

HIGHLAND COUNCIL

Agenda Item	5
Report No	HC/39/23

Committee: The Highland Council

Date: 3 October 2023

Report Title: Update on Progress of Inverness and Cromarty Firth Green Freeport

Report By: Executive Chief Officer Infrastructure, Environment & Economy

1 Purpose/Executive Summary

- 1.1 This report provides an update on the Outline Business Case (OBC) for the Inverness and Cromarty Firth Green Freeport (ICFGF) and its relevance to Highland communities and businesses, and the Highland Council as Accountable Body for the ICFGF. The OBC itself is presented for approval under a separate paper at this meeting, to be considered as confidential due to the commercially sensitive nature of the content.
- 1.2 The finalisation of the OBC marks a major milestone in the delivery ICFGF which 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.
- 1.3 In line with the process outlined in various Council reports over the last year, approval of the OBC by the Council will allow its submission to the Scottish and UK Governments for their consideration and set the framework for the Full Business Case (FBC). The timeline for next steps and ongoing engagement is outlined in section 5 of the report, with the Green Freeport currently anticipated to be operational by spring 2024. Approval of the business case will allow for more detailed consideration of the timing and delivery of each element of the Green Freeport, along with the associated jobs and wider housing and infrastructure requirements and community benefits.

2 Recommendations

- 2.1 Members are asked to:

- i) **Note** the Executive Summary of the Green Freeport OBC as set out in **Appendix 1** and the environmental, social and economic benefits which are expected to be achieved for the region;
- ii) **Note** the Council's role and responsibilities in the preparing the OBC, including as Accountable Body, as summarised in Section 4; and
- iii) **Note** that the OBC has been subject to discussion with the Members' Monitoring Group, with the Minutes of the 22 September meeting available under a separate item to this Council meeting.

3 Implications

3.1 Resource –

- 3.1.1 Previous reports to Council highlight that the ICFGF is anticipated to bring significant benefits and economic opportunities, as well as increasing the number and diversity of jobs in Highland. This will bring associated requirements for new housing and infrastructure and work is proposed to coordinate its delivery through the Council, the ICF Team, the UK and Scottish Governments, Key Agencies and partner organisations.
- 3.1.2 Staff resource is 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 economic development, planning, legal, finance, revenues, community support, communications and corporate teams to ensure it remains aligned with Council priorities. Up to this time, all Council support to take the project to OBC stage has been provided in-kind.
- 3.1.3 The UK Government has made up to £1m of grant funding available to each of the Green Freeports to assist with the set-up stage. The first tranches of this funding have already been made available and will be used to fund the Company'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.
- 3.1.4 Beyond the set-up stage, the day-to-day operation of the Green Freeport will require Council staff resource, with a focus on finance, revenues, corporate functions and ongoing requirements relating to planning and other regulatory processes. This will be funded from retained Non-Domestic Rates (NDR) income generated from the Green Freeport tax sites.
- 3.1.5 The Council is currently represented on the Green Freeport Company Board by the Executive Chief Officer for Infrastructure, Environment and Economy, with the Section 95 Officer being given observer status at Board meetings to assist in discharging the Council's role as Accountable Body.

3.2 Legal –

- 3.2.1 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, and in turn accountable for providing assurance to Government on the Green Freeport's processes for management of their financial affairs.

3.2.2 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 are set out in detail within the Outline Business Case.

3.2.3 Finally, it is important to recognise that the Council will have an interest in the operation of the Green Freeport as the owner of a proposed tax site at the Longman, Inverness.

3.3 **Community (Equality, Poverty and Rural) –**

3.3.1 As set out in the previous Council reports, 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 undertaken.

3.3.2 An impact assessment, which will include equality and socioeconomic 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.

3.3.3 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.

3.4 **Climate Change / Carbon Clever –**

3.4.1 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.

3.4.2 The Outline Business Case includes a Net Zero Strategy setting out a quantitative assessment of carbon impacts.

3.5 **Risks –**

3.5.1 There are a series of risks associated with the Green Freeport, such as external factors impeding on the scale and pace of the ICFGF vision which, in turn, could impact on the revenue derived from NDR.

- 3.5.2 There are financial and legal risks associated with the Council's role as accountable body, and the obligation on the Council's Section 95 Officer on behalf of the Accountable Body to provide annual written letters of assurance to Government regarding the Green Freeport's processes for proper administration of their financial affairs, and the steps and checks the Section 95 Officer has undertaken in providing those letters of assurance. The intent being to allow Council to discharge its role as the body accountable for public funds associated with the Green Freeport.
- 3.5.2 Further mitigation will be identified and incorporated into the governance structure to ensure that it is in-built to future decision making, regularly assessed and therefore minimises exposure of the Council.
- 3.5.3 The Scottish Government has confirmed that the NDR relief arrangements for Scottish Green Freeports will be the same as Freeport counterparts in England. The OBC is being submitted on this basis, but the Scottish Government is expected to provide detailed guidance on the funding arrangements for the NDR relief that will confirm the position.
- 3.5.4 With reference to wider amenity issues, any proposals for expansion or intensification of commercial activity and operations across the Green Freeport will need to carefully consider the levels of noise for neighbouring properties. Any future development or expansion of Port areas would require adherence to established planning controls and policies. The awarding of the Green Freeport status does not negate the requirement to obtain planning consent (where required) or satisfy other regulatory requirements including environmental impact assessments – including noise – where relevant to the development under consideration.
- 3.6 **Health and Safety (risks arising from changes to plant, equipment, process, or people) –**
No direct implications for the Council.
- 3.7 **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 Summary of Outline Business Case (OBC)

