

## ABERDEEN CITY COUNCIL

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| <b>COMMITTEE</b>          | City Growth & Resources  |
| <b>DATE</b>               | 11 May 2021  |
| <b>EXEMPT</b>             | Appendix 1 to the report is exempt under paragraph 6 of the Act as it contains information relating to the business affairs of third parties |
| <b>CONFIDENTIAL</b>       | No   |
| <b>REPORT TITLE</b>       | Results of Report on the Feasibility of an Aberdeen Region Greenport Bid   |
| <b>REPORT NUMBER</b>      | COM/21/121   |
| <b>CHIEF OFFICER</b>      | Richard Sweetnam   |
| <b>REPORT AUTHOR</b>      | Richard Sweetnam; Jamie Coventry   |
| <b>TERMS OF REFERENCE</b> | 3.2 and 3.3  |

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### 1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update the Committee on the results of a feasibility study on a city region freeport/greenport model.

### 2. RECOMMENDATION(S)

That Committee:-

- 2.1 Notes the high level results of the Feasibility Study on a city region freeport model;
- 2.2 Based on the final prospectus guidance published by the Scottish Government, and the invitation to bid, notes that a decision on whether to bid rests with port operators;
- 2.3 Subject to decision making processes by potential operators, supports the development of a single regional bid from the Aberdeen City Region;
- 2.4 Notes that a formal governance is not required at the time of a bid and that the informal steering group involving officers of the Council will continue to assess the case for a bid, if a decision is made to proceed, in the form of an agreed 'co-operation plan';
- 2.5 Agrees that Aberdeen City Council is represented on any subsequent formal governance at implementation stage if there is a successful bid, and that one of the Council Co-Leaders is the Council's representative; and
- 2.6 Instructs the Chief Officer - City Growth to report back to this Committee on the development and outcome of any proposals if they progress.

### 3. BACKGROUND

- 3.1 The Aberdeen Harbour Extension is nearing its completion and will include a new South Harbour 7,300m in length. It will be able to accommodate vessels of up to 300m and more. The new facilities will create new opportunities for energy transition activities, including renewables and decommissioning, and tourism opportunities around the North Sea.
- 3.2 A phased opening of the Harbour expansion is anticipated in the early part of 2022 with a full opening by October 2022. The project is supported by ACC and Aberdeenshire Council as part of their commitments to the City Region Deal, that in turn is delivering transport investment on road improvements that maximise the economic impact of the expansion project.
- 3.3 In May 2020, the officers responded to a consultation by the UK Government on freeports in the UK. This focused on views on the freeport model, technical aspects in relation to port operations, tax and customs, and economic development benefit.
- 3.4 Following that consultation, in November 2020, the UK Government published its Freeport Bidding Prospectus. It committed to establishing freeports in each of the four UK nations targeting 10 across the UK, working with each of the devolved administrations. As a result, the November prospectus related to bids from within England only.
- 3.5 At the same time, the Scottish Government has been considering the implications of Freeport policy in Scotland. It issued a consultation exercise on the Contribution of Place Based Economic Development Zones in December 2020, and officers responded to this. Based on the consultation exercise, the Scottish Government announced that instead of free ports, Scotland will introduce sustainable, fair, green ports that would help deliver the Scottish Government's net zero and fair work principles alongside supporting regeneration and innovation ambitions. A draft guidance was published by the Scottish Government in March 2021 and in response, officers have been discussing with Scottish Government officials the likely process and guidance as relates to Scottish bids. The table below summarises the overall policy focus based on the guidance issued by the two governments.

**Table 1: Freeport/ Greenport Model – UK Government and Scottish Government Policy Focus**

| <b>UKG – Freeport Guidance</b>  | <b>SG – Greenport – anticipated</b>   |
|---|---|
| 1. Trade hubs – global – increased trade  | 1. Establish hubs for global trade and investment   |
| 2. New inward investment – increased investment with a focus on emerging clusters, including support to businesses that further the UK's climate change targets/ Net Zero ambitions | 2. Contribute to a just transition to a net zero economy - This should include a view of any investment projects that the green port could help to deliver and a view of the sectors they will target within the region |

