FULL COUNCIL

Wednesday, 25 January 2023

Subject	Freeport East Business Rates Relief and Retained Rates Policies
Report by	Cllr Craig Rivett Deputy Leader and Cabinet Member with responsibility for Economic Development Cllr Maurice Cook Cabinet Member with responsibility for Resources
Supporting Officers	Brian Mew Chief Finance Officer Brian.mew@eastsuffolk.gov.uk Paul Wood Head of Economic Development and Regeneration Paul.wood@eastsuffolk.gov.uk

Is the report Open or Exempt?	OPEN

Wards Affected:	Eastern Felixstowe Western Felixstowe Woodbridge Kesgrave Martlesham and Purdis Farm Rushmere St Andrew Deben Melton Carlford and Flynn Valley Wickham Market Rendlesham and Orford Framlingham Orwell and Villages

Purpose and high-level overview

Purpose of Report:
To seek approval from Full Council to adopt the Freeport East Business Rate Relief and Freeport East Retained Rates policies, as they apply to East Suffolk. As the billing authority for the Felixstowe Tax Site, the Council needs to approve a Rate Relief policy in order to award rate reliefs to businesses locating on the site, in accordance with the Freeport objectives. The retained rates policy sets out how the Council will manage retained rates income and the governance structure which will approve expenditure in line with Freeport East objectives. The policy details the allocation of rates into various 'pots' dependent on the end use of that funding as well as setting out the principle of 'top slicing ' to cover Freeport East's operational costs and any direct costs borne by ESC in its role as Lead Authority/ accountable body. Furthermore, the policy covers ESC's accountable body role with respect to the management of the pooled retained business rates contributed by all Freeport East billing authorities. The use of these retained rates will partially reimburse ESC for forgone rates, allow significant infrastructure investment within the Freeport tax sites, thereby maximising the value of development which can take place on the site and contribute to a collective rates pool which will enable the delivery of wider Freeport East initiative as set out within the Full Business Case across the whole freeport zone.
Options:
ESC could decide not to adopt business rates relief or retained rates policies in relation to Freeport East, however this would result in the Felixstowe Tax Site not being able to operate as set out within the Memorandum of Understanding (MoU) with DLUHC and would also mean there was no structure with which to manage and distribute retained rates funding, which is a fundamental element of Freeport operation. This in turn would result in a failure to achieve Freeport East objectives as set out in the Full Business Case and MoU.

Recommendation/s:

1. That the Freeport East Business Rate Relief policy attached as Appendix A be approved.
2. That the Freeport East Retained Rates policy attached as Appendix B be approved.

Corporate Impact Assessment

Governance: Freeport East has established a governance process that will apply assessment criteria to proposed spend against Pot B and Pot C retained rates. This will involve Freeport East's Management Committee, which comprises all partners, receiving proposed projects and determining their suitability for funding. Dependent on delegation levels the management Committee will either approve expenditure or escalate to the FE Supervisory Board for approval. In all cases retained rates spend will be reported to the Supervisory Board. All three billing authorities in Freeport East will need to approve a consistent Business Rates Relief policy in order for them to use their discretionary powers under section 47 of the Local Government Finance Act 1988 (as amended), to grant relief to those ratepayers who are eligible in their individual tax sites. In East Suffolk, the business rates relief policy will be administered by the Anglia Revenues Partnership on behalf of the Council.
ESC policies and strategies that directly apply to the proposal: East Suffolk Strategic Plan East Suffolk Economic Strategy
Environmental: The positive environmental impacts of Freeport East have previously been documented. There are no specific impacts from this report.
Equalities and Diversity: An Equalities Impact Assessment has previously been undertaken for Freeport East. There are no specific impacts from this report.
Financial: The focus of this report is the awarding of business rate relief and the management of retained business rates. In terms of the rate relief policy, the Council as billing authority will be compensated by the Government for the cost of these reliefs by way of Section 31 Grant. Under the proposed retained rates agreement, the key implication is that ESC will not receive all of the business rates income it would have received if development had taken place in the absence of the Freeport Tax Site. However, it can be argued that the estimated volume of business rates income associated with the Freeport Tax Sites is primarily attributable to this designation itself, and the incentives to businesses available in the sites. This is essentially the line that DLUHC has taken in discussion regarding the Full Business Case, that the Pot A "no detriment" arrangements are counter-factual and have not generally been proposed by other Freeports. However, DLUHC have now accepted the principle of the Pot A arrangements, although they have proposed a lower quantum for this than proposed in the Outline Business Case. Partly offsetting this, particularly or ESC, the Council's costs incurred in its accountable body role will now also be top sliced from retained rates income when this comes on stream, together with the costs of Freeport East itself. As accountable body, ESC has a key role in the management and allocation of the pooled elements of the Freeport East retained rates fund. This involves funding ring fenced for

