HM Government

English Freeports Setup Phase and Delivery Model Guidance

July 2021 (published with revisions April 2022)

Contents

Please note: this document specifically and exclusively details policy and processes for Freeports in England. Analogous guidance for Scotland, Wales, and/or Northern Ireland may be issued as appropriate.

A: Overview

1. The Setup Phase

1.1. The eight prospective Freeports in England, announced at the March 2021 Budget, have now moved to the next phase of designation (the ‘setup phase’).

1.2. It is the Government’s ambition for the first Freeports to complete this phase as quickly as possible. This will require:

1.2.1. Government approval of Outline Business Case (OBC) and Full Business Case (FBC) – ‘the Business Case Process’

1.2.2. Government approval of proposed tax sites – ‘the Tax Site Process’

1.2.3. Government approval of proposed customs sites – ‘the Customs Site Process’

1.3. The three processes have been aligned as far as possible: information needed for the Tax Site Process has been integrated into the OBC to form a single ask and the assessments of tax sites and OBCs will feed into each other, meaning a prospective Freeport’s proposed tax sites will not be designated until its OBC has been approved.

1.4. The Government’s ambition is for the first Freeports to complete the setup phase as quickly as possible and it will work collaboratively with prospective Freeports to achieve this. Officials from across government and centrally procured technical experts will be brought together to support prospective Freeports over the coming months (see Chapter F for further detail).

1.5. However, the Government acknowledges that not all prospective Freeports will be able to move at the same pace. We intend to progress Business Cases in tranches (see Section 15 below for details) based on when prospective Freeports are ready to submit them.

2. Guidance

2.1. The purpose of this document is to inform prospective Freeports’ work over the coming months by setting out:

2.1.1. How the Business Case, Tax, and Customs processes will operate (Chapters A, C, D, and E).

2.1.2. Further detail on the policy and delivery models, to help inform the development of Freeport proposals (Chapter B).

2.1.3. The Government's recommendations and expectations for the content of the OBC and FBC (Chapters C and E).

2.1.4. The support available to Freeports as they undertake the setup phase (Chapter F)

2.2. Business Cases should therefore be developed with this guidance document firmly in mind: Business Cases that are better aligned with the Government's expectations are likely to be approved more quickly.

2.3. However, not all aspects of the setup phase and delivery model are set out in this document. The Government expects to issue the following supplementary guidance:

2.3.1. Technical guidance for local authorities on administering business rates relief will be shared in July[1].

2.3.2. Further guidance on the FBC process will be provided by September. This will include information on the Government's Monitoring and Evaluation (M&E) approach, with full guidance to follow.

2.3.3. Technical guidance for the Freeport tax measures will be published on gov.uk no later than one month before the respective relief/allowance being available to claim.

2.3.4. Additional guidance on the customs process will be shared in due course.

3. The Three Processes

3.1. **The Business Case Process**

[1] https://www.gov.uk/government/publications/freeports-business-rates-relief-local-authority-guidance

3.1.1. Through their OBCs, prospective Freeports will articulate their overarching strategic vision for the Freeport as a whole. This will involve significant development of the content of the original Freeport bid in line with its core principles.

3.1.2. The FBC will involve adding further detail to the vision set out in the OBC, particularly regarding the use of Freeports seed capital funding and the deployment of the customs levers, and refining the content of the OBC in line with government feedback. However, the Government expects the majority of the work to take place at the OBC stage.

3.1.3. A high-level summary of the expected OBC and FBC content is as follows:

- **Strategic**
  - OBC Content
    - Strategic rationale
    - Target markets
    - Value proposition
    - Levers and interventions
    - Outputs and outcomes
    - Evidence for Tax Site activation
    - Net Zero plans
    - Equalities strategy
  - FBC Content
    - Further detail on business rates retention and customs
    - Assessment of environmental impacts
- **Economic**
  - OBC Content
    - Options analysis for seed capital and tax measures
  - FBC Content

        - Expanded modelling to include remaining Freeport levers

- **Financial**
    - OBC Content
        - Medium-term financial profile
        - Financial risk
    - FBC Content
        - Further detail on business rates retention
        - Long-term plans for financing Freeport delivery
- **Commercial**
    - OBC Content
        - Tax site delivery strategy
    - FBC Content
        - Commercial strategy
        - Customs site delivery strategy
        - Approach to public sector borrowing and subsidy control
- **Management**
    - OBC Content
        - Governance update
        - Delivery team structure
        - Stakeholder engagement plan
        - Plans for building local expertise
        - Key milestones
        - Risk management strategy
        - Plans for managing security risks
    - FBC Content
        - Detailed governance plans for delivery phase

- Monitoring and Evaluation plan
-

3.1.4. The Business Case process will serve to assure the Government that public funds, in the form of seed capital funding, will be managed effectively by Freeports.

3.1.5. However, it – and the Government's support to prospective Freeports during the process – have also been designed to encourage and enable prospective Freeports to fully consider the factors we know to be critical to the successful delivery of a Freeport. In particular, the Government expects prospective Freeports in their Business Cases to credibly evidence:

- **Strategic focus:** The Freeport has a clear focus on specific industries, economic activities, and/or value chain components that rely on similar factors of production and allow for synergies, agglomeration, and clustering.
- **Value proposition:** Tax and customs sites have clear appeal for the types of investors the Freeport is aiming to attract, including necessary infrastructure in and around them, an appropriate supply of skilled labour, and key business services.
- **Strong governance:** Appropriate governance arrangements are in place, with active and well-structured roles for private sector stakeholders, key local authorities, and local stakeholders for innovation, economic strategy, skills, and placemaking.
- **Local economic linkages:** The Freeport is well integrated into the wider local economy, supporting sectoral clustering and supply chain linkages, for example through matchmaking and training programmes for SMEs outside of the Freeport and/or on-site incubators.
- **Coordinated investment promotion:** Effective and targeted investment promotion, approval, and facilitation are in place.

3.2. The Tax Site Process

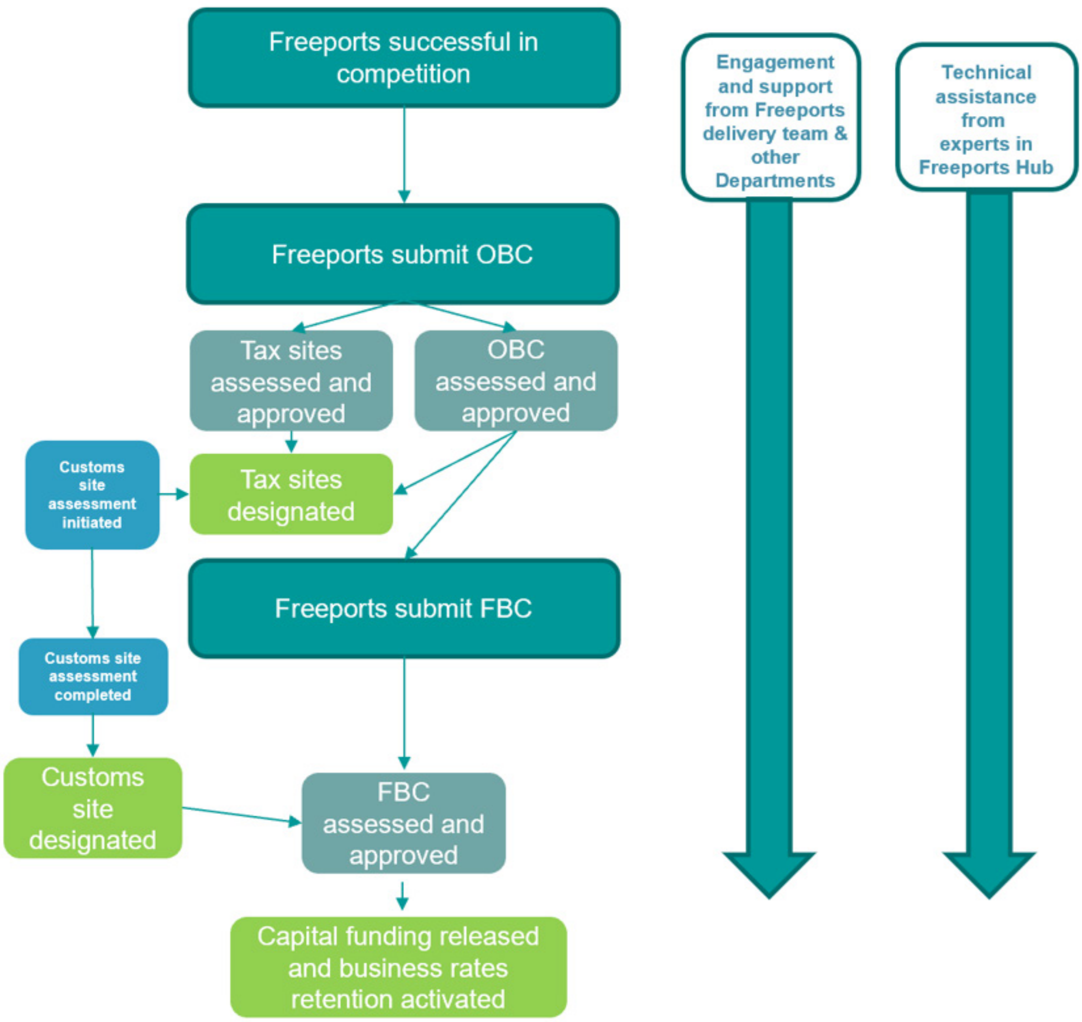
- Building on the initial assessment of Freeport bids, the Tax Site Process will verify that prospective Freeports' proposed tax sites adhere to the criteria set out in the Bidding Prospectus, in terms of both physical size and shape and potential to meet the policy objectives. Freeports must provide a map of each tax site at Annex E of the OBC.
- This is important to ensure that the selected tax sites maximise the benefits of the Freeport whilst minimising any deadweight or displacement and the case provided by prospective Freeports will help the Government and Freeport governing bodies evidence the value of the policy.
- A Freeport's tax sites will not be approved until its OBC has been and the Government reserves the right not to proceed with the designation of a prospective Freeport tax site that it deems to not meet the criteria set out in the Bidding Prospectus, does not represent good value for money, or an optimal, effective or deliverable use of the tax site powers, or if the OBC has been conditionally approved subject to as yet un-fulfilled conditions relating to that tax site.
- Prospective Freeports will be able to bring forward different tax sites for approval at different times. This intention and a preferred timeline should be clearly stated in the OBC and the Government will work with the prospective Freeport to agree it (the expectation is for this to be within a Summer 2022 timeline in most cases). The Government will not approve subsections of proposed individual tax sites.
- The Tax Site Process will not introduce additional criteria beyond those outlined in the Bidding Prospectus. Further guidance is available later in this document.

3.3. **The Customs Site Process**

- Each Freeport customs site will need to be approved by HMRC prior to designation. This will involve HMRC checks to ensure the operator is legitimate, the location is secured, and that the businesses operating within the customs site are complying with relevant security standards.

- There will also likely be additional checks relating to specific conditions of designation, for example IT system to ensure it can keep records in specified format. Businesses wishing to access the customs benefits of a Freeport will need a separate Freeport Business Authorisation.
- Some further guidance is included in this document. The approvals process for customs site operators and businesses, including how to apply, will be confirmed by HMRC in due course.

3.4. **High-level process map**



3.4.1. High-level process map description:

- Freeports successful in competition are invited to submit an OBC
- The OBC is then assessed and in parallel proposed tax sites are assessed
- Upon approval of both and the commencement of the customs site approval process tax sites can be designated
- Following OBC approval Freeports are invited to submit an FBC
- Once a customs site has been designated and if the FBC meets the requirements set out in government guidance, the FBC can be approved, and capital funding can be released and business rates retention activated
- Throughout this process Freeports receive engagement and support from the DLUHC Freeports Delivery Team, other government departments, and the Freeports Hub.

3.4.2.

B: Interventions and Levers

4. Seed Capital Funding

4.1. Purpose and Scope

4.1.1. The Government expects to award each Freeport a maximum of £25m of seed capital funding upon approval of an FBC, although all funding is subject to the outcome of future Spending Reviews. Awards in excess of this will only be made in exceptional circumstances (see Section 4.1.5 below), where a sufficiently strong case has been made.

4.1.2. Seed capital will be awarded via a non-competitive process, whereby prospective Freeports will set out a range of options as part of the economic case of their OBCs. The value of seed capital awarded will be based on an assessment of the strength of each proposed option and the business case as a whole (see Section 17 below for more detail on how OBCs will be assessed) and affordability constraints given the programme budget envelope. The amount awarded to one Freeport will not affect the amount awarded to another.

4.1.3. Seed capital funding should be used to realise the Freeport's objectives. In particular, the Government expects seed capital funding to be used to facilitate or enhance the effectiveness of other Freeport levers, for instance by increasing the viability or value proposition of a tax or customs site.

4.1.4.The Government therefore expects seed capital funding to primarily be spent on:

- Land assembly and site remediation – e.g., preparing or decontaminating brownfield land within tax or customs sites.
- Small-scale transport infrastructure – e.g., building road or rail junctions or extensions to increase access to a tax or customs site.

4.1.5.However, seed capital funding may be spent on other capital works that strongly align with the Freeport's objectives such digital or skills (e.g., improving internet connectivity or building a training college) in exceptional circumstances. These would be cases where:

- There are especially clear and well-evidenced expected benefits, in line with the Freeport policy objectives.
- The investment would not otherwise be forthcoming owing to market failures and/or this would unlock a particularly high level of private sector match funding.
- The investment is well aligned with wider skills/digital initiatives and will not duplicate or fragment this work.

4.1.6.As stated in the Bidding Prospectus, it cannot be spent on security infrastructure for customs sites and must be spent within the Freeport Outer Boundary or wider Travel to Work Area.

4.1.7.The strongest Business Cases will show how the proposed use(s) of the seed capital funding:

- Require public investment and would not materialise without it due to market failures (e.g., they will solve a public goods problem or mitigate negative externalities).
- Will maximise the impact of other Freeport levers (e.g., by addressing marginal viability gaps for a tax site).

- Can be delivered at pace – the Government's expectation is that seed capital funding will be used for projects deliverable in the short-term and that longer-term public investment projects within the Freeport will be financed using retained business rates.
- Align with wider investments, initiatives, or strategies in the Freeport geography (see Section 5 below).
- Support clean growth where possible and are compatible with the Government's Net Zero ambitions (see Section 12 below).