| <b>UKG – Freeport Guidance</b>   | <b>SG – Greenport – anticipated</b>   |
|--|---|
|  | <p>Achievable action-focused plans for decarbonisation in support of a net zero economy</p> <p>Applicants will be required to set up a robust and ambitious transition plan to show how they will contribute to making a just transition towards a net zero economy.</p>  |
| 3. Regeneration and job creation – Levelling up the economy  | 3. Promote regeneration and job creation through inclusive and sustainable growth   |
|  | <p>4. Drive fair work practice</p> <p>Community Wealth Building approach</p> <p>And for the region and energy, principles of a Just Transition</p>  |
|  | 5. Foster an innovative environment   |
| <b>Within which:</b>   |   |
| Skills – based on the needs of locating firms and up-skilling needed   | <p>Develop sectoral clusters. Align the skills available in the local labour market to the needs of the firms and sectors being targeted by the green port, including support for upskilling in line with local and national skills strategies</p> <p>Bids expected to become Scottish Business Pledge signatories upon being awarded green port status</p>   |
| Innovation hubs – port related (eg digital or supply chain/ transport); non-port related (eg key sector, manufacture); R&D, HE collaboration, productivity gains | <p>Same categorisation between port and non-port</p> <p>Ambition to attract new anchor firms should be underpinned by a Community Wealth Building approach. Evidence should be presented of how an applicant intends to encourage new enterprises to e.g. recruit locally and procure goods through local supply chains and achieving an embedded Fair Work First approach into successful bids</p> |

| <b>UKG – Freeport Guidance</b>   | <b>SG – Greenport – anticipated</b>   |
|--|---|
| Multi-site – eg tax, customs, planning (eg permitted development), business rates relief, local business rates retention for 25 years to reinvest in regeneration and infrastructure | <p>As with the UK Government’s model, the incentives and support on offer to Scottish green ports will be a mixture of reserved and devolved tax benefits and other support.</p> <p>Evidence of new private sector investment – either from commercial property developers serving those sectors or from occupiers themselves</p> <p>Masterplan consent areas, enterprise areas</p> |

### **Spatial Area**

- 3.6 Bidders need to define an outer boundary for the Freeport Zone, with detail on the tax or customs sites and any planning or economic development measures for each site. This means that within the outer boundary, multiple sites can exist but they must contribute to the overall objectives of the Freeport/ Greenport policy itself. The furthest permitted distance between any two sites within the same Freeport is 45km. Any tax sites should encompass a single site within the Zone of no greater than 600 hectares, or up to 3 individual sites aiming to be between 20-200 hectares. All proposals for sites or inward investment into a Freeport/ Greenport area will need to submit full environmental impact assessments for the proposals as part of the business case.
- 3.7 An indicative schedule of the potential sites within the 45km outer boundary is provided in Appendix 1. This information cannot be published as it could form part of a bid if the decision to proceed is made; and could affect investment decisions in relation to that land and uses in future.

### **Governance of bids**

- 3.8 Port operators are key to a bid, but both governments expect local government and wider regional stakeholders to form part of any bidding process and support the proposals of a Freeport/ Greenport in their areas. Bid proposals are therefore expected to set out strategies and plans within the economic geography and links to local academic institutions to facilitate skills development. Although a formal governance is not required to be in place at the time of a bid, it is anticipated that informal steering groups to help bring involved parties together, in the form of an agreed local ‘co-operation plan’, that shapes bids collaboratively with supporting statements for implementing place-based planning approaches.
- 3.9 If a decision is made to bid, and that bid was successful, the Council would be represented on any formal governance to deliver a Greenport.

## **Process**

- 3.10 Bids from English applicants were received in February 2021. On March 2 2021, the UK Government announced that eight freeport locations with economic zone status in England had been selected: Thamesport, Felixstowe and Harwich, Humberside, Liverpool City, Plymouth, Solent, Teesside, and East Midlands Airport. Successful bidders will now submit 'HM Treasury compliant' outline business case on the proposals, the financial implications and confirm when a full business case will be completed.
- 3.11 Officers anticipate that following the formation of the new Scottish Government following the May election, the next steps would be for the Scottish Government to publish its final guidance and an application prospectus for Greenports in Scotland. This may suggest that bids would be developed over a three month period and invited around August/ September 2021 at the earliest, with potential successful bid(s) being announced in Autumn 2021. Actual implementation of a Greenport would be from 5 April 2022.
- 3.12 Officers understand that the intention for the UK Government and the Scottish Government is to agree a joint prospectus, a joint assessment of submitted bids and therefore a joint decision making process. Ultimately ministers will make that final decision, but given the nature of freeport policy, and that tax and customs are reserved matters with decisions made by the UK Parliament at Westminster, at this point officers anticipate that the intention is for a joint initiative.

