of this report. If the OBC is successful, the County Council will work closely with local partners to develop the Full Business Case, during which, the County Council will have a role in shaping the financial and commercial case for the Freeport. It will then be a matter for Cabinet to consider the full business case, including any financial implications.

Legal

- 2.1 There are no direct legal implications arising from the recommendations of this report. The submission of the OBC is not legally binding on the Council and is subject to approval by Government. The County Council has reserved its position on the final proposition until such point that the full business case is complete, this continues to be the case and our support remains non-binding. As more detailed work progresses to prepare the full 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

Human Resources

- 3.1 There are no human resource implications associated with this report. Officer input into the EMF working groups is being provided through the Economy and Regeneration Service and Finance Service on a project basis. Development of the Full Business Case may require more dedicated input for a short period of time over the period September to November but will be managed within service resources.

Information Technology

- 4.1 None.

Equalities Impact

- 5.1 None directly as a result of this report but the EMF proposal seeks to positively impact on levelling up and opportunities for skills development and employment for all local residents.

Corporate objectives and priorities for change

- 6.1 The Freeport proposal is fully in line with the Council's priority to secure a green and prosperous economy as confirmed in the Council Plan.

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

- 7.1 None.