4.2. **Implementation**

4.2.1. Capital funding will be paid to the lead local authority in each Freeport coalition in annual tranches. The Government expects to make the first payment to each Freeport shortly after its FBC has been approved. Subsequent payments will be subject to annual assurance reviews which will focus on overall Freeport delivery.

4.3. **OBC Requirements**

4.3.1. At the OBC stage, prospective Freeports are expected to demonstrate:

- The need for *public* investment at Section 1a of the OBC.
- That the proposed use of seed capital funding is in scope at Section 1di of the OBC.
- The benefits that the proposed use of seed capital funding will realise throughout Section 2 of the OBC (the Economic Case).
- Private sector match funding at Section 3a of the OBC.

4.3.2. At the FBC stage, prospective Freeports will be expected to confirm the full detail of how the planned capital investment(s) will be financed and the approach to associated procurement.

5. Complementary Initiatives

5.1. **Purpose and Scope**

5.1.1. The Government understands Freeports as one regenerative tool among many and that by aligning a Freeport with other public interventions in the local area, overall impact can be maximised.

5.1.2. However, the Government is also aware that one of the factors critical to Freeports' successful delivery is the development of a strong value proposition, including the availability to investors of appropriate skills, infrastructure, and land. Therefore, the most successful Freeports will be those complemented by initiatives in each of these areas and others.

5.1.3. The Government expects Freeport proposals to build on existing activity within the local geography, including by:

- Complementing existing/confirmed public and private sector investments (e.g., infrastructure investments that improve the viability and value proposition of the Freeport sites).
- Aligning with local strategies, including local transport plans, local skills plans, and local industrial strategies (e.g., by targeting growth in the sectors prioritised by the local industrial strategy).
- Supporting the objectives of and drawing on experiences from other HM Government initiatives, including Net Zero, skills, and the wider levelling up agenda.

5.1.4. The Government is particularly keen to see Freeport interventions building on and complementing other local growth funding. If the Freeport geography is in receipt of any of the below funds, Freeports should set out the strategic links between their Freeport and the fund, including how knowledge and partnerships developed through the delivery of the fund will inform Freeport delivery:

- Towns Fund

- Future High Streets Fund
- Levelling Up Fund
- Community Renewal Fund
- Other local growth funding

5.1.5. The Government also expects prospective Freeports to develop, and fund (e.g., through retained business rates) or seek funding for, proposals that align with the Freeport and contribute to its objectives. This includes, but is not limited to, initiatives in the following areas:

- **Skills** – An appropriate local skills supply and skills infrastructure is a key component of a Freeport's value proposition for prospective investors and is crucial to enabling the local population to access jobs created within the Freeport, a key policy outcome.
- **Innovation** – Becoming hotbeds for innovation is one of the core objectives for Freeports and Freeports are excellent places to innovate given the tax measures, opportunities for regulatory engagement and flexibility, and potential for clustering.
- **Net Zero** – Freeports will be required to meet the Government's commitment to Net Zero and, as hotbeds for innovation, will be excellent places to innovate with regards to decarbonisation.
- **Regeneration** – The primary goal of Freeports is regeneration and aligning regenerative interventions will enable increased impact.
- **Housing** – Sufficient housing supply will be key to ensuring the necessary local labour force is available for Freeports to achieve the key policy outcome of creating jobs in the Travel to Work Area.
- **Transportation** – The ability of Freeports to deliver the policy objectives of increased trade throughput and investment will both rely on suitable transport infrastructure being in place, as a key component of the Freeport's value proposition to exporters and investors.

- **Land remediation** – Freeport tax measures should be targeted at underdeveloped land, which in many cases will require remediation or assembly to become viable for prospective investors.

  Mitigating displacement – Initiatives to mitigate against displacement of economic activity from elsewhere will be key to demonstrating the additionality of the Freeport.

5.2. **Implementation**

5.2.1. The Government will support prospective Freeports to align their proposals with wider local and national government initiatives by organising relevant thematic sessions and workshops with officials from relevant departments (see Section 23 below).

5.2.2. The Government also intends to convene place-based sessions for individual prospective Freeports where useful, bringing together a range of relevant government departments to facilitate a joined-up conversation about aligning interventions within and around the Freeport geography. Prospective Freeports should contact their DLUHC lead contact if they would like to arrange a session of this nature.

5.3. **OBC Requirements**

5.3.1. At the OBC stage, prospective Freeports are expected to demonstrate:

- At Section 1diii of the OBC, a prioritised pipeline of investment opportunities in and around the Freeport geography that would support the Freeport to realise its objectives and for which funding is yet to be secured and will be sought.
- Alignment with a range of wider activity taking place in and around the Freeport geography that will support the Freeport to realise its objectives at Section 1dii of the OBC. This should encompass confirmed investments (public and private), local and central government initiatives, and local (industrial, skills, transport, etc.) strategies.

- An analysis of the skills currently available in the local labour market and those that will be needed in future for the Freeport to be able to realise the proposed job creation outcomes at Section 1c. This should set out the sectors, role types, and timeframes for jobs the Freeport is expected to create. The methodology and assumptions underpinning this modelling should be clearly stated.
- At Section 1d, a plan that builds on relevant Skills Advisory Panel local skills reports and any Local Skills Improvement Plan produced as part of the Skills Accelerator programme for addressing any skills gaps identified, including by:
  - Engaging, and supporting employers to engage, with local and national skills stakeholders, including colleges and skills providers and DWP.
  - Providing relevant training opportunities, including by using and contributing to existing government training offers such as those set out in the *Skills for Jobs* white paper.
  - Ensuring alignment between the Freeport proposal and relevant skills strategies and relevant national skills programmes.
  - Accessing available skills programme funding.
  - Providing employment and progression in work for local unemployed people and people in low-paid work, including those from disadvantaged groups who are likely to be overrepresented in these categories. This should include an active role for the private sector, alongside government support.

6. Tax

6.1. **Purpose and Scope**

6.1.1. Approval of Freeport tax sites will give the business operating within them access to tax measures in line with the Bidding Prospectus and confirmed in detail at the Budget. The Enhanced Capital Allowances, Enhanced Structures and Buildings Allowance and Stamp Duty Land Tax reliefs for Freeport sites are now legislated for in the Finance Act 2021. The National Insurance Contribution (NICs) relief is being legislated for in this year's National Insurance Contributions Bill 2021. The Business Rates Relief will be implemented by Local Authorities in line with guidance to be published shortly by DLUHC[2].

6.1.2. The Freeport tax measures have been designed to drive new investment into Freeport geographies in order to realise the policy objectives. The Government expects prospective Freeports to develop a strategy for managing tax sites to ensure they deliver the desired outcomes to the greatest degree possible (see Section 13 below).

6.1.3. As outlined in the Bidding Prospectus the Freeports offer will be subject to our domestic and international subsidy control obligations. Businesses located in designated tax sites will need to fulfil any requirements in place to ensure compliance with those obligations in advance of, during, and after claiming relief.

6.1.4. <u>Zero rate of Secondary NICs for Freeport Employees</u>

- Subject to the passage of National Insurance Contributions Bill 2021, this relief is intended to be available to Freeport employers, from 6 April 2022 to April 2026, on the earnings of new Freeport employees. Public Authorities will not be able to claim.
- Freeport employers, regardless how long they have been operating in the tax site, will qualify for a zero-rate of secondary Class 1 NICs on the earnings of new hires, on the first

[2] https://www.gov.uk/government/publications/freeports-business-rates-relief-local-authority-guidance

£25,000 per annum of the employee's salary, for the first 36-months of employment. A Freeport employee must:

  - Spend 60% of their working time in the Freeport tax site
  - Cannot have been employed by the employer in the previous 24 months
  - Cannot be a contractor, who is self-employed or invoices the business
  - Must be a new hire from April 2022 onwards.

- This relief will be claimed through Pay as You Earn (PAYE) in real time by applying a NICs category letter each time RTI Tax Returns are submitted. Detailed guidance will be published before the relief commences.
- The use and effectiveness of the relief will be monitored and reviewed to allow a decision on whether to extend the relief to new hires up to April 2031. All new eligible hires on or before 5 April 2026 will be eligible for this relief for their full eligibility period (up to 36 months), regardless of the Government's decision on whether to extend access to the relief for new claims beyond this date.
- Subject to the findings of the review, the Government intends to extend this relief for new hires up to a further 5 years to its latest end date of 5 April 2031, after which point employers will no longer be able to access this relief, including for those employees partway through their eligibility period.

6.1.5. Enhanced capital allowance (ECA) for plant and machinery in Freeports

- The new ECA the Government intends to offer in Freeport tax sites will provide enhanced tax relief for companies investing in qualifying new plant and machinery assets. This enhanced capital allowance will be available to companies for qualifying expenditure on plant and machinery for use within Freeport tax sites incurred on or after the date the Freeport tax site is designated until 30 September 2026. The ECA will be for 100% first year allowance of the qualifying expenditure for the tax period in which it is incurred. The relief is claimed in corporation tax returns. Where more than one capital allowance is available for qualifying expenditure on plant or machinery, the company investing in the Freeport can only claim one allowance for it and can determine which relief would be the most beneficial.[3]

6.1.6. Enhanced Structures and Buildings allowances (SBA) in Freeports

- The Government intends to offer an Enhanced SBA rate, providing enhanced tax relief for firms constructing or renovating structures and buildings for non-residential use within Freeport tax sites. The enhanced rate of SBA will be at 10% rate of SBA per annum for 10 years available for businesses on qualifying construction, renovation, conversion and acquisition costs for non-residential structures and buildings situated in a Freeport tax site. The enhanced SBA will be available for qualifying assets brought into use on or before 30 September 2026, and after the date each Freeport tax site is designated. The relief is claimed in corporation tax and income tax returns.

6.1.7. Stamp Duty Land Tax (SDLT) Relief for Freeports

- The Government intends to offer SDLT relief on land/buildings purchases within Freeport tax sites in England where that property is to be used for qualifying commercial activity, this includes leases that are subject to SDLT and the purchase meets the conditions for relief. This SDLT relief is for purchases of land and buildings within a Freeport tax site, subject to a ‘control period’ of up to 3 years and the land been designated at the time of purchase and used in a ‘qualifying manner’. 'Qualifying manner' broadly means:
    - used in the course of a commercial trade or profession
    - developed or redeveloped for resale
    - exploited as a source of rents
- There is no relief for land or buildings which are to be:

[3] A super-deduction or a special rate allowance is available for qualifying expenditure on plant and machinery until March 2023 at rates of 130% and 50% respectively.

    - used as residential property
    - developed or redeveloped to become residential property
    - held as stock for the business to be resold without having been developed or redeveloped
- Relief from SDLT will apply to acquisitions complete or are substantially performed[4] with an effective date from the date the Freeport tax sites are designated until 30 September 2026. Tax will be chargeable in the usual way if completion or substantial performance falls outside of these dates. The relief given by this measure will have effect as soon as Freeport tax sites have been designated. Relief must be claimed in the SDLT return. No relief will be granted ahead of tax site designation and no retrospective reliefs will be granted.

6.1.8. Business Rates Relief

- The government intends to offer up to 100% relief from business rates on certain business premises within Freeport tax sites. This relief is intended to be available to new and certain existing businesses in Freeport tax sites in England from the date each Freeport tax site is designated. Eligible businesses will receive relief for 5 years from the point at which they first receive relief, provided this is by 30 September 2026. The cost of the relief will be funded by central government.
- It is intended that newly formed businesses and businesses relocating to a Freeport will be eligible for the relief. Partial relief would also be available to existing businesses in Freeports that expand into new or additional property, expand their existing property, or expand into an unused part of an existing property following redevelopment, providing the increase in rates bills attributable to these factors is reasonably ascertainable by the local authority. New businesses or new growth will be assessed against the position on the date each

[4] See GOV.UK guidance on contract, completion and substantial performance: https://www.gov.uk/hmrc-internal-manuals/stamp-duty-land-tax-manual/sdltm07700

Freeport tax site is designated. Where the Freeport tax site is located within an existing Enterprise Zone with business rates relief, businesses must choose between the Enterprise Zone offer or the Freeport offer.

- Business rates are administered by local government and it is for local authorities to determine eligibility for reliefs, having regard to guidance issued by the Government.
- The Government is not changing the legislation relating to the reliefs available to properties, instead the Government will, in line with the eligibility criteria to be set out shortly in guidance, reimburse local authorities that use their discretionary relief powers under section 47 of the Local Government Finance Act 1988 to grant relief.
- Individual local authorities will adopt a local scheme and determine eligibility in each individual case when, having regard to the guidance, identifying whether to award relief.

6.1.9. HMRC is currently preparing technical guidance for all the measures contained in the Finance Act which will be published on gov.uk no later than one month before the respective relief/allowance being available to claim.

6.1.10. Technical guidance for local authorities on administering business rates relief will be shared in July.

6.2. **Implementation**

6.2.1. The details of the Tax Site Process are set out in Chapter D.

6.2.2. Eligibility for Tax Relief

- The Government cannot guarantee that an area will be eligible for tax reliefs until the Tax Site Process (see Chapter D) has been completed and successful sites have been designated.
- However, the Government can confirm that for ECA+, SBA+ and SDLT, if a business conducts pre-investment actions, such as the signing of leases or site investigations, prior to site designation, this will not disqualify the business from claiming tax relief on relevant

investments made after the site has been designated. E.g.: A business will not be able to claim ECA+ on purchases of capital made prior to a tax site being designated; but a business will be able to claim ECA+ on qualifying purchases of machinery made after a tax site has been designated, even if the business signed a lease for the land prior to the tax site being designated.

- For the purposes of ECA+, the capital expenditure must be incurred at a time when the Freeport tax site has been designated and before 30 September 2026.
- For the purposes of SBA+, all contracts for construction must be entered into, capital expenditure must be incurred, and the building or structure must be brought into qualifying use at a time when the Freeport tax site has been designated and before 30 September 2026.
- For the purposes of SDLT, the contract must be completed or substantially performed from the date tax site designation takes effect and until 30 September 2026, where substantial performance is the point at which:
    - any payment of rent is made
    - payment of most of the consideration other than rent is made
    - the purchaser takes possession of the whole, or substantially the whole, of the subject matter of the transaction
- For the purposes of the employer NICs relief, employees must commence their employment on or after 6 April 2022 (or after the tax site has been designated if that is after this date) and before 6 April 2026 (as well as meeting the other conditions, including being a new hire and working a minimum of 60% of their time in the Freeport).
- For the purposes of business rates, rate relief will be available to eligible new businesses moving into the Freeport after the date the relevant Freeport tax site has been formally designated (and on or before 30 September 2026), and occupying both existing or new hereditaments on the rating list. Decisions on eligibility for Freeports relief are for the

relevant local authority. Any businesses conducting pre-investment actions, such as the signing of leases, prior to site designation should discuss their plans with their local authority to understand how this may affect their eligibility for rates relief.