## **City Region Response to Call for Bids**

- 3.13 In response to the UK Government call for bids and the anticipated invitation from the Scottish Government, in January 2021, Aberdeen Harbour Board, on behalf of the Council, Aberdeenshire Council and Peterhead Port appointed consultants to undertake a feasibility study that would establish the feasibility of a regional freeport model, that in turn would inform the decision making processes of each of the stakeholders on whether or not to undertake further work on the proposal. The research has been overseen by the Chief Executives of the Council, Aberdeen Harbour Board, Aberdeenshire Council and Peterhead Port Authority with a Steering Group drawn from technical leads within the partners. Aberdeen International Airport, as a regional port operator, also participated in the study.
- 3.14 The objectives of the study were to:
- Provide a feasibility study to inform any decision on bid/no bid from port operators in the Aberdeen and Aberdeenshire council areas.
  - Review UK Government and Scottish Government objectives, and policy proposals in respect of Freeport/Greenport. •
  - Engage with local stakeholders to understand current activity and aspirations for regional development, with a focus on key sectors that might benefit from a model
  - Assess potential for Freeport/ Greenport model to assist in delivery of regional economic development objectives.
- 3.15 The consultant's report is provided in an exempt appendix to this report. It is exempt as it contains information that relates to the business affairs of third

party operators, and the regional model that would form the basis of a competitive bidding process if a decision is made to proceed.

#### 4. ANALYSIS – KEY FINDINGS

4.1 The following sections provide an overview of the findings of the feasibility study.

##### Customs

4.2 Customs levers are customs policy elements which will apply to movements of goods through the Greenport. They may provide duty or customs formality mitigations to impacted businesses benefitting these businesses financially. Such benefits depend upon the type of goods/materials, the value of goods moved, the number of discrete shipments of goods, the origin of goods, the customs procedures used, the destination of goods (e.g. re-export), and other factors. Key customs levers available to operators within a Greenport are summarised in the table below:

**Table 2: Benefits of a Greenport – Customs sites**

| Potential Benefit                    | Benefit Detail  |
|--------------------------------------|---|
| Duty deferral                        | Payment of duties can be deferred where goods are initially entered into a Freeport customs site before being imported into the UK  |
| Duty inversion                       | Where manufactured products have a lower duty rate than component materials, the manufacture of products within a Freeport customs site can result in a level of duty relief to the ultimate Importer as well as the manufacturer                 |
| Duty exemption                       | Products which are entered into a Freeport customs site and are subsequently re-exported (or ultimately remain there) without entering UK free circulation, can be shielded from duty payments entirely   |
| Reduced customs formalities          | The UK Government intends to introduce streamlined customs formalities to enable businesses to reduce the administrative burden for businesses moving goods into or out of Freeport customs sites   |
| Regulatory formality simplifications | Depending on the policy options presented by the UK Govt. / devolved administrations, additional simplifications with respect to regulated goods entering the Freeport may be possible, facilitated by the Freeport Regulation Engagement Network |

4.3 There are numerous potential implications that may arise from a customs perspective that at this stage have not been modelled and are therefore difficult to monetise or quantify. However, analysis on a sectoral basis found that there are some benefits to business locating in a Greenport originating from customs incentives summarised in the Table below.

**Table 3: Sector beneficiaries – Customs sites**

| <b>Industry</b> | <b>Benefit Assessment</b>  |
|-----------------|--|
| Oil and Gas     | Many duty reliefs already available through existing customs procedures, so benefits would be limited but could include administrative simplification  |
| Fishing         | Unless non-UK or EU origin fish being landed, likely minimal duty impact of customs levers. If finished product is imported into UK post-processing, likely higher duty rate than raw material |
| Hydrogen        | Duty exemption benefit for development of hydrogen site could be significant if based outside UK customs territory. If within UK customs territory, duty deferral or inversion may be achieved |
| Offshore Wind   | Where processing of Rest of World goods occurs in Greenport and is dispatched to offshore wind farm, duty benefits (exemption / inversion) possible  |
| CCUS            | Simplified administration may benefit CO2 imports and exports where no UK FTA is available, in addition, where goods being are re-exported, significant duty exemptions possible               |
| Other           | Will be completely dependent on businesses operating in Greenport. Could attract other distribution and manufacturing businesses.  |

**Tax**

4.4 A range of tax levers are also available in designated tax sites within the geographic boundaries of the Greenport. These are likely to be highly attractive to businesses, particularly those planning on making capital expenditure, or who will have a substantial workforce. The tax levers available include those reserved with the UK Government:

- **Capital Allowances:** An amount of depreciation on an asset that is deductible in computing a business' taxable profit. For Plant and Machinery within a Greenport the whole amount (i.e. 100%) of the expenditure is deductible in the first year of the expenditure, compared to 18%. For Structures and Buildings within a Greenport, 10% of the expenditure is deductible each year, compared to 3%.
- **Social Security:** Employers are charged Employer's National Insurance Contributions at a rate of 13.8% above an amount of £9,500 per annum. Under the Greenport rules, the employers would only pay Employer National Insurance Contributions on amounts above £25,000.

