

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 29 April 2022

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: Report: No

Appendices are exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

KEY DECISION No

REPORT OF THE EXECUTIVE DIRECTOR OF CORPORATE SERVICES AND PORTFOLIO HOLDER FOR BUSINESS SUPPORT

LCR FREEPORT FULL BUSINESS CASE

1. PURPOSE OF REPORT

To update members on the LCR Freeport designation process and to agree the submission of an Full Business Case to Government.

2. RECOMMENDATIONS

2.1 It is recommended that the Liverpool City Region Combined Authority:

- (a) note the progress that has been made to date during the Freeport set-up phase;
- (b) note that draft LCR Freeport Full Business Case (FBC) has already been submitted to Government and that such submission is subject to endorsement of the FBC by this meeting of the Combined Authority;
- (c) consider and endorse the LCR Freeport FBC which is the next key milestone towards Freeport designation by Government ;for immediate submission to Government; and
- (d) note that feedback on the FBC is anticipated from Government by end August 2022.

3. BACKGROUND

- 3.1. In March 2021, the Chancellor announced that the Liverpool City Region Freeport bid had been selected to progress to the next stage of Freeport designation, along with seven others in England. The awarding of Freeport status by Government is subject to the completion and approval of a robust business case. The Full Business Case (FBC) forms the next stage of the Liverpool City Region application.
- 3.2. Freeports are a signature HM Treasury Policy and has the full support of Government departments and leadership. The implementation of the Freeport policy is funded by Government and expected to demonstrate several important post EU opportunities to support levelling up, increase global trade and investment, and further the regeneration of communities. Liverpool, as the country's leading transatlantic port, is a natural Freeport location. It handles 45% of trade from the US and is the UK's biggest western facing port.
- 3.3. Support for the Freeport locally is a statement of wider support for further collaboration and investment by Government in Freeport areas. The Freeports are expected to drive innovation and secure new investment in jobs and skills as well as support equality and low carbon agendas. The Freeport policy offers significant inward investment and regeneration opportunities for the City Region, securing Seed Capital Funding – at least £25m - that provides much needed investment in critical sites and supports a pipeline of projects.
- 3.4. The bidding process has brought together a consortium of partners, including the Combined Authority, its Constituent Local Authorities, the LEP, and its sector boards, Growth Platform, industry bodies, universities, further education colleges, infrastructure owners and operators, and the wider local business base. The LCR Freeport aims to support local economic development in a number of ways, including:
 - Leveraging the strategic location of the Port of Liverpool and other City Region gateways.
 - Developing a globally significant cluster of port, manufacturing, logistics and innovation activity across LCR.
 - Being a key tool in attracting a critical mass of inward investment to the City Region.
 - Regenerating areas of deprivation.
 - Enabling sustainable job creation through targeting good quality jobs, in line with the LCR Fair Employment Charter and continual assessment of skills requirements.
 - Supporting key manufacturing supply chains across the Liverpool City Region to safeguard jobs and incentivise future investment.
 - Helping to rebalance UK freight and logistics in favour of the North West.
 - Improving links to national, regional, and City Regional infrastructure assets.
 - Supporting national and local ambitions for Net Zero.
- 3.5. The Freeport tax and customs sites, which include several existing rail terminals and water-accessible locations, are located within areas of logistics and manufacturing capability. This multi-gateway, multi-modal characteristic, is a key distinctive feature of the Freeport.