tax site development and the wider Freeport East zone in line with Freeport East's objectives as set out within the Full Business Case and MoU.
Human Resources: There are no HR implications to this report.
ICT: There are no ICT Implications to this report.
Legal: Legal agreements between Freeport East, the Billing and County Council authorities will be established to provide the legal basis for the 3 pots, A, B &C and any relevant sub pots. These will build on best practice from Enterprise Zone agreements, detailing definitions, commencement & term, fund splits, escalation, freedom of information, intellectual property, termination, change control and governing law and jurisdiction. ESC will also be required, in its role as a billing authority and accountable body, to be a signatory to the MoU alongside Freeport East and the other billing authorities. Signing the MoU will commit ESC to enable and support the delivery of the Freeport East objectives. The Council will use its discretionary powers under section 47 of the Local Government Finance Act 1988 (as amended), to grant relief to those ratepayers who are eligible in accordance with the Freeport East Business Relief Policy.
Risk: The key risk will be a failure to generate retained rates through lack of business investment on the tax sites. This risk is remote as the investment incentives are extremely competitive. One tax site (Gateway 14) has already announced a significant investment and negotiations with potential investors are underway in respect of the Felixstowe tax site.

External Consultees:	Consultation has taken place with all Freeport East partner organisations.

Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: *(Select only one primary and as many secondary as appropriate)*		Primary priority	Secondary priorities
T01	**Growing our Economy**		
P01	Build the right environment for East Suffolk	☐	☒
P02	Attract and stimulate inward investment	☒	☐
P03	Maximise and grow the unique selling points of East Suffolk	☐	☒
P04	Business partnerships	☐	☐
P05	Support and deliver infrastructure	☐	☒
T02	**Enabling our Communities**		
P06	Community Partnerships	☐	☐
P07	Taking positive action on what matters most	☐	☐
P08	Maximising health, well-being and safety in our District	☐	☐
P09	Community Pride	☐	☐
T03	**Maintaining Financial Sustainability**		
P10	Organisational design and streamlining services	☐	☐
P11	Making best use of and investing in our assets	☐	☐
P12	Being commercially astute	☐	☐
P13	Optimising our financial investments and grant opportunities	☐	☒
P14	Review service delivery with partners	☐	☐
T04	**Delivering Digital Transformation**		
P15	Digital by default	☐	☐
P16	Lean and efficient streamlined services	☐	☐
P17	Effective use of data	☐	☐
P18	Skills and training	☐	☐
P19	District-wide digital infrastructure	☐	☐
T05	**Caring for our Environment**		
P20	Lead by example	☐	☐
P21	Minimise waste, reuse materials, increase recycling	☐	☐
P22	Renewable energy	☐	☒
P23	Protection, education and influence	☐	☐
XXX	**Governance**		
XXX	How ESC governs itself as an authority	☐	☐

How does this proposal support the priorities selected?

Growing our Economy

Build the right environment for East Suffolk: Freeport East has led to the creation of the Felixstowe Tax Site and the adoption of a business rates relief and retained rates policies will enable further investment to develop the tax site. This will be in addition to the capital seed funding investment in the site and in combination will support significant business investment.

Attract and stimulate inward investment: the overarching aim of the Freeports initiative is to attract inward business investment to support the delivery of Freeport objectives i.e. Levelling Up, Innovation and Net Zero.

Maximise and grow the USPs of East Suffolk: As the country's busiest container port, the Port of Felixstowe is already a major economic USP for the District. The creation of the Freeport and subsequent investment in the Felixstowe Tax Site further embeds its importance and as part of the hugely important sub-regional logistics sector which exists in the wider Freeport East zone.

Support and deliver infrastructure: The creation of the Freeport is leading to the creation of new business infrastructure in the form of the three Tax Sites and Customs Sites. The approval of the FBC supports further investment in these sites and will support the delivery of retained business rates over 25 years which will in part be reinvested in infrastructure to support the sub-regional economy. The awarding of £25m of capital seed funding, part of the Freeport approval process, will lead to significant investment in the infrastructure of the tax sites.

Maintaining Financial Sustainability

Optimising our financial investments and grant opportunities: The creation of a Freeport will allow ESC to retain business rates, for a period of 25 years, from businesses who locate on the Felixstowe Tax Site. A portion of this income will be for ESC to use in whichever way it wishes, whereas the remainder will be pooled with retained rates from the other tax sites to create a fund for tax site development and achieving the wider objectives of Freeport East. Furthermore, the Freeport will allow access to a variety of external funding sources to support the objectives of Freeport East, which will support further sustainable economic growth within the District. Approval of the MoU will also result in the receipt of £25m of capital seed funding of which £12m has been allocated to the Felixstowe tax site.