- However, HMRC is unable to provide individual tax advice regarding a business' eligibility to tax reliefs available in Freeport tax sites and if they are unsure whether they will qualify for a relief it is essential to obtain independent legal advice.

6.2.3. Changes to Tax Sites

- The Government may request changes to tax sites where these are needed to meet the requirements set out in this guidance and the Bidding Prospectus. This will be done in discussion with Freeports.
- The Government does not expect tax sites to vary significantly from those submitted as part of the original bid and does not expect the boundaries to change significantly over time. All proposed changes will be assessed on a case-by-case basis.
- Freeports may suggest minor changes, which will need to be agreed with the Government, where there is a strong case, in line with the policy objectives, for doing so and the revised site(s) meet the requirements set out in this guidance and the Bidding Prospectus.
- More substantial changes will only be considered where there is an exceptionally strong case, which shows the change(s) will significantly increase the ability of the proposal to deliver the policy objectives.

6.3. OBC Requirements

6.3.1. Prospective Freeports should set out a high-level summary of how the tax measures will be deployed at Section 1di and a more detailed articulation of this and the benefits that will be realised at Sections 1f, 2, and 4a.

6.3.2. Further detail on the requirements of Section 1f of the OBC are set out at Section D below.

7. Business Rates Retention

7.1. **Purpose and Scope**

7.1.1. Local authorities will be permitted to retain the growth in non-domestic rating income in the Freeport tax sites, guaranteed for 25 years.

7.1.2. This will be achieved by designating the Freeport tax sites in regulations made under paragraph 39 of Schedule 7B to the Local Government Finance Act 1988. The Regulations will provide that, within the designated area, the billing authority (and, if so provided, any other relevant local authority) will retain 100% of the collectible business rates in excess of a baseline set in the regulations.

7.1.3. Locally retained rates will comprise growth in rates above the agreed baseline on premises ineligible for 100% business rates relief while that relief is in effect, although local authorities will be reimbursed for all relief granted for eligible premises (see Section 6.1.8 above). Locally retained rates will consist of all growth above that baseline once the relief ends.

7.1.4. Local authorities must use retained rates to promote the Freeport's objectives within the Freeport geography or wider Travel to Work Area, for example by funding the kind of aligned investments or initiatives detailed at Section 5 above.

7.1.5. Where local authorities choose to do so – and can ensure they can manage the risks alongside their wider prudential borrowing – they will be able to borrow against future retained business rate growth under the Prudential Framework, including from the Public Works Loan Board and, for eligible capital spend, the soon-to-be-established UK Infrastructure Bank. This borrowing could be used to deliver the Freeport investment pipeline (see Section 5 above), although local authorities have a duty to ensure that borrowing and investment is prudent, affordable, and sustainable and must be subject to their own assessment of risks.

7.1.6. Billing authorities may choose to pool retained business rates from Freeport tax zones. This may help ensure that retained are used where they will most effectively realise the Freeport objectives, which may not be within the local authority where they are raised. Freeports are encouraged to explore this option, but the Government will not mandate rate pooling.

7.1.7. At the OBC stage, billing authorities are expected to reach a high-level agreement about the kinds of investment in-scope for the use of retained business rates from Freeport tax sites (and any borrowing against them) and confirming whether rates will be pooled or not.

7.1.8. Following FBC submission, billing authorities will be required to agree a Memorandum of Understanding with DLUHC, setting out how retained business rates from Freeports tax sites (and any borrowing against them) will be used and, if applicable, the mechanism via which rates will be pooled and decisions about their use made. Billing authorities will gain access to income from rates retention only after this MoU has been agreed.

7.2. **Implementation**

7.2.1. <u>The Designated Area</u>

- The area designated in Regulations for business rates retention purposes will be the same as the Freeport tax sites.
- Under Schedule 7B to the Local Government Finance Act 1988, there must be a separate designated area for each billing authority area. Where a tax site crosses billing authority boundaries, the Government will therefore designate multiple areas that together form the entirety of the site.
- Each designated area will need to be mapped for the purpose of the regulations. Freeports must provide a map of each tax site at Annex E of the OBC.

- If part of a tax site has already been designated under Schedule 7B to the Local Government Finance Act – for example, because it is part of an Enterprise Zone – it will not be separately designated as part of the Freeport: a geographical area can only be designated once (and growth can only be retained once). The area will be redesignated upon the expiry of the existing designation so that it remains designated for the duration of the Freeport rates retention measure.
- Where part of a proposed tax site has already been designated, the prospective Freeport will need to explain at Section 1di of the OBC how growth retained from the existing designation is to be used. This must include a confirmation of whether and how any existing commitments about their used are to be honoured and, if they are not, a demonstration that beneficiaries of the existing designation have agreed to the proposed future arrangements.

7.2.2. Benefits of Growth

- Growth will generally be retained by the billing authority. However, it is possible for the Regulations to require the billing authority to pay a proportion of the growth to another local authority. Prospective Freeports should speak to their DLUHC lead contact if they wish to use the Regulations in this way.

7.2.3. The Baseline

- Prospective Freeports will need to provide baseline data for the day before Freeports business rates retention comes into effect, above which rates growth will be measured. The methodology and template for calculating this can be found at Annexes B and D respectively.

7.2.4. <u>Timing</u>

- Regulations designating the Freeport area for business rates retention purposes can only be made with effect from the start of a financial year.
- From that date, business rates growth will be dealt with as part of the normal administrative arrangements for the Business Rates Retention Scheme (BRRS) (see 'Administration' below). The growth to which the billing authority is entitled will be transferred from its Collection Fund to its General Fund in the same way as for other designated areas.
- However, Freeports will have access to business rates retention on a given tax site from the point it is designated for the purposes of the Freeport tax reliefs. For the period between that point and the 1 April after an MoU has been agreed between DLUHC and the billing authorities on the use of retained rates, income from business rates growth will be paid by means of a Section 31 grant (see 'Administration: Exceptional Arrangements' below).

7.2.5. <u>Administration: Business Rates Retention Scheme (BRRS)</u>

- As part of the NNDR1 data returns, which authorities will be required to complete and return by the 31 January prior to each financial year, billing authorities for Freeport areas will be required to estimate the business rates income payable in respect of the upcoming financial year in the Freeport tax sites. The form will automatically calculate growth, by comparing the payable business rates with the baseline and will show the amount due to the authority.
- In accordance with Regulations, that amount is to be transferred from the authority's Collection Fund to its General Fund. If Regulations require the authority to pay a proportion of the growth to other local authorities, those amounts too will be calculated on the face of

the NNDR1 and the sums should be paid from the Collection Fund to the authorities concerned.

- Following the end of eachfinancial year, billing authorities will be required to complete an NNDR3 data return showing outturn figures for the year. The NNDR3 will automatically calculate the final growth sums due to the authority/authorities. The form will reconcile the difference between NNDR1 and NNDR3 figures, which will need to be paid to authorities (from the Collection Fund) or will be repayable by authorities to the Collection Fund.

7.2.6.<u>Administration: Exceptional Arrangements</u>

- To enact Freeports rate retention between the point of tax site designation and the 1 April after an MoU has been agreed between DLUHC and the billing authorities on the use of retained rates, DLUHC will require billing authorities to set out in the NNDR3 outturn return for the business rates income payable in respect of the designated area for the year. The Department will then work out the growth – by comparing the outturn data with the baseline – and pro-rata the figure according to the number of days in the year for which the Freeport tax sites were designated. This sum will be paid to the authority as a s.31 grant in the Autumn of the year, following the submission of certified outturn data.

7.3. **OBC Requirements**

7.3.1. At the OBC stage, prospective Freeports are expected to provide:

- A high-level plan for how retained business rates will be used, including whether rates will be pooled across billing authorities and how retained rates from any existing overlapping designations (e.g., an Enterprise Zone) will be used, at Section 1di.
- Detail on how decisions will be made about the use of retained business rates Section 5a.
- A commitment from all billing authorities that contain a proposed tax site to use retained rates to promote the Freeport's objectives, with a high-level specification of what falls in

scope for the use of retained rates. Letters confirming this should be supplied at Annex F of the OBC.

- A map of each proposed tax site at Annex E of the OBC.

8. Planning

8.1. **Purpose and Scope**

8.1.1. A key outcome for the Freeports policy is increased investment within and around Freeport geographies. The Government also expects Freeports to be delivered at pace. It therefore understands the importance of planning measures in ensuring that investment in appropriate development is able to come forwards rapidly.

8.1.2. The Government has therefore, further to its response to the Freeport consultation, amended the permitted development rights for ports, aligning them with similar rights for airports. The amended right allows ports, and for the first time their agents, to erect buildings “in connection” with the operation of the port, for example to support logistics or facilities for arriving passengers.

8.1.3. The amended right:

- Specifically allows for development in connection with the provision of services and facilities at the port, including the erection or alteration of an operational building.
- Widens the scope of who can undertake development to include a port’s “agent of development”.
- Increases flexibility by broadening the scope of what can be built, and to ensure that parity is achieved with airports, a requirement to consult the Local Planning Authority has been introduced. As for airports, it includes an exemption for development below 4m and under 200 cubic metres capacity, or where it is urgently required for the running of the port.

8.1.4. The Government also expects local planning authorities (LPAs) to support Freeport delivery through the creation of a supportive planning environment, including the development of specific planning measures such as LDOs.

8.2. **Implementation**

8.2.1. DLUHC and the Planning Advisory Service (PAS) will assist LPAs with this through a programme of support and advice as well as ongoing engagement with authorities to answer questions or respond to requests.

8.2.2. PAS run a range of programmes designed to enable Councils to deliver through the planning system. In addition to direct support, they can provide opportunities to access toolkits, advice notes, and join training sessions where individual authorities can benefit from the experiences of work in other areas. The package of support for authorities Freeports will be developed in partnership with LPAs and include:

- LPA learning sets to keep authorities up to date on national policy initiatives, share experience and provide peer to peer learning.
- Training and workshop sessions on key planning issues and interventions to support Freeports, this will include LDOs as well as other measures where they are identified as integral to delivery.
- A published guide and written advice on LDOs, including case studies and good practice, etc tailored to the needs of Freeport areas.

8.2.3.PAS can be contacted at pas@local.gov.uk or at https://www.local.gov.uk/pas

8.3. **OBC Requirements**

8.3.1.At the OBC stage, prospective Freeports are expected to demonstrate:

- An understanding of the planning needs associated with the proposal, including the ways in which planning measures may support the delivery of the investment pipeline (see Section 5.1) and unlock investment into the proposed tax and customs sites at Section 1di of the OBC. This should include:

    - Clearly setting out the relevant development plan(s) (including both emerging and adopted documents) for the Freeport area, including details on the current status of relevant local plan(s).
    - Stating the current planning status of all major schemes/development sites of significance for the Freeport, including any enabling infrastructure and all proposed tax and customs sites.
- The principal planning activities that will be undertaken to support and enable appropriate development to come forward at Section 1di of the OBC. A clear plan for delivering these activities at Section 5e and Annex C of the OBC, including:
    - Where a planning approval (or DCO in the case of Nationally Significant Infrastructure Projects) is required for a site or infrastructure development, the steps required to bring forward each scheme to approval – including a timeline for each of the major sites/developments and major milestones (e.g., submission dates, consultation periods, etc).
    - Where an LDO is being developed to bring forward development at a Freeport site, the steps required and a timeline to deliver this.
    - Where the option for an LDO has been rejected, the work undertaken to consider this and rationale for alternative approaches.
    - Where other planning measures for an area (such as masterplans, development briefs or supplementary planning documents) will be developed to support the Freeport programme, the timeline for this work.
- An understanding of planning-related risks to delivery of the Freeport and an approach to managing and mitigating them at Section 5f and Annex D.
- How the delivery of planning activities will be governed, including roles and responsibilities where working across multiple LPAs, (at Section 5c) and managed, including the resources

that will be deployed and any expert external support that will be required and how it will be sourced, (at Section 5d).

9. Customs

9.1. **Purpose and Scope**

9.1.1. The Freeports customs model builds on existing customs facilitations of tariff and non-tariff benefits, making Freeports attractive for businesses and supporting them to boost their international competitiveness. Businesses can take advantage of the flexibility in the customs model, which permits multiple customs sites with economic links to ports.

9.1.2. In respect of the tariff benefits, non-GB goods imported into a Freeport customs site will benefit from the following:

- Duty Suspension – I.e., no import duties to be paid on non-GB goods brought into a Freeport, until they enter the GB domestic market.
- Duty flexibility – Where declaring goods to the GB market, the ability to calculate import duties based on the value of inputs or finished product, whichever is most beneficial to the business (unless goods are subject to anti-dumping duties, in which case duties are calculated on inputs to avoid circumvention).
- Duty exemption for re-exports – Unless subject to duty drawback clauses under the relevant Free Trade Agreement, no import duty is paid.

9.1.3. Advantages in addition to tariff benefits include:

- Simplified import declarations – either:
  - A declaration to the Freeport procedure at the port using a simplified declaration under a Freeport business authorisation. This is separate from the existing Customs Freight Simplified Procedures.
  - Movement from the port to the Freeport customs site via Internal Movements in Temporary Storage (iMiTS) with declaration “by conduct” into the site.

    - No supplementary declarations needed for goods declared to the Freeport procedure under a Freeport business authorisation.
- Movement between sites with declaration “by conduct” (rather than having to use transit)
- Ability to move from another special procedure to the new Freeport procedure using declaration “by conduct”.
- All covered by a single authorisation, meaning less contact with HMRC.

9.2. **Implementation**

9.2.1. HMRC intends to legislate for Freeports in the autumn, allowing for the possibility for Freeport customs sites to begin operating by November 2021, where the relevant approvals have been issued.

