

Agenda Item	12
Report No	HC/20/23

HIGHLAND COUNCIL

Committee: Highland Council

Date: 29 June 2023

Report Title: Update on Outline Business Case for Inverness and Cromarty Firth Green Freeport

Report By: Interim Depute Chief Executive

1 Purpose/Executive Summary

- 1.1 Following a report agreed by Full Council in May 2023 on the Inverness and Cromarty Firth Green Freeport, this report provides an update on the current Outline Business Case (OBC) process and the role of Council officers and elected members, including the Council's role as Accountable Body. It also outlines how the potential developments and supporting infrastructure related to the Green Freeport are being identified along with the wider social, environmental and economic benefits that this aims to deliver for Highland communities.
- 1.2 There have been several reports to Council over the last two years highlighting how the Green Freeport in Highland has the potential to deliver against local and national outcomes. This report focuses on the OBC stage and does not revisit the detail covered in previous reports, the most recent of which from May 2023 can be read [here](#).

2 Recommendations

- 2.1 Members are asked to:
- i. **Note** progress in the preparation of the Outline Business Case;
 - ii. **Agree** to the request from the Board of the Inverness and Cromarty Firth Green Freeport (ICFGF) for a financial contribution from the Highland Council of £25,000 towards the costs of the preparation of the Outline Business Case; and
 - iii. **Note** the intention to report the Outline Business Case to a future Council meeting prior to submission to UK and Scottish Governments.

3 Implications

- 3.1 **Resource** – Staff resource will be required for the Council’s ongoing participation in ICFGF, particularly during the ‘set up’ stage of the Green Freeport which commenced following the announcement in January 2023 and is expected to last around 12-24 months. It will require dedicated staff time and input from a range of Council Services, including economy, legal, planning, finance, revenues, community support, communications and corporate teams to ensure it remains aligned with Council priorities. To help resource the Council’s contribution, funding has been allocated through the Economic Prosperity Fund.

The UK Government will make up to £1m of grant funding available to each of the Green Freeports to assist with the ‘set up’ stage. The first tranche of this funding has already been made available and will be used to fund the consortium’s costs for the preparation of the OBC. As accountable body the Council will also be responsible for the management of the seed capital of £25m and accounting, administration and reporting regarding that sum.

Beyond the ‘set up’ stage, the day-to-day operation of the Green Freeport will require some Council staff resource, with a focus on finance, revenues, and corporate functions. This will ultimately be funded from retained Non-Domestic Rates income generated from the green free port tax sites.

- 3.2 **Legal** – As identified in the March report to Council there are two principal elements of the operation of the proposed Green Freeport that give rise to legal implications for the Council. The first and possibly more significant aspect arises from the Council’s agreement to act as the ‘Accountable Body’ for the Green Freeport. In summary, this means that the Council will be accountable to both Governments for the expenditure and management of central funding including revenue funding, seed capital investments and retained Non-Domestic Rates.

The second element arises from the operation of the Green Freeport itself. The governance arrangements for the setup and ongoing operation of the Green Freeport will continue to be the subject of detailed development and consideration through the preparation of the Outline Business Case.

- 3.3 **Community (Equality, Poverty and Rural)** - As set out in the previous Council reports of 9 March and 11 May 2023, the Green Freeport is anticipated to generate a number of significant benefits for communities in the area and across the wider Highland region. Ongoing communications and engagement with communities and businesses will be required. An impact assessment, which will include equality and socio-economic considerations, will be undertaken alongside the development of the Business Plan to ensure appropriate considerations and mitigations are part of the developing framework. Officers are currently drawing up options for the range of benefits and the timing and process for their delivery including what various funding packages and the developments themselves might deliver. The Council’s Place Plan Project Managers are supporting work being undertaken to prepare an Area Place Plan in the Black Isle and are preparing to launch events later this year in Easter Ross and Inverness that will help to continue the engagement with communities on what benefits the Green Freeport might bring for them now and in the future.

A Diversity Statement is being prepared as part of the Green Freeports governance documentation.

- 3.4 **Climate Change / Carbon Clever** - The Green Freeport will help to address climate change and deliver a number of core policy objectives by adopting high environmental standards and through attracting investment in green industries, creating green jobs and reducing greenhouse gas emissions. In line with guidance from UK and Scottish Governments on Green Freeports the Outline Business Case will need to include a Net Zero Strategy setting out a quantitative assessment of carbon impacts.
- 3.5 **Risk (including Health & Safety risks arising from changes to plant, equipment, process or people)** – There are a series of risks associated with the Green Freeport, such as external factors impeding on the scale and pace of the ICF vision which in turn could impact on the revenue derived from NDR.

There are also financial and legal risks associated with the Council's role with the Green Freeport, primarily it being the Accountable Body for all public funding streams.

Further mitigation will be identified and incorporated into the governance structure to ensuring that it is in-built to future decision making, regularly assessed and therefore minimises exposure of the Council.