- 4.1 The finalisation of the OBC marks a major milestone in the delivery of Green Freeport status to the region by the private-public-academic partnership. The ICFGF programme reverses decades [centuries] of population decline in the Highlands maximising the opportunities created through the establishment a Green Freeport. With some 520 has of land proposed for development the proposals deliver over £3 Billion of inward investment, enable 16,500 long-term jobs for the UK and provide NDR revenues of £445 Million for re-investment in the region. At a national level, the ICFGF programme will be key to achieving the UK and Scottish Governments targets for energy security and net zero. Accordingly, there has been

considerable work undertaken across the members of 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 Leading up to this stage, there have been several reports to keep Council informed on the various stages of work both in preparing both the bid and the OBC. Following presentations and Council approval in June 2022, the bid was submitted to UK and Scottish Governments later that month. In line with previous Council reports a number of officers have assisted in compiling and finalising the OBC with expertise from different parts of the Council. The general content of the draft OBC has been considered by the Members' Monitoring Group, and their comments considered. The Executive Summary of the OBC is attached at **Appendix 1**.
- 4.3 The ICFGF team has been working hard to ensure that the final composition of tax sites best delivers against local and national outcomes. The notable change from the bid stage is that sites at Ardersier and Deephaven have been added as tax sites, adding significant strength and economic and social benefit to the proposition. Other smaller scale changes have been made to sites in Invergordon and Inverness with site boundaries set out in the OBC. Amendments to the tax site boundaries bolster the overall offer of the ICFGF and the Governments will be asked through the OBC to approve the changes.
- 4.4 Following the award of Green Freeport status in January 2023, the former Opportunity Cromarty Firth transitioned into an incorporated entity, Inverness and Cromarty Firth Green Freeport Limited. It was incorporated under the Companies Act 2006 as a private company limited by guarantee, company number SC735754. The Company will be responsible for the governance and management of the Green Freeport. This model was selected by the consortium as it is well understood mechanism for public-private partnerships and one that has been used by several Freeports in England. The Company appointed Calum MacPherson as Chief Executive in August 2023.

5. Strategic Case

- 5.1 This section demonstrates that the Inverness and Cromarty Firth Green Freeport (ICFGF) has the potential to deliver a step change in high value-added economic growth, skills, innovation, trade and investment as well as playing a significant role in decarbonisation. It sets out the economic rationale for public intervention and the reasons for green freeport status. It also details the overall outputs and outcomes, particularly in terms of regeneration and high-quality job creation, decarbonisation and a just transition to a net zero economy, hubs for global trade and investment and an innovative environment.
- 5.2 The Strategic Case describes how early on in the bid process the Highland Council identified the project – then known as Opportunity Cromarty Firth –

as a flagship part of its 30-year Indicative Regional Spatial Strategy (IRSS). The IRSS has set the framework for the review of the Inner Moray Firth Local Development Plan that has coincided with the preparation of the OBC, and which has been refined to support the delivery of ICFGF by identifying likely infrastructure and housing requirements. Throughout this process up-front planning advice has been provided to all tax site landowners with detailed, tailored consideration of planning strategy and policy position set out in the Council's Local Development Plan and the Scottish Government's new National Planning Framework, published in January 2023. This is allowing the Council to work with landowners and Key Agencies, including the Key Agency Group, to identify potential biodiversity and transport improvements that have been incorporated as part of create a Net Zero Charter in the OBC. These arrangements will be formalised through an emerging planning protocol established by Scottish Government, aimed at supporting the delivery of the two Green Freeports in Scotland.

- 5.3 At the community level, the Strategic Case highlights efforts to brief communities on this complex and rapidly evolving piece of work. Alongside a community webinar, organised by Council officers in March this year, work is underway to support and facilitate the preparation of Area Place Plans to cover the communities closest to the ICFGF tax sites. In line with the Council's Place Based Approach, agreed in November 2021, the Easter Ross Place Plan was formally launched in September, and dedicated support is being provided to the Black Isle and Nairnshire communities to prepare plans for their areas. In Inverness, taking account of the number of community and land use plans already in place, a series of engagement events are proposed for late 2023 to inform people of the likely scenarios for future development and associated infrastructure.
- 5.4 The Strategic Case also sets out the skills expected to be needed to support the economic development which Green Freeport status will unlock and outlines the means by which the skills programme will be delivered. The ICFGF will deliver a programme of targeted interventions which engage the workforce locally, playing a critical role in ensuring the necessary skills are available in the local labour market. A specific Skills Fund, administered by the Powerhouse, and funded through tax site employers pooling the savings they make through Green Freeport employer NICs relief, will support work-based learning, upskilling and industry-related training associated with activity within the Green Freeport.
- 5.5 As set out in the OBC, the Ten Point Plan for Skills sets out a framework of how the ICFGF will engage with the current skills and employability system, adding value to people and communities as well as identifying new activity to fill gaps:
1. **Young people engagement** – Employer, school and college engagement
 2. **STEM outreach** – Employers codesigned STEM outreach activity
 3. **Entry level sector specific recruitment support** – Promote sector-based work academy programmes

