

Report to: **Executive**
Date: **18th April 2024**
Title: **Freeport Update**
Portfolio Area: **Economy – Cllr John Birch**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: After the call in period for Executive

Author: **Chris Brook** Role: **Director of Place & Enterprise**

Contact: Chris.Brook@swdevon.gov.uk

RECOMMENDATIONS

That the Executive NOTE:

- 1. the contents of this update report; and**
- 2. that the Council's borrowing requirement for the Freeport has been reduced from £5.5m to £3.5m.**

1. Executive Summary

- 1.1 South Hams District Council is a founding member of the Plymouth and South Devon Freeport (PASDF) and this report contains an update on activity being delivered.
- 1.2 Since the last Council report, the Freeport has progressed a multitude of work strands, and has had the benefit of political leadership and oversight by the Portfolio Holder for Economy.
- 1.3 It has been highlighted and recognised by the peer review team, as a successful economic development (ED) programme to be proud of. Aligned and magnified across the council's other economic development activity, it will support key sectors; the marine economy, low carbon and high tec manufacturing, and provide skills programmes to elevate our workforce into these areas of work.
- 1.4 A pipeline of investment interest has been built, with a number of potential tenants identified across the marine sector, renewables and manufacturing sectors.
- 1.5 Key activity during the period includes:

- i. Adjustments to the allocation of seed funding including approval of £200k funding to SHDC for a master plan & delivery strategy for the employment land at Sherford (Section 3).
- ii. Signing off the company's annual delivery plan
- iii. The Freeport company has engaged with potential businesses both nationally and internationally and there is a pipeline of business interest, which is reviewed by the Freeport Board at its meetings.
- iv. Acquisition of the land at Sherford & Option agreement with Babcock update – verbal.
- v. Progress on a number of key work streams including the pedestrian / cycle bridge and spine road.
- vi. Government extension to Freeport incentives from September 2026 by five years to September 2031.
- vii. Babcock, in conjunction with the Freeport, Department of Work and Pensions and Plymouth City Council, have developed a SWAP (skills-based work academy) programme to support people back into employment.
- viii. Government funding for the South West's 1st hydrogen plant has been secured at Langage, planning has been granted and the project is now in the design phase.

2. Background

- 2.1 Plymouth and South Devon Freeport (PASD) is one of 12 freeports in the UK tackling long-standing challenges in disadvantaged area. Numerous data show that the far south west and Devon in particular, have a jobs and industry mix more weighted towards lower paid and lower productivity sectors. In addition, businesses in the far south west tend to export less and invest less in innovation. The net result is reduced opportunity for the residents of the area, lower incomes than in other parts of the country and, in contrast to the stunning natural environment, some of the most deprived communities in the UK. Freeports will not on their own solve a situation that has been in place for more than 20 years but the Plymouth & South Devon freeport is a major opportunity to contribute towards closing the gap.
- 2.2 PASD builds on the strengths of the area with a specific focus on advanced engineering, businesses that enable net zero, marine, defence and the nascent space sector. With tax incentives now confirmed through to 2031, PASD aims to create 3,584 jobs over the period and attract £249.67 million private sector investment into the three freeport tax sites through:
 - **Creating a national hub for trade and investment; e.g.** piloting short sea shipping, reducing freight transport emissions, improving regional connectivity, increasing

Foreign Direct Investment and investment, increasing the number of businesses exporting.

- **Promoting regeneration and job creation** – increasing economic specialisation, delivering an increase in employment and average earnings, tackling deprivation and enhancing skills capacity, apprenticeships and opportunities.
- **Creating a hotbed for innovation** – increasing R&D spend, boosting Gross Value Added (GVA) through increasing high value economic activity, increasing productivity, contributing to net zero research and innovation agendas and extending regional, national and international networks.

- 2.3 Businesses in the freeport remain subject to the full range of UK employment law, planning and other regulations but the specific tax and customs benefits offer a competitive advantage. In addition, PASD supports businesses with sourcing and developing a skilled workforce, working with FE colleges and other training providers, and in working with universities and other research institutions to drive levels of innovation.
- 2.4 Minutes of the Freeport Board are published here: <https://pasdfreeport.com/governance/>
- 2.5 Appendix A contains the PASDF Highlight report – November 2023 to February 2024. This contains the key updates across the workstreams, critical to Freeport success.
- 2.6 Appendix B is the marketing and communication update – November 2023 to February 2024.

3. Key updates

3.1 Governance

- 3.1.1 The board meet regularly and are able to ensure timely decisions are taken to meet the needs of DLUHC, the founding members (SHDC, DCC and PCC) and project delivery. The portfolio holder for Economy continues to drive the Freeport as the Council's director on the board. Emphasis has been placed on net zero, sustainable growth and a balanced budget.
- 3.1.2 A number of additional strategy meetings have also been arranged for the Leaders & CEx of the three authorities, with the next meeting being arranged for a date in May.