4.5 The tax levers also include those devolved to the Scottish Government

- **Land and Buildings Transaction Tax:** This is a tax applied to land and buildings transactions (including commercial purchases and commercial leases). Charges are proportionate to the price of the property. For example, a transaction in land with value of £10m would normally give rise to a LBTT liability of approximately £0.5m, which would not be payable inside the tax site within the Freeport.

- **Business rates:** These are a tax on non-domestic property and are payable to the local authority. Property in the tax site within the Greenport would be (expected to be) exempt for five years.

4.6 Under the UK government freeport bidding prospectus councils in which the Freeport tax sites are located will retain the business rates growth for that area above an agreed baseline. This will be guaranteed for 25 years, giving councils the certainty, they need to borrow to invest in regeneration and infrastructure that will support further growth. It is not yet clear whether this could apply in any Scottish Government Greenport Bidding Prospectus.

4.7 From an inward investment perspective, the feasibility estimates that as a proportion of an investor's capital investment costs, there would be around a 20% benefit of investing in the Greenport compared to outside of it. The benefits accrued as follows, around 25% from capital allowances, 20% from social security and 55% from LBTT and business rates.

### **Economic benefits**

4.8 The benefits above accrue within business/ operators. However, as a result of Freeport/ Greenport status, there would be a wider economic benefit to places, in the form of jobs and prosperity as measured by Gross Value Added (GVA). Based on assumptions on the economic impact of potential development in the city region, these estimates have been scaled up (based on land area) to the potential tax zone areas within the Greenport, and this could equate to up to 22,000 new jobs.

4.9 The ex-ante assessment of submissions to the English round also act as a reference point. Although none are directly comparable – the bids from Liverpool, Teesside and Felixstowe and Harwich appear most comparable from an industry sector offer. This would indicate a tighter range of 13,500 – 18,000 net jobs in these freeport zones.

4.10 Taken together these imply that a range of 14,000 – 22,000 net additional jobs could be generated in the region as a result of a special economic zone, with tax and customs incentives, in the form of an Aberdeen Regional Greenport.

4.11 To corroborate these indicative estimates, industry specific job densities have been applied to sites/ occupancy within a potential Greenport area, and confirm the estimated range above.

### **Next Steps**

4.12 The feasibility study confirms there are grounds to investigate further the development of a bid, subject to both clarification of the Scottish Government criteria; and, based on this, confirmation by the port operators. From the perspective of the Council, if the port operators want to proceed with a bid, that would explain how a place-based approach is being used to support greenport objectives at a regional level. For the city region, officers have estimated a potential 'critical path' for the development of a bid if a decision to proceed is made by the port operators:

- Scottish Government publishes final prospectus and invitation to bid – May 2021;
- Subject to the final content of that prospectus, port operators undertake due diligence to make a decision on whether to proceed with submission of bid – May 2021-July 2021;
- If a decision is made to bid, formation of a 'bid team' from across the partners and stakeholders to coordinate the response to each element of the bid – June 2021;
- If a decision to bid is made, further appraisal of the precise location and size of customs sites and tax zone(s) that would allow for an assessment of the likely tax benefits which would in turn inform the final economic benefits calculation – July-August/ September 2021;
- Subject to that – operators make final decision to bid – August/ September 2021.

## **5. FINANCIAL IMPLICATIONS**

- 5.1 There are two implications arising from this report: the costs of progressing a bid, if that is the decision made by the port operators; and secondly, the implications on the operators of becoming a Freeport/ Greenport zone.
- 5.2 On the first, if a bid is to be developed, there are a number of areas of work that are anticipated to be needed – site details, security and infrastructure arrangements at customs and tax sites, further economic modelling, rationale, and displacement assessments, evidence of commercial demand and bid management. Officers anticipate that there would be costs for any external work that would need to be procured. In addition, it would be anticipated that the Council would provide staff resource to support any bid application.
- 5.3 At this stage, if the Council was to contribute to external support, the amount would depend on confirmation from operators that they would want to proceed (based on the final prospectus issued by the Scottish Government). At this stage in the process it is not possible to confirm the final amount the Council could contribute along with other partners and/ or industry stakeholders, but it would be funded through the approved budget for City Growth.
- 5.4 On the second, and as part of the next phase of work, port operators included in a bid would be expected to incur additional capital or infrastructure costs and ongoing revenue costs if they were successful. The UK Government Prospectus on Freeports recognises this liability for 'seed capital funding' and has ear marked £175m to support such investment, subject to the submission of business cases. At this stage, for Scotland, the UK Government and Scottish Government expects proposals to be focused primarily on land assembly, site remediation, and internal small-scale transport infrastructure to connect sites within the greenport area to each other, the immediate surroundings or other economic assets within the Outer Boundary. Proposals for spending seed capital on skills, digital and/or other infrastructure will only be considered in exceptional circumstances. Seed capital may not be spent on security infrastructure for customs sites.