4. **Targeted pre-employment support** – Supporting local people and disadvantaged groups
5. **Supporting and developing pathways to skilled green jobs** – Supporting routes to skilled trades and professional jobs
6. **Increasing apprenticeship uptake and graduate recruitment** – Increasing apprenticeship uptake and graduate recruitment with a minimum target of 5% of the workforce
7. **Providing scholarships and bursaries** – Support to encourage diversity and address deprivation
8. **Enhanced and new commercial training** – Engage with employers to identify and meet their skills needs
9. **Enhanced and new Further and Higher Education** – Aligned to the approach to commercial training
10. **Attracting new, skilled people into the Region** – Facilitate direct engagement with investors and employers to meet demand through a range of activities

5.5 Skills and Fair Work are foundations of the Green Freeport plans and will be delivered through our programme of employer informed skills activity as well as leveraging employers' commitment to Fair Work First principles. In particular, promoting and encouraging employers to adopt the Scottish Government Bute House, and Fair Work First Agreements. The process will be managed through requiring all landowners signing Tax Site Delivery Agreements (TSDAs) to sign the ICFGF Fair Work Charter.

5.6 The OBC also sets out in detail how the Inverness and Cromarty Firth Green Freeport delivers on the Scottish Government's objective to promote decarbonisation and a just transition to a net zero economy. The ICF region has vast potential to decarbonise not only the local economy and region but also contribute significantly to decarbonisation efforts globally. The combined potential of offshore wind energy generation and hydrogen production presents a unique opportunity to distribute the benefits of decarbonisation across Scotland, the wider UK, and Europe.

5.7 Therefore, the vision set out in the OBC is that ICFGF will exploit all applicable opportunities to address the climate and ecological emergency to significantly accelerate sustainable economic growth whilst increasing local and national resilience. By leveraging the abundant natural resources and emphasis on renewable energy projects, the Decarbonisation Plan intends to be a catalyst for driving the Just Transition to Net Zero emissions by 2045, underpinning a low-carbon society and reducing CO2 emissions on a much larger scale than would previously have been possible.

5.8 The main objectives of the Decarbonisation Plan are:

- decarbonisation of ICFGF activities, and how this will be managed and monitored;
- increasing green economy jobs and skills base;
- growing investment on Clean Growth/Net Zero technologies and supply chains;
- engaging and collaborating with local communities and stakeholders;

- the wider demands of Sustainability, beyond just Decarbonisation, with reference to the UN Sustainability Development Goals; and
- sustainable procurement practice.

5.9 To harness and support these port-specific and wider industry initiatives, a full Green Freeport decarbonisation strategy will be developed, including a comprehensive baselining exercise, establishment of targets and milestones, and a monitoring strategy.

6. Economic Case

6.1 This section sets out the critical success factors (e.g. strategic fit with policy objectives, achievability and value for money) that have been applied to develop a short list of options for appraisal. It then undertakes an options appraisal to assess the benefits (Green Freeport designation and £25m in seed capital) and costs of these options, demonstrating the additionality of ICFGF and assessing its value for money and risk, before recommending a preferred option to progress to Full Business Case.

6.2 The assessment undertaken shows that the full package of incentives is essential for attracting investment in the key sectors and helping against the four key objectives:

- 1) Promote regeneration
- 2) Global trade and investment
- 3) Hotbeds of innovation
- 4) Decarbonisation and just transition

With the package of incentives, it is shown that ICFGF can deliver £3.3bn of investment. The potential pipeline of development on tax sites could attract around 16,500 long-term jobs for the UK, 10,250 of which would be in the Highlands.

6.3 It is noted that the English Freeports have made a formal request to extend the window at which the package of tax site incentives is available from 5 years to 10 years to ensure the benefits can be maximised. The assessment here shows a 10-year tax site designation is estimated to unlock potentially 30% more capital investment and 3,000 more jobs over a 25-year period.

6.4 The economic assessment also identifies the need for new grid connections for offshore renewable energy to optimise the Green Freeport, for example, the production of green hydrogen and energy intensive manufacturing will rely on renewable energy.

6.5 Alongside the tax site and seed capital, the utilisation of retained Non-Domestic Rates will present significant opportunities to enhance infrastructure, housing and local economic development in the wider ICFGF area.

7. Financial Case

- 7.1 This section demonstrates the affordability of the Green Freeport under the preferred intervention option with regards to seed capital projects and sets out a credible plan for funding the operation of the Green Freeport in the medium-term and ensuring its long-term financial sustainability thereafter. It also outlines the importance of receiving further capacity funding from UK and Scottish Governments as well as setting out the main financial risks to the Green Freeport.
- 7.2 The OBC sets out a programme of investment for the £25m of seed capital funding in infrastructure to unlock land for use within tax sites and help maximise the full potential of Green Freeport opportunities as soon as possible. A Seed Capital application and assessment process took place as part of the development of the OBC, following which a package of Seed Capital funding proposals now form part of the Maximum Ask option. The Seed Capital projects will be the subject of a more detailed business case process to support the Green Freeport Full Business Case. In the event that any of these are unable to proceed, projects on the Seed Capital reserve list can be quickly developed to take their place.
- 7.3 Whilst the Council is the Accountable Body for the accounting and public governance of the £25m SEED capital funding, it is the green Freeport and individual partners who will deliver the capital investment programme, managing project delivery, risk and outcomes.
- 7.4 The £25m in seed capital funding will be complemented by £12m in further public funding and approximately £200m in private sector funding, contributing to a total spend of seed capital projects in excess of £260m.
- 7.5 Additionally, a range of wider complementary interventions will be delivered across the Green Freeport geography which will collectively help the Green Freeport realise its objectives. These complementary interventions encompass public and private investments, local and central government initiatives, and local strategies. These include investments in Northern Innovation Hub (NIH) (£11m), Life Sciences Innovation Centre (£9m), regeneration projects, active travel upgrades, SSE Network upgrades and the R100 digital connectivity programme.
- 7.6 A robust cost-effective budget for ICFGFC, including the operating costs and key funding sources, has been developed which reflects its duties and activities required to meet its objectives and the requirements of the UK and Scottish Governments. A risk register has been established, including a section dedicated to financial risks to the Green Freeport as well as the plans in place to mitigate them.