9.2.2. HMRC will provide guidance on Freeports customs processes and procedures in advance of the legislation being published so that businesses can make the necessary preparations.

9.2.3. All Freeport customs sites will need the necessary authorisations from HMRC before they are permitted to operate. HMRC expects that some sites may be ready to undergo this authorisation process relatively quickly, while others may need more time to prepare their applications.

9.2.4. <u>Site Operator Authorisation</u>

- The Freeport Board will be required to appoint operators of the Freeport customs sites. The customs site operator will have responsibility to oversee the sites, including: ensuring goods moving to and from the site have necessary permissions to do so; that the businesses operating on the site are known to the operator and that they have the appropriate authorisation; and maintaining the security of the site.

- The operator can be the site owner or third-party but whoever operates the site will be required to hold an Authorised Economic Operator (Security and Safety) authorisation. In order to open the customs site for Freeport businesses to operate in, the operator will additionally need to demonstrate that they meet conditions necessary to designate them as a site operator, and to identify the boundaries of the site.
- These conditions will be in the customs site “Designation Orders” under section 100A of the Customs and Excise Management Act 1979 (CEMA 1979). The Order will cover areas such as IT and record keeping requirements/access and a requirement to ensure that all businesses trading on the site have the relevant authorisations.
- The Freeport customs site operator will be joint and severally liable with the declarant for any import duty arising in instances where a breach of the operator’s conditions of designation occurs and which leads to import duty liability arising. The Government will be sharing draft legislation in August and legislating in late summer. HMRC will offer support to customs site operators to help with the authorisation process.

9.2.5.<u>Business Authorisation</u>

- Freeport businesses will need to be authorised by HMRC to declare goods into the Freeport procedure. This will be a single authorisation tailored to their activities on the customs site. It will enable them to store and/or process goods subject to the procedure in a Freeport customs site.
- HMRC will need to ensure that Freeport businesses are legitimate businesses and can comply with the specific customs rules related to their activities in the Freeport. This will include maintaining records of their Freeport operations.
- Where possible, HMRC will use existing information already held on the business to ensure the process is more facilitative. No authorisation is needed if the business is only storing or processing UK domestic goods.

- Businesses can also declare goods to other special procedures in a customs site, where they are authorised to do so. The goods will be subject to the rules for that special procedure, but the business will also need to comply with the rules of the customs site in respect of record keeping and movements. Further guidance on Freeport business authorisations will be issued in late summer.

9.2.6. Security

- There is an obligation on the customs site operator to ensure that the site is securely fenced and that goods can only enter and exit through gates overseen by the operator. More widely AEO(S) authorisation covers an assessment against security and safety criteria which can be found in the AEOS guidance. These criteria include having secure external boundaries with documented procedures to control access, having safe and secure storage of goods, and a process to regularly check and review.
- Operators will need to illustrate that the external boundaries (walls, fences, etc.) are appropriately secure and there are documented procedures to control access to the premises for authorised persons while at the same time having procedures for dealing with unauthorised access. Control of external boundaries is a key requirement and operators are expected to demonstrate robustness of their security measures appropriate to the size and nature of site (e.g., having secure walls or fencing with CCTV or if the site is near shipping areas or loading docks, then the access is securely controlled).
- The requirement to maintain appropriate security measures extends to making sure that the operator’s staff are trained in the security and safety requirements as well as ensuring contractors are compliant.
- The custom site operator is expected to demonstrate to HMRC that the security measures placed are robust and appropriate to the size and nature of the customs site.

- In addition, operators of Freeport customs sites must meet the OECD Code of Conduct for Clean Free Trade Zones and will also need to maintain the current obligations set out in the UK's Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

9.2.7. Software Requirements

- The Freeport customs site operator model is still being refined internally. HMRC will issue guidance for customs site operators on record keeping requirements, IT systems, etc. in due course. Customs site operator record keeping requirements are likely to be different to temporary storage to reflect the fact that it is not practical to trace goods through manufacturing processes.

9.2.8. Changes to Customs Sites

- The Government may request changes to customs sites where these are needed to meet the requirements set out in this guidance and the Bidding Prospectus. This will be done in discussion with Freeports.
- The Government does not expect customs sites to vary significantly from those submitted as part of the original bid and does not expect the boundaries to change significantly over time. All proposed changes will be assessed on a case-by-case basis.
- Freeports may suggest minor changes, which will need to be agreed with the Government, where there is a strong case, in line with the policy objectives, for doing so and the revised site(s) meet the requirements set out in this guidance and the Bidding Prospectus.
- More substantial changes will only be considered where there is an exceptionally strong case, which shows the change(s) will significantly increase the ability of the proposal to deliver the policy objectives.
- Designation Orders for customs sites are geographically linked. If changes are approved to the area covered by the Designation Order, the relevant permissions from HMRC and HMT

will need to be sought and will likely need an amended CEMA Designation Order. Under the terms of the Orders the Operator will also need to seek permission from HMRC for the construction of new buildings on site.

9.3. **OBC Requirements**

9.3.1. At the OBC stage, prospective Freeports are expected to demonstrate:

- A high-level summary of how the customs measures will be deployed. Details on the use of customs measures will not be required until the FBC stage.
- Appropriate plans for managing any security risks accociated with customs sites at Section 5g.

10. Innovation

10.1. **Purpose and Scope**

10.1.1. The Government intends Freeports to become hotbeds for innovation. To achieve this, prospective Freeports will need to attract high innovation firms to the geography (leveraging Freeport tax measures and developing a strong value proposition, including skills, infrastructure, and clustering/anchor firms) and support and encourage firms within the Freeport to innovate (by accessing innovation funding and aligning the Freeport with local innovation initiatives).

10.1.2. The Government also intends to help Freeports to achieve this objective through innovation support and the creation of the Freeports Regulation Engagement Network (FREN).

<u>The Freeport Regulation Engagement Network (FREN)</u>

10.1.3. The FREN will provide a channel to enable Freeports (both their governing bodies and businesses within them) to engage with regulators. This will help Freeports and firms to explore innovative opportunities in the regulatory space such as regulatory sandboxes and opportunities for new approaches to regulations to reduce the impact of regulation on innovation, such as regulatory flexibility. This will ensure that we are enabling the right regulatory conditions and opportunities to foster innovation in Freeports.

10.1.4. Further information on the regulators involved in the network will follow in due course.

Innovation support and funding streams

10.1.5. The official government "Apply for innovation funding[5]" portal provides the ability to search and apply for government-backed innovation funding opportunities. The individual organisations that comprise a Freeports bid may qualify for different types of innovation funding programmes, depending on whether they are a business, research or public sector organisation. These include Innovate UK funding for businesses to help them commercialise their ideas and grow through innovation. UKRI's website outlines current UKRI funding opportunities[6]. Bidders should review current government guidance[7] on how to apply for innovation funding. Freeports bidders may also be eligible for other, non-UKRI government funding innovation programmes[8].

10.1.6. Individual businesses within the Freeports, including start-ups and SMEs, will play a critical role in the innovation ecosystem of the Freeport and beyond and may be able to take advantage of existing sources of support. For example, the Knowledge Transfer Network (KTN)[9] is a key delivery partner of Innovate UK and UKRI, providing a unique capability in the UK to support innovation collaboration across business sectors and throughout the UK. The KTN supports collaboration between innovative businesses seeking to connect with partners, customers, suppliers, and the research base in order for them to grow. Some ambitious and innovative SMEs within the Freeport may also qualify for support from Innovate UKEDGE[10], which complements Innovate UK[11] project funding with intensive, specialist-led support for ambitious businesses,

[5] https://www.gov.uk/apply-funding-innovation
[6] https://www.ukri.org/opportunity/
[7] https://www.gov.uk/guidance/innovation-apply-for-a-funding-award
[8] https://www.gov.uk/government/funding-programmes
[9] https://ktn-uk.org/
[10] https://www.innovateukedge.ukri.org/
[11] https://www.gov.uk/government/organisations/innovate-uk

providing them with the leadership and management skills they require to scale-up, commercialise, access new markets, and internationalise.

10.2. Implementation

10.2.1. The Government intends to launch the FREN before the first Freeports become operational (in November 2021), to enable Freeports to work with regulators from the outset of delivery. Ahead of this, the Government also intends to facilitate informal, initial engagement between regulators and Freeports during the Business Case phase to help inform Freeports' innovation ambitions.

10.2.2. The UK Government's Better Regulation Executive has begun consulting Freeports and regulators on the structure and focus of the FREN prior to its formation, to understand the sectors and areas where regulatory innovation could be supported by the FREN.

10.2.3. Local Enterprise Partnerships (LEPs) can play an important role in convening local stakeholders and will have the knowledge and experience to advise on public/private funding opportunities. BEIS and Innovate UK, together with other relevant partners where possible, will convene a meeting for Freeports to explore the strategic context, ambition, and plausibility of their innovation plans ahead of submission of their OBCs.

10.2.4. Innovate UK's Regional Managers will provide ongoing connection between Innovate UK and Freeports leadership, this may include convening regional support as appropriate (KTN, EDGE, Catapults) and co-developing local events that will inspire and support innovation ideas within Freeports.

10.3. OBC Requirements

10.3.1. At the OBC stage, prospective Freeports are expected to demonstrate:

- What Freeport status helps enable with regards to innovation plans and how at Section 1d of the OBC.
- <u>Governance, management, and stakeholder engagement</u>
  - Appropriate innovation representation within the Freeport's governance structure at Section 5a of the OBC.
  - How innovation work will be resourced and managed at Section 5b of the OBC.
  - How key local and national innovation stakeholders will be brought together, including businesses, MCAs, LEPs and other public and private stakeholders such as universities to provide and access innovation funding and support and identify potential opportunities and gaps, at Section 5c of the OBC.
  - How the Freeport will use its enabling powers to stimulate innovation and adoption by businesses within the Freeport at Sections 1d and 5d of the OBC.

- <u>Strategic alignment</u>
  - How the innovation objectives of the Freeport build on or complement other local strategies and plans at Section 1dii of the OBC.
  - How your innovation objectives, strategies, and plans align to national objectives at Section 1dii of the OBC.
  - If there is an agreed innovation strategy with all major stakeholders within and outside of the Freeport consortium at Section 1di of the OBC.

  - <u>The FREN.</u> An understanding of how the FREN can support the Freeport to become a hotbed for innovation and a plan for utilising the FREN at Section 1di of the OBC. This should include:
    - Potential innovative opportunities to explore with firms and regulators, such as regulatory flexibilities and regulatory sandboxes.

    - A plan for engaging with the FREN, including an identified FREN co-ordinator in the Freeport.
    - An understanding of the areas in which Freeports will require continued regulatory support, in both existing and potential innovatory regulation.
    - Any levers or incentives which will be in place to promote regulatory innovation.

- <u>Accessing wider funding.</u> Specific and concrete plans for accessing wider innovation funding at Sections 1dii of the OBC. This should include:
    - The innovation issues that will be solved.
    - The impact that innovation activities will have.
    - The innovation funding and support already in place (public and private) – identifying specific projects by name and type of funding and/or support in place (e.g., infrastructure, project, revenue).

11. Trade and Investment

11.1. Scope and Purpose

11.1.1. Academic literature on Special Economic Zones is clear that targeted investment promotion initiatives, and coordinated joint initiatives, are critical to success and that there are important roles both for local zone operators (i.e., prospective Freeports) and for a centralised function.

11.1.2. DIT will therefore work with prospective Freeports to develop effective and relevant trade and investment support, ensuring they take full advantage of existing services and that any proposed enhancements are realistic, achievable, and affordable. This will include, for example, access for exporters to DIT's Export Academy, access to DIT's Investment Hubs to help promote Freeport messaging and propositions to overseas posts, and discussions with DIT Investment Scouts to determine opportunities for large capital investment.

11.1.3. At present, DIT's regional teams manage: the Department's understanding of trade and investment opportunities at local level; local relationships with mayoral combined authorities and Levelling Up partners; a service designed and delivered in close conjunction with local partners and across Government to boost the attraction and prospects of international investment; and the delivery of export promotion and capability and upskilling to Small and Medium Enterprises (SMEs). This is supported by dedicated programmes, such as the High Potential Opportunities programme which focuses on emerging sub-sectors, technologies and other strategic opportunities with high potential for inward investment, and by DIT's overseas network who work to identify export and investment opportunities, helping to identify and unblock market access issues, facilitate connections for UK companies with key customers and develop and maintain partnerships with private sector delivery partners.

11.2. **Implementation**

11.2.1. As part of their bids, prospective Freeports have already provided brief outlines of what specific trade and investment support measures they feel would benefit a Freeport in their area. As Freeports move towards implementation, DIT's English Regions teams will begin to undertake clear and structured engagement with each Freeport location to understand the details behind the initial proposals and develop a workable support offer that will drive positive trade and investment outcomes for each location, such as working up a proposition for the Freeport or specific sector of interest to highlight the benefits to overseas posts and potential investors and directing International Trade Adviser services to support existing and new exporters on the Freeport site.

11.2.2. This will be an iterative process up to implementation of the Freeports, with conversations over the OBC stage expected to focus on preliminary scoping of the approach. With the support of other DIT teams as appropriate, the English Regions teams will lead conversations on identifying key markets, developing each Freeport's trade and investment offer and identifying the support which will enable Freeports to achieve agreed goals, prioritising an approach which can be standardised where possible, and highlighting where any extra funding would be required. The initial scoping stage will complete in June 2021 and DIT will agree OBC content with each Freeport (see Section 23.2 below) by 12 July.

11.2.3. Following initial scoping at the OBC stage, DIT will continue to work with Freeport locations, DLUHC, HMT, and others to stand up support as each Freeport is implemented.

11.3. **OBC Requirements**

11.3.1. Following engagement with DIT (see Section 11.2.2 above), prospective Freeports will be expected to demonstrate at the OBC stage:

- An ambitious and achievable strategy for attracting investment to the Freeport and surrounding area at Sections 1di of the OBC.
- At Section 1di of the OBC, a plan for leveraging DIT trade and investment support services.
- A clear allocation of responsibility (between DIT and the Freeport and also within the latter) and appropriate local resourcing for working with DIT to support exporters and market the Freeport to potential investors at Section 5b of the OBC.

12. Net Zero

12.1. Scope and Purpose

12.1.1. The Government expects prospective Freeports' proposals to be cognisant of its targets of Net Zero carbon emissions by 2050, 68% reduction in carbon emissions against 1990 levels by 2030, and a 78% reduction by 2035 and, if appropriate, to be in line with local and/or sectoral carbon emissions targets.

