

AYRSHIRE REGIONAL ECONOMIC PARTNERSHIP BOARD

29 JANUARY 2021

FREEPORTS

Report by the Chief Executive, North Ayrshire Council

PURPOSE OF THE REPORT

The purpose of this report is to update the Board on developments regarding the establishment of Freeports in the UK, including the Ayrshire response to the recent Scottish Government consultation on economic development zones including Freeports.

FREEPORTS

Background:

1. The potential development of Freeports in the UK has long been of interest to Ayrshire Growth Deal partners given the significant connectivity infrastructure in the region including Prestwick Airport, ports, and road and rail connections, as well as the Ayrshire's strategic location, the availability of land and sectoral strengths in manufacturing.
2. A Freeport is an area inside the geographic boundary of a country where goods can enter and re-exit the port without incurring usual import procedures or tariffs. In most cases, goods brought into a Freeport do not attract a requirement to pay duties until they leave the Freeport and enter the domestic market – and no duty at all is payable if they are re-exported. The proposed UK model will also consider extended Special Extended Zones (SEZs) located within or away from a port where flexibilities and additional incentives similar to those in Enterprise Zones, as well as wider tax or planning incentives, could apply. Seven Freeports operated in the UK at various points between 1984 and 2012 including one at Prestwick Airport. A number of regions and port operators throughout the UK have signalled interest in the Freeport proposition, including Tilbury and London Gateway, Teeside, Liverpool, South Wales, and Cromarty Firth.
3. The UK Government's Department for International Trade launched a consultation exploring stakeholder views regarding the establishment of up to 10 Freeports across the UK which ran until 13 July 2020. The consultation document 'Freeports Consultation: Boosting Trade, Jobs and Investment Across the UK' states that the UK Government wants Freeports *'to enhance trade and investment across the UK, boost growth and high-skilled jobs, and increase innovation and productivity in our port regions, particularly those situated in or near deprived areas'*, and outlines the UK Government's policy objectives for Freeports:
 - *establish Freeports as national hubs for global trade and investment across the UK:* intensify the economic impact of our ports by enhancing trade and investment and generating increased economic activity across the UK;
 - *promote regeneration and job creation:* create high-skilled jobs in ports and the areas around them, prioritising some of our most deprived communities to level up the UK economy; and
 - *create hotbeds for innovation:* create dynamic environments, capitalising on new ideas and fostering the conditions that will attract new businesses, investors and innovations.

4. Following the consultation, the UK Government have subsequently launched a competitive bidding process only applying to England, on 16 November 2020. The UK Government intends to make at least seven designations in England in Spring 2021, with the first sites established by the end of 2021. This process does not cover Scotland or the other devolved nations. The UK Government has outlined that it intends to work in partnership with the devolved administrations in the UK to develop proposals which enable the creation of Freeports in all nations of the UK and the recent UK Government Comprehensive Spending Review in November included a commitment to at least one Freeport in Scotland.
5. At its meeting in September 2020, the Board noted the Ayrshire response to the above UK Government consultation and agreed to take a cautious position on the development of Freeports, with tests requiring to be met in the areas of: delivering economic benefit; rebalancing the economy; preventing illicit activity; protecting public finances; and respecting devolution.
6. The Scottish Government launched a consultation on economic development zones including Freeports which ran until 20 December 2020. The consultation focused on the current benefits of, and future requirements for, place-based economic development initiatives and zones, including Enterprise Areas (which have been extended until March 2022, albeit not the Enhanced Capital Allowance incentives which is available at only some EA sites and provided by the UK Government), Cluster Development and the Assisted Area Map, amongst other incentives. The consultation also sought views on the potential impact of the Freeport model. A joint Ayrshire response was submitted and is attached within Appendix 1 of this report, with the key points of this response highlighted below:
 - An 'Enhanced Enterprise Zone' offer across multiple strategically important sites in the region aligned with Ayrshire Growth Deal investment could have benefit in attracting investment, encouraging local business growth and resilience, providing job opportunities for local communities, and supporting regional rebalancing.
 - This could include the following incentives: Continuation and geographic expansion of Enhanced Capital Allowances and Enterprise Area incentives; potential to offer Masterplan Consent Areas; an Enabling Infrastructure Fund for these strategic sites; enhanced Scottish Government and Enterprise Agency support to attract and facilitate inward investment and local business expansion on these sites aligned to principles of Community Wealth Building and net zero.
 - The region has significant national economic assets that must be recognised as such and can play an important role in the longer-term resilience and wellbeing of Scotland.
 - The Ayrshire Regional Economic Partnership has agreed on the need for any Scottish Freeport proposition to provide real safeguards against displacement, the exacerbation of existing regional inequalities, the potential for illicit trade and criminality, dilution of worker's rights and a compromise of environmental standards.
 - Detail is required on the type of allocation policy that Scottish Government would put forward for potential Freeports in Scotland. Displacement is a major

