



AGENDA

Solent Freeport Consortium Limited (SFCL)
Finance, Audit and Resources Committee (FRAC)
Meeting to be held on Tuesday 20 September 2022 – 14:00 to 15:00

Item	Title	Time
1.	Introductions and apologies for absence	14:00 – 14:05
2.	Notes of the last meeting on 22 June 2022, matters arising and declarations of interest	
3.	Implementation Plan review and status update to include review of HM Government draft MOU	14:05 – 10:25
4.	Finance update to include <ul style="list-style-type: none">- 2022/23 budget- Financial forecasts to 2024/25- Risk management framework	14:25 – 14:55
5.	Any Other Business <ul style="list-style-type: none">- Date of next meeting is to be advised	14:55 – 15:00

20.9.2022

Item 2

Notes of 22nd June 2022 Meeting

Solent Freeport Consortium Ltd (SFCL) Finance, Resources and Audit Committee (FRAC) Meeting Note

Date: 22 June 2022
Time: 10:00 - 11:00
Venue: MS Teams

Present	In attendance
Anne-Marie Mountifield - Senior Responsible Officer	Nicola Twiddy - LEP Executive
Derek Pretty - Eastleigh Borough Council	
Edward Heron - NFDC - FRAC Chair	
James Fitzgerald - Accountable Body	
Richard Parkinson - Solent Gateway	
Alan Bethune - New Forest District Council	
Apologies	
Malcolm Coe - Havant Borough Council	

Agenda Item	Notes	Action
1.	<p>Introductions and apologies for Absence Edward Heron welcomed all to the Solent Freeport Consortium Ltd (SFCL) Finance, Resources and Audit Committee (FRAC) meeting.</p> <p>An update was provided to advise that the freeport website has been updated with additionality functionality and meeting papers will be published on the SFCL website going forward, noting that confidential items will need to be made available via huddle.</p> <p>Apologies were received from Malcolm Coe, Alan Bethune attended to represent the S151 Group.</p>	Executive
2.	<p>Notes of the last meeting on 18 March 2022, matters arising and declarations of interest</p> <p>The notes of the meeting on 18 March 2022 were agreed.</p> <p><u>Matters Arising</u> Page 1 - Item 2 - SFCL insurance paperwork will be recirculated to the Board. (Post meeting note - SFCL insurance paperwork was emailed to the Board on 17 January 2022, no further action required) Page 2 - Item 3 - Seed Capital Funding - will be reviewed during this meeting. National MOU - a 2nd draft is expected by the end of the month which will be reviewed alongside a local MOU / agreement. This item will be added to the strategic risk register and reviewed at the July Board meeting.</p>	Executive/AB

	<p><u>Declarations of Interest</u> There were no Declarations of Interest to note.</p>	
<p>3.</p>	<p>Implementation Plan review and status update The papers was taken as read.</p> <p>The critical actions were received yesterday, and areas of work are noted as:</p> <ul style="list-style-type: none"> • The proposition for Navigator Quarter will need to be resubmitted and work on this is already underway with the aim to have the new maps and supporting rational finalised next week. It is hoped the SSA will be signed this week. • Custom site and security feedback • The need to bring together an investment plan for retained rates to be completed this calendar year. The Executive will look to set up investment group to take this forward. <p>The Chair pass on his thanks to Anne-Marie Mountifield and the Executive Team for getting the SFCL this far.</p> <p>SFCL Board need to be mindful of the potential re-evaluation of national Freeport Policy, which was noted by FRAC and will be added to the Risk Register for future monitoring.</p> <p><u>Custom Site at Solent Gateway</u> - the approval letter is awaited, and the programme of construction work will need to be included in the FBC.</p> <p><u>Seed Capital Funding</u> Following prior Board approval, these actions are being taken forward:</p> <ol style="list-style-type: none"> 1. A letter to the 7 scheme leads that are going on site this year or next year to advise their FBC/OBC is required. 2. A wider letter to the project pipeline to ask those scheme leads that are going on site in 2023/2024 for an OBC or if going on site later for a strategic outline by September 2022. <p>FRAC discussed if there should be a new call for projects and advised that it would be best to wait until the FBC had been sign off before issuing a further call. FRAC requested that some early thinking should start in the background and that this should be brought back to FRAC at their September meeting.</p> <p>The HM Government June 2022 Status Report has been confirmed as final and the Implementation Plan will be updated with details and dates from the critical actions.</p> <p>Finance, Resources and Audit Committee Members:</p> <ul style="list-style-type: none"> • Noted the proposed changes to the tax site map for the Navigator Quarter in Annexe A; and • Noted the FBC update and implementation plan in Annexe B; and • Noted the HMG Freeport lead draft status draft report for June 2022, in Annexe C • Noted the critical actions have been received and discussed. 	<p>Executive</p> <p>Executive</p> <p>Executive</p> <p>Executive</p> <p>Executive</p> <p>Executive</p> <p>Executive/KPMG</p>

