

<b>Isle of Anglesey County Council</b>	
Report to:	<b>The Executive</b>
Date:	<b>18<sup>th</sup> July 2023</b>
Subject:	<b>Anglesey Freeport – Update</b>
Portfolio Holder(s):	<b>Cllr. Llinos Medi (Leader and Economic Development Portfolio Holder)</b>
Head of Service / Director:	<b>Dylan Williams Chief Executive</b>
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Local Members:	<b>Relevant to all Elected Members</b>

<b>A –Recommendation/s and reason/s</b>
<p><b>Recommendation(s):</b></p> <p>It is recommended that:</p> <ul style="list-style-type: none"> <li><b>(a) Members note the success of the Anglesey Freeport bid in achieving Freeport status</b></li> <li><b>(b) Members approve the entering into of the Initial Collaboration Agreement between IACC and Stena Line included at Appendix 1</b></li> <li><b>(c) Delegated authority be granted to the Chief Executive (in consultation with the Leader and relevant Cabinet Member) to agree any necessary variations to the proposed Initial Collaboration Agreement that maybe necessary</b></li> <li><b>(d) The Chief Executive of Anglesey County Council be identified as a representative to the Freeport Governing Body and be granted delegated authority to make any decisions necessary to the objectives of the Anglesey Freeport and be granted delegated authority to nominate an alternative to attend in his place, who shall be entitled similarly to make any decisions necessary</b></li> <li><b>(e) Members approves the entering into of any grant agreement between the Council and the UK/Welsh Government to receive public funds from the Government (up to £300,000 for the OBC)</b></li> </ul>
<p><b>Executive Summary</b></p> <p>On the 23<sup>rd</sup> March 2023, the Council, received notification that, following a joint decision between the UK and Welsh governments, Anglesey Freeport had been</p>

## A –Recommendation/s and reason/s

selected as a successful bid in the Welsh Freeport competition.

The Anglesey Freeport is a public/private partnership between IACC (as the host local authority and accountable body) and Stena Line (the Port of Holyhead operator). It is supported by a range of other stakeholders, including landowners, Bangor University and M-Sparc, Grwp Llandrillo Menai, Ambition North Wales, and a range of private sector businesses including potential investors. The IACC is, however, deemed to be the 'Accountable Body' by both governments for a range of governance and financial management matters and, hence, the associated risks in so doing.

The next stage in the process is to develop and submit an Outline Business Case (OBC) within a broad six to nine month window (revenue funding is available to IACC from government to facilitate this). This will be followed by the production of a Full Business Case (FBC), which is likely to take up to 12 months.

This report provides a summary of the process that will need to be followed to submit the OBC and identifies the delegated authority sought by officers to contribute to this work.

It is split into two parts:

- i) Part A: An update on progress and decision-making
- ii) Part B (confidential): An update on the legal and commercial arrangements with Stena Line and funding from UK Government

### **Part A**

#### **Background**

At its meeting on 24<sup>th</sup> October 2022 the Executive expressed its support for the Anglesey Freeport bid which was then submitted in November. The bid was successful and the result was announced during a visit to Holyhead on 23<sup>rd</sup> March by the Prime Minister Rishi Sunak MP and the First Minister of Wales Mark Drakeford AS.

The Freeport presents an opportunity to attract significant new private sector investment in Anglesey after the recent loss of major employers like 2 Sisters. The success of the bid a major display of confidence in the Council and its plans for Anglesey, following on from the successful Levelling Up Fund bid that was announced in January.

The process now moves to the business case stage. The UK and Welsh Governments have not yet published the specific guidance for the Welsh Freeport programme, but have indicated that the Anglesey Freeport should continue to progress using what has been published. When the Welsh guidance is published the Council will review whether any changes in approach are required.

The immediate requirements of process are set out in what follows.

## A –Recommendation/s and reason/s

Members are also asked to note:

- the responsibilities which will come to the Council as the Accountable Body for the Anglesey Freeport programme and
- the requirement during this phase to establish suitable governance mechanisms to allocate seed capital and retained business rates in the future. A further report will be provided in due course to confirm the details of such mechanisms.