- 3.6 **Gaelic** - Although there are no direct implications for the Gaelic language, the Council will ensure Gaelic is incorporated within any Council publications or other material wherever appropriate in line with policy.

4 The Outline Business Case (OBC)- Progress

- 4.1 The main focus of work for the ICFGF Consortium at this stage is the preparation of the OBC. The OBC will need to demonstrate how the Inverness and Cromarty Firth Green Freeport will make a significant contribution towards meeting the local and national transition to net zero, create high-quality, long-lasting employment in a green economy, regenerate and strengthen communities across the region and reverse demographic challenges. To this end, there is considerable work underway across the Consortium to gather a detailed picture of what Green Freeport status will bring in terms of development, infrastructure requirements and ongoing tax revenue retention that can be used to deliver wider benefits across the region.
- 4.2 The OBC and Full Business Case (FBC) are significant pieces of work for which Government have provisionally made £1m available in financial assistance. To ensure this funding is best utilised and the work burdens are distributed proportionately, the main work packages have been assigned to the most relevant and able partners within the consortium. The main aspects of work that the Council is leading on and/or contributing to are summarised below:
- 4.3 Seed Funding
The UK and Scottish Government are providing an opportunity for each Green Freeport to apply for up to £25m towards the cost of infrastructure and enabling works to set up the Green Freeport. The Council has set up an online tool inviting tax site landowners (including the Council) to submit candidate projects, with specific information required on how the bids fit with the criteria that are attributed to the seed funding that has been made available by the UK and Scottish Governments.

In line with government guidance seed capital funding should primarily be spent on:-

- land assembly and site remediation – for example, preparing or decontaminating brownfield land within tax or customs sites; and
- small-scale transport infrastructure to connect sites within the Green Freeport to each other, the immediate surroundings or other economic assets.

The bids will be assessed by an independent panel led by an economic consultant based on set criteria including:-

- need for funding and value for money -including level of increased retained Non-Domestic Rates;
- deliverability/capability;
- strategic fit; and
- alignment with Net Zero Agenda

The scoring of bids will be carried out against the detailed criteria and weightings.

The panel will make recommendations to the Green Freeport Board based on these criteria and any decision will then be subject to final consideration by the Highland Council in its role as Accountable Body prior to being included in the OBC. At the OBC stage the indicative seed funding projects will give the UK and Scottish Governments an indication of where the funding could be allocated. Once the OBC is approved each potential project would have to submit a business case to the Council prior to funding being approved.

4.4 Non-Domestic Rates (NDR)

Local authorities are able to retain the Non-Domestic Rates growth on Green Freeport tax sites above an agreed, pre-designation baseline. This retention will be guaranteed for 25 years and gives a degree of certainty for the investment in regeneration and infrastructure that will support further growth. The Council is currently working with the Green Freeport consultants and relevant Government agencies to work through the processes involved in setting this up.

In order to assess the likely levels of retained NDR income a valuer has been to forecast the enhanced land values from the agreed baseline based on the landowners' proposals for the tax sites. This will enable the Council to forecast the overall NDR benefit and timing thereof, and which will be included in the OBC.

As per the UK and Scottish Government's guidance the income from the retained NDR growth should primarily be used for:-

- Local authority management and operating costs;
- Green Freeport operating costs;
- Physical and/or digital infrastructure that will facilitate investment in the Green Freeport area;
- Land assembly and/or site remediation works that will facilitate investment in the Green Freeport area;
- Skills and workforce development;
- Innovation initiatives;
- Regeneration and/or the development of 'live work play' assets within the Green Freeport Travel to Work Area;

- Mitigating any displacement and/or negative externalities associated with the Green Freeport; and
- Activity in support of the Green Freeport's Net Zero ambitions.

Once the valuer has received the necessary information from the landowners and assessed the increase in land value, we will be able to report on the level of income. However, Council Officers have been clear with the Green Freeport that any additional income will be prioritised to fund Council costs in its role as Accountable Body and management of NDR first, ahead of any other funding priorities.

If requests from consortium members are made for additional retained NDR to be used as borrowing for further investment per the guidance set out above, the Council would need to consider the case for investment as part of its wider capital programme and affordability considerations.

4.5 Public Engagement and Place Based Approach

The vision and plans of OCF have been shaped by a range of stakeholder consultation and engagements to date. It includes a wide range of input from across the private sector, public agencies and community engagement, including the Climate Action Towns work which will feed into the next stages of work. The review of the Inner Moray Firth Local Development Plan, which coincided with the bidding process, allowed for formal consultation on the plans and likely development implications, and is now at the final Examination stage. The wider implications and benefits of the Green Freeport will be the subject of wider discussion and engagement through the 'place-based' work being undertaken in Inverness and the Easter Ross areas that are likely to most directly affected. Officers are also supporting the preparation of a community led place plan for the Black Isle where the implications of the Green Freeport are being actively discussed. The ICF consortium is looking to feed in to these workstreams alongside its ongoing community engagement programme.

