

Agenda Item	12
Report No	HC/5/23

HIGHLAND COUNCIL

Committee: The Highland Council

Date: 9 March 2023

Report Title: Inverness and Cromarty Firth Green Freeport

Report By: Interim Depute Chief Executive

1 Purpose/Executive Summary

- 1.1 The purpose of this report is to update Members on the successful Green Freeport bid by Opportunity Cromarty Firth (OCF) consortium 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.
- 1.2 The Council has been a key member of the consortium since its inception. As the only Local Authority covering the Green Freeport area, the Council will now take on the role of Accountable Body for its implementation and ongoing operation. In line with emerging guidance from UK and Scottish Governments, this paper sets out further information on these requirements and notes the Council's ongoing input, particularly the preparation of an outline business case. This work will help to identify the development and infrastructure requirements related to the Green Freeport and the social, environmental and economic benefits that it aims to deliver for Highland communities.

2 Recommendations

- 2.1 Members are asked to:-
- i. **Note** the successful Green Freeport bid made by the Opportunity Cromarty Firth consortium and the environmental, social and economic benefits that are expected to be achieved;
 - ii. **Note** the Council's role and responsibilities, including as Accountable Body, as summarised in Section 6;
 - iii. **Agree** the Council representative on the Inverness and Cromarty Firth Green Freeport Board; and
 - iv. **Note** the next steps outlined in Section 7 including the proposal to take a report to a future meeting of the Council prior to submission of the Outline Business Case to UK and Scottish Governments.

3 Implications

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

Given the 'accountable body' role which the Council will play as set out in Section 6 it is important that the implications are fully considered, and a suitable framework is in place which avoids any detrimental impact on the Council.

The UK Government will make up to £1m of grant funding available to each of the Green Freeports to assist with the 'set up' stage. The first tranche of this funding is expected to be made available over the coming weeks and will be used to fund the consortium's costs for the preparation of the OBC.

Beyond the 'set up' stage, the day-to-day operation of the Green Freeport will require some Council staff resource, with a focus on finance and corporate functions. Other Council services will need to input to certain aspects such as the development of sites, infrastructure delivery and regeneration initiatives.

- 3.2 **Legal** – 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. The role of Accountable Body imposes a number of obligations and responsibilities upon the Council which are discussed in greater detail at Sections 6 and 7 of this report. In summary the Council will be accountable to both Governments for the expenditure and management of central funding including revenue funding, seed capital investments and retained Non-Domestic Rates.

The second element arises from the operation of the Green Freeport itself. The governance arrangements for the setup and ongoing operation of the Green Freeport will be the subject of detailed development and consideration through the preparation of the Outline Business Case. The Green Freeport has taken steps to establish a company limited by guarantee. The company is expected to have a board of twelve directors. As the Accountable Body the Council will be required to appoint one Director to the Board. In addition, to participation in the Company's strategic decision-making it is anticipated that the Council appointed Director will be expected to ensure that the Company fulfils the reporting and other requirements that are needed in order to allow the Accountable Body to undertake its role.

Officers from across the Council will be providing input and assistance to the Green Freeport to support the preparation of the governance arrangements for incorporation within the OBC. It is also proposed that the future report to Council include details on the establishment of a Council Green Freeport Monitoring Group.

- 3.3 **Community (Equality, Poverty and Rural)** - As set out in greater detail within Section 5 below, there are a number of significant benefits for communities surrounding the Green Freeport and across the wider Highland region. Ongoing communications and engagement with communities and businesses will be required. An impact assessment, which will include equality and socio-economic considerations, will be undertaken alongside the development of the Business Plan to ensure appropriate considerations and mitigations are part of the developing framework. A Diversity Statement has been prepared as part of the Green Freeports governance documentation.
- 3.4 **Climate Change / Carbon Clever** - As set out in greater detail within Section 5 below, the Green Freeport will help to address climate change and deliver a number of core policy objectives by adopting high environmental standards and through attracting investment in green industries, creating green jobs and reducing greenhouse gas emissions. In line with emerging guidance from UK and Scottish Governments on Green Freeports the Outline Business Case will need to include a Net Zero Strategy setting out a quantitative assessment of carbon impacts.
- 3.5 **Risk** – As set out in greater detail within Section 6 and 7 below, there are a series of risks associated with the Green Freeport. These range from external factors impeding on the scale and pace of the OCF vision which in turn could impact on the revenue derived from NDR.