concern for Ayrshire and having the right processes and procedures in place to avoid this is imperative.

Next Steps:

7. It will be critical that the Freeport proposition does not in any way exacerbate existing inequalities, promote displacement, encourage criminality, dilute employee rights or compromise environmental standards. Whilst the process for the development of Freeports in Scotland remains unclear, the creation of a Freeport in a Scottish region, or indeed in parts of the North of England, may cause displacement from the Ayrshire regional economy. This requires to be closely monitored, as well as engagement in the development of the Freeport policy in Scotland to ensure there are no, or mitigated, potential detrimental impacts for Ayrshire. The attached response to the Scottish Government consultation sets out a specific proposal for an economic development incentive model that could maximise the benefits of the Ayrshire Growth Deal and support inclusive economy, Community Wealth Building and net zero priorities for the region.

FINANCIAL IMPLICATIONS

1. There are no financial implications arising from this paper.

HUMAN RESOURCE IMPLICATIONS

2. There are no human resource implications arising from this paper.

LEGAL IMPLICATIONS

3. There are no legal implications arising from this paper.

RECOMMENDATIONS

4. The Board is asked to:
 - a) Note the response to the Scottish Government consultation outlined above and attached in Appendix 1; and
 - b) Agree that officers continue to engage with officials in both the UK and Scottish Governments to influence the development of Freeport and wider economic development incentive policy in Scotland.

Members requiring further information should contact:

Craig Hatton, Chief Executive, North Ayrshire Council

Attachments: Appendix 1 – Ayrshire Response to Scottish Government economic development zones including Freeports consultation

Appendix 1: Ayrshire Regional Economic Partnership Response: Scottish Government Place-based Economic Development Zones including Freeports Survey

December 2020

The Ayrshire Regional Economic Partnership welcome the opportunity to respond to this Scottish Government survey on 'place-based economic development zones' including Freeports. The signing of the £251 million [Ayrshire Growth Deal](#) (AGD) in November 2020 means that Ayrshire now has the opportunity to realise the area's potential and become a world-class business region for the aerospace and space, energy, marine, manufacturing and tourism industries.

The vision is for Ayrshire to be *'a vibrant, outward looking, confident region, attractive to investors and visitors, making a major contribution to Scotland's growth and local well-being, and leading the implementation of digital technologies and the next generation of manufacturing.'* At the heart of our approach is Community Wealth Building and Ayrshire's commitment to being Scotland's first Community Wealth Building region. Through participation in the Ayrshire Community Wealth Building Commission partners across the region have committed to the [Community Wealth Building Anchor Charter](#).

The Ayrshire response to this survey is focused on areas that partners feel could maximise the delivery of the Ayrshire Growth Deal and the wider regeneration of the region. The response is aligned to the principles of an inclusive economy and tackling regional inequality. Responses to the relevant questions are outlined below and we would be delighted to discuss any aspect of this response further with the Scottish Government.

Responses to Survey Questions

Question 4: Which incentives (or categories of incentives as grouped in each of questions 1 to 3), of all of those listed above, or others not listed here, would have the most significant impact on your organisation / sector / locality?