- 3.6 There are three tax sites that will provide a range of benefits and are designed to attract new business operations and generate additional, added value investment. These are:
- *Parkside*: the largest strategic employment site in the City Region. It is located in St Helens close to the M6 and M62. The site includes the former Parkside Colliery. It will attract advanced manufacturing and logistics businesses.
 - *3MG Widnes*: offers direct connections to the UK motorway network and rail access from the West Coast Main Line. 3MG is already involved in the Hydrogen economy supporting capital investment in low carbon fuels and infrastructure.
 - *Wirral Waters*: located around the Birkenhead Docks, it has port connectivity, direct access to the M53 motorway and is located within the Mersey Waters Enterprise Zone. It comprises significant areas of dockside land capable of attracting a range of port-centric businesses, advanced manufacturing, innovation and research and development activities.
- 3.7 The customs sites range across a number of industries that can benefit, from advanced manufacturing and biomanufacturing, to logistics and ports. These sites are undergoing an approval process with Government/HMRC as part of the development of the business case.
- 3.8 A Freeport Management Board met formally for the first time earlier in April 2022, made up of public, private, and academic partners, which will make key decisions and provide the strategic steer required for effective delivery. There is also a wider governance structure behind this that includes an Operational Group which may in time be supported by thematic sub-groups across areas such as net zero, innovation, skills, regeneration, and inclusion and diversity.
- 3.9 A Freeport Management Team will be responsible for the operations and meeting of the LCR Freeport objectives. The roles were set out in the Outline Business Case, and a Freeport Director (John Lucy) has been in post since November 2021.
- 3.10 The Business Case work has been ongoing since June for the Outline Business case and continues with the Full Business Case. External consultants continue to support the Combined Authority in its development, following an open procurement process.
- 3.11 The Combined Authority was successful in its submission and completion of the Outline Business Case, with feedback being received earlier this year.
- 3.12 Government's guidance on the development of the FBC instructs that the key focus needs to be on:
- Strategic vision and critical success factors.
 - Holistic articulation of the Freeport.
 - Assessment of the tax sites and how they meet Government Freeport objectives.
 - Collaborative, iterative approaches.

3.13 The FBC is based on the five cases model as set out by HM Treasury. Specific requirements across each of the cases are set out below.

Strategic Case

- The rationale for the Freeport and vision.
- Key sectors being targeted that will provide added value economic activity.
- Key activities, proposed investment strategy and setting out related project pipelines.
- What the key outputs and outcomes will be.
- Strategy for supporting the drive to Net Zero.

Economic Case

- Value for money appraisal.
- Different scenarios around how Government's Freeport seed capital funding would be used.
- Wider economic impacts – economic, social, environmental – across the wider City Region.
- Setting out key risks.

Financial Case

- Reviewing estimated financial resources and budgets around how we will deliver: costs, different types of funding, complementary investments, and different revenue streams.
- Setting out the financial risks.

Commercial Case

- Key components around the tax site management so that they deliver on the Freeport objectives (e.g. attracting investment from target sectors, new additional economic activity rather than displacing it, attracting firms that will bring high value employment).

Management Case

- Freeport governance structure.
- Structure of the Freeport Management Team.
- Stakeholder management arrangements.
- How long-term sustainable capacity and capability will be built into the partnership.
- Risk management strategy and agreements for security.

3.14 To support the FBC's development, a collaborative approach has been undertaken with the Freeport partnership and all key stakeholders. This has involved the development of a Technical Steering Group including local authority, private sector, academic, and union partners; a customs operator group; business stakeholder events; and regular updates and input from local authority CEX's.

3.15 There has been regular dialogue with Government (with Department of Levelling Up, Housing and Communities (DLUHC) being the lead department), ensuring that the Full Business Case is delivered to their expectations and requirements. Given the complexity and highly multi-faceted nature of Freeports, there are also ongoing conversations with a range of other Government departments and agencies, including BEIS, Highways England, Planning Advisory Service, and DIT.

- 3.16 A draft FBC was submitted on the 14 April 2022, in order to meet Government's initial deadline. However, Government officials are aware that the version they received is a draft, subject to sign-off at the Combined Authority meeting (29 April 2022).
- 3.17 Government will review the FBC content and, assuming it meets requirements, progress has begun to move Freeports from a concept to a reality.
- 3.18 Now that the FBC is developed, and once this approved by Government this means that Freeport designation process is complete, It is anticipated that Freeport operations would begin by Autumn 2022.

4. RESOURCE IMPLICATIONS

4.1. Financial

Successful Freeport designation will open up further funding for the Combined Authority, as the accountable body, to allocate. This includes £25 million (or potentially more, as set out in an 'extended' case) of dedicated Freeport capital seed funding from Government which will be used to enhance the pace of delivery across the Freeport, and to unlock further public and private sector investment. This will be mainly deployed across key sites for priorities that are primarily focused on transport access, land remediation and enablement, and other key infrastructure projects. It is also envisaged that some of the seed capital funding is used for skills, innovation, and low carbon projects, which address Freeport related opportunities and challenges across the City Region.