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

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

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

4 Context

- 4.1 Green Freeports are being promoted by UK and Scottish Governments as large, zoned areas within a defined boundary within which operators and businesses can benefit from a package of tax and other incentives through a combination of devolved and reserved levers – **summarised in Appendix 1**. Importantly, they are intended to deliver a wide range of significant social, environmental and economic benefits to their surrounding areas and region, as outlined in Section 5. The Inverness and Cromarty Firth Green Freeport * clearly has the potential to deliver against local and national outcomes and its delivery is reinforced by the Council's Indicative Regional Spatial Strategy, the new Inner Moray Firth Local Development Plan and the emerging vision for a net zero Highland. It capitalises upon and acts as a catalyst for the Highland's ongoing role as a renewable energy cluster and in enabling an efficient and effective hydrogen network.

* *It should be noted that in moving towards the setup phase, the OCF name and brand is to be updated to cover Inverness and the Cromarty Firth. However, a name will be formally agreed through the consortium and Board. In the meantime, this report will continue to refer to Opportunity Cromarty Firth (OCF).*

- 4.2 At the June 2022 Highland Council meeting there was wide-spread and cross-party support for the Opportunity Cromarty Firth project and its bid for Green Freeport status. Members agreed to homologate the Council's support and ongoing central role as set out in the letter from the Leader of the Council, submitted alongside the bid, and in continued support from the Council in the consortium in enabling the delivery of OCF and promoting its benefits to the region and Scotland/UK.
- 4.3 On 13 January 2023, the UK and Scottish Governments announced that following a rigorous assessment and selection process, Opportunity Cromarty Firth was successful in becoming one of only two Green Freeports in Scotland. Applications were marked against the degree to which they contribute to four key policy objectives:-
- promote regeneration and high-quality job creation;
 - promote decarbonisation and a just transition to a net zero economy;
 - establish hubs for global trade and investment; and
 - foster an innovative environment.
- 4.4 The proposed Green Freeport tax sites put forward as part of the OCF bid are shown in the maps enclosed at **Appendix 2**, which are as follows:-
1. a cluster of sites in and around Invergordon comprising the Invergordon Service Base (CFPA), Railway Sidings, Admiralty Pier, Saltburn Pier and Cromarty Firth Industrial Park;
 2. the area including Nigg Energy Park and Pitcalzean Farm; and
 3. a cluster of sites in Inverness connecting the Port of Inverness, Longman Former Landfill and the Inverness Campus.
- 4.5 The 45km Outer Boundary for the Green Freeport as proposed in the bid is shown in the map at **Appendix 3**. The removal of areas of sea and uninhabited land have allowed for a wider geography to be included - it is expected that certain funding streams may be limited to this area. However, the boundaries submitted as part of the bid will be subject to further consideration over the coming months and in advance of them being finalised by government.
- 4.6 The vision and plans of OCF have been shaped by a range of stakeholder consultation and engagement to date. It includes a wide range of input from across the private sector and public agencies and community engagement. The review of the Inner Moray Firth Local Development Plan also coincided with the formation of OCF. It allowed for formal consultation on the plans and development of the key sites. The wider implications and benefits for this will be the subject of wider discussion and engagement through the collaborative proposed for the setup stages and beyond, as outlined in Section 6.