Ayrshire currently has two Enterprise Areas (EAs) in Prestwick (Aerospace) and Irvine (Life Sciences). Enhanced Capital Allowances are available at selected EAs only (Irvine, Nigg, Dundee Port and Dundee Claverhouse) and enable businesses to claim up to 100% of the cost of certain qualifying investments in plants and machinery against the businesses' taxable profits. In Irvine EA there are specific zones where different incentives apply, e.g. capital allowances apply to only some zones within the Irvine EA (including the large 205 acre Strategic Investment Campus).

We believe an 'Enhanced Enterprise Zone' offer across multiple strategically important sites in the region aligned with Ayrshire Growth Deal investment could have benefit in attracting investment, encouraging local business growth and resilience, providing job opportunities for local communities, and support regional rebalancing.

Ayrshire has a number of locations of strategic national importance including the deep water port of Hunterston and Prestwick Airport as well as ports at Troon, Ayr, Falkland Yard and Ardrossan. In addition, the region contains key employment areas including Moorfield in Kilmarnock, i3 in Irvine and Prestwick, all with significant manufacturing capability and capacity. An Enhanced Enterprise Zone would provide an opportunity to maximise the investment across the region and in key sites and sectors contained within the Ayrshire Growth Deal programme and beyond.

As part of this 'Enhanced Enterprise Zone' proposition, a package of support could include the following mechanisms:

- Continuation and geographic expansion of Enhanced Capital Allowances. Due to the scale of market failure in the region, new build by the market is not undertaken and therefore incentives such as Enhanced Capital Allowances to encourage new capital investment in commercial premises, as well as plant and machinery.
- Whilst we know there has been less than anticipated take up of the incentives within EAs, its status helps with the marketing and promotion of the area and in seeking to attract funding – a key finding from the Scottish Enterprise survey on EAs last year. Rates relief only works if there is vacant space/stock available to the market, and/or site available with appropriate infrastructure. Therefore an extension or renewal of EA status and its associated benefits in current geographic areas alongside wider strategic sites in the region as part of this Enhanced Enterprise Zone proposition would deliver greater future impact on the basis that AGD investment has been confirmed and this will deliver new industrial space.
- Potential to offer Masterplan Consent Areas (MCAs), which widen the scope of current Simplified Planning Zones (SPZs), within the Planning (Scotland) Act 2019, in appropriate locations. Planning protocols for EA sites have worked well to demonstrate a commitment to fast track planning applications and assisting businesses with the various aspects of the planning process.
- An Enabling Infrastructure Fund to support the development of these sites through renewable energy generation, digital and wider connectivity, and drainage requirements.
- Enhanced support from Scottish Government and Enterprise Agencies for these specific Enhanced Enterprise Zones sites is required to attract and facilitate inward investment and local business expansion aligned to principles of Community Wealth Building including local supply chains, fair work with local employment opportunities and skills and training pathways, partnerships with local communities, and commitments to net zero.
- Cluster development will support the delivery of Ayrshire Growth Deal projects through bringing together the public sector, private sector and academia. Alignment between specific AGD investment sites and the National Manufacturing Institute for Scotland (NMIS) will support the delivery of the Scottish Government's Manufacturing Recovery Plan.

Post-EU Exit, there is also a need to have an inclusive Assisted Area Map so that investment can be provided where it is most needed to support tackling regional inequality and 'levelling up'.

Enhanced Enterprise Zones will require world class digital connectivity. The digital investment of £14 million through the AGD will ensure that Ayrshire has the digital infrastructure, skills and ambition which is critical to future growth and participation in the economy. This investment will put in place a key piece of the connectivity infrastructure, including a subsea cable with its landing point in Irvine, to help attract global businesses, enabling the potential creation of a datacentre cluster of national significance through an edge datacentre hub and spoke model.

Question 5: How would we best ensure that the Scottish Government's economic agenda of fair work, high productivity and innovation, and making a just transition to a net zero, wellbeing economy is supported by these economic incentives and support?