<p>4.</p>	<p>Finance Update The Finance Paper was taken as read and a summary of the paper was provided.</p> <p>An update on the spend to date and 3-year budget was provided.</p> <p>Finance, Resources and Audit Committee Members:</p> <ul style="list-style-type: none"> • Endorsed the revised budget for 2022/23 of £941,957 as set out in Appendix A and the forecast budgets for the period between 2023/24 and 2025/26 as set out in Appendix B and Recommend them for approval by the Solent Freeport Consortium Limited (SFCL) Board on 14 July 2022. • Agreed the advice to drawdown the remaining Government set up funding of £550,000 • Considered the corporate and strategic risk register attached at appendix C and provided feedback and Recommended it for approval by the SFCL Board on 14 July 2022 • Considered the retained rates risk register attached at appendix D, provide any feedback and Recommended it for approval by the SFCL Board on 14 July 2022 • Noted the reserves policy attached at appendix E, provided Advice and Recommended it for approval by the SFCL Board on 14 July 2022 • Noted the update regarding the SEED capital funding programme as set out in paragraph 8 of the paper. • Considered Associate Member Contributions from all landowners within the tax sites are now requested and Recommended it for approval by the SFCL Board on 14 July 2022. 	<p>SFCL Board</p> <p>Executive / AB</p> <p>SFCL Board</p> <p>SFCL Board</p> <p>SFCL Board</p> <p>SFCL Board</p>
<p>5.</p>	<p>Any Other Business and date of next meeting The date of the next meeting is Tuesday 20 September 2022 with a view to holding it as a face-to-face meeting at NFDC.</p> <p>There was no further business, so the meeting was closed.</p>	<p>Executive</p>

Meeting closed at 10:50

20.9.2022

Item 3

Implementation Plan Review and Status Update

Item: 3
Title: Status report
Date: 20 September 2022
Purpose: For information and discussion

1. Draft resolution

Committee members are asked to:

- **Note** the FBC update and implementation plan in Annexe A; and
- **Note** the HMG Freeport lead draft status draft report for June 2022, in Annexe B; and
- **Consider** the v.2 draft HM Government MOU in Annexe C

2. Summary

Since the last meeting of the FRAC in June 2022 work has continued as per the implementation plan for the Solent Freeport and now reflects the achievement of key milestones including:

- Formal submission of the response to the critical actions on FBC on 29 July 2022; and
- Final response to the assessment of the critical actions on 6 September 2022
- As previously advised, HM Treasury have confirmed that all three tax sites are able to progress to designation and the revisions to the tax site map for the Navigator quarter and the outstanding site-specific-agreement before the designation has been completed; and
- The maps for the other two tax sites (Southampton Water and Dunsbury Park) have been published and been designated with effect from 22 March 2022 – see <https://www.gov.uk/government/publications/maps-of-solent-freeport-tax-sites>
- The map for the first custom site for Marchwood Port at Solent Gateway as also been published – see <https://www.gov.uk/government/publications/map-of-solent-freeport-customs-site> It should be noted that it has now been confirmed that the customs site has been approved and has been designated in legislation.
- An indicative SEED Capital allocation of £25 million has been confirmed, and responses to the call for full business cases for the SEED capital projects have been received as of 2 September 2022. Due diligence is now underway with an intention to report initial outcomes at the board meeting on 12 October 2022.

3. FBC update and Implementation Plan

The Government's assessment of the FBC is complete and we received a request to submit further information in response to clarification questions, and we have been advised on timelines as follows:

- FBC approval – early October 2022

- Tax site designation for the Navigator Quarter - Autumn 2022

We will revise the implementation plan (as attached in Annexe A) to take account of the new timelines for the NQ designation as well as revised timelines for final approval of the FBC and SEED capital confirmations.

Committee members are asked to:

- **Review** the implementation plan and provide any advice on it ahead of providing an updated plan to the board for their meeting in October 2022

4. HM GOVERNMENT MONTHLY DRAFT STATUS REPORT – June 2022

HM Government as part of their ongoing monitoring and evaluation process continue to complete a monthly status report for each Freeport and at the last meeting, we included the June 2022 report. This is reattached in Annexe B. Committee members will note that the RAG rating for Solent remains green and this is expected to remain the same reflecting the submission and assessment of the FBC and approval of the custom site. It is anticipated that DLUHC will reintroduce the monthly status report moving forward

Committee members are asked to:

- **Note** the HMG Freeport lead status draft report in Annexe B

5. HM GOVERNMENT MOU

As previously advised, following the approval of our FBC, the Government will agree an MoU or MoUs with SFCL partners covering:

- The role and responsibilities of the accountable body; and
- The role and responsibilities of the Freeport Governing Body; and
- The planned use of retained business rates by the Freeport.

The MoU is intended to formalise the Government's expectations that the Freeport Governing Body delivers the Freeport proposition as articulated in the FBC. An initial draft of the document was circulated to freeports in May and following feedback an updated version has been produced and is attached in Annexe C.

It is recognised that commercial and strategic contexts may change, and plans may need to evolve accordingly. There is an intention to include provision for Freeports and the Government to agree amendments to the MoU as needed. This and other considerations will be discussed at the meeting.

Committee members are asked to:

- **Consider** the MOU in Annexe C and provide advice and comments on the document to the Executive, Accountable Body and the Board.

Annexe A – Freeport Implementation Plan

A confidential report will be considered at the meeting

Annexe B – Freeport Status Report

A confidential report will be considered at the meeting

Annex C – Draft Freeport MoU

A confidential report will be considered at the meeting

20.9.2022

Item 4

Finance Update

Item: 4
Title: Finance and Resources Update
Date: 20 September 2022
Purpose: For Information, Advice and Decision

Confidential information has been removed from this report.

Information defined as exempt in Part 1 of Schedule 12A to the Local Government Act 1972 has been removed from this report including:

- information relating to an individual, and/or;
- relating to the financial or business affairs of a particular person.

1. Introduction

- 1.1 This report provides the Finance, Audit and Resources Committee (FRAC) with the latest position of the Solent Freeport budget including the actual expenditure to 31 August 2022 alongside the revised forecast to the end of the current financial year and a forecast budget for the period 2023/24 to 2025/26.
- 1.2 It includes the latest versions of the retained rates and the corporate and strategic risk registers and sets any emerging financial issues and recommends action where appropriate to manage these areas for members of FRAC to consider, comment on and provide advice to the Board accordingly.
- 1.3 The report also provides an update regarding the SEED capital business case call which closed on 2 September 2022.

2. Recommendations

- 2.1 It is recommended that the FRAC:
- Endorse** the revised budget for 2022/23 of £1,141,947 as set out in Appendix A and the forecast budgets for the period between 2023/24 and 2025/26 as set out in Appendix B and **Recommend** them for approval by the Solent Freeport Consortium Limited (SFCL) Board on 12 October 2022.
 - Note** the additional costs arising in the current financial year and the associated funding sources set out in paragraph 3 below and **Recommend** them for approval by the SFCL Board on 12 October 2022
 - Note** the requirement to begin to forecast the costs of collection, accounting and administration of the retained rates and **Recommend** that the Board agrees to factor these costs into the budget going forward.

- (iv) **Consider** the corporate and strategic risk register attached at appendix C, provide any feedback and **Recommend** it for approval by the SFCL Board on 12 October 2022
- (v) **Consider** the retained rates risk register attached at appendix D, provide any feedback and **Recommend** it for approval by the SFCL Board on 12 October 2022
- (vi) **Note** the update regarding the SEED capital funding programme as set out in paragraph 8

3. Current Year Budget Status

- 3.1 The budget for the current financial year showing the actual expenditure to 31 August 2022 and the forecast to 31 March 2023 is attached at appendix A.

This budget includes the impact of the previous decisions made at previous meeting of the FRAC and Board and is based on the best-known assumptions regarding the resourcing requirements of the Solent Freeport now that it is moving towards the delivery stage.

There are a range of changes to the previously approved budget to reflect recent activity and agreements by the Board as follows:

Independent Non-Executive Director recruitment

Subject to HMG agreeing to increasing the Board size, the Board agreed to recruit four Independent Non-Executive Director Roles to head up the four key sub-committees of the Freeport as follows:

- Deputy Chair and Operations and Delivery Group Chair (DepC&D)
- Remuneration, Employment and Nominations Committee Chair (RENCOM)
- Finance, Resources and Audit Committee Chair (FRAC)
- Retained Rates Investment Committee Chair. (RRIC)

At their meeting on 12 August RENCOM considered updated job roles and agreed to appoint Berwick Partners to carry out the executive search process and it was also agreed that the roles would be advertised under a paid or voluntary basis with a payment of up to £6,000 per annum should the successful candidates wish to take remuneration.

On this basis budget provision has been provided for the initial recruitment costs and NED remuneration assuming all posts will be filled by 1 January 2023 and all take paid roles. The full year effect of this has been added to future years budgets.

Once the recruitment process has been concluded and confirmation from the successful candidates has been received regarding remuneration, the budgets will be adjusted as necessary.

Legal Costs

When reviewing the activity under this budget heading the initial budget set was too low because as well as the retainer paid to Paris Smith for the company secretary role there has also been a need to access other legal support for specialist advice such as subsidy control and completion of site-specific agreements.

In order to accommodate this the budget has been increased from £8,000 to £20,000.

Consultancy Fees.

The increases in consultancy fees agreed by the Board at their last meeting for the work to address the critical actions raised by HMG to reach an approved FBC are reflected in the updated budgets and at present it is expected that the current budget provision is sufficient. It is however prudent to remind members of FRAC that HMG do require further work on the development of a retained rates investment

plan which needs to be completed by December 2023. The Retained Rates Investment Committee (RRIC) will shortly be convening to consider this commission which will place further pressure on this budget and there will also be further work required to reach a final signed retained rates MoU.

In addition to consultancy support to deliver the FBC it has been necessary to appoint consultants to provide the required independent due diligence work on the SEED capital business cases that were returned by the 2 September deadline.

The executive have commissioned KPMG through an approved Accountable Body procurement route and an update on the cost of carrying out this work will be provided at the meeting.

Finally, Solent Freeport has agreed to be the Diamond Sponsor of the inaugural Maritime UK Solent Awards 2022 at a cost of £20,000. This is a high-profile event celebrating the achievements of the Solent's maritime sector and as such, provides a timely opportunity to promote awareness of Solent Freeport, its role in supporting economic regeneration, and its role in further strengthening the Solent's world-leading maritime economy. The package provides for a 5-minute welcome address at the event and a VIP table of 10, and a whole range of media and promotional opportunities.

Other

The recruitment of the Chief Executive role is continuing however it is now more likely that the post will be filled in early 2023 (depending on any notice period of the successful candidate). Any savings resulting from this delay are likely to mean that there will be additional costs incurred in terms of the executive support from the LEP. Budgets will be adjusted accordingly once the Chief Executive recruitment is concluded, and a start date is known. It is not expected that there will be an overspend across the two budget headings.

Overall the additional costs for the above can be funded from the following sources:

- Existing consultant budget for commissions other than the FBC work - £30,000
- Member contributions
- Other Contributions

The balance from the as yet unallocated funding from the Other Contributions has been added to the contingency budget to provide additional headroom for any other unknown costs and if this is not required in the current financial year it will be rolled forward to future years for allocation as necessary.

4. Future Years Budgets

4.1 The latest forecast budget for the following three years is attached at appendix B which builds upon the assumptions for the current year, allows for the ongoing effects of the increases in the current financial year and demonstrates where the executive support begins to reduce and is replaced by direct staffing accepting that there will be fluidity between these budget lines as the Freeport begins to deliver.

As noted above one of the first tasks for the new Chief Executive will be to put in place a range of resources to ensure that capacity is in place to deliver on the operational commitments of the Freeport including the delivery of the SEED capital investment programme, reporting requirements to HM Government, monitoring of SSA's and the production of annual delivery plan.

Initial budget provision has been included within the financial forecasts and the staffing requirements for the delivery stage will continue to be reviewed at RENCOC and FRAC in order to provide advice to the Board on the nature and mix of the resourcing required and the associated financial implications.

It should be noted however that the transition to this resourcing model will not take effect until such time as the Full Business Case is approved by Government, that there is confirmation of the availability of the remaining capacity funding and the Solent Freeport entering the delivery phase which at present is assumed to be early Autumn 2022.

- 4.2 Based on these current assumptions there remains a balanced, fully funded budget up to 31 March 2026 as set out at appendix B which has been achieved by using Board member contributions, HMG capacity funding and the use of retained business rate growth as agreed in the MoU.
- 4.3 As the MoU includes provision for the rating authorities to request funding from the retained rates pool to cover any reasonable new responsibilities for the cost of collection, accounting and administration of the retained rates, the Accountable Body, working with the RRIC and FRAC, will start incorporating some provision within the financial forecasts for these activities.

5. Capacity funding update

At their last meeting, the Board agreed that the Accountable Body should contact DLUCH to request the next tranche of capacity funding.

Further to this DLUCH have sent out the funding application form which has been completed and returned requesting the £300,000 as set out in the FBC which should be received in the coming weeks.

Once received the Solent Freeport will have drawn down £750,000 of the £1m set aside for each Freeport with the balance to be drawn down in the following financial year.

6. Corporate and Strategic Risk Register

Post the incorporation of Solent Freeport Consortium Limited (SFCL), the Board has developed a corporate and strategic risk register which is regularly reviewed.

This committee is required to review the risk management framework of SFCL and provide advice to the Board on any emerging risks or high-risk areas. An updated corporate and strategic risk register is therefore provided in Appendix C, and it includes a RAG status for each risk and a trend analysis.

7. Retained Rates - Risk Register

As has been previously reported it is estimated that over the 25 life of the Freeport a significant level of retained rates will be available for the Freeport to direct to projects that meet the objectives of the Freeport. As a result of this and working with the s151 Officers of each of the four rating authorities the Accountable Body has produced a risk register which is attached at appendix D for the FRAC to review and provide advice to the Board accordingly.

8. SEED Capital funding

The deadline for the submission of either outline or full business cases from SEED capital and wider pipeline applicants was 2 September.

These are currently in the process of being reviewed internally and sent for independent external due diligence checks with the outcomes being reported to the board at its meeting on 12 October 2022.

A verbal update will be provided at the meeting.

9. Summary

There is a balanced budget for the Freeport out to the end of the 2025/26 financial year as set out in appendix B which reflects the latest known information, and this will continue to be reviewed and reported back to both the Finance, Resources and Audit Committee and the main SFCL Board.

At present, the requirement from the retained rates to contribute to the operating costs of the Freeport is forecast to be in the range of £1.5m to £1.75m and this should be at the lower end if HM Government confirm that the remaining £250,000 of capacity funding can be drawn down and that the rating authorities provide funding for the 2023/24 financial year at the same level as the two previous years. This would decrease further if there were additional contributions in 2023/24.

It is always preferable to investigate alternative funding sources to ensure that the maximum amount of rates remain available to fund investment priorities within the Freeport geography.

As previously reported to the Board the Accountable Body will continue to guarantee to underwrite any cash flow issues all the time the company can be judged to be a going concern which means that the financial position of the Freeport remains strong as it approaches the delivery phase.

SOLENT FREEPORT BUDGET 2022/23

Activity	Full Year Budget 2022/23*	Expenditure to 31 August 2022	Full Year Forecast and Proposed Revised Budget	Full Year Variance as at 31 March 23 Over / (Underspend)
	£	£	£	£
Direct Staffing including Board remuneration	75,000	0	75,000	0
Recruitment Costs	23,000	13,055	59,000	36,000
Executive Support	306,000	126,782	306,000	0
Accountable Body Support	62,000	20,706	62,000	0
Legal support	8,000	13,112	20,000	12,000
Marketing & Communication costs	15,000	37,214	50,000	35,000
Commissions (including the OBC and FBC)	360,000	309,622	360,000	0
Commissions (Post Designation)	30,000	0	67,000	37,000
Other Operational costs	20,000	0	20,000	0
Contingency / Reserves	42,947	0	122,947	80,000
Totals	941,947	520,490	1,141,947	200,000

Funded By:	2022/23
	£
CLGU Freeport Set Up Revenue Funding - received	241,947
<i>CLGU Freeport Set Up Revenue Funding - formally requested</i>	<i>300,000</i>
ABP	50,000
Southampton Airport	50,000
Solent Gateways	50,000
Hampshire County Council	50,000
Portsmouth City Council	50,000
New Forest District Council	50,000
Eastleigh Borough Council	50,000
Havant Borough Council	50,000
Southampton City Council	50,000
<i>Other Contributions</i>	<i>150,000</i>
Totals	1,141,947
Operational (Surplus) / Deficit	0

SOLENT FREEPORT - BUDGET FORECAST TO 2025/26

Activity	Actual 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Total Budget
	£	£	£	£	£	£
Direct Staffing including Board remuneration	0	75,000	250,000	300,000	320,000	945,000
Recruitment Costs	12,650	59,000	0	0	0	71,650
Executive Support	198,593	306,000	217,000	197,000	180,000	1,098,593
Accountable Body Support	41,675	62,000	65,000	65,000	65,000	298,675
Legal Support	27,538	20,000	20,000	20,000	20,000	107,538
Marketing and communications	33,542	50,000	40,000	50,000	50,000	223,542
Commissions (Freeport Bid, OBC and FBC)	394,055	360,000	0	0	0	754,055
Commissions (Post Designation)	0	67,000	60,000	50,000	50,000	227,000
Other Operational costs	0	20,000	20,000	20,000	20,000	80,000
Contingency	0	122,947	35,000	35,000	35,000	227,947
Totals	708,053	1,141,947	707,000	737,000	740,000	4,034,000

Funding Summary	Actual 2021/22	Budget 2022/23	Budget 2023/24	Budget 2024/25	Budget 2025/26	Total Budget
	£	£	£	£	£	£
CLGU Freeport Set Up Revenue Funding - received	208,053	241,947	0	0	0	450,000
<i>CLGU Freeport Set Up Revenue Funding - to be requested</i>		300,000	250,000	0	0	550,000
ABP	50,000	50,000	50,000	tbc	tbc	150,000
DP World	50,000					50,000
Southampton Airport		50,000	50,000	tbc	tbc	100,000
Solent Gateways	50,000	50,000	50,000	tbc	tbc	150,000
Hampshire County Council	50,000	50,000	50,000	tbc	tbc	150,000
Portsmouth City Council	50,000	50,000	50,000	tbc	tbc	150,000
New Forest District Council	50,000	50,000	tbc	tbc	tbc	100,000
Eastleigh Borough Council	50,000	50,000	tbc	tbc	tbc	100,000
Havant Borough Council	50,000	50,000	tbc	tbc	tbc	100,000
Southampton City Council	50,000	50,000	tbc	tbc	tbc	100,000
Solent LEP	50,000	0	0	0	0	50,000
<i>LA contributions to be confirmed</i>			200,000	0	0	200,000
<i>Other Contributions</i>		150,000	tbc			150,000
Retained Business Rates Growth (see current forecast below)			7,000	737,000	740,000	1,484,000
Totals	708,053	1,141,947	707,000	737,000	740,000	4,034,000

Operational (Surplus) / Deficit	(0)	0	0	0	0	(0)
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	2022/23	2023/24	2024/25	2025/26	Total
Current Business Rates Forecast	0	1,100,000	2,800,000	6,500,000	10,400,000

APPENDIX C

Corporate and Strategic Risk Register

A confidential report will be considered at the meeting

APPENDIX D

Retained Rates Risk Register

A confidential report will be considered at the meeting