3.2 Net zero

- 3.2.1 A net zero lead has been appointed and embedded across all programmes to integrate net zero across delivery. In particular, they have ensured net zero conditions are embedded within the Freeport's seed capital programme and are proactively working with key stakeholders to agree and develop the Freeport's net zero action plan.

3.3 Financial sustainability

- 3.3.1 In order for the 8 English Freeports to have the tax benefits extended to 2031, they had to provide DLUHC with a full update of programme, delivery and financial modelling.
- 3.3.2 This has been assessed and approved by DLUHC, resulting in the successful extension of the benefits package – one of only two freeports in England to have achieved this to date, and a significant feather in our Freeport's cap.
- 3.3.3 Significantly, the Council has been able to reduce its borrowing from the approved level at £5.5m to £3.5m. It has achieved this through the reallocation of matched funding for infrastructure in Langage away from the Council to the private sector and a reduction in the amount it needs to borrow for the Sherford tax site. The borrowing for South Hams District Council (£3.5m) is anticipated to be borrowed in the 2025/26 financial year.
- 3.3.4 This collective achievement reduces the debt exposure of the entire Freeport (and associated risk), improves the net income over the lifetime of the project, and provides for greater re-investment opportunities into key priority. The reduction in borrowing costs are of the order of £116k a year lower as a result of this change.

3.4 Freeport Infrastructure Projects Update

- i. Langage Phase 1a Spine Road – Preliminary design is complete and ready for planning. The project is currently forecast to complete in March 2025.
- ii. Langage Phase 1b Spine Road – The design is ongoing and progressing well. Planning is due for submission in Autumn 2024.
- iii. Ped/Cycle Bridge – A planning application has been submitted. This work strand is targeting construction to start in 2025, and will provide a very important active travel link across the A38.

3.5 Seed Capital changes approved

- 3.5.1 A summary of changes is set out below. A positive change from the Council's perspective is the allocation of £200k of funding towards the commissioning of a master plan and delivery plan for the Sherford tax site. This is a targeted mitigation, in the event Babcock do not proceed with the option agreement and develop the site and has been recommended for and been approved by the board and subsequently DLUHC.
- i. Withdraw £0.900m seed funding from Princess Yachts Factory site remediation.
 - ii. Withdraw £0.100m seed funding from Octagon Roundabout enhancements.

- iii. Allocate £0.315m seed funding to Princess Yachts Factory Extension project.
- iv. Allocate £0.382m seed funding to Port of Plymouth Enhancement (Cattewater) project.
- v. Accept Langage Energy Park Ltd becoming the project sponsor of the Langage Core Infrastructure project. Note, SHDC will now no longer be required to borrow to match fund this allocation, a reduction of £1.5m of borrowing.
- vi. Accept reallocation of £0.2m seed funding from the Langage Core Infrastructure Project to the Sherford Land Assembly project to undertake master planning.

3.6 Sherford land Acquisition

3.6.1 The land acquisition of the land at Sherford, in accordance with Council decision E.92/22, has progressed.

3.6.2 A verbal update will be given, as a "part 2" discussion

3.7 Marketing and Communications Update (Appendix B)

3.7.1 The summary in Appendix B shows the past and future activities. It is also a helpful summary of the important successes that have occurred in the reporting period:

3.7.1.1 Extension of Freeport benefits to 2031

3.7.1.2 Hydrogen plant success

3.7.1.3 Back to work employment programme launch

4. Conclusion

4.1 Work continues at pace on the multiple fronts of inward investment, infrastructure delivery, skills, net zero and development and this year will see construction occurring on the ground, which is always a positive sign of progress.

4.2 The work to mitigate risk around the future use of the Sherford site, including the securing of additional seed funding is a significant positive outcome.

4.3 Likewise, the work undertaken to reduce the Council's debt exposure through the project mitigates risk and bolsters financial sustainability into the future.

4.4 The strong political leadership being provided by the Council to the board, within a mature collaborative partnership with DCC and PCC provides an excellent foundation and springboard to ongoing success.

5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		N/A
Financial implications to include reference to value for money	Y	The changes set out in the report include a £2m reduction to the borrowing SHDC will require, reduced from £5.5m to £3.5m. This reduces the debt costs that would need to be paid for from the retained business rates income generated within the Freeport, by £116,000 per annum. The borrowing for South Hams District Council (£3.5m) is anticipated to be borrowed in the 2025/26 financial year.
Risk		The Plymouth and South Devon Freeport Risk Management Policy is available on the Plymouth and South Devon Freeport website on the link below. https://pasdfreeport.com/governance/
Supporting Corporate Strategy		Economy
Consultation & Engagement Strategy		For information only
Climate Change - Carbon / Biodiversity Impact		The Freeport has an embedded net zero strategy and one of its target sectors is green tec and renewables – such as the Hydrogen plant that is being developed at Langage.
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		N/A

Appendices:

Appendix A – PASDF Highlight report – November 2023 to February 2024.

Appendix B – Marketing and Communications Update