8. Commercial Case

- 8.1 This section sets out the delivery and management strategies for both tax and customs sites and mitigates against underdevelopment, the wrong type of development and value leakage. The steps involved include site selection

and landowner engagement, tax site delivery agreements and ongoing management measures.

- 8.2 As set out above, the tax sites boundaries have progressed since the bid was submitted. As set out in detail within the OBC, some tax site land has been removed, including land owned in Invergordon and part of the Inverness site. The Longman former landfill site, which is owned by the Council and held on the Inverness Common Good account, has been reduced to the area of land which is practically developable within the incentive window. Any proposals for the Longman site will be subject to a separate approval process for Common good assets. Other areas have been (re)introduced to the OBC proposition, most notably Highland Deephaven and Port of Ardersier. These contribute large, industrial sites with direct marine access, highly desirable to inward investors, to support the national priority of maximising UK content for offshore wind manufacturing.
- 8.3 All tax site landowners will enter into a Tax Site Delivery Agreement (TSDA) with the Green Freeport Company and The Highland Council that will formally set out the actions on all parties which will be necessary to ensure timely delivery and benefit maximisation on tax sites.
- 8.4 Through the TSDA, landowners commit to using all reasonable and commercial endeavours to ensure that their land is, as soon as reasonably possible, developed for uses that generate genuine additional economic activity. It also includes a mechanism for contributions by landowners to the Green Freeport Company to support its sustainable operation and wider supporting programmes (such as the Green Freeport Skills Fund).
- 8.5 Evidence of commercial demand has been a key factor for the ICF Green Freeport in identifying and developing tax site propositions – as it is the clearest indicator of deliverability.

9. Management Case

- 9.1 This section sets out the governance arrangements which will be support the operation and delivery of the green freeport, including corporate structure, role of Accountable Body, investment strategy for NDR, risk management, and monitoring and evaluation.
- 9.2 Retained NDR, although dependent on the delivery of new development on tax sites, will act as a multiplier on initial success, creating a virtuous cycle. Analysis in this OBC suggests these revenues could be worth some £450m over 25 years. Scottish Government have confirmed that Scottish Green Freeports will be given the same NDR relief benefits as their Freeport counterparts in England.
- 9.3 The Highland Council will fulfil the role of Accountable Body for the ICF Green Freeport with key responsibilities for the Section 95 Officer. The Accountable Body is accountable to Government for the expenditure and

management of centrally funded public money – including the £1m capacity funding, seed capital investments and retained Non-Domestic Rates fund.

9.4 The Company’s governance arrangements must ensure there is a decision-making structure which preserves the Accountable Body’s ability to be meaningfully accountable for the spending of public money. Acting as Accountable Body, the role of the Highland Council will be to:

1. Receive funding on behalf of the Company from the Scottish and UK Government.
2. Ensure that such funding is used appropriately in accordance with the law, good financial management and any applicable grant conditions.
3. Establish and maintain financial systems to account for all public funding received and disbursed on behalf of the Company.
4. Ensure that all required information on expenditure, activities and outcomes are properly recorded and reported.
5. Ensure that good governance is embedded in the decision-making of the Company.

9.5 The Section 95 Officer, on behalf of the Accountable Body, will also be required to provide annual written letters of assurance to the both Governments regarding the processes the Green Freeport has in regard to the administration of their financial affairs and securing of Best Value, and the steps and checks undertaken to allow this assurance to be provided. Council Officers, including the Council’s S95 Officer, have been actively involved in and providing input to the key governance documents that the Green Freeport will operate within, and the relevant governance sections within the OBC. The Council does hold a right of veto regarding certain Green Freeport decisions relating to the use of public funds. The governance arrangements as proposed, ongoing early and regular engagement, and the S95 Officer role as observer on the Green Freeport Board have been developed in expectation that the right of ‘veto’ would only be an exceptional circumstance. The governance arrangements are outlined in the enclosed diagram at **Appendix 2**.

9.6 The ICFGF Board has been set up to oversee the activity of the Green Freeport Company and the OBC and FBC processes. The Company’s Board currently consists of representatives of 5 of the 6 Company members, plus a director nominated by (but not representing) the final member, Highland and Islands Enterprise, plus an independent Chair. The Council is currently represented by the Executive Chief Officer for Infrastructure, Environment and Economy.

1	Jim Smith	Independent Chair
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2	Malcolm MacLeod, The Highland Council	Accountable body, rating authority, planning authority and Tax Site landowner
3	Robert Buskie, Port of Cromarty Firth	Statutory harbour authority, Tax Site landowner and potential Customs Site Operator
4	Roy MacGregor, Global Energy Group	Tax Site landowner and potential Customs Site Operator
5	Sinclair Browne, Inverness Harbour	Statutory harbour authority, Tax Site landowner and proposed Customs Site Operator
6	Roger Sendall, University of the Highlands and Islands	Innovation and academic stakeholder
7	Donald MacRae	Independent Nominee of Highlands and Islands Enterprise

9.7 The Chief Executive Officer of the Green Freeport currently attends the Board meetings as an observer. It is proposed that, following the submission of the OBC, the Board evolves to broaden participation whilst at the same time ensuring focus on the underlying goals of the Green Freeport. It is proposed that all consortium businesses are given the opportunity to become Members of the Company and have role in the appointment of two of the directors on the Board. The Section 95 Officer has been given observer status at Board meetings to assist in discharging the Council's role as Accountable Body.