12.1.2. Freeport investments, especially those supported by Freeports seed capital, should therefore adhere to the clean growth principle that *"Investment should support clean growth where possible and, as a minimum, must not conflict with the achievement of the UK's legal commitment to cut greenhouse gas emissions to net zero by 2050".*

12.1.3. As the Bidding Prospectus noted, prospective Freeports may wish to seek wider Government funding to support decarbonisation work, including investment announced as part of the Prime Minister's Ten Point Plan from November 2020 and *Build Back Better – Our Plan for Growth from March 2021.*

12.1.4. The Government expects prospective Freeports to be ambitious about Net Zero and envisages three levels that they might aspire to:

- **Minimum standard:** Development of a clear plan and steering group with local partners which allows the setting of a carbon emissions reductions target for net zero emissions for business sites associated with the customs and tax sites within the Outer Boundary of the Freeport and additional infrastructure associated with the sites.
- **Medium level:** Able to demonstrate an emissions reduction to net zero and the intermediary targets listed at Section 12.1 across all climate change sectors (industry, agriculture, transport, buildings, energy etc), across the wider region by alignment with relevant local Net Pero plans, and covering both business and public sector emissions.

- **Higher Ambition:** Acting as an exemplar whereby working with local partners delivers a net zero emissions target for the area covered by the Freeport's outer boundary and wider region significantly ahead of 2050.

12.2. Implementation

12.2.1. All three levels of ambition will require:

- An assessment of current progress towards Net Zero within the Freeport geography. This should demonstrate an understanding of the main sources of direct and indirect emissions within the area and how these are currently being measured.
- Clear milestones, targets, and deadlines for achieving net zero emissions (these should reflect intermediary targets listed at 12.1) and a plan for monitoring progress against them and reporting on them to the Government and local partners in accordance with any extant statutory reporting deadlines.
- A plan for engaging and collaborating with relevant local partners.
- A plan for how the carbon footprint of investments funded by Freeports seed capital will be minimised at the start and reduced to net zero by target date.
- A plan for investing and attracting further investment in Clean Growth/Net Zero technologies and supply chains.
- A plan for providing an increased number of jobs or improvement in the skills base in the green economy.
- A sustainable procurement policy (e.g., using PAS 2080, demonstrating compliance with the balanced scorecard, any applicable procurement policy notes).

12.3. OBC Requirements

12.3.1. At the OBC stage, prospective Freeports are expected to provide a Net Zero plan at Section 1g, meeting the requirements set out at 12.1 and setting the Freeport's level of ambition on Net Zero (see Section 12.1.4).

13. Delivery

13.1. **Governance**

13.1.1. The Government wrote to prospective Freeports at the start of April 2021 setting out the requirements on Freeport governing bodies for the setup phase; prospective Freeports should consider this guidance and build upon their initial governance submissions to DLUHC in developing the Management Case of their OBCs.

13.1.2. It is not expected that governance arrangements will change drastically between the setup and delivery phases, but it is imperative that prospective Freeports provide full detail of their current and future governance arrangements in their OBCs.

13.1.3. Freeports are a public-private partnership that, in order to be successful, will need to effectively harness the expertise and resources of the private sector as well as the public. Prospective Freeports must therefore evidence at the OBC stage that their governance arrangements allow for private sector leadership, or a meaningful partnership in which both private and public sector voices are heard.

13.2. **Resourcing**

13.2.1. The Government expects Freeports to be self-funded in the medium term; however, subject to the outcomes of future Spending Reviews, it intends to provide short-term gap funding to prospective Freeports to help cover costs associated with the setup phase and the first years of Freeport delivery (up to 2024/25; see Section 24 below for details).

13.2.2. The Government expects private and public Freeport coalition partners to contribute match funding (cash or in-kind) to supplement central revenue funding in the short-term and to fully fund the operation of the Freeport once that funding stops.

13.2.3. Prospective Freeports must therefore develop a plan for the long-term financing of the Freeport and should prioritise building sustainable capacity and capability in their use of government revenue funding.

13.2.4. The Government does not intend to mandate a particular model for financing Freeport operations, but expects the approach prospective Freeports take to reflect the fact that Freeports are private-public partnerships. However, the Government would encourage prospective Freeports to consider novel approaches to ensuring those who will benefit most from the Freeport contribute to its running costs, for example by charging a ground rent to the end users of Freeport tax sites.

13.3. **Tax Site Management**

13.3.1. Tax sites will play a key role in driving the overall impact of the Freeport and it is therefore critical that they are deployed effectively to attract investment that will contribute to realising the objectives of the individual Freeport and the policy as a whole. Proposals for effective management of the tax site will therefore be assessed as part of the OBC, prior to tax site approval.

13.3.2. Specifically, tax sites will be most impactful where end users:

- Align with the Freeport’s strategic focus (i.e., they belong to the target sector(s) so will contribute to clustering)
- Bring high GVA jobs
- Are highly innovative/invest heavily in R&D
- Contribute to the local skills ecosystem (e.g., through apprenticeships)
- Have high social value
- Are creating new economic activity, rather than displacing it from elsewhere
- Contribute to the decarbonisation of the Freeport
- Would not have otherwise invested (i.e., they constitute additionality)

- Contribute to the operating costs of the Freeport

13.3.3. Prospective Freeports must therefore set out a strategy for managing each tax site to encourage use that best realises the objectives of the policy. This could include:

- Contractual (or other) agreements between the Freeport governing body, tax site landowners, and end users setting out obligations on each.
- The adoption, by tax site landowners, of gateway policies setting out appropriate use of tax site land.
- Planning frameworks that incentivise specific types of development (e.g., a sector specific LDO).

13.3.4. The Government does not intend to mandate a particular approach to managing tax site usage but will develop examples of best practice to share with the prospective Freeports.

13.4. Monitoring and Evaluation

13.4.1. The Government is developing a programme-level M&E Framework and will publish guidance later this year

13.4.2. Freeports will be required to formally report data against agreed indicators at least twice a year. Data reported will be used to measure Freeports' success against the policy objectives and outcomes and will feed into annual Government assurance gateways ahead of seed capital funding payments.

13.4.3. Data collected will also feed into a programme-level evaluation.

13.4.4. Further detail on how prospective Freeports will meet the Government's M&E requirements will need to be provided as part of the FBC.

13.5. OBC Requirements:

13.5.1. At the OBC stage prospective Freeports are expected to demonstrate:

- A long-term plan for resourcing the operation of the Freeport (this should set out contributions from public and private Freeport coalition members and any other financing mechanisms) and building long-term capacity and capability at Section 3a.
- A case for further revenue funding in 2022/23, 2023/24, and 2024/25 as the Freeport develops towards self-sufficiency, including how funding will help it achieve this, based on the assumption of a similar level of funding in these years to that in 2021/22 at Sections 3b and 5d.
- How long-term, sustainable capacity and capability will be built within the Freeport coalition at Section 5d.
- A plan for each proposed tax site, setting out how it will be managed to ensure it best realises the policy objectives, at Section 4a.
- Where accountability for M&E lies and how M&E work will be delivered Sections 5a and 5b respectively.
- Further detail on the Freeport governance arrangements for the setup phase at Section 5a.
- Any changes to governance arrangements that have taken place since the initial governance return made to DLUHC and detail of governance arrangements for the delivery phase and beyond, with any changes from the setup phase arrangements clearly identified at Section 5a.

C: The Outline Business Case (OBC)

14. Content

14.1. The Government expects OBCs to adhere to a structure, which closely mirrors the standard Green Book Five Case Model.[12] Expectations of each section are set out below.

14.2. A strong OBC gives the reader a good understanding of the Freeport's objectives and the activities that will achieve these (the Strategic Case), the benefits and costs of the possible intervention options (the Economic Case), how the Freeport interventions will be financed (the Financial Case), how contracts and procurement will be handled (the Commercial Case), and how successful delivery of the Freeport will be ensured (the Management Case).

14.3. The OBC should be written in plain, jargon-free English and should be frank and realistic about the benefits, risks, and challenges associated with delivering the Freeport, avoiding optimism bias.

14.4. The OBC should be no more than 40 pages, excluding annexes. Freeports are encouraged to adhere to the 40-page limit but will not be penalised for slightly exceeding this. All of the information requested in the OBC guidance should be provided and the key information should be included in the main body of the OBC, but detail such as tables of figures can be supplied as Annexes. The level of information requested at the OBC stage under each Case gives a good indication of how to weight the page count across the Cases, but the Government will not mandate particular lengths for different sections.

[12] Guidance on completing a Five Case Model Business Case can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749086/Project_Business_Case_2018.pdf

OBC Section

1. Strategic Case (suggested length: ~30 pages)

1a. **Strategic rationale**

- Sets out the Freeport's strategic context, including:
    - The rationale for public intervention (i.e., economic need or market failure).
    - Why a Freeport (as opposed to other interventions) is the correct response - the strategic role or value of a Freeport in its context.
    - The need for the investment of public funds as seed capital (e.g., how the investment will stimulate economic activity that otherwise would not occur owing to market failures).
    - What would happen in the absence of intervention, including implications for the proposed seed capital investments.
    - The high level, strategic interdependencies of the Freeport. This should include (but need not be limited to) up to 5 key points where delivery is dependent on actions or decisions from central government departments.

1b. **Target markets**

- Sets out the strategic focus for the Freeport. This must include:
    - The sectors/value chain segments/markets the Freeport will target.
    - An analysis and sizing of the target sectors/value chain segments/markets.

1c. **Value proposition**

- Sets out the competitive positioning of the Freeport, including how the Freeport and its area's current resources (including skills, land, infrastructure, and existing clusters/anchor tenants) constitute a potentially strong value proposition for the target sectors/markets. This should include a comparative analysis of national and international competitors.

- Sets out any shortfalls in the value proposition and how Freeport interventions may address these. This should include an analysis of the skills available within the local labour market and those the Freeport will require to realise the proposed job creation outcomes. This should set out the sectors, role types, and timeframes for jobs the Freeport is expected to create and the methodology and assumptions underpinning this modelling should be clearly stated.

1d. **Intervention and levers**

1di. <u>Freeport levers</u>

- Sets out in summary (and in line with the requirements of the 'Interventions and Levers' section above) how each of the following Freeport levers will be deployed and any interactions:
    - Freeports seed capital
    - Tax sites
    - Retained business rates
    - Customs sites
    - Planning
    - Innovation
    - Trade and investment promotion
    - Skills and workforce development activity

1di. <u>Wider interventions</u>

- Sets out wider activity taking place in and around the Freeport geography that will support the Freeport to realise its objectives, how it will do so, and how alignment has been ensured between the Freeport and the wider activity. This should encompass confirmed investments (public and private), local and central government initiatives, and local (industrial, skills, transport, etc.) strategies.

- In the case of confirmed investments, this section should include:
    - Investment description
    - Value
    - Expected Outputs
    - Funder(s)
    - Delivery Timescales
    - How does the investment support the Freeport to realise its objectives?
- This section must make clear how Freeport skills and innovation activity aligns with wider strategies, interventions, and investments.

1dii. Project pipeline

- Sets out a pipeline of planned and potential projects (infrastructure, skills, land remediation, innovation, decarbonisation, etc.) in and around the Freeport geography that would support the Freeport to realise its objectives and for which funding is yet to be secured. These may ultimately be funded through retained business rates, wider public funding ports, or private investment. This should provide:
- Project description
- Estimated Cost (Capital)
- Estimated Cost (Revenue)
- Expected Outputs
- Rough Delivery Timescales
- How would the investment support the Freeport to realise its objectives?

1e. Outputs and outcomes

- Sets out the outputs (benefits) the different activities detailed at 1d will generate and how. This must clearly connect each piece of Freeport activity to its expected outputs and these outputs to the Freeport's objectives. This section should also explain:
    - How these outputs constitute additional value that would not be realised without the Freeport activity.
    - How these benefits enhance and/or address any shortfalls in the Freeport's value proposition.
    - How interventions will complement each other to maximise outputs.
    - The geography of benefit, including how the benefits will spill out from tax, customs, and investment sites to the wider Freeport geography and sub-region.
- A detailed logic model illustrating the above should be provided at Annex A.

1f. Tax site compliance

- Sets out the timescales to which proposed tax sites are being/have been brought forward for approval and demonstrates that each site complies with the requirements articulated at Section D of the Setup Phase and Delivery Model Guidance, namely:
    - The physical requirements of a Freeport tax site.
    - The regeneration need requirement of a Freeport tax site.
    - The 'underdeveloped' requirement of a Freeport tax site.
- A map of each proposed site should be provided at Annex E.

1g. Net Zero

- Sets out a strategy for at minimum achieving latest emissions targets – 68% reduction by 2030, 78% reduction by 2035, and Net Zero by 2050. This should meet the requirements set out at Section 12 of the Setup Phase and Delivery Model Guidance.

1h. Equalities

- Sets out, with evidence, how the Freeport proposal will impact each protected group and how the proposal has been designed and developed in light of this impact, including any mitigating actions that will be taken.

2. Economic Case (suggested length: ~15 pages)

Overview

- The Economic Case should consider the economic impact of the Freeport as a whole. This will include consideration of the expected costs and benefits from the Freeport across its whole geography. The economic case should be consistent with Green Book guidance.[13]

2.a Critical Success Factors

- Sets out the key attributes upon which successful delivery of the Freeport depends, which should be used to rule out unsuitable or unfeasible options. These should include, as a minimum, the following:
    - Strategic fit with the policy objectives
    - VfM
    - Capacity and Capability
    - Achievability/risk profile
    - Affordability/cost
    - Alignment with the Net Zero agenda
- Factors (including any additional ones) should be defined in enough detail that they can be used to rule out options and are clear to the reader.