4.6 Proactive planning advice

A key outcome for the Green Freeport's policy is increased investment within and around Green Freeport geographies. The Governments expect Green Freeports to be delivered at pace. This includes an expectation that planning processes will be streamlined whilst also ensuring the usual high standards of development.

4.7 Representatives from the Planning Service have been involved from an early stage to provide advice on how potential development and infrastructure ultimately delivered as part of the Green Freeport aligns with local and national planning policy – including Scottish Government's recently adopted National Planning Framework 4 - and the Council's Regional Spatial Strategy. In addition, through the review of the Inner Moray Firth Local Development Plan the Council has agreed its position on the land use allocations likely to be required to support the Green Freeport, and the Plan has been submitted for Examination to Scottish Government.

4.8 Officers have provided up-front initial planning advice on the issues that the tax site landowners will need to consider for any future developments. This was based upon the existing pre-application advice service model and will allow all relevant officers across the Council and Key Agencies the opportunity to inform the proposals that emerge and ensure that they adhere to the stringent policies and requirements at the local and national level. More detailed advice will continue to be provided as details emerge and this will be taken through to any public engagements alongside the statutory consultation requirements for any subsequent planning applications.

4.9 Land within the Green Freeport tax site in Council Ownership

The Council (through Inverness Common Good Fund account) are landowners within the Inverness tax site and work is underway across each site to reassess and amend site boundaries to maximise the economic benefit to the area. The area has been reduced to exclude any land which cannot be used for economic purposes as there would be no NDR benefit; including land which would have to be utilised for non-income generating land uses e.g., ecological mitigation.

4.10 Other important work packages

In addition to the work packages set out above, a number of officers are feeding into other items of work that will form part of the OBC. This includes:-

- Net Zero – The UHI are leading on the Net Zero Strategy workstream which is a requirement set out in the government's guidance. Given it is a central and leading policy objective of Green Freeports, there is input from across the Consortium including the close involvement from the Council's Climate Change and Energy Team.
- Skills and Fair Work – Skills Development Scotland are leading on the Skills Strategy which is a fundamental part of the OBC and the delivery of the Green Freeport. The Council's Economy and Regeneration team along with representation from the Education and Learning Service are feeding into the working groups and currently helping to pull together underlying information such as forecasted jobs, labour market capacity, existing skills provision and capacity to expand provision. This will help to inform the proposed interventions to meet current and future demand.
- Economic case – One of the main components of the OBC is presenting a more thorough assessment of the economic impact than was identified at the bidding stage. Since the March Council, HIE have commissioned a consultant to undertake the economic impact assessment required to inform the OBC. Further work is required to determine the specific sites and developments which are anticipated to take place. It is expected that the EIA will be complete by September.
- Implications for Transport, Biodiversity and Environment – alongside the formal workstreams outlined above, work is underway to identify the features and assets that can and should be subject to improvement as part of the Green Freeport proposals.

5 Funding request and timescales

- 5.1 The costs of setting up the Green Freeport company and preparation of the outline business case are significant. The costs will be partly offset by the partial release of the government's £1m capacity funding.
- 5.2 The Inverness and Cromarty Firth Green Free Port Board have agreed a matrix of funding requests based on the relief and benefits each consortium member will receive and their input into preparation of the business case. As a major landowner who is contributing resources to the preparation of the outline business case, the request of the Council is for £25,000 (which is 1/3 of the request of other major landowners). This can be funded from the economic prosperity fund budget.

- 5.3 The consortium members are working diligently to progress the various work streams as outlined above and the small working group meets weekly to update and monitor progress, working closely with the company board to resolve any outstanding issues. The Council and other key partners meet Scottish and UK government officials bi-weekly to update on progress and raise queries with both governments to assist in the preparation of the business case. Council officers also meet regularly with Council officers of the Forth Green Freeport partnership to ensure a consistent approach is taken.
- 5.4 Whilst detailed advice on issues such as retained NDR and state subsidy are awaited, it is still currently programmed to submit the OBC in September, subject to approval of the business case by Full Council on 14 September.
- 5.5 Based on the English Freeport approval process it is anticipated that approval could take up to 3 months, following which we will submit the OBC, and it is hoped that final approvals will be in place by the summer of 2024.

6 Resourcing and Governance [Accountable Body Roles]

- 6.1 Officers and representatives from across the ICFGF working group are also working closely with the other Green Freeport in Scotland (Forth Green Freeport) to coordinate and share expertise wherever possible. In addition, the UK and Scottish Governments are hosting a series of Green Freeport workshops which each focus on a specific topic, led by the relevant government departments e.g., HMRC, Department of Levelling Up, Housing and Communities (DLUHC) and the Non-Domestic Rates division.
- 6.2 To supplement and support the work of officers, it was agreed to set up a Member Monitoring Group. The membership of this group will be agreed under a separate item on this Council's agenda.
- 6.3 The draft OBC will be presented to Council for approval before it is submitted to the joint UKG/SG Green Freeport Team later this year.

Designation: Interim Depute Chief Executive

Date: 14 June 2023

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Background Papers: Inverness and Cromarty Firth Green Freeport [Report](#)