### **Freeport Programme**

The Freeport Programme in Wales offers an opportunity to harness Wales's abundant economic potential. The Welsh Government worked with the UK Government to design a freeport model, which delivers three main objectives:

- Promote regeneration and high quality job creation
- Establish the Freeport as a national hub for global trade and investment across the economy
- Foster an innovative environment

The guidance for Welsh Freeports also emphasises the Welsh Government's expectations in relation to the protection of workers rights and environmental standards, the contribution to achieving Net Zero and the aims of the Wellbeing of Future Generations Act. Specifically the programme includes Welsh Government's policies on fair work and social partnership to ensure workers:

- are fairly rewarded, heard and represented
- can progress in a secure, healthy, and inclusive working environment
- have their rights respected

In return, businesses will benefit from being part of a special zone. This includes:

- simplified customs procedures
- relief on customs duties
- tax benefits
- development flexibility

Freeports are a partnership between active ports and their host local authorities. They include the designation of specific sites where businesses get these benefits within an "outer boundary" set at a maximum of 45km from the port.

An overview of Freeports is included as Appendix 2 of this report.

### Anglesey Freeport

The Council has worked alongside Stena Line to develop a single Freeport bid that builds on the Energy Island Programme ("EIP"), which represents an existing co-operation between public, private and third-sector stakeholders. The Freeport partnership will build on Anglesey's unique island geography, supporting growth of

## A –Recommendation/s and reason/s

trade through Holyhead port which is the second biggest Ro-Ro port in the UK behind Dover.

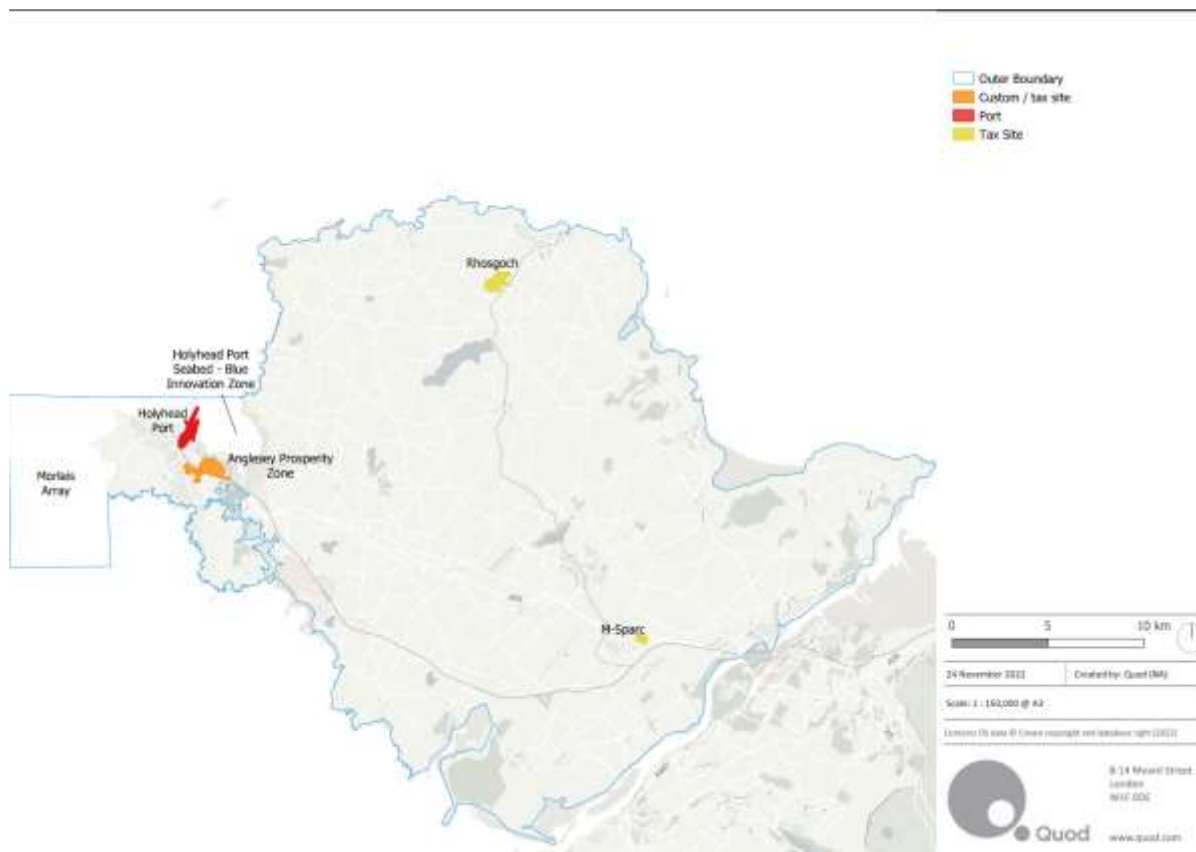
For Anglesey Freeport, IACC and Stena Lines are the only local authority and port operator. This significantly simplifies its governance structure compared with most of the other UK Freeports.