2b. Options Appraisal

2bi. Shortlist of options

[13] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent

- Provides a shortlist of options for deploying seed capital funding in the Freeport and considers the tax benefits (other levers do not need to be modelled at the OBC stage).
- The options appraisal should consider each of the proposed tax sites (up to three) and provide analysis per site that isolates both the concessions and expected benefits (as a minimum we would like this to cover an analysis of the tax benefits, additional investment, and additional/ new jobs). These can be combined into a single option when setting out the preferred option. When considering the seed capital funding, the options appraisal should consider a maximum ask of DLUHC (£25m), a minimum viable ask, and, in exceptional circumstances, a high funding ask of DLUHC (see Section 4.1 above). In line with standard practice, a 'do nothing' option should also be included.
- Each option should be summarised, including the scope of work, delivery mechanism, delivery partners, delivery timescales, and funding options.
- For the proposed tax sites being put forward for approval at the OBC stage, the sites' impact on the viability of investment in the Freeport area and the expected jobs and investment to be created should be set out. This should include estimates of the value of tax benefits on offer relative and compared to the viability gap or cost gap faced by firms who might invest or locate to the proposed site. An approach to deadweight should be clearly set out in your tax site options.
- For tax sites not being put forward for approval at the OBC stage, simple estimates of these factors based on extrapolations and available evidence on sector employment and productivity should be provided instead. If this is not feasible, please contact Freeports-MHCLG@communities.gov.uk. The Government notes that there is not a single, streamlined approach to completing the Freeports Economic Case, so will provide flexibility in how we assess the overall economic case.

2bii. VfM appraisal

- Provides a VfM appraisal for all shortlisted options (refer to Annex A for supporting guidance). Assumptions, references, and methodologies underpinning the VfM analysis, including all modelling, should be set out in full at Annex I.
- Prospective Freeports should note that the VFM appraisal only forms one aspect of the Economic Case Appraisal and, given the uniqueness of the Freeport model, the Government will take a flexible approach to assessing the Economic Case. Prospective Freeport should focus on demonstrating the overall economic impact of their Freeport in this section.

2biii. Qualitative benefits appraisal

- Sets out any benefits that cannot easily be quantified/monetised, and each option's ability to deliver them. A list and weighting of relevant benefits should be identified, and each option should be evaluated (with a score and some narrative text) for its ability to deliver each benefit.
- There is not a standard approach for scoring benefits that cannot easily be quantified. Prospective Freeports should adopt the most suitable scoring methodology. Guidance on different possible methods can be found at page 26 of the DLUHC Appraisal guide.

2biv. Wider impacts

- Sets out the wider impacts of each option, including at a minimum:
    - Wider economic impacts. This should include showing how each investment proposal facilitates and enables the impact of the wider Freeport proposal, as set out in the Strategic Case, including:
        - By addressing displacement/providing additionality – to what extent does the option bring new jobs and investment to the Freeport location versus displacing it from another location.
        - By promoting agglomeration/clustering.

        - By considering labour demand effects – to what extent does the option consider the local labour market and potential for new labour markets?
        - By considering export and import substitution – to what extent do prospective Freeports' interventions promote the delivery of goods and services traded with other regions than those that are principally sold locally?
    - Social impact
    - Equality impact
- The Government is aware that there is not a standardised approach for modelling these impacts or benefits, so prospective Freeports should clearly set out their methodology and assumptions. Where these impacts can be monetised prospective Freeports should include them as part of the VFM appraisal.

  2bv. Risk appraisal

- Sets out key risks associated with each option. A list of relevant risks should be identified, and a score and narrative text should be provided for each option against each risk, reflecting the likelihood and impact of them coming to pass under each scenario. Prospective Freeports may want to consider the Orange Book Risk Guidance Orange Book - GOV.UK (www.gov.uk).

2c. Preferred option

- Recommends a preferred option on the basis of the VFM, qualitative, wider impact, and risk appraisals. This should set out in tabular for the performance of each option against each appraisal to clearly show why the preferred option has been selected. Multiple singular options can be combined as the preferred option.

3. Financial Case (suggested length: ~10 pages)

3a. Financial resources and budgets

- Demonstrates the affordability of the preferred intervention option. A full year-by-year financial profile should be provided for the period over which seed capital funding is proposed to be spent, plus accompanying narrative. This should set out:
    - How seed capital funding will be spent.
    - All private and public match funding, broken out by funding source.
    - All complementary investments (i.e., those listed at Section 1dii).
    - All costs associated with delivering the Freeport (including for governance, trade and investment promotion, communications, stakeholder engagement, security and policing, innovation, skills, and Net Zero work) up to 2024/25 and how they will be met. This should include a scenario in which further funding is available in 2022/23 to 2024/25 and a scenario in which it is not.
    - All revenue streams that will be used to fund Freeport activity.
- Whole life cost tolerances should be provided for all spending.

3b. Further revenue funding

- Makes the case for further revenue funding in 2022/23, 2023/24, and 2024/25. This should clearly set out how further funding would be used, why it is needed, and how it will help the Freeport will become fully self-funding from 2025/26 onwards.

3c. Financial risk

- Sets out the main financial risks and summarises the best- and worst-case cost scenarios. These may be many of the same risks identified at 2bv of the FBC but should be evaluated in financial (rather than economic benefit) terms.

4. Commercial Case (suggested length: ~10 pages)

4a. Tax site delivery and management

- Sets out, in a separate subsection for each proposed tax site, a long-term strategy for managing the site in line with Section 13.3 above. This should include:
    - Land ownership and planning status of each tax site (this should read across to Section 1di5).
    - What tools, mechanisms, and approaches will be deployed to deliver the intended land use and benefits from each of the tax sites, and evidence of agreement to these plans from relevant stakeholders.
    - Expected timeline for activating sites and bringing forward investment on the sites.

5. Management Case (suggested length: ~15 pages)

5a. Governance

- Sets out the timelines for changes to existing arrangements and review points identified and updates on the long-term plans for governance of the Freeport. This should build on the initial governance submission already provided to government and include:
    - Any update to memberships, powers, and decision-making mechanisms of the governing body and all subcommittees.
    - A clear schedule of delegation, showing where accountability lies for the various aspects of the Freeport (including planning, innovation, trade and investment promotion, the use of retained business rates, security and compliance, monitoring and evaluation, Net Zero, placemaking, etc.).
    - Updated governance documents (including governing body Terms of Reference, recruitment and remuneration policies, a conflict of interest policy, a diversity and inclusion statement, and any other relevant documents). These should be provided at Annex J.
    - An update on plans for any form of incorporation.

- Evidence of private sector leadership or a meaningful partnership in which the private sector is heard.

5b. Team structure

- Sets out the structure of the Freeport executive/delivery team (including contracted human resource and that provided by Freeport coalition members), including the roles and responsibilities of individual team members. This should outline:
    - Where responsibility for delivering each part of the Freeport proposal sits.
    - The level of human resource devoted to delivering each part of the Freeport proposal. This should include FTE, function, indicative level of seniority/expertise, and how roles will be recruited (e.g., TUPE Local Authority staff, temporary contractor, contracted legal service, etc).
    - How partners will be held to account for delivering on their areas of responsibility.
    - Recruitment and remuneration policies should be provided at Annex J.

5c. Stakeholder management and communications

- Sets out a communications and engagement strategy which includes a plan for marketing the opportunities and benefits of the Freeport, a stakeholder map, and a detailed plan for engaging:
    - Prospective investors in the Freeport.
    - Local strategic stakeholders, including entities with a remit for (sub-)regional economic strategy.
    - Local innovation stakeholders (including LEPs).
    - Local political stakeholders (including MPs).
    - Local security stakeholders (including the police, Border Force, and HMRC).
    - Local education and skills providers (FECs, HEIs and skills provider base).

5d. Building local expertise

- Sets out how long-term, sustainable capacity and capability will be built within the Freeport coalition, including using central government revenue funding. This should include a scenario in which further revenue funding is available in 2022/23 to 2024/25 and a scenario in which it is not.

5e. Milestones

- Sets out key delivery milestones for each aspect of the Freeport proposal, including planned start and finish dates and key interdependencies. A project plan (e.g., Gantt chart or equivalent) should be supplied as Annex C. This should confirm the key activities and milestones from **F**BC submission (or prior) through until after the completion of all works for the site to be fully operational/occupied.

5f. Risk management

- Sets out a risk management strategy that will allow effective monitoring and managing of risks and support a culture of well-thought-out risk-taking. A comprehensive risk register, setting out the probability and impact of risks, responsible parties, and mitigating actions, should be supplied as Annex D.

5g. Security and illicit activity

- Sets out how security and illicit activity risks associated with the Freeport proposal as a whole will be managed, including:
    - **Risk management:** an approach to identifying, managing, and mitigating fraud, crime, and security risks (e.g., counterterrorism, insider threat, robbery, theft, human trafficking, money laundering, etc.) associated with the Freeport. A security and illicit activity risk assessment should be produced in partnership with Government and supplied at Annex B. The DLUHC Freeport Delivery team will be in contact with you to organise the session.
    - **Governance:** a mechanism within the governance structure (e.g., a Security Committee) for delivering necessary security infrastructure and engaging local

security stakeholders (including the Police) and agreeing with them lines of accountability and resourcing arrangements for Freeport security.

- **Commitments:** a letter/letters should be supplied at Annex H that
    - Commits the Freeport governing body to an annual audit of security measures in place and any breaches, conducted in partnership with the Government.
    - Commits the Freeport governing body and all customs site operators to adhering to the OECD Code of Conduct for Clean Free Trade Zones and to upholding anti-money laundering protocols and registering with a Government approved supervisory authority to follow anti-money laundering regulations.

List of Annexes:

- Annex A – Logic model
- Annex B – Security and illicit activity risk assessment
- Annex C – Project plan
- Annex D – Risk register
- Annex E – Tax site maps
- Annex F – Letters from all billing authorities on the use of retained business rates
- Annex G – A high-level (1-2 page) SWOT analysis summarising the key content of the Strategic Case
- Annex H – Letter from all customs site operators committing to counter illicit activity
- Annex I – Assumptions, references, and methodology for VfM analysis
- Annex J – Governance documents

15. Submission Process

15.1. Prospective Freeports should complete the OBC and return it as a Word document via email to their DLUHC lead contact and the Freeports inbox (UKFreeports@levellingup.gov.uk). The OBC must have been signed off by the Freeport governing body, including by the lead authority, prior to submission.

15.2. The Government appreciates that not all prospective Freeports will be able to move at the same speed. It will therefore be ready to assess OBCs in three windows:

- OBCs received by 30 July 2021 will be assessed from 2 August.
- Prospective Freeports unable to meet this deadline should aim to submit their OBCs by 10 September and these will be assessed from 13 September.
- Prospective Freeports unable to meet the September deadline must submit their OBCs by 26 November and these will be assessed from 29 November.

15.3. The Government will not begin assessing OBCs received after 30 July until 13 September and those received after 10 September until 29 November, in order to prioritise those prospective Freeports that are most likely to meet the Government's target of completing the setup phase by November 2021.

15.4. The Government will only begin assessing OBCs that it considers complete and of a suitably high standard and will return those it does not to prospective Freeports for further work. A suitably complete and high-quality OBC must be received by the relevant deadline for that OBC to be assessed in a particular window.

15.5. Prospective Freeports whose OBCs are assessed in later windows will not be disadvantaged with regards to the allocation of seed capital funding, but prospective Freeports should aim to submit their OBCs by 30 July and should notify their DLUHC lead contact as early as possible if they are likely to miss this deadline or if they intend to submit their OBC significantly in advance of this.

15.6. The Government is keen to work collaboratively with prospective Freeports as they develop their OBCs and so prospective Freeports should agree a sequence of regular OBC review and feedback sessions with their DLUHC lead contact. These sessions will be an opportunity to ensure the OBC is developing in accordance with the Government's expectations and will reduce the likelihood of significant revisions being needed following submission.

15.7. DLUHC will also bring the eight English prospective Freeports together with Government policy experts to share advice and best practice and answer questions about the OBC.

16. Assessment Process

16.1. OBCs will be assessed by a cross-departmental panel of policy experts and analysts against the criteria set out below. This is expected to take around 6-8 weeks.

16.2. DLUHC will write to prospective Freeports following this assessment either:

- Formally signing off the OBC and issuing feedback to be incorporated into the FBC. OR
- Setting out the key changes needed for formal OBC signoff and a deadline for completing them.

16.3. The Government reserves the right not to proceed with the designation of a prospective Freeport that it deems to be making insufficient progress or unlikely to suitably realise the policy objectives. However, it will not 'fail' OBCs that do not initially receive signoff and will work collaboratively with prospective Freeports to make necessary changes to the OBC so long as there remains a realistic possibility of them completing the setup phase to a reasonable timescale.

16.4. DLUHC lead contacts will provide feedback on draft OBCs ahead of submission and, where possible, will feed back during OBC assessment so that Freeports can begin actioning changes. During this period, Freeports should also begin considering the requirements of the FBC stage and working in preparation for this.

17. Assessment criteria

17.1 OBCs will be assessed against the following criteria (corresponding FBC sections listed in parentheses):

The Strategic Case

- Strategic Focus
    - Clear focus in terms of target sectors/markets (1b and Annex G)
    - Clear value proposition for target sectors/markets (1c, Annex A, and Annex G)
- Activity
    - Effective use of the Freeport levers including alignment with each other and wider initiatives – current and planned (1d, Annex A, and Annex F)
- Strategic Fit
    - Rationale for intervention (1a and Annex G)
    - Outcomes in line with policy objectives (1e and Annex A)
    - A clear plan for achieving Net Zero (1g)
    - Due consideration of equalities and appropriate mitigations (1h)

The Economic Case

- Options Appraisal
    - A robust options assessment demonstrating the benefits of the preferred option and why seed capital and tax measures should be deployed in accordance with it (2a, 2b, 2c, and Annex I)

The Financial Case

- Seed capital funding
    - A clear plan for financing seed capital investments (3a and 3c)
- Complementary Investments

    - A clear profile of complementary investments (3a and 3c)
- Financing Delivery
    - A credible plan for financing the Freeport up to 2024/25 (3a and 3c)
- Case for Further Revenue Funding
    - A clear plan for using any further revenue funding and statement of why it is needed (3a, 3b, 3c, and 5d)

The Commercial Case

- Effective Tax Site Management
    - A credible management strategy for each proposed tax site (4a)

The Management Case

- Governance
    - Changes to the original governance submission are appropriate (5a, 5b, 5d, 5g, and Annex J)
    - A clear and credible plan for transitioning to governance arrangements suitable for the delivery phase (5a, 5b, 5d, 5g, and Annex J)
    - Appropriate roles for all key stakeholders, including private and public (5a, 5b, 5c, 5g, and Annex J)
- Stakeholder Management and Comms
    - A robust plan for engaging all key stakeholders (5c)
    - A robust plan for promoting the Freeport and attracting investment (1d and 5c)
- Delivery
    - An appropriate risk management strategy (5f, 5g, Annex B, and Annex D)
    - Robust implementation plans (5b, 5e, and Annex C)
- Security
    - Appropriate management and governance of security risks (5g)

- Commitments to uphold security obligations (5g and Annex H)

D: The Tax Site Process

18. Assessment

18.1. In order to confirm their proposed tax sites, prospective Freeports will be asked to expand on their initial bids to provide further evidence that these sites meet the criteria set out in the Bidding Prospectus. These criteria, along with data standards and examples, are set out below.