There is also revenue funded support from MHCLG of circa £300,000 per annum for all Freeports, to be used primarily for direct salaries of the Freeport Management Team, consultancy and research fees, and for marketing and promotion. This amount has been received for Year 1, and it is expected that this support will continue up to year 4.

The Government funding during the initial 3-4 year period is expected to provide for the majority of costs, although there may potentially be further costs that require drawing on more resources across the partnership.

4.2. Human Resources

The Freeport Management Team will continue to recruit capacity to deliver the operational and strategic outcomes of the Freeport. A phased recruitment process for this has already begun. There are no direct implications for existing staff, although the Freeport will become part of the City Region's economic development landscape, and therefore multi-disciplinary support is to be built into work programmes.

4.3. Physical Assets

Some of the Constituent Councils directly or part own Freeport sites. The Freeport will accelerate development of a number of the sites.

5. LEGAL IMPLICATIONS

A Freeport Partnership Agreement is being developed as part of the business case development. Legal advice is being provided as to how this is set out, and how the Freeport structure develops over time.

6. RISKS AND MITIGATION

A full risk register is contained with the FBC which provides details on the risks and the mitigation measures. Some of the key risks include:

- *Reputational risk should the Full Business Case not be submitted within the agreed Government timeframes.* The Freeport agenda is a flagship policy for Government, and needs to be developed at pace. Should there be delays, this may erode Government confidence in Combined Authority ability to deliver, together with loss credibility from the local business base.
- *Insufficient deployment of financial and human resources to deliver the LCR Freeport objectives effectively.* The FBC will set out what resources are required to deliver, and develop agreement across the partnership as to how the operations will be delivered. Government's £300,000 per annum revenue funding also supports this process and will cover the majority of costs in the first 3-4 years.
- *Legislative changes impacting on the activity of the Freeport operations or the structure of any future arrangements.* The FBC will consider all legal aspects, and there will be ongoing legal advice to the Freeport Board.
- *Environmental impacts due to increased congestion, particularly on key trunk roads.* There will be an appraisal of environmental considerations, and the Freeport's themselves provide the opportunity to contribute to Net Zero objectives through providing the space to test new low carbon technologies that in particular, support movement of goods in a more efficient and clean manner. The Freeport agenda will also connect into the ongoing State of Freight workstream.
- *Potential displacement impacts on other local economic activity, due to the presence of tax sites and the benefits to businesses they provide.* Strong Freeport governance and management arrangements will seek to ensure control and discretion when it comes to associated funds and support for relocating businesses, with additional, added value activity being part of the core criteria. This links to a key broader point, in that an LCR Freeport will be carefully designed to ensure benefits flow across the City Region and will not negatively impact existing opportunities. It will target activities that are

complementary to, rather than duplicating what already exists. Furthermore, there are proposed 'Gateway Policies' for each tax site which sets out how they will work to meet agreed LCR Freeport policy objectives.

7. EQUALITY AND DIVERSITY IMPLICATIONS

A draft LCR Freeport Equality and Diversity Statement has been prepared. This is an important consideration, in ensuring that representation across the governance structure reflects the diverse communities, groups, and needs of our 1.6 million residents.

8. PRIVACY IMPLICATIONS

There are no personal data implications as part of this project.

9. COMMUNICATION ISSUES

There has been continuous consultation with stakeholders throughout the process, ranging from Constituent Councils, Freeport tax and custom site operators, wider business engagement, and with university partners. A dedicated marketing and communications work programme is also being undertaken alongside this.

10. CONCLUSION

The FBC is an important next step in the LCR Freeport set-up phase. It clearly sets out the array of benefits that the Freeport can provide to the City Region, including good jobs, inward investment, dedicated Government funding, and the ability to leverage future investment streams. It also fully articulates the costs, how it will operate and be governed through robust mechanisms and arrangements. Through working in a consultative way with partners and stakeholders, a strong and distinctive model is being developed, shaped, and honed, that will maximise the opportunity for LCR.

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Appendices:

Appendix One - LCR Freeport Full Business Case (exempted)

Background documents:

None