Caring for our environment

Renewable Energy: A key Freeport East project is the Green Energy Hub which will focus on the generation and use of clean energy. As part of the hub an electrolyser will be established at the Port of Felixstowe to produce green hydrogen to decarbonise port activities. A further objective of the hub is to establish an offshore wind facility at Bathside Bay to provide laydown space and facilities to service nearby offshore wind farms. The use of retained rates will be crucial in enabling these developments as will the ability to award rate relief to incentivise inward investment.

Background and Justification for Recommendation

1	Background facts
1.1	The Freeport East Business Rate Relief and Retained Business Rates policies have been created to set out the Council's arrangements for the awarding of rate relief to qualifying businesses and managing retained rates, generated as a result of the Freeport East Initiative. The requirement to establish these policies flows from the Freeport East Full Business Case, which in April 2022 Cabinet approved the submission of (Cabinet report ES/1109).
1.2	The policies outline the decision making and governance processes associated with the awarding of relief and the management/ expenditure of the retained business rates, and details how they will be apportioned into different 'pots'. The Government have modelled the Freeport policies in relation to business rate relief and retained rates incentives, on the Enterprise Zone policy and therefore our proposed Freeport East Retained Rates and Freeport East Retained Business Rates policy mirrors this model.

2	Current position
2.1	Freeport East's Full Business Case was approved by the government's Treasury Assessment Panel in November 2022. Following approval, a Memorandum of Understanding was issued to Freeport East, the billing authorities and the accountable body (ESC) by DLUHC. This will form an agreement between DLUHC and these organisations which commits partners to deliver the objectives set out within the Full Business Case. Within the MoU the awarding of rate relief and the management/ allocation of retained rates is detailed. For ESC to comply with these elements of the MoU we need to establish policies for the awarding of Freeport business rate relief and the management/ expenditure of retained rates – this paper highlights the proposed policies which are contained in appendices A and B.
2.2	Over the course of the next 25 years, it is anticipated £69m of retained rates will be generated by the Felixstowe Tax Site out of a total of £343m generated across all tax sites. This represents a substantial investment fund which clearly requires robust policies and governance for its management – the policies outlined in this paper will address this.

3	How to address current situation
3.1	ESC, as both a Freeport East billing authority and accountable body have a key role to play in managing both our own retained rates and those generated in the other billing authority's tax sites. All retained rates generated will initially be 'top sliced' to cover Freeport East's operational costs and any direct costs to ESC in its accountable body role. Following this retained rates will then be allocated into three Pots:

	- Pot A1 – to partially reimburse the billing authority for any foregone business rates income - Pot A2 - to partially reimburse the county council for any foregone business rates income - Pot B – for investment in any and all tax sites within the Freeport East zone but with priority access for the tax site in which the income is raised. - Pot C – for investment across the Freeport East zone to deliver Freeport objectives as set out in the Full Business Case and Memorandum of Understanding.
3.2	Pots B and C will be collective pots that can be bid into by any Freeport East partner to support tax site investment and the delivery of wider Freeport East objectives, however priority access to this funding will be available for the tax site on which the income is generated. Proposals for expenditure against either pot will be assessed for approval, with reference to previously agreed assessment criteria, by the Freeport East Management Committee and Supervisory Board. ESC in its accountable body role will be required to approve Pot B and C spend to ensure it meets ESC's responsibilities to the Freeport policy objectives which we will be signatory to via the Freeport East Memorandum of Understanding (MoU). This MoU will be presented to Cabinet on 3 January 2023, seeking approval for ESC to be a signatory to the agreement.

4	Reason/s for recommendation
4.1	Approval of the Freeport East Business Rate Relief Policy will allow the Council to award up to 100% relief on business rates for qualifying businesses who invest in the Freeport East Tax Site in East Suffolk. Business rate relief is a major investment incentive of the Freeport policy and within East Suffolk it will apply at the Felixstowe Tax Site which is located within the Port of Felixstowe.
4.2	Approval of the Freeport East Retained Rates Policy will allow ESC to manage and appropriately allocate, alongside Freeport East, the retained rates ESC receives as a result of investment in the Felixstowe Tax Site. Furthermore, it provides a mechanism and governance structure to manage the pooling of retained rates by all the billing authorities for investment in tax sites and the wider Freeport zone in line with the objectives set out in the Full Business case which we will commit to deliver as signatories to the Freeport East Memorandum of Understanding.

Appendices

Appendices:	
Appendix A	ESC’s Freeport East Business Rate Relief Policy
Appendix B	ESC’s Freeport East Retained Rates Policy

Background reference papers:		
Date	**Type**	**Available From**
November 2022	Freeport East Full Business Case	Freeport East FBC v0.13.docx