The outer boundary is the island as a whole.

At the bid stage, the specific sites which could benefit from different customs, tax and regulatory rules were:

- the Port of Holyhead
- Parc Cybi and the former Anglesey Aluminium site,
- M-Sparc (tax site only) and
- Rhosgoch (tax site only).

These are shown in the following figure:



During the setup phase, these sites will be reviewed against the published criteria and may need to be amended.

The bid outlines a strategy to catalyse investment and development around the port, redeveloping unused areas to allow them to reach full potential and increasing economic activity in the area. This includes capital-intensive investments that are

## A –Recommendation/s and reason/s

best placed to take advantage of the specific package of tax measures afforded by a Freeport, such as:

- The Morlais project – a Tidal Stream Energy array in the adjacent seabed
- Offshore wind power (e.g., Awel y Môr)
- Manufacturing (e.g., Westinghouse, Rolls Royce, Bechtel and NewCleo)
- Nuclear technology
- IT and data processing

Anglesey Freeport is crucial to realizing wider decarbonisation ambitions, with the revival of the land-bridge estimated to reduce CO2e emissions by 17.9% compared to the current (Dublin to Calais) route and key partners that are pioneers in tidal, wind, marine and nuclear power.

### **Next Steps**

UK and Welsh Governments published specific guidance on the Setup Phase for Welsh Freeports on [insert date]. This sets out what needs to be provided to the Governments in the OBC and FBC in order for the Freeport to become operational and for the various tax and customs benefits to be available to investors.

Subject to the development and approval of the OBC and FBC, the Anglesey Freeport will receive up to £26 million of Government funding, to be managed by the IACC as the Accountable Body. This is additional to the other policy benefits referenced earlier in this report. The £26 million consists of seed capital of £25 million and £1 million revenue contribution to the business case development. Funding is unlocked by presenting acceptable investment proposals to governments in line with HM Treasury Green Book. Some benefits are unlocked at the OBC and the remainder at the FBC stage.

The £25m of seed capital managed by the Council will be mainly deployed across the key sites for transport access, land remediation and enablement, and other key infrastructure projects. It is also possible that some of the seed capital funding is used for skills, innovation, and low carbon projects, which address Freeport related opportunities and challenges. The Council continues to assess the potential funding streams to understand the proposed level of investment available to support the process.

As the Accountable Body for the Anglesey Freeport, the IACC will have responsibility for overseeing the Freeport's administrative and financial affairs. It is a requirement to designate a local authority as the Accountable Body and a condition of government funding. As the Accountable Body, the IACC will be agreeing to be accountable to both UK and Welsh governments for a range of matters, likely to include:

- (1) Business Case development

## A –Recommendation/s and reason/s

- (2) Receiving and managing public funding on behalf of the Freeport, from the Welsh and UK Governments, in line with all relevant public sector duties, policies, and protocols
- (2) Ensure that such funding is used appropriately in accordance with the law, demonstrating value for money, and in accordance with all applicable grant conditions imposed by government.
- (3) Establish and maintain financial systems and robust audit trails to account for all public funding received and disbursed in line with the above.
- (4) Other financial matters relating to e.g. business rates retention, the use of public sector borrowing powers in advancing the Freeport programme and ensuring these are properly recorded and reported.
- (5) Management of risk, and ensuring that good governance is embedded in all decision-making arrangements.
- (6) The land use planning processes associated with Freeport operation to facilitate development at designated sites as well as, potentially, port environmental health matters
- (7) Matters of specific interest and concern to Welsh Government, including Environmental and employment standards as well as the Welsh language
- (8) Ongoing and final monitoring and evaluation of the programme as a whole

Additional capacity will be needed to support this role mainly in the Economic Development and in the financial and legal functions. In addition, there will be impacts on regulatory functions in due course as due to the anticipated role in planning as well as port-related environmental health.

There will also be a time commitment for senior officers required to participate in the governance structures. This report seeks authority to participate in the governance arrangements for the next phase of the project. To progress the proposals to the Outline Business Case stage, revised governance arrangements need to be established. These arrangements are set out in the Initial Collaboration Agreement (ICA) that will be signed by the two partners – Isle of Anglesey County Council and Stena Line. Authorisation for the Chief Executive to sign the MOU is a key decision requested in Part B of this report. Future governance arrangements for the operational phase will be subject to future reports.

To support its input to the process of developing the OBC, IACC has appointed an Interim Freeport Bid Director through the Regulation and Economic Development Service's Framework Agreement for economic issues. This will provide additional resource and expertise to support the Council through the process. Funding for this role is being made available by UK Government.