9.8 The Highland Council's role as Accountable Body relates to its accountability to UK and Scottish Governments for the expenditure and management of centrally funded public money – including the £1m capacity funding, £25m seed capital investments and retained Non-Domestic Rates fund.

9.9 To supplement and support the work of officers, a Member Monitoring Group has been set up and is operating. The Terms of Reference are included in **Appendix 3**.

10 Next Steps

10.1 Subject to Council and ICFGF Board approval, the OBC will be submitted to UK and Scottish Governments in early October 2023. As the consortium is confident that the OBC addresses the requirements set out in the OBC form and the Government's additional guidance, it is expected that the OBC will be approved by Government by the end of 2023. If that is the case and no amendments are necessary, then the designation of Tax Sites is expected to be during January 2024.

10.2 Development of the Full Business Case (FBC) and its approval is expected to be complete by Spring 2024 with formal Green Freeport designation following shortly afterwards.

10.3 In terms of the £25m seed capital investment, it is anticipated that project funding will be received from Government between Spring 2024 and Summer 2026 with project delivery also commencing in Spring 2024 and running Spring 2027.

Designation: Executive Chief Officer - Infrastructure, Environment & Economy

Date:

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Background Papers: Inverness & Cromarty Firth Green Freeport [Report, 29 June 2023 Full Council Government OBC form](#)

Appendices: Appendix 1 – Executive Summary of the ICFGF OBC
Appendix 2 – Governance diagrams
Appendix 3 – Members Monitoring Group Terms of

Reference

Appendix 1 – Executive Summary of the ICFGF OBC

EXECUTIVE SUMMARY

Strategic Case

The UK and Scottish Governments have ambitious net zero, innovation, trade and investment, regeneration and levelling-up objectives which require large scale public intervention. This includes providing the support necessary to remove barriers to the creation of world class manufacturing hubs focused on achieving the net zero transition in a just and sustainable manner.

Inverness & Cromarty Firth Green Freeport (ICFGF) is the best place in the UK for the Governments to intervene to enable a world class floating offshore wind (FLOW) manufacturing agglomeration and to make the most of synergies with green hydrogen, maritime technologies and advanced manufacturing, by unlocking parallel, co-located investment in these sectors. This is because ICFGF is:

- the most advantageous place for these interventions from a UK net growth, productivity, energy security, decarbonisation and terms of trade perspective, and
- the location where investment delivers most from a social outcome, levelling up and regeneration perspective.

While the Highlands can be a fantastic place to live for those with the right opportunities, since the end of the oil boom, the local economy has not been creating enough of the right kind of opportunities and the region's young people have sought employment outside of the region. A Green Freeport here offers a unique mechanism for addressing the challenges that are currently holding the Highlands back and have resulted in years of working age population decline and a downward dependency spiral.

In response to this opportunity, the ICFGF programme has been painstakingly designed to deliver on the collective impact that Green Freeport measures can have for the region. The primary building blocks of this proposition include:

- A **tax site proposition** that has been refined and improved since the bid, now totalling around 520 ha of land and comprised of:
 - 325 ha on the **Cromarty Firth**, where existing legacy facilities and expansion opportunities create the ideal conditions for FLOW manufacturing to deliver additional net national economic growth and jobs in areas of high deprivation, accelerating a just transition to net zero and improve energy security.
 - 150 ha at **Ardersier**, one of the largest unused brownfield sites in the UK, where the port will be restored and re-opened, providing facilities to support FLOW manufacturing with the potential to create thousands of jobs and reskilling opportunities for the local community, and support the energy transition in Scotland and around the world.
 - 45 ha in **Inverness**, designed to address a critical shortage of developable industrial land in the city, allowing its port to expand, a significant hydrogen scheme to come forward and the expansion of our innovation campus for SMEs in life sciences and advanced engineering.
- Deployment of £25m of **seed capital** where it will maximise the wider benefits of the Green Freeport package by de-risking and accelerating investment in critical pre-development works on tax sites.
- A plan for utilising the local retention of incremental **non-domestic rates (NDRs)** growth generated on Green Freeport tax sites, using a process that preserves both the public-private 'dual key' approach and democratic accountability for the expenditure of

public funds. Retained NDRs are forecast to be worth around £500m over the next 25 years, and provide a huge opportunity to facilitate further investment in skills, infrastructure, decarbonisation initiatives and innovation.