5 Benefits – Environmental, Social and Economic

- 5.1 Opportunity Cromarty Firth is a collaborative partnership of private, public and academic organisations committed to ensuring the Cromarty Firth and wider region becomes a major global hub for green energy. The overall aim is to maximise the unique economic and regeneration opportunities arising from a multibillion, 50-year pipeline of offshore wind energy projects planned for the North Sea. In turn, Green Freeport status will unlock substantial sources of funding to the Council and the consortium to accelerate the development of the Green Freeport and deliver a wide range of benefits across the region.

5.2 The additional revenue streams triggered by OCF, and Green Freeport status unlock the following funding sources for associated infrastructure and services within the region associated with the Green Freeport. However, the detailed use of this funding will be determined through the OBC work outlined in Section 6. The revenue streams include:-

1. Access to £25m Government seed capital funding aimed at accelerating delivery of sites within the Green Freeport or associated assets within the Outer Boundary.
2. Local Authorities will be permitted to retain nondomestic rates (NDR) growth above an agreed baseline to support skills, infrastructure, net zero initiatives, innovation and development associated with Green Freeport.
3. NDR income stream gives scope for forward funding opportunities (e.g. TIF/GAM funding) to accelerate development and further invest in regeneration and infrastructure. However, this will need further work to assess the risk to the Council.
4. The retention of NDR growth for 25 years provides opportunities for the Council to borrow to invest in regeneration and infrastructure that will support further growth.

5.3 The benefits listed in this section clearly show how the Council can also achieve many of its wider aims and ambitions for Highland as set out in existing strategies and plans. Its delivery aligns with existing investment programmes such as City Region Deal, and in some situations helps accelerate certain projects.

5.4 Environmental

- Major contribution towards transforming the energy industry with the necessary shift from oil and gas to cost-effective renewable energy.
- Through decarbonising electricity and creation of a world leading hydrogen network it allows for a genuine route towards decarbonising industry and transport. With a large export market identified, these benefits will also be spread internationally – a vital part of tackling global climate change.
- Major contribution towards meeting the Government's ambitious target for net zero emissions of all greenhouse gases by 2045.

5.5 Social

- It has real potential to reverse long standing socio-economic issues facing the region, in particular depopulation and the declining working age population.
- The workforce will need to be highly skilled with The Powerhouse - a new applied research and training centre, dedicated to developing floating offshore wind and green hydrogen technologies – and the aim is to utilise and build on the existing skills base and focus on ensuring future generations develop the necessary skills and training to build the workforce from within the local area.
- All facility owners have committed to the Scottish Business Pledge and ensuring their end users do the same. The Pledge is based on boosting productivity and competitiveness through fairness, equality and sustainable employment.
- Skilling up the workforce is seen as both a challenge and an opportunity and while this will require both national and local efforts to do so, positively all OCF partners have agreed to donate the savings made from Employers NICs relief to establish an early Skills Fund.
- All partners have committed to Fair Work and implementing the living wage as a core principle of the consortium.

- All partners have committed to inclusive growth as a core principle of the development taking into account community needs and community impact.
- Through investment, the opportunity to regenerate communities across the target area.
- Opportunity to explore, alongside communities, the potential for new and innovative ways of benefitting communities both within the immediate target area and the broader 45km geography.
- Upgrading of key infrastructure for the benefit of communities as well as business such as housing and local amenities.
- Offshore wind and hydrogen are identified by government as fundamental to achieving both net zero and energy security which could help to avoid volatile fluctuations in energy prices.