5.5 While bids should summarise the costs of delivering their proposal, as well as the source of funding (e.g. greenport seed capital), there is no clarity at this point on the scale of funding that could be available in Scotland. Officers will look to identify any sources of funding and outline how the greenport proposals could be complemented by the two governments using existing or additional upcoming funding rounds for further development/ feasibility. Guidance suggests that although the greenport proposal should be viable without these additional sources of unsecured funding, government may choose to align allocations across funds where objectives and timing allows.

## 6. LEGAL IMPLICATIONS

6.1 As highlighted above, co-ordination from local government is anticipated so that any bid is aligned to other city and regional priorities – eg post-COVID-19 economic stimuli and recovery measures, regional economic strategy objectives. If a bid is progressed and is successful, a formal governance structure will need to be set up then it is recommended that the Council is a formal member and is represented by the Council Co-Leader.

## 7. MANAGEMENT OF RISK

| Category                     | Risk   | Low (L)<br>Medium (M)<br>High (H) | Mitigation  |
|------------------------------|--|-----------------------------------|---|
| <b>Strategic Risk</b>        | Proposal does not meet Council priorities  | Low                               | Proposal directly supports inward investment plans for the city region  |
| <b>Compliance</b>            | The proposal does not meet statutory or regulatory processes                                 | Low                               | The next phase and any submission if it proceeds will be consider legal implications relating to subsidy control, trade, tax and planning                 |
| <b>Operational</b>           | N/A  | N/A                               | N/A   |
| <b>Financial</b>             | The Council is required to contribute to operational costs                                   | Low                               | The Terms of Reference for a Regional Operator will be developed if a bid is successful and will establish the extent of member liability and commitments |
| <b>Reputational</b>          | N/A  | N/A                               | N/A   |
| <b>Environment / Climate</b> | The Council is not supporting its Net Zero Vision, route map or energy transition priorities | Low                               | The feasibility study, and therefore any bid if it is to proceed, is likely to create new investment opportunities in key energy industry sectors         |

## 8. OUTCOMES

| <b><u>COUNCIL DELIVERY PLAN</u></b>                 |   |
|---|---|
| <b>Impact of Report</b>                             |   |
| <b>Aberdeen City Council Policy Statement</b>       | <p>Supports the Aberdeen Harbour Expansion and to explore feasibility for a city region freeport/ greenport model to maximise commercial and economic opportunities from the expansion</p> <p>Working with both Governments to maximise non-oil and gas potential and attracting new inward investment in energy transition activity</p>  |
| <b>Aberdeen City Local Outcome Improvement Plan</b> |   |
| Prosperous Economy Stretch Outcomes                 | Proposals directly contribute to skills, employability and jobs outcomes that support the Prosperous Economy section of the LOIP.   |
| Prosperous People Stretch Outcomes                  | The proposals will generate opportunities to improve skills and training activity in priority locality planning areas.  |
| Prosperous Place Stretch Outcomes                   | The proposals would directly support the city region's competitiveness and contribution to climate change targets   |
| <b>Regional and City Strategies</b>                 | The proposals within this report support the Regional Economic Strategy (Infrastructure, Internationalisation, Innovation and Inclusion priorities) and the investments made under the Aberdeen City Region Deal and will also contribute to work being led by Skills Development Scotland on ensuring the city region is at the forefront of and capitalises from upskilling opportunities within energy transition activity |

## 9. IMPACT ASSESSMENTS

| <b>Assessment</b>                        | <b>Outcome</b> |
|--|----------------|
| <b>Impact Assessment</b>                 | Not Required   |
| <b>Data Protection Impact Assessment</b> | Not Required   |

## 10. BACKGROUND PAPERS

- 10.1 Economic Policy Panel 2020 Report COM/21/026 and Committee instructed the Chief Officer City Growth to work with the UK Government, Scottish Government, Aberdeen Harbour Board and other stakeholders on a feasibility study of a city region Freeport and report back to this Committee on 11 May.

## 11. APPENDICES

- 11.1 Appendix 1: Confidential: Aberdeen Region Greenport Feasibility Study

## 12. REPORT AUTHOR CONTACT DETAILS

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**APPENDIX 1: ABERDEEN REGION GREENPORT FEASIBILITY  
STUDY**