- Engagement with prospective operators on the potential benefits of **customs site** status. A pipeline of potential sites has been developed, with Global Energy Group expected to be in a position to use customs site status first, at its site at the Port of Nigg.
- Significant and collaborative efforts to help developers navigate **planning** challenges, including via integration with the Council's Place Based Approach, dedicated up-front advice and work with statutory Key Agencies and other external stakeholders.
- A plan to harness the transformative and once-in-a-generation opportunity for the Highlands to be a global leader in **innovation**, with particular focus on offshore wind, hydrogen, maritime & port innovation and life sciences. This will be achieved by accessing expertise from the existing innovation ecosystem, from new entrants attracted to ICFGF sites, and co-ordinated by our PowerHouse function, which has been established to grow innovation capacity, co-ordinate innovation support and lead on skills development.
- A **trade & inward investment** strategy, to attract investment to the ICFGF and wider region. The strategy, which will have dedicated resources, will complement, but not duplicate, support mechanisms already available by public sector agencies and departments, and involve work in partnership with the UK and Scottish Governments, Highlands & Islands Enterprise and the Highland Council.
- A **Ten Point Plan for Skills** to ensure we fully realise the jobs and skills opportunity by addressing gaps in labour supply and mitigating the risks of employers experiencing skills shortages. National Insurance Contributions (NICS) relief will be reinvested into a training and skills development fund, the total size of which may be up to £30m. A Green Freeport **Fair Work** Charter has been developed and all owners of tax site land will be required to adopt it.
- A draft **Decarbonisation Plan**, setting out how ICFGF can exploit opportunities to address the climate and ecological emergency to significantly accelerate sustainable economic growth whilst increasing local and national resilience. This includes a target to achieve a carbon payback outcome by 2032-33.

These actions and interventions represent a coordinated, deliverable strategy to realise ICFGF's key objectives: regeneration & high-quality job creation, decarbonisation & a just transition to a net zero economy, hubs for global trade & investment and an innovative environment.

They also support the delivery of two SMART targets that ICFGF has set for itself: the first around delivering the Government's UK 60% content target for at least 1 GW per annum of FLOW capacity (which, at 2022 prices, implies annual GVA of some £2bn p.a., with operations and maintenance activities on top), and the second relating to creating sufficient high quality long-term jobs to halt and then reverse the historic and forecast decline in the Highlands' working age population by the mid 2040s.

Finally, our plan builds on the Highlands' core strengths and address its challenges, both today and in the future, and ensures the benefits of a Green Freeport will be realised across the ICFGF geography and more widely across the Highlands, Scotland and the UK.

Economic Case

An economic impact assessment has been carried out on a range of ICFGF options, including different amounts of seed capital, and the impact of an extension to the tax window equivalent to what is being explored in England. These have been compared against a 'no Green Freeport' reference case.

Options in which the Green Freeport is progressed with a maximum seed capital ask (£25m) are demonstrated to offer best value for money at an acceptable level of affordability and risk. Under this option, £3.4bn of investment (in present value terms) could be delivered in 25 years, a figure that could be around £1bn higher with a 10 year tax site designation.

Without a Green Freeport, depopulation would continue and many on-site jobs would be fulfilled by contractors rather than permanent staff. Green Freeport measures, including seed capital, makes growth much more inclusive, delivering many more permanent and higher income jobs.

The potential pipeline of development on tax sites could attract around 16,500 long-term jobs for the UK, 10,250 of which would be in the Highlands. These figures focus on jobs created through the delivery of the proposed tax sites. With broader initiatives in the area connected with the growth in green energy it is hoped that the levels of job creation will go further still. These estimates include all operational jobs on tax sites, construction employment, their indirect supply chain impacts as well as the induced impacts from the spending of wages and salaries in the wider economy.

Financial Case

Tax sites measures will be the primary driver of investment across the Green Freeport. Following extensive work with tax site landowners and potential developers, it is estimated that over £3bn could be invested in core propositions on tax sites within the Green Freeport over 25 years. It is reasonable to expect that the overall investment figure will increase significantly beyond this time frame.

The £25m in Green Freeport seed capital funding will be deployed to support this, complemented by £12m in further public funding and over £200m in private sector funding, contributing to a total spend in excess of £260m on these specific projects.

For its part, ICFGF Ltd has developed a robust and cost-effective budget which reflect the activity needed to meet its objectives and the requirements of the UK and Scottish Governments. The funding strategy to meet these costs falls into two phases:

- Prior to tax site designation, short term set-up phase support is provided in the form of government capacity (RDEL) funding and contributions provided by consortium partners.
- Thereafter, mature term ongoing revenues will be sourced from levies from landowners via Tax Site Delivery Agreements (TSDAs), topped up where necessary by contributions from incremental retained NDR.

The capacity (RDEL) funding from Government provides funding to resource the ICFGF team and, alongside the contributions being made by our consortium partners, is critical to help meet Setup Phase costs in the period prior to the receipt of the ongoing landowner levies and the build-up of retained NDR.

These arrangements will ensure that the Government's capacity funding is deployed in a prudent manner to meet genuine Green Freeport Company costs in the critical early years of operation. This will also help the Green Freeport protect its pool of retained NDR so that it can be utilised for its primary purpose which is to fund programmes and initiatives such as regeneration, local skills, innovation, Net Zero, trade and investment as well as infrastructure upgrades.

Commercial Case

As most of the land within ICFGF tax sites is owned by private parties, a mechanism is required to:

- provide landowners, operators, end-users and investors with incentives and structures to deliver additional net growth and other outcomes in return for the tax benefits on offer, and

- give the UK and Scottish Governments confidence that a robust strategy is in place to ensure that public investment will realise the intended economic and social potential of the Green Freeport offer.

The first step has been designing a tax site proposition that will avoid displacing investment from elsewhere by targeting propositions with clear evidence of net additional inward investment. Going forward, 'Tax Site Delivery Agreements' (TSDAs) are the key mechanism for ensuring delivery of outcomes on tax sites. Through TSDAs, which must be in place before a tax site is designated, landowners will commit to using reasonable and commercial endeavours to ensure that their land is, as soon as reasonably possible, developed for uses that generate genuine additional economic activity.