The Ayrshire economy has under-performed over a substantial period of time, the region has struggled to adapt to a post-industrial economy and despite areas of sectoral strength (for example manufacturing) there are high levels of deprivation and significant structural challenges. Ayrshire has persistently lagged behind other regions in Scotland and presents a special case for investment. The Scottish Government Advisory Group on Economic Recovery

(AGER) report identified the majority of the Ayrshire region as the least resilient areas in Scotland. It is therefore evident that investment should be allocated to fragile regions like Ayrshire. Targeted economic interventions should support areas with longstanding market failure. The signing of the Ayrshire Growth Deal is welcome and provides a significant investment to unlock the regions potential and ensure Ayrshire is well placed to play a key role in the implementation of new technologies required for a digital, net zero economy. Nevertheless, city regions have been prioritised in current policy and investment, and Ayrshire is competing against these regions for support and investment.

As part of the work of the Ayrshire Regional Economic Partnership, the Ayrshire Growth Deal is a key element of Ayrshire's recovery, and reaffirms the public sector's commitment to the region and the collective desire to support ambitious plans for renewal and sustainable economy. The scale of this Deal will galvanise efforts to develop key strategic sites and key sectors in Ayrshire, and aims to facilitate private sector investment of more than £300m into the region and to support up to 7,000 new jobs.

Investment is required to build on the region's existing assets and local supply chains outlined under Question 4. The region has significant national economic assets that must be recognised as such and can play an important role in the longer term resilience and wellbeing of Scotland.

Partners in the region have taken a unique approach through Community Wealth Building and are leading the way in Scotland in this area to ensure economic, social and environmental justice for communities across Ayrshire.

Question 8: The UK Government's model of freeports involves a number of the above incentives. What impact could a model like this in Scotland have on sustainable, inclusive economic growth - in particular, on job creation, fair work and our transition towards a net zero economy?

The Ayrshire Regional Economic Partnership has agreed on the need for any Scottish Freeport proposition to provide real safeguards against displacement, the exacerbation of existing regional inequalities, the potential for illicit trade and criminality, dilution of workers rights and a compromise of environmental standards.

The Ayrshire Regional Economic Partnership in September 2020 endorsed the tests outlined by the Scottish Council for Development and Industry (SCDI) in their response to the previous UK Government consultation on Freeports, which set out five tests as part of a cautious, collaborative and evidence-based approach to deciding whether, where and how to create Freeports in Scotland:

- Delivering economic benefit: Would Freeports deliver economic benefit or simply displace existing economic activity? Would any Freeport in the rest of the UK displace economic activity from Scotland, its existing ports or any new Freeports?
- Levelling up the UK economy: Would Freeports rebalance the UK economy and level up economic performance across Scotland? Would the location of any Freeport in the rest of the UK put Scotland at a competitive disadvantage?
- Preventing illicit activity: Would Freeports facilitate increased illicit activity such as tax evasion, tax avoidance, money laundering and trafficking? Would these risks be sufficiently mitigated?
- Protecting public finances: Would Freeports result in a net loss or a net benefit to the public finances?
- Respecting devolution: How would Freeports be delivered by the UK Government in partnership with the Scottish Government and Scottish local authorities?

Ayrshire partners would require to be satisfied with responses to these tests before supporting the creation of Freeports in Scotland.

Detail is required on the type of allocation policy that Scottish Government would put forward for potential Freeports in Scotland. Displacement is a major concern for Ayrshire and having the right processes and procedures in place to avoid this is an imperative.

Question 9: What would be the impact on your organisation/sector/region if a competitor location were designated as a freeport / if a competitor business established a premises within a freeport (e.g. with tax reliefs and other incentives) within 100 miles of your operation? Or elsewhere in the UK/Scotland?

Fragile regions like Ayrshire could be further disadvantaged by the creation of Freeports in other locations in Scotland and the UK. Concerns regarding displacement are outlined under Question 8. As set out in response to Question 4, Ayrshire has a number of economic assets and sectoral strengths that could be maximised through an 'Enhanced Enterprise Zone' type proposition in combination with the AGD investment.