5.6 Economic

- It is estimated that £2.6bn in inward investment can be generated, boosting supply chains across the region and Scotland.
- When preparing the bid document, OCF commissioned an independent assessment to help identify the opportunities which potentially could become available from a successful bid.
- Potential to be world leaders in floating offshore wind manufacture and hydrogen production – both industries are in their infancy – due to locational advantage, infrastructure and existing expertise. This is reinforced by the Offshore Wind Sector Deal targeted at 60% local content in the supply chain.
- Headline figures suggest that if all opportunities are realised then up to 15,000 direct jobs could be created and 10,000 indirect – thereby positively contributing to population retention, attracting new workers to the region and improving the working age population balance.
- A key opportunity identified relates to jobs and the creation of long-term and stable jobs across a range of sectors and occupational types. It is estimated that a large number of these jobs would be highly skilled and hence generate higher salaries for those involved with higher GVA than the current regional average wages.

6 **The Council's role and responsibilities**

- 6.1 Initial governance arrangements were outlined in the OCF bid for Green Freeport status and these will need to be discussed and refined as part of the preparation of the outline business case - this is covered further in Section 7. The delivery of OCF will rely on the very effective consortium arrangements; input from external economic advisers; and the unique contribution that will be made by individual partners. Whilst the anticipated impacts set out above will primarily be driven by the private sector and inward investment, the Council will play a pivotal role in ensuring that activities enable the delivery of the identified benefits.
- 6.2 As the OCF Green Freeport is wholly within The Highland Council region, the Council will be required to take on the role as Lead Authority and 'accountable body'. The key responsibilities of these roles include:-
- the management of financial payments associated with Green Freeport status, including the distribution of seed funding and ongoing funds streams;
 - participation in the Green Freeport governance arrangements; and
 - liaison with both UK and Scottish Governments and public sector leadership.

As accountable body, Council will be responsible for ensuring that all relevant regulations and best practice standards are met in the use of seed capital and that Value for Money, and the policy objectives will be delivered. To achieve this, the accountable body is expected to take the individual seed capital projects through local assurance/business case processes, and these should be detailed in the business case submitted to the governments.

- 6.3 The Council will have the authority to hold to account any of the members of the bodies within the governance structure or projects, should they present a risk to the overall programme. A Grant Offer Letter between the UK Government and the Accountable Body will set out the terms and conditions attached to Green Freeport funding. These terms and conditions will be replicated in separate agreements between the Accountable Body and other partners, with any additional specific requirements necessary for Highland Council to fulfil its role as the Accountable Body clearly set out.
- 6.4 The Council will have a principal role in ensuring the completion of the business case and submission to Government for approval. These processes will also be overseen by a new company limited by guarantee that has recently been formed. The Council requires appropriate representation due to its role as accountable body and landowner - alongside others representing key OCF partners and it is recommended that this role is discharged by the interim Depute Chief Executive whilst the OBC is being developed. At the point at which the Green Freeport receives formal designation and becomes operational the Council's representative for the Board will come back to Council for decision.
- 6.5 NDR retention is a result of Green Freeport status and therefore the governments expect all rates retained on Green Freeport tax sites will be used for purposes associated with the Green Freeport. The government guidance states that retained rates should be used to promote the Green Freeport's objectives within the Green Freeport geography or wider Travel to Work Area and for activity that: would not otherwise occur; demonstrably requires *public* funding; and is most appropriately funded from retained non-domestic rates, rather than other public funding pots. With the retention of NDR growth for 25 years, it provides opportunities for the Council to borrow to invest in regeneration and infrastructure that will support further growth. UK and Scottish Governments have confirmed that income from NDR growth can be used for the following purposes:-
- Green Freeport operating costs;
 - physical and/or digital infrastructure that will facilitate investment in the Green Freeport area;
 - land assembly and/or site remediation works that will facilitate investment in the Green Freeport area;
 - skills and workforce development;
 - innovation initiatives;
 - regeneration and/or the development of 'live work play' assets within the Green Freeport Travel to Work Area;
 - mitigating any displacement and/or negative externalities associated with the Green Freeport;
 - activity in support of the Green Freeport's Net Zero ambitions; and
 - the delivery of Green Freeport-specific planning measures