18.2. This process will enable the Government to verify that all proposed tax sites are in need of regeneration and would benefit from tax site status and to demonstrate the value of the tax offer.

18.3. As part of this process, the Government will ask prospective Freeports to present on their tax sites to government assessment teams. The presentations will be an opportunity for prospective Freeports to share with the Government the detail of their tax sites and to receive feedback from the assessment team, with the aim of streamlining the approval process. Officials will be in touch with prospective Freeports in due course to arrange these presentations and outline what information should be covered.

18.4. The information needed to assess proposed tax sites is being requested as part of the OBC. Tax sites will be considered as part of the OBC assessment of the overall Freeport vision; however, they will be approved separately, in conjunction with HMT and HMRC. A prospective Freeport's proposed tax sites will not be approved until its OBC has been approved.

18.5. The Government intends to designate all proposed tax sites within Freeports as soon as the process allows; however, it recognises that in certain circumstances it may be beneficial for prospective Freeports to bring forward requests for the approval of different tax sites at different times, once the OBC has been approved. This intention should be discussed with the prospective Freeport's DLUHC Lead Contact and made clear as part of the OBC submission. A preferred timeline should be stated and the Government will work with the prospective Freeport to agree it (the expectation is for this to be within a Summer 2022 timeline in most cases). The Government will not approve subsections of proposed individual tax sites.

18.6. The Government reserves the right not to proceed with the designation of a prospective Freeport tax site that it deems to not meet the criteria set out in the Bidding Prospectus, does not represent good value for money, or an optimal, effective or deliverable use of the tax site powers, or if the OBC has been conditionally approved subject to as yet un-fulfilled conditions relating to that tax site. However, as with the OBCs, for those tax sites that do not initially receive signoff, the Government will work collaboratively with prospective Freeports to demonstrate performance against the necessary criteria so long as it considers this achievable.

18.7. Tax sites will need to be legislated for and therefore will be subject to Parliamentary approval through the legislative process including allowing sufficient time in Parliament for any due diligence on the enacting legislation and the convention of allowing legislation to lay for 21 days before coming into effect.

19. Requirements

19.1. **Compliance with the physical requirements of a Freeport tax site**

19.1.1. Under criteria laid out at 3.1.21 a-3.2.21g of the Bidding Prospectus, the precise boundaries of the proposed tax sites need to be provided to enable HMRC to carry out its usual compliance activity – a map of each proposed site should be provided at Annex E of the OBC. Maps must be detailed enough and accessible enough to enable both taxpayers and HMRC to clearly determine whether parts of land, structures and buildings lie inside or outside a Freeport tax site and whether parts of land, structures and buildings are used in specified ways. Detailed maps should also assist with identifying whether plant and machinery is primarily for use in a Freeport tax site. Feedback on the maps provided will be given at presentations. HMRC will be providing separate guidance on maps shortly.

19.1.2. The map should include detail on what land can be categorised as underdeveloped (as defined in 3.1.25 of the Bidding Prospectus) and clearly highlight the boundaries for each Freeport tax site (up to three).

19.1.3. If there are areas that do not satisfy the underdeveloped criteria, then detail is required on how that particular part of the Freeport would benefit from regeneration and being a tax site.

19.2. **Compliance with the regeneration need requirement of a Freeport tax site**

19.2.1. Under criteria laid out at 3.1.21g of the Bidding Prospectus states that, the need for regeneration within and around the proposed tax sites should be demonstrated by the area having:

- Below national average GDP per head currently or over the last 5 years.
- Above average national unemployment rates currently or over the last 5 years.

19.2.2. It is important that tax sites demonstrate their regeneration needs clearly in their returns. Wherever possible, this should be done with clear reference to data as evidence. The Government will be considering how the tax sites meet the above criteria with reference to a number of data sources. This includes: *Regional gross domestic product: local authorities*[14], *Regional gross domestic product: all ITL*

[14] *Regional gross domestic product: local authorities*, Office of National Statistics (May 2021) https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/regionalgrossdomesticproductlocalauthorities

regions[15]*, the Annual Population Survey via NOMIS*[16]*, using both 'Unemployment 16+' and 'model-based estimates of unemployment' within this.* The Government recommends that prospective Freeports use these data sources in their returns or other robust data sources which demonstrate the case clearly.

19.2.3. If the area does not clearly meet criteria in 3.1.21.g based on data analysis, prospective Freeports should provide other evidence and justification (3.1.21.h in the Bidding Prospectus) as to why the area requires regeneration and how it would benefit from being a tax site, ideally with reference to these two criteria.

19.3. **Compliance with the 'underdeveloped' requirement of a Freeport tax site**

19.3.1. Prospective Freeports should build on the analysis provided in their initial returns against criteria at 3.1.23 of the Bidding Prospectus. This criterion requested analysis to explain how their proposed tax sites are "underdeveloped", why the site needs regenerating, how the site will generate additional economic activity, and why the site(s) are the optimal choice for the local area, representing good value for money.

19.3.2. Under criteria laid out at 3.1.25 of the Bidding Prospectus, prospective Freeports demonstrate, with as much evidence as possible, how the tax site:

- uses 'underutilised' land, including a description of how tax sites have sufficient viable but unoccupied physical space that is yet to be developed or used; to allow new or expanding businesses to construct, renovate, purchase or rent new premises in the Freeport. (Bidding Prospectus, 3.1.25.a)

[15] *Regional gross domestic product: all ITL regions,* Office of National Statistics (May 2021) https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/regionalgrossdomesticproductallnutslevelregions

[16] *Annual Population Survey, NOMIS: model-based estimates of unemployment (Dec 2020)* https://www.nomisweb.co.uk/query/select/getdatasetbytheme.asp?opt=3&theme=&subgrp=

- will lead to additional investment by new and/or existing businesses in the Freeport tax site(s), significantly above current levels (Bidding Prospectus 3.1.25.b).
- will lead to additional employment by new and/or existing businesses in the Freeport tax site(s), above current levels. (Bidding Prospectus, 3.1.25.c)

19.4. This analysis should ideally feature an estimation of the benefits of each tax site, including:

- the anticipated investment in the tax site and the rationale for that estimate
- an estimate of the number of future businesses operating in each tax site and
- an estimate of additional employment

19.5. As part of the analysis of the "underdeveloped" case, the Government asks that prospective Freeports provide:

- An estimate of current number of employees within each Freeport tax site
- An estimate of the wages of those employees
- The types of building contained with each tax site

19.6. Further to this, the Government would find it useful if Freeports could provide:

- A description of the types of business currently in the tax site areas
- Where the employees commute from currently
- Number of employees regularly working in each tax site

19.7. In all cases, Freeports should provide modelling and assumptions underpinning their estimated figures.

19.8. Where analysis is uncertain and reliable data difficult to obtain, the Government will work with prospective Freeports to gain the best possible understanding of current tax sites. This can, in part, be done through the presentations where prospective Freeports will have the chance to present and explain their current tax site proposals and receive feedback from officials before returning their final submission as part of the OBC.

19.9. As noted above, the maps prospective Freeports provide should make it clear what parts of the Freeport are considered underdeveloped. If the site does not meet these criteria, with clear reference to areas of maps provided, prospective Freeports will need to provide evidence as to why this area needs regenerating (Bidding Prospectus 3.1.23.b).

19.10. In line with 3.1.26 of the Bidding Prospectus, prospective Freeports will need to fully explain how the tax site(s) minimise displacement of economic activity from wider local areas, especially economically disadvantaged area.

19.11. Proposed tax sites will be assessed based on the information supplied at sections 1f and Annex E of the OBC and through prospective Freeports' presentations.

E: The Full Business Case (FBC)

20. The FBC process and requirements for English Freeports have been set out in DLUHC's 'FBC Guidance' document.

F: Government Support

21. The DLUHC Freeports Team

21.1. Each prospective Freeport's DLUHC lead contact will remain the first port of call for general queries during the setup phase. They will provide feedback on draft Business Cases and facilitate conversations between prospective Freeports and policy experts from other government departments as necessary.

22. Cross-Departmental Expert Support

22.1. HMRC: HMRC will continue to meet with prospective Freeports to answer tax and customs queries as necessary during the setup phase. Engagement with Community Systems Providers will commence shortly, to discuss any potential impacts linked to operationalising of Freeports. HMRC is also currently preparing technical guidance for end users, which will be published on gov.uk in due course. Any further queries should be directed to hmrcfreeports@hmrc.gov.uk, where they will be directed to the relevant policy leads.

22.2. DIT: DIT's English Regions teams will begin to undertake clear and structured engagement with each Freeport location to understand the details behind the initial proposals and develop a workable support offer that will drive positive trade and investment outcomes for each location. The initial scoping stage will complete by 18 June 2021 and DIT will agree OBC content with each Freeport by 12 July.

22.3. PAS: The Planning Advisory Service (PAS) have begun conversations with each prospective Freeport to discuss their planning needs for successful delivery and the planning levers they intend to utilise. Alongside support for LPAs groups in the eight Freeport areas, PAS will also be hosting training sessions and workshops on LDOs and wider planning issues, where they are identified by several LPAs. Alongside this, the relevant LPA representatives will also be invited to share their experiences and gain peer-to-peer support through centrally organised LPA planning learning set sessions. PAS can be contacted at pas@local.gov.uk or visit https://www.local.gov.uk/pas

22.4. Innovate UK and BEIS: BEIS and Innovate UK will meet with the prospective Freeports to understand their innovation ambitions and needs. Innovate UK's Regional Managers will provide ongoing support and connections to the Innovate UK offer and will work with the Freeports leadership to develop local events that will inspire and support innovation ideas within the Freeport.

22.5. Workshops: The Government intends to engage closely with prospective Freeports as they develop their Business Cases, with workshops on topics including tax site management, fraud and security risks, innovation and the FREN, and planning.

22.6. Cross-departmental sessions: The Government intends to convene place-based sessions for individual prospective Freeports where useful, bringing together a range of relevant government departments to facilitate a joined-up conversation about aligning interventions within and around the Freeport geography. Prospective Freeports should contact their DLUHC lead contact if they would like to arrange a session of this nature.

23. Capacity Funding

23.1. Subject to the approval of governance arrangements for the setup period and an indicative budget, DLUHC will provide each prospective Freeport with up to £487.5k capacity funding in 2021/22.

23.2. The purpose of the capacity funding is to ensure that there is sufficient capacity in place within prospective Freeports to complete the setup phase and transition to the delivery phase this year.

23.3. Payment will be made as an upfront payment of up to £300k and a further payment of up to £187.5k following OBC submission under Section 31 powers, from DLUHC to designated authorities who act as the Lead Authority for a Freeport.

23.4. The Government expects to make further capacity funding available in the years 2022/23, 2023/24, and 2024/25; however, this is subject to affordability, the outcome of the Spending Review, and approval of prospective Freeports' Business Cases.

24. Tendered Support

24.1. The Government intends to procure expert technical support for use by DLUHC and individual prospective Freeports during the set-up phase leading to formal Freeport designation. This core functions of the support will be:

- <u>Strategic advice:</u> The supplier will act as a 'critical friend' to prospective Freeports, offering independent, expert, and constructive assessment of work to support the development of business cases and other key products. The supplier will work with prospective Freeports, offering advice and feedback on work rather than doing the work themselves. All prospective Freeports will receive this support, with additional support provided to those with greater needs.

- Shared products and learning: The supplier will conduct work that is more effectively done centrally, sharing resources across all prospective Freeports and facilitating peer learning.
- Programme support and advice: The supplier will support programme delivery by the DLUHC Freeports Delivery Team.

24.2. An element of troubleshooting support may also be available to address critical delivery issues should they arise. This is likely to be reserved for Freeports falling behind the Government's timelines.

24.3. It is intended that the successful supplier will be contracted for an initial 12 months but this may continue depending on performance and utility for policy objectives and Freeports needs.

Annex A: Economic Case Value for Money Assessment

Purpose

This document sets provides additional guidance, in addition to the HMT Green Book and DLUHC Appraisal Guide, for Freeports to support their value for money (VfM) assessment to be included within the Economic Case.

The VfM assessment should provide suitable evidence of the expected impacts, benefits and costs, and overall value for money, and associated risks and uncertainties, of each option being considered. There must be:

- Clear justification for which types of impacts, benefits and costs are considered, with appropriate analysis for the impacts and proposal considered.
- Benefit Cost Ratios (BCRs) and analysis of non-monetised benefits in line with DLUHC appraisal guidance and the Green Book.
- Identification and analysis of any risks and uncertainties with the possibility of affecting the impacts, benefits, and VfM of the: Capital Funding; tax reliefs/incentives; etc.
- Evidence as to whether the Freeport is likely to meet the strategic objectives of the policy, as set out in the bidding prospectus.

The economic case developed and submitted will be required to comply with HM Government appraisal guidance including:

- HM Treasury Green Book: Appraisal and evaluation in central government, found here.
- DLUHC's own appraisal guide, which can be found here.
- DfT's Transport analysis guidance (WebTAG), found here.

1. The Benefit-Cost Ratio (BCR)

As part of the VfM assessment, Freeports are required to produce an "initial BCR" to demonstrate that efficient usage of the Freeport funding & incentives, representing sufficient overall value for money.