**A – Recommendation/s and reason/s**

**B – What other options did you consider and why did you reject them and/or opt for this option?**

That the County Council does not progress the Freeport bid. This is not considered to be a realistic option as it could adversely affect the Council's ambition to create jobs and opportunities in the local economy, as well as undermining credibility with both UK and Welsh Governments and generate negative publicity

**C – Why is this a decision for the Executive?**

The scale and strategic significance of the Freeport and IACC's role as the Accountable Body and associated risk management.

**Ch – Is this decision consistent with policy approved by the full Council?**

Yes. This aligns to the Council Plan Vision of "Creating an Anglesey that is healthy and prosperous where people can thrive" and the Economy Strategic Objective of "promoting opportunities to develop the Island's economy." It supports three of the four commitments:

- stimulating economic and community regeneration
- supporting the economy and local businesses to grow and prosper
- increasing and encouraging the development of low carbon projects

Under the "Regeneration and Economic Development" heading it will contribute to:

- ii. Working together with landowners to redevelop former industrial sites
- vi. Collaborate with key stakeholders and partners to strengthen the role of Holyhead and the Port as a key International 'Gateway'
- vii. Continue to work in partnership through the North Wales Economic Ambition Board to create new local and regional opportunities
- viii. Continue to capitalise on external funding opportunities to ensure that the Island's economic needs are addressed.
- ix. Maintain, retain and develop our key infrastructure

**D – Is this decision within the budget approved by the Council?**

Yes. The Council will receive additional funding to develop the business case.

**Dd – Assessing the potential impact (if relevant):**

1	How does this decision impact on our long term needs as an Island?	Areas of Holyhead suffer from deprivation and is amongst the highest in Wales. Securing Freeport status could deliver tangible improvements and benefit to the Town creating jobs and opportunities.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	It has the potential to prevent future costs/dependencies on the Authority by stimulating economic growth and prosperity in Holyhead and Anglesey.

Dd – Assessing the potential impact (if relevant):		
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom.	Yes – working with colleagues from UK Government and external organisations to the County Council such as Stena.
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	No – not yet.
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	We envisage that this has the potential to have potential positive impacts for all citizens through creating jobs and opportunities.
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	We envisage that this has the potential to have potential positive impacts for all citizens especially considering that Holyhead suffers from deprivation and a number of its residents are at a socioeconomic disadvantage.
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	

E – Who did you consult?		What did they say?
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	No comments
2	Finance / Section 151 (mandatory)	No comments
3	Legal / Monitoring Officer (mandatory)	No comments
4	Human Resources (HR)	
5	Property	
6	Information Communication Technology (ICT)	
7	Procurement	
8	Scrutiny	
9	Local Members	

F - Appendices:
Appendix 2 – Background on the Freeports programme



Ff - Background papers (please contact the author of the Report for any further information):

The October 2022 report is here:

<https://democracy.anglesey.gov.uk/documents/s19167/Holyhead%20Freeport%20Bid.pdf?LLL=0>

## **Appendix 2 – Background on Freeports**

### **Introduction**

Freeports are special areas within the UK's borders where different economic regulations apply. These sites have been carefully selected for their suitability for development by local authorities and key private partners and sit within an outer boundary, which represents the geographical location within which the benefits of Freeports are targeted and does not in itself confer any special tax, customs or other status. Freeports are a partnership between at least one port operator and local authority.

The Freeport Programme in Wales is designed to help to promote regeneration across local economies and communities, driving inclusive and sustainable growth locally, regionally and nationally. The Freeport is expected to contribute to enhancing Wales' ability to attract investment and new businesses, bringing growth and prosperity to some of our most deprived communities and supporting delivery of key economic growth commitments set out in the UK Government's Plan for Wales.

The Freeport programme is also aligned with wider policy objectives that aim to make Wales a more sustainable nation, improving social, economic and cultural well-being.

The Freeport Programme provides access to a mixture of financial incentives, based on good governance and supporting a strong partnership between local private and public sector stakeholders. It is intended to integrate with existing local strategies for skills, innovation and supply chains.

### **Customs Sites**

A Freeport customs site (also known as a 'free zone') is a secure, enclosed customs zone where some normal tax and customs rules don't apply. Freeports need at least one customs site in order to be considered operational.

Authorised businesses can import certain goods to a Freeport customs site with simplified customs documentation, and without paying tariffs.