TSDAs also include a mechanism for contributions by landowners to the Green Freeport Company to support its sustainable operation and wider supporting programmes (such as the Skills Fund) also addressing potential value leakage. Finally, it commits them to signing up to our Fair Work and Net Zero and Sustainability Charters.

Management Case

Opportunity Cromarty Firth was established in March 2020 and initially operated as an informal partnership of public and private sector stakeholders working together to develop the proposal for ICFGF. Following the award of Green Freeport status in January 2023, it transitioned into an incorporated entity, responsible for the governance and management of the Green Freeport.

The Company's Board currently consists of representatives of 5 of the 6 Company members, a director nominated by the final member, Highland & Islands Enterprise, plus an independent Chair. Following the submission of the OBC, the Board will evolve to ensure participation of a broader representative group. Consortium members shall have the opportunity to become members of the Company and will have a role in the appointment of two of the directors on the Board.

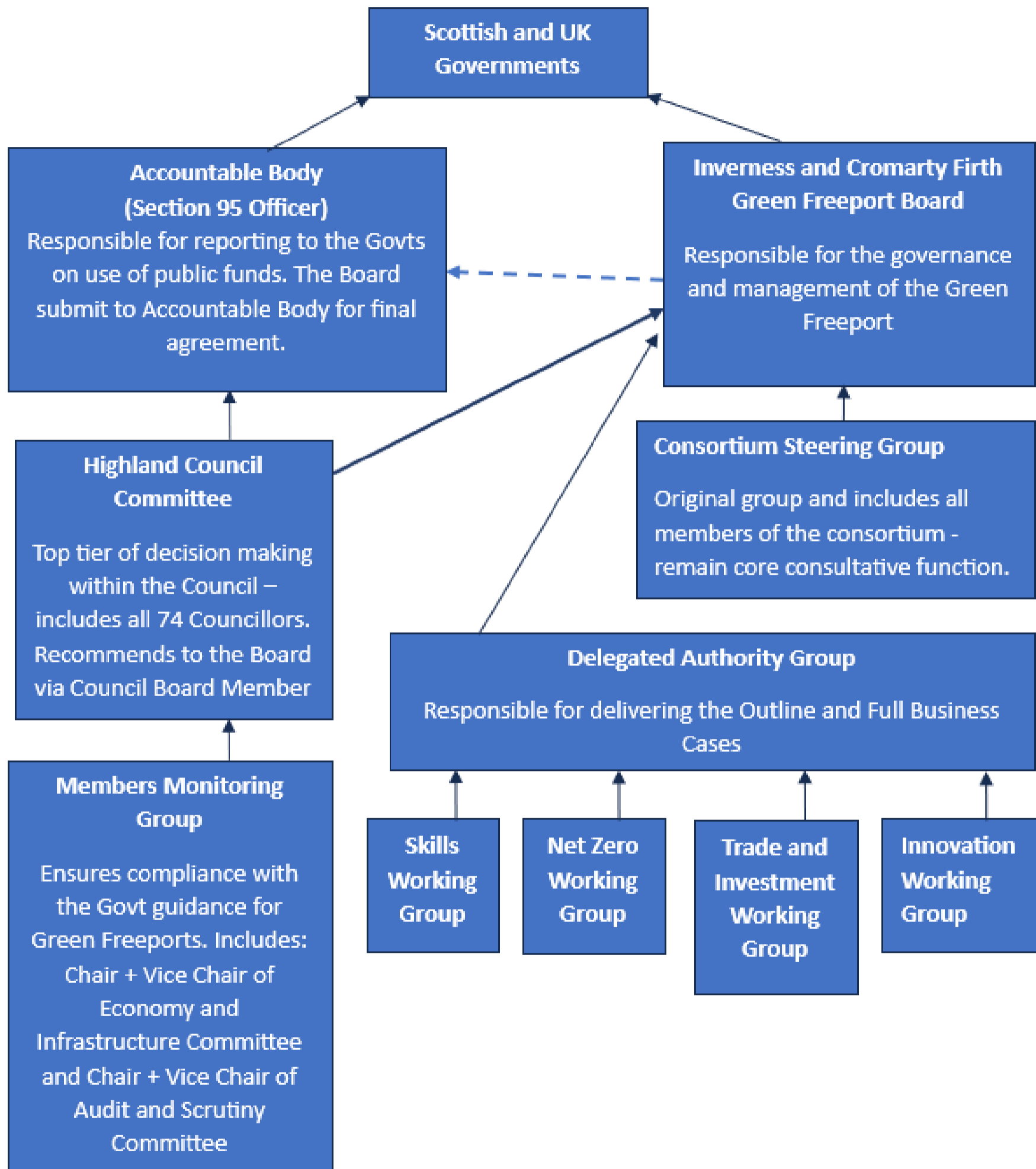
The Highland Council fulfils the role of Accountable Body for ICFGF, meaning it is accountable to Government for the expenditure and management of centrally funded public money – including capacity (RDEL) funding, seed capital investments and retained NDR.