- 6.6 However, it should be noted that NDR growth only comes from the build out and delivery of the Green Freeport sites. The funding available that can be reinvested is therefore dependent on the ability to be developed and pace of delivery. The Highland Council will retain the NDR growth for that area above an agreed baseline. This will commence at the point the tax site is formally designated (which is subject to the OBC being approved). Retention will be guaranteed for 25 years, and the revenues re-invested in the Green Freeport, as above, to generate further growth.
- 6.7 OCF presents a significant opportunity for the surrounding communities and the wider region with expected benefits outlined in Section 5 above. As part of the work to prepare the OBC partners will be expected to provide further information on what delivery of the Green Freeport will mean for areas of land within their control and how they will deliver the wider benefits required. Throughout this ongoing work, involvement and engagement with the local community is crucial. Partners have committed to ensure that there is:-
- engagement with those affected, on the proposals and development and that this engagement will include a targeted approach to those groups within the community who may not typically engage;
 - that the differing needs across the community and specifically those with protected characteristics will be considered; and
 - that there will be ongoing communication with the wider community on progress and action and ensure this is accessible to different groups across the community.
- 6.8 It is proposed that the Council adopts a collaborative approach to this work and the UK and Scottish Governments have offered to support this way of working in the set up and operation of the Green Freeport. Work is already underway across these communities in the development of an Area Place Plan for Easter Ross and the Inverness Strategy project, and in the Climate Action Towns work underway in Alness and Invergordon. This work will include consideration of the wider requirements and potential pressures generated by the Green Freeport, including development, infrastructure, housing, services and connectivity. Future engagement activities will provide for a chance to share the thinking behind OCF with local communities, and to gather views on the priorities of local stakeholders in shaping the following:-
- ⇒ aspects of the business case;
 - ⇒ a proposed Masterplan Consent Area which is aimed at steering future development and infrastructure proposed; and
 - ⇒ the final Place Based Plans for Easter Ross and the Inverness Strategy which clearly reflect the responsibilities of partners in delivering the wider vision for the area.
- 6.9 *Communication and engagement:* During the OCF bid phase, a small joint communications and public affairs team led the successful publicity and engagement campaign. The multi-agency consortium team has reconvened under the Chair of Highland Council Communications and Resilience Manager to lead the communications, engagement and marketing activity moving forward. As governing body, the Council has a pivotal role in ensuring effective communications and engagement with partners, communities and government bodies.

6.10 To date work has focused on supporting the consortium in preparing the bid in line with previous Full Council approval. Having secured GF status considerable work is now required to flesh out what it means and how it will be delivered, including describing the benefits that it will deliver in the short, medium and longer term. To this end, a wide range of communications and engagement activity is proposed to bring stakeholders up to date on what GF status will mean. This will include promotional material, briefings, media, websites, social media, a roadshow, job fairs and webinars. Consortium partners will work together through the Communications and Engagement Group on planning, coordinating and delivering these activities and events, in line with agreed protocols.

7 'The Setup Phase' and Other Key Next Steps

7.1 Before a Green Freeport receives formal designation and becomes operational, the following three processes must be completed as part of 'the setup phase':-

- Government approval of Outline Business Case (OBC) and Full Business Case (FBC) – 'The Business Case Process';
- Government approval of proposed tax sites – 'the Tax Site Process'; and
- Government approval of proposed customs sites – 'the Customs Site Process'

7.2 The Council, along with other OCF partners, has started working on the preparation of the OBC which will adhere to the Green Book Five Case Model, which includes the following key components:

- **The Strategic Case** – rationale, policy objectives, proposed activity, outputs and outcomes, contribution to wider policy and strategy;
- **The Economic Case** – modelling, social cost-benefit analysis, options appraisal, additionality and displacement analysis, value for money assessment, risk appraisal and mitigation, wider impacts – environmental, equality, and social;
- **The Commercial Case** – longer-term tax site management, policy delivery, additional economic activity and inward investment, management and reinvestment of business rates and seed capital, