AGENDA

Solent Freeport Consortium Limited Exceptional Meeting
to be held virtually on
Monday 13 March 2023 –17:00 to 18:00

Item	Title	Time
1.	Introductions, welcome and apologies for absence	17:00 – 17:05
	Items for Decision	
2.	Retained Rates Investment Plan update and report from Retained Rates Investment Committee (RRIC)	17:05 – 17:30
3.	Solent Freeport Update to include: • General progress update and consideration of MOU schedule 2 delivery milestones and resourcing requirements	17:30 – 17:55
	Items for Note	
4.	Any other business and date of next meeting • Date of next meeting – Wednesday 26 April 2023 16:00 to 18:00	17:55 – 18:00

13.3.2023

Item 2

Retained Rates Investment Plan update

Item: 2

Title: **Update on Retained Rates Investment Plan**

Date: **13 February 2023**

Purpose: **For information and consideration**

1. Draft resolution

Board members are asked to:

- **Note** this update, and
- **Agree** the draft Retained Rates Investment Committee Terms of Reference in Annexe A for adoption, and
- **Note** that the Retained Rates Investment Committee have recommended the updated Retained Rates Investment Plan to the Solent Freeport Board, and
- **Agree** the first version of the Retained Rates Investment Plan in Annexe B for submission to DLUHC.

2. Background

The local retention of incremental business rates generated on Tax Sites is expected to be one of the most valuable elements of the Freeports package in terms of delivering the SFCL's medium and long-term objectives for the Solent's economy and communities.

Retained business rates over a 25-year period provides a step-change in resource funding available for initiatives that are key to the Solent's success and the objectives of the SFCL, including skills, infrastructure, net zero initiatives and innovation. This funding will be targeted to deliver sustainable growth, productivity and regeneration across the Wider Solent Freeport Area, supporting meaningful and sustained levelling-up of harder to reach coastal communities and ensuring more of the benefits of the Solent's nationally significant port infrastructure and marine connectivity are retained within the region. The funding will be deployed in conjunction with other funding streams and be designed to gear in contributions from the private sector. The approach will also take advantage of the resource nature of a retained business rate stream, which means **it can plug gaps in what is possible through central or devolved capital funding alone, and to act as a multiplier in terms of the benefits of that funding for the Solent.**

Consistent with the Government's guidance on its expectations for the use of retained business rates, a potential investment will need to fall within one or more of the following categories to be eligible for support from the business rates programme:

- Freeport operating costs (in accordance with an SFCL approved operating budget).

- Physical or digital infrastructure that will facilitate investment in the Freeport area or wider area of impact.
- Land assembly or site remediation works that will facilitate investment in the Freeport area or wider area of impact.
- Skills and workforce development.
- Innovation initiatives.
- Regeneration or the development of economic assets within the Freeport area or wider Solent area.
- Mitigating any displacement and/or negative externalities associated with the Freeport.
- Activity in support of the SFCL's Net Zero ambitions.
- The delivery of Freeport-specific planning measures.
- Co-funding project and programme development and design.

Furthermore, to be eligible for investment from the business rates programme, potential schemes and/or initiatives will need to demonstrate to the SFCL Board that they meet all three of the following requirements:

- **They would not otherwise occur**, or occur at a much slower rate or on a smaller scale,
- **They require public funding** (e.g., owing to market failures), and
- They are most appropriately **funded from retained business rates, wholly or in part.**

SFCL and local authority partners have drawn up a Solent MoU governing business rate decision-making and governance. This is built around a bespoke committee, the Retained Rates Investment Committee (RRIC). As a result, decisions regarding the use of retained rates, the process for prioritising and selecting projects for funding, and ownership of the Business Rates policy is set out in the local MOU. This formed an annexe to the FBC agreed by the board and submitted to HM Government in 2022.

The local MOU establishes what amounts to a dual key arrangement between the SFCL Board which is responsible for commissioning and prioritising proposals for using business rates and the rating authority dominated committee that has a right of veto on these proposals and ensures democratic accountability for the use of retained rates which are public funds.

The SFCL Retained Rates Investment Committee (RRIC) will therefore lead on the strategy and prioritisation of investments seeking a retained rates contribution and will make recommendations to the SFCL Board for final decision. The Investment Committee are also responsible for:

- Prioritisation of projects and programmes to be funded through Retained Business Rates
- Ensuring an equity of use of Retained Business Rates, including:

    - Allocation towards significant investment priorities
    - Allocation for Rating Authority Programmes / Projects which will consider proportionate levels of investment in line with Business Rate Growth
    - Allocation across investment workstreams (i.e., net zero, skills, innovation, regeneration and enabling infrastructure, and local investment priorities)

- Developing and using the agreed prioritisation matrix to select projects and programmes to be funded through Retained Business Rates
- Reviewing the prioritisation matrix on an annual basis

3. The Retained Rates Investment Plan

As part of the Full Business Case (FBC) process to secure Freeport designation, SFCL were required to set out:

- the strategic objectives of the retained rates pool principles on borrowing, and
- the governance around decision making on spending, and
- a retained rates investment strategy for the retained rates, to provide confidence that funds will be deployed to maximise the realisation of the Freeport's objectives.

The investment strategy should identify specific workstreams or themes for the use of retained rates and for each of these state:

- Objectives and rationale, with direct reference to contributions to the Freeport's objectives
- Geographical focus and likely beneficiary groups
- An indicative share of the total retained rates pot
- Types of intervention likely to be funded, including any that have already been identified and any under consideration
- Expected benefits, including where possible outputs and outcomes.

RRIC have been leading this work and following briefing sessions in September and October, they formally convened on 9 November to consider a skeleton retained rates investment plan. This was presented to FRAC on 28 November and an updated draft was considered by RRIC on 9 December 2022.

The board were provided with the initial draft of the investment plan on 7 December 2022 and further to the RRIC meeting on 9 December an updated version (incorporating further advice from RRIC) was uploaded to huddle on 12 December 2022.

At the board meeting KPMG were scheduled to present the investment plan to the board and started with an overview of the key principles and there was an extensive discussion in relation to the principles linked to match funding. This included detailed discussion on specific schemes identified in the short-term investment plan. Board Members should note that, subsequent to this Board discussion, these schemes were provided with an opportunity to present and discuss the detail of their schemes with RRIC at their meeting in February 2023, including timing and funding considerations. Navigator Quarter took up this opportunity and did provide a briefing on their scheme to RRIC in February. Hampshire County Council asked to present an update on A326 at a future meeting and, accordingly, this is scheduled for the next retained rates investment committee meeting on 27th March 2023.

As a result, the following elements of the Investment Plan were considered by the Board in January 2023:

- The short-term investment plan and options for funding
- The development of a mature investment programme
- Next steps

Further to the meeting there were also requests from board members to specifically consider the following:

- The principles on which investments will be prioritised and appraised. This is included in the investment plan and supporting annexes attached at Annexe B for the review of RRIC members.

- The Subsidy Control Act 2022. This replaces state aid requirements which have been a core consideration in the award of public funding and the UK subsidy control regime began on 4 January 2023.

A Board workshop took place on 23 January 2023 to consider:

- The Subsidy Control Act. This was led by Bevan Brittan who confirmed the need to apply subsidy control rules in the freeport context, including the need to consider the application of the subsidy control rules every time a decision is made regarding the use of seed capital, retained business rates, rates relief or other public funding. Bevan Brittan have subsequently provided a similar briefing to RRIC members at their February meeting to ensure all RRIC Members also have access to this session, and the rating authorities have subsequently requested that the Freeport make arrangements for a subsidy control briefing session specifically for ratings authorities focussed on the awarding on rates relief. The Freeport are seeking nominated representatives from each rating authority in advance of scheduling this session.

- The Retained Rates Investment Plan. This was led by KPMG who emphasised that this first version is essentially 'a plan for a plan' focusing on strategic considerations. They provided specific advice on several timing issues for funding projects with limited funding available from the retained rates in the period to 2028 and possible options for financing schemes in the short term to maximise retained rates in the medium and longer term. Also, they highlighted obvious challenges associated with the planned expiry of tax incentives for the private sector in September 2026.

The principle of match funding was revisited reflecting commitments in the FBC, value for money requirements under HM Treasury Green Book, subsidy control regulations and the ambition to the maximise overall size and reach of the investment programme[1]. Feedback at the workshop also supported the development of a more mature investment programme and finance models to support wider projects in the freeport area.

Match funding for early projects that have the potential to unlock business rates was discussed and it was highlighted that the match funding expectations set out in the draft plan were for illustrative purposes only and represent a starting point for negotiation and that the process of developing a full business case for individual schemes would address specific considerations on affordability, match funding contribution, subsidy control and availability of other sources of finance.

The Freeport Board considered the Retained Rates Investment Plan again at their meeting on 2nd February 2023. The core discussion again focussed on match funding for the early projects identified in the plan and, whilst it was emphasised that the schemes listed were for illustrative purposes only, the Board did not feel able to use the document as a basis on which to engage with HM Government on the extension to timelines for tax incentives or with the UK Infrastructure Bank in relation to finance and funding options. In relation to extending tax incentives, KPMG have engaged with all tax site landowners to prepare an evidence base and this was submitted to HM Government on 1st March 2023 and a copy is provided for the information of all Board Members as reference material. An update in relation to the evidence-based submission will be provided by KPMG at the Board meeting.

On this basis, a further Retained Rates Investment Committee meeting was held on 13th February. This was the first meeting of the reconstituted committee with Hampshire County Council in attendance. The Board should note that the membership of the Retained Rates Investment Committee includes the Leader, or their nominated representative, and S151 Officer, or their nominated representative,

[1] Including infrastructure, net zero, skills, innovation, trade and investment and local investment priorities

of Havant Borough Council, New Forest District Council, Eastleigh Borough Council and Southampton City Council as well as the S151 Officer representative of the accountable body.

Further to the previous Board meeting, the Committee considered and agreed a number of further amends to the Terms of Reference for the Committee. A tracked version of the revised Terms of Reference is attached at Annexe A. The Board are therefore also asked to agree the revised terms of reference for the Retained Rates Investment Committee for adoption.

KPMG presented an updated retained rates investment plan at the meeting. The Retained Rates Investment Committee agreed the revised version of the plan for recommendation to the Freeport Board. A copy of the notes of the RRIC meeting is includes as reference material and the revised Retained Rates Investment Plan is attached at Annexe B. KPMG will be in attendance at the Board meeting to provide an update to the Board on the amended version recommended by the Retained Rates Investment Committee and the Board will be asked to agree the plan for submission to DHLUC.

4. Conclusion

As part of the FBC critical actions HM Government requested the submission of an initial investment plan in late 2022, noting that it is a dynamic plan and there will be the flexibility to revise and refine investment strategies and plans during implementation through a change process.

As per section 1.1.8 b of the MOU we were asked to finalise the details of this initial plan with DLUCH, prior to the designation of the tax sites for the purposes of business rates retention.

To support the work they need to do to designate the tax sites for the purposes of business rates retention SFCL completed a template which DLUHC provided. This has been filled out and approved by the Chair for submission as previously shared with the Board. The information provided was drawn from the FBC and supporting annexes previously approved by the Board.

In terms of next steps, it was also highlighted that further work would be taken forward on the draft investment plan to include:

- Updating the retained rates forecasts to reflect the current economic climate and updated cost of living assumptions; and
- Refreshing the project pipeline and calling for new projects/schemes; and
- Working with scheme leads who have submitted a strategic outline business case to look at considerations on affordability, match funding contribution, subsidy control and availability of other sources of finance for specific schemes; and
- Building on the prioritisation matrix in the draft plan to include criteria that will look at the financial risk profile assessment and the measurable return that any investment will generate (in the context of value for money and unlocking future retained rates); and
- The quantum of funding that local partners are collectively willing to borrow to pump prime investment

In the event that the Board are in a position to agree the first version of the plan for submission, the work to develop the next iteration will be considered in detail at a future RRIC meeting and reported on an ongoing basis to the board at future meetings with a view to providing a revised retained rates investment plan for board consideration in 2023/24.

Recommendations

Board members are asked to:

- **Note** this update, and

- **Agree** the draft Retained Rates Investment Committee Terms of Reference in Annexe A for adoption, and
- **Note** that the Retained Rates Investment Committee have recommended the updated Retained Rates Investment Plan to the Solent Freeport Board, and
- **Agree** the first version of the Retained Rates Investment Plan in Annexe B for submission to DLUHC.

13.3.2023

Item 2 - Annexe A

A confidential report will be considered at the meeting

13.3.2023

Item 2 - Annexe B

A confidential report will be considered at the meeting

13.3.2023

Item 3

Solent Freeport Update to include general progress update and consideration of MoU schedule 2 delivery milestones and resourcing requirements

A presentation will be provided by KPMG at the meeting