1.1 Benefits

DLUHC guidance recommends valuing the economic impact of investments by using Land Value Uplift as the key measure of VfM. If an alternative methodology is used then a clear rationale for doing so needs to be set out, including robust evidence and modelling and underlying assumptions. This analysis should be in support of a justification of why Land value uplift has not been undertaken. Freeports should take care to avoid double counting benefits if they use an alternative methodology, thus GVA and Jobs cannot be used alongside Land Value Uplift. The tax relief impacts should be demonstrated in your overall VfM calculation, but not counted within the BCR. A range of benefits could be considered in the value for money assessment, including but not limited to:

- Direct land value uplift (LVU)[17]
- Wider land value uplift benefit
- Time savings (e.g. relating to local transport improvements)[18]
- External benefits that are not captured by LVU (as per Annex F in DLUHC appraisal guide)
- Productivity (GVA per filled job/hour worked) [19]

[17] Freeports have two options when discerning the land values. Firstly, they can use bespoke land values, if they are hiring surveyors for this work. In the absence of this, standardised land values for each local authority in the country are produced by the VOA, which can be found at the following link: https://www.gov.uk/government/publications/land-value-estimates-for-policy-appraisal-2019

[18] https://www.gov.uk/government/publications/tag-unit-a1-3-user-and-provider-impacts

[19] Productivity gains may arise for several reasons, but care needs to be taken not to double count benefits. For example, including both GVA and LVU is likely to result in double counting of benefits. If Freeports decide to use GVA, in addition to the requirements mentioned at 1.1, this must be in replacement of the method of land value uplift. These two benefits measures cannot be used in tandem.

The DLUHC appraisal guidance (Annex F page 81) provides examples around calculating these impacts. Please also refer to relevant department guidance e.g. DfT's WebTAG guidance around calculating the benefit of transport infrastructure.[20]

1.2 Costs

As set out in the Freeports proposal, we expect projects to be co-funded by public and private sector funding. These funding sources need to be accounted for in the BCR, which are set out below:

- Seed funding for capital investment.
- Other public sources of funding (e.g., other local authority capital investments).
- Private sector funding (through investment or borrowing).

Each of the above funding sources are treated differently in the BCR estimate. Guidance on assumptions and the valuation of the cost of capital for private sector costs, which must be included if using private sector funding, can be found at page 51 of the DLUHC Appraisal guide. This recommends using a 10% benchmark in the absence of alternative data. The capital funding BCR should be relative to public sector funding/budget, i.e., the capital funding ask plus other public sources of funding.

1.3 Presentation of figures in the BCR:

- We expect all figures to be presented in their Present Value (PV), that is, discounted to 2021 prices. All co-funding figures (including borrowing) need to be presented in PV terms. This discounting must be in line with Green Book recommendations, as found at pages 45/46 of the Green Book.

[20] https://www.gov.uk/guidance/transport-analysis-guidance-tag

- In addition to discounting, all figures must be presented in real terms. This must be completed in accordance with HMT/OBR guidance.[21]
- All costs should include optimism bias in line with HMT Green Book guidance.

1.4 Calculation of BCR

The BCR formula for regeneration projects should be:

$$BCR = \frac{(PV)Total\ Benefits - (PV)Total\ Private\ Sector\ costs}{(PV)Total\ Public\ Sector\ costs}$$

All freeports should use the above formula for estimating their BCR for regeneration. An example table of a method of summarising costs and benefits can be found in Table A.

1.5 Minimum BCR

In line with standard practice, we require a minimum BCR of 1.

1.6 Adjusted BCR

In addition to the calculation of the 'initial BCR', Freeports should calculate an 'adjusted BCR', as outlined on page 17 of the DLUHC Appraisal guidance. The adjusted BCR may include additional estimates of impacts, based on users' own evidence i.e. evidence not currently incorporated in Green Book Supplementary and Departmental guidance. Examples of these can be found in

[21] https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2020-budget

Annex F of the DLUHC Appraisal guidance, including transport externalities, public realm impacts and environmental impacts.

1.6.1 How to represent tax reliefs

Freeport status provides tax incentives which need to be measured and accounted for within the economic case, although these do not feature in the BCR as they are transfers. The economic case should set out for each tax relief what the overall saving is and how the figure was calculated. Figures should be for the lifetime of the appraisal period, and as per your options, disaggregated per tax site.

- *Stamp Duty Land Tax*
- *Enhanced Structures and Buildings Allowance*
- *Enhanced Capital Allowances*
- *Business Rates Relief*
- *Employer National Insurance Contributions Relief*

A case study of the valuation of benefits has been provided at Table B. **Where sufficient evidence is not available, you should use suitable data and evidence to produce a simple estimate and then bring forwards the full analysis when evidence is available.**

For Business Rates Retention, please provide an estimate on your assumption of growth per year and please estimate the amount of (additional) rateable value in your Freeport area in each year.

Information related to businesses' tax affairs provided as part of this process will be treated under confidentiality.

2. Non-monetised benefits

As well the benefits that can be monetised and included in a BCR calculation, business cases should also include analysis and evidence of any non-monetised benefits, where these have been identified. Where monetisation is not possible, a full qualitative assessment of the potential impact should be carried out and included as part of the overall value for money assessment. How to apply switching analysis to the BCR is set in the DLUHC appraisal guide page 26.

3. <u>Determining the baseline or Counterfactual</u>

The basis for the VfM assessment is that the economic benefits included in the appraisal are those that result as a consequence of the capital investment, thus additional to what would have happened in the absence of the investment, i.e., the counterfactual. Thus, land value uplift or wider land value uplift benefit, or any other benefit, included in the BCR must be additional to what would have happened in the counterfactual (base case). To estimate these impacts properly, account of what would have happened in the absence of the investment has to be done.

Extreme results or periods of unusually low or high economic activity, or growth, must be treated with caution. For instance, if using trend growth figures to present the do-nothing case, data from unusual periods like the financial crisis (2007-09), or Covid-19 impacts, should be avoided as these are likely to be temporary impacts. Where appropriate, official projections from the Office for Budget Responsibility or Office for National Statistics should be used.

4. <u>Additionality</u>

Additionality refers to the net impact of a policy. This means excluding impacts which would have happened anyway, accounting for reduced economic activity elsewhere (displacement) resulting from the policy and accounting for impacts occurring outside the target area (leakage).

Guidance on additionality, displacement and leakage is included in the DLUHC appraisal guide, refer to pages 36 and 37 for estimations of their size.

The extent of the additionality analysis depends on the nature of the project and the investments made, and the degree to which there is identified market failure. Where there is strong evidence of market failure, then we can expect higher levels of additionality but in most cases, we would expect additionality to be modest. An additionality assumption of more than 30% will need good, robust evidence to justify this assumption. Care should be given to provide baseline projections in the absence of investment and to consider the size of the invest relative to the estimated impact.

A framework for estimating the size of the adjustment factors for Additionality can be found in the DLUHC Appraisal guide (pages 44 & 45). This framework should be read in conjunction with the market failure and counterfactual discussion in Section 1 of the DLUHC appraisal document.

5. Sensitivity analysis

In testing the sensitivity of net present value (NPV), you must consider the following:

- What are the key conditions and assumptions (technical, economic, and political) upon which the success of the programme depends?
- How much can those conditions and assumptions vary before the NPV turns negative?

All major benefits must go through a sensitivity analysis. This to ensure that any optimism bias, or over-estimation of the benefits, is accounted for. Guidance on performing sensitivity analysis can be found in the Green Book, at page 52

Table A: Example of a table for summarising costs and benefits

Total net additional benefits		**Preferred Option (NPV, 2021/22 prices)**
Benefits for the BCR		
Land value uplift (LVU)		£m
Jobs		£m
Resource cost savings due to planning reform		£m
Transport benefits (e.g. time savings)		£m
[Other applicable and robustly evidenced benefits[22]		£m
Gross Value Added[23]		£m
Total benefits for the BCR	**A**	**£m**
Costs		
Freeport Policy Funding (capital seed funding)	**B**	£m
Co-funding local authority cost (including borrowing)	**C**	£m
Total cost (Freeport Seed Funding + Co-funding, excluding tax incentives)	**E**	**£m**
Private sector cost	**F**	£m
BCR calculation formula		**(A-F) / E**

[22] See DLUHC appraisal guide (Annex F, page 81).
[23] As outlined in section 1.1 of this document, DLUHC does not recommend use of Gross Value Added (GVA). If using Land Value Uplift, Freeports cannot also use GVA.

Examples of Tax Working

The indicative examples assume the following:

A manufacturing and logistics business sets up a new operation in a Freeport tax site. It will hire 20 new employees, will purchase land in a Freeport tax site where there is an unused warehouse where it can carry out its business, and will invest in extensions to that building to create appropriate office space. The business records pre-tax profits of £100,000 per year.

Legislation to bring into effect SDLT relief, Enhanced Capital Allowances and Structures and Buildings Allowance+ is contained in Finance Act 2021. Subject to the passage of relevant legislation (a National Insurance Contributions Bill 2021) and implementation of relevant regulations, it is intended that this business could be able to benefit from:

Stamp Duty Land Tax relief

- **Purpose:** This supports site acquisition.
- **Design:** This will provide 100% relief on qualifying purchases in the tax site between the date of tax site designation and September 2026.
- **Example value*:** For a £700k freehold a business would save £24,500 on SDLT for this purchase.

Enhanced Structures and Buildings Allowance

- **Purpose:** This supports outfitting the site (e.g. building renovation).
- **Design:** For qualifying investments brought into qualifying use in the tax site between the date of tax site designation and September 2026, allows firms to reduce their taxable profits by 10% of the cost of every year for ten years, compared with the standard 3% p.a. over 33 and a third years.
- **Example value*:** For a £100k expenditure a business would be able to offset £10k per year for 10 years against its taxable profits, saving it £1.9k this year.

Enhanced Capital Allowances

- **Purpose:** This supports purchasing of plant and machinery.
- **Design:** This allows firms to reduce their taxable profits by the full cost of qualifying investments for primary use in the tax site between the date of tax site designation and September 2026.
- **Example value*:** For a £35k expenditure a business would be able to offset the entire cost against its taxable profits in that year, saving it £6,650. This assumes the business would have already used its full Annual Investment Allowance allocation for this tax year.

Business rates relief

- **Purpose:** This supports operational costs of property
- **Design:** This provides 100% relief in the tax site for 5 years from the business's first claim, with the first claim having to be made between the date of tax site designation and September 2026.
- **Example value:*** If the usual business rates bill for the newly acquired property were £20k per year, the business would save £20k this year.

Employer National Insurance Contributions relief

- **Purpose:** This supports operational costs of hiring new employees.
- **Design:** 0% Employer NICs on the salary of a new employee spending 60% of their working hours in the tax site. Applies to that employee for three years on earnings up £25k and is expected to start from April 2022. This will be available for 9 years. The use and effectiveness of the relief will be monitored and reviewed to allow a decision on whether to continue the relief beyond its earliest end date of 5 April 2026. All new eligible hires on or before 5 April 2026 will be eligible for this relief for their full eligibility period (up to 36 months), regardless of the government's decision on whether to extend access to the relief for new claims beyond this date. Subject to the findings of the review, the government

intends to extend this relief for new hires up to a future 5 years to its latest end date of 5 April 2031, after which point employers will no longer be able to access this relief, including for those employees partway through their eligibility period.

- **Example value*:** If a business hired 20 people on £25k salaries, it would save c.£45k per year.

* These examples assume rates and thresholds are at 2021/2022 levels. The savings provided by each relief will be subject to any future changes in rates or threshold.

Annex B: Methodology for calculating business rates baseline

- The baseline represents the annual amount of non-domestic rates, net of reliefs and accounting adjustments, that is collectible in the designated area immediately before the designated area comes into force. Annually, the collectible business rates in the Freeport will be measured against the baseline to determine the amount of growth (if any) that is to be retained by the billing authority (and others).
- The baseline is to be calculated and provided to the department by the billing authority. Timings for this should be agreed between prospective Freeports and their lead DLUHC contact.
- The calculation of the baseline should take the same form as the calculation of business rates income under the business rates retention scheme. The calculation should be made on the day immediately before the tax sites come into force. The baseline, for hereditaments in the designated area, should be calculated as follows and the data should be provided using the template at Annex C.

1) <u>Gross Rates Payable:</u>
    - This is the aggregate Rateable Value of hereditaments in the designated area multiplied by the small business rating multiplier for 2021-22 (£0.499).
2) <u>Transitional Arrangements:</u>
    - (deduct) any transitional relief due on hereditaments in the designated area for 2021-22.
    - (add) any transitional surcharge due on hereditaments in the designated area for 2021-22.
3) <u>Small Business Rates Relief (SBRR):</u>
    - (deduct) any SBRR due on hereditaments in the designated area in 2021-22.
    - (add) any additional yield as a result of the supplementary multiplier.
4) <u>Other Mandatory Reliefs:</u>

- (deduct) any relief awarded in respect of charitable occupation, Community Amateur Sports Clubs (CASCs), Rural Rate Relief, and Telecoms Relief in the designated area in 2021-22
- (deduct) any unoccupied, or partially occupied relief awarded in the designated area in 2021-22.

5) Discretionary Reliefs:
   - (deduct) any discretionary relief due on hereditaments in the designated area for 2021-22. Only unfunded reliefs should be included. Discretionary reliefs for which the Government will be providing compensation via a s.31 grant (e.g. retail relief), should not be included because they are temporary in nature and are being fully reimbursed via Government grant.

6) Adjustment for Transitional Protection Payment:
   - The business rates retention scheme calculates non-domestic rating income as if there were no transitional arrangements. The net cost of the transitional arrangements (as calculated at 2) above) will be stripped out of the rates retention scheme either through the award of a transitional protection payment (where the net cost of the transitional protection payments is negative (i.e. where the transitional arrangements have the effect of reducing the businesses rates income collectible by authorities), or by the recovery of a transitional protection payment from the authority (where the transitional arrangements have the effect of increasing the business rates income collectible by authorities)
   - Up to this point, the calculation of the baseline has only factored-in the net cost of the transitional arrangements. They need therefore to be stripped-out, by reversing the net cost or gain calculated under 2) above.
   - Where the net cost of transitional arrangements at 2) is a cost to the authority, authorities should add back that sum through this adjustment.

- If 2) results in a net gain of income, authorities should deduct that sum through this adjustment.

7) Accounting Adjustments:

Finally, authorities should:

- (deduct) an amount for bad debt. This should be in line with their normal impairment (bad debt allowance) for business rates.
- (deduct) an amount for provisions in the designated area. This might be in line with the authority's normal calculation of the appeals provision for the wider authority area or may reflect the specific appeal risk of hereditaments in the designated area. In making the deduction, authorities should give details of the basis on which it has been calculated.

- The Regulations will provide for the baseline to be uprated every year by the change in the small business rating multiplier. Growth, therefore, is measured and awarded in real terms.