Authorised businesses operating inside the Freeport customs site can store or manufacture goods, using imported goods. By doing this, they can add value before exporting them again and, where certain conditions are met, they won't need to pay import duties. Where goods are declared to free circulation (home use) in the UK, relevant duties must be paid before they are released from the customs site. Domestic goods can also be held in a customs site and used in any processing activity.

The customs sites offer the following benefits to businesses located within them:

- Access to duty suspension (ie no duty is paid on non-GB goods brought into a Freeport until they enter the GB market), duty exemption on re-exports (no import duty is paid) and flexibility on how duty is calculated (can use the lower of the value of inputs or finished products).

- It permits storage and processing activities in a Freeport customs site under one combined Freeport customs special procedure, instead of multiple authorisations
- Streamlining the processes for bringing goods into Freeport customs sites, as well as between customs sites, and exporting them
- Allowing the movement of goods between customs sites and into other special procedures to fit the needs of business.

To take advantage of these benefits, goods will normally need to be located in a Freeport customs site.

## Tax Sites

Each Freeport will have up to three designated tax sites. Tax sites are independent and separately authorised from Freeport customs sites, but they can cover the same area of land.

Eligible businesses in Freeport tax sites can benefit from a range of tax incentives. This includes enhanced capital allowances and employer National Insurance contributions for new employees. The Welsh Government proposes to offer a specific Land Transaction Tax (LTT) for Freeports in Wales, which will require legislation to be laid. Eligible new businesses moving into a Freeport tax site, and some existing businesses that expand, will also benefit from full Non-Domestic Rates Relief in Wales.

These tax reliefs are designed to encourage the maximum number of businesses to open, expand and invest in Freeports which in turn will boost employment.

The following table summarises the detail and timing of the benefits

<b>Tax Relief</b>	<b>Detail</b>	<b>Timing</b>
<b>Land Transaction Tax (LTT)</b>	Relief on relevant land transactions within tax sites (where that property is to be used for commercial activity)	Subject to confirmation (Legislation needs to be laid before the Senedd) but by way of example: UK Gov's equivalent relief was for up to five years
<b>Enhanced Structures and Buildings Allowance (SBA)</b>	Enhanced SBA rate for firms constructing or renovating structures and buildings for non-residential use within Freeport tax sites	Allows firms to reduce their taxable profits by 10% of the cost of investment every year for ten years (compared with the standard 3% p.a. over 33 1/3 years available nationwide)
<b>Enhanced Capital Allowances (ECA)</b>	Enhanced tax relief for companies investing in qualifying new plant and machinery assets	Firms can claim 100% of the qualifying expenditure against the profits from their qualifying activity for the accounting period in which it takes place
<b>Employer National Insurance Contributions (NICs)</b>	Employers operating in a Freeport tax site to pay 0% employer NICs on the salaries of any new employee spending 60% or more of their working hours in the Freeport tax site (this applying to the employer NICs element of the Health and Social Care Levy from its introduction in April 2023)	Applicable for up to three years per employee from the start of their employment on earnings up to a £25,000 per annum threshold available to February 2028 (with consideration of a further extension up to 2031)
<b>Non-Domestic Rates Relief (NDRR)</b>	Businesses may be eligible for up to 100% relief from non-domestic rates on certain properties and property improvements within designated tax sites	Up to five years from the point at which the beneficiary first receives relief Applications for relief must be received by 31 March 2028

## **Seed Capital**

Successful Freeports have the opportunity to access seed capital funding of up to £25 million – and a further £1 million is available for revenue funding. The amount accessed depends on the submission of the outline business case (OBC) and full business case (FBC), the quality of those business cases and the proposals strategic fit with the policy.

Business cases will be approved by the Freeport Programme board with joint representation from Welsh Government and UK Government. Any funding provided will be matched or part-matched by private sector investment, local authority borrowing and co-funding from other public bodies where relevant. When released the funding will be issued to the local authority within the Freeport governance body. They will be accountable to the Welsh Government for the expenditure and management of Freeport seed capital funding.

Seed capital must be spent within the outer boundary (ie within Anglesey) and is intended to be used for land assembly, site remediation, and internal small-scale transport infrastructure to connect sites within the Freeport to each other, the immediate surroundings, or other economic assets.

## **Business Rate Retention**

The local authority in which the Freeport tax sites are located will retain the non-domestic rates growth within the tax site boundaries above an agreed baseline. This will be guaranteed for 25 years, giving local authorities certainty that they need to borrow to invest in the regeneration and infrastructure which will support further growth. Retained receipts should be used to cover borrowing costs (where relevant); re-invest in the Freeport tax site to generate further growth; or offset expected effects of any displacement of local economic activity from deprived areas.