An experienced Chief Executive Officer has recently been appointed and is putting together a compact and dedicated team of five full time members of staff, with the potential for a further two roles within the PowerHouse in subsequent years. Amongst the many activities that this team will be responsible for are:

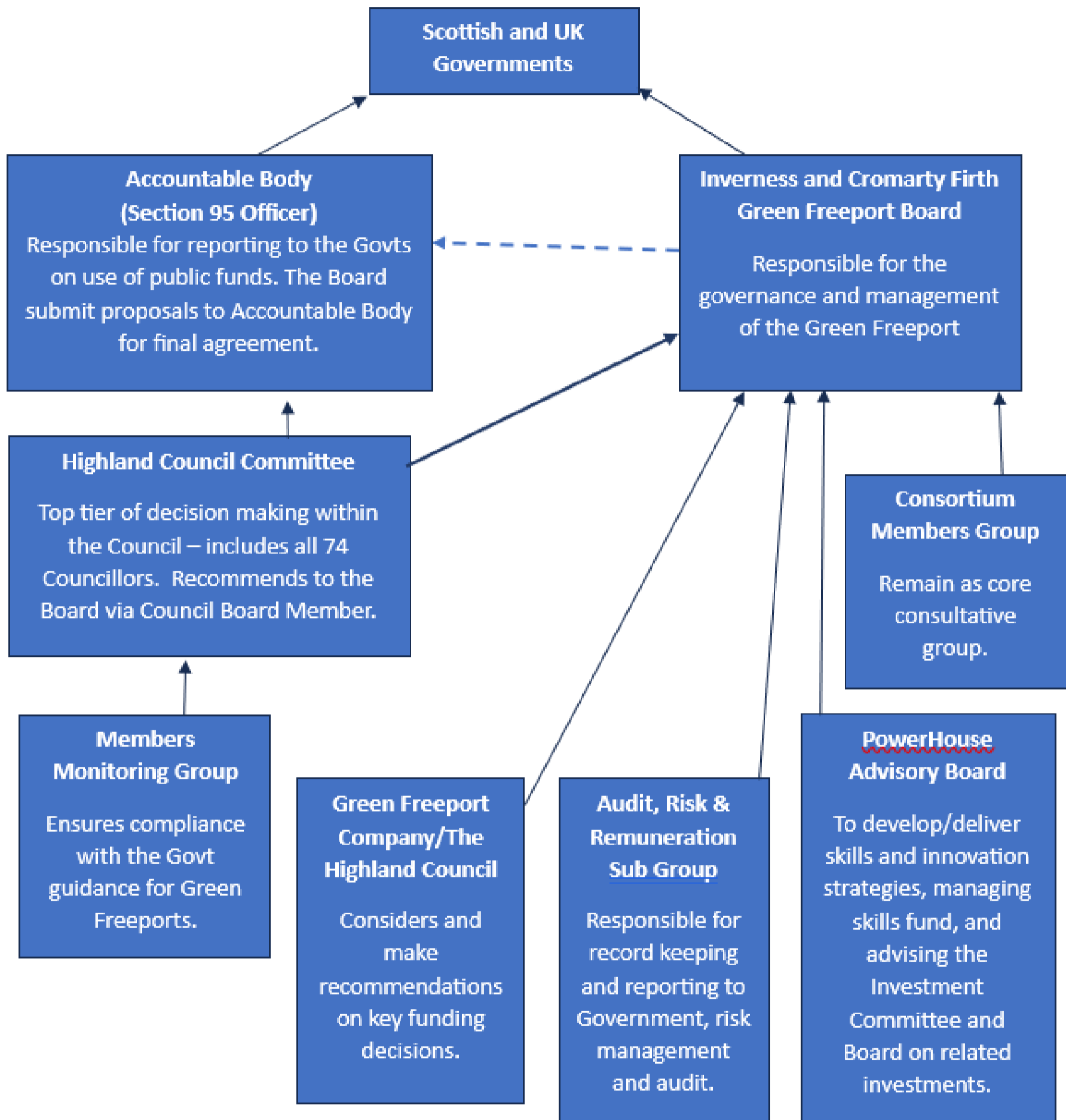
- stakeholder engagement and communication (including identifying key partners and continuing to develop key messages and branding for ICFGF),
- identifying, assessing, mitigating and managing risk, and
- complying with the UK and Scottish Governments' monitoring, evaluation, reporting and assurance requirements.

Appendix 2 – Governance Diagrams

Current Governance Arrangements



Proposed Governance Arrangements when Operational



Appendix 3

Inverness and Cromarty Firth Green Freeport (ICFGF) ICFGF Members Monitoring Group – Terms of Reference

A ICFGF Members Monitoring Group ('the Group') will be established and made up of ten Members appointed to reflect political balance and including the Chair and Vice Chair of Economy and Infrastructure Committee and Chair and Vice Chair of Audit and Scrutiny Committee.

It is proposed that the Group, with delegated responsibilities from the Council, will ensure compliance with the Scottish and UK Governments guidance for Green Freeports and in doing so will:-

- monitor and scrutinise programme progress; and
- ensure the tasks associated with being the accountable body are carried out effectively.

Other monitoring and scrutinising responsibilities in relation to the programme progress include:-

- ensuring mechanisms are in place to monitor the progress of all ICFGF projects and programmes against agreed milestones;

- ensuring mechanisms are in place to allow for the effective scrutiny of the delivery of benefits and outcomes of projects;
- ensuring mechanisms are in place to enable the effective management of risks and issues;
- authorising mandatory and other reports to Government;
- receiving reports on progress against milestones; performance against budgets; the management of risks/issue and the delivery of benefits and expected outcomes; and,
- instructing changes to working practices based on performance of the programme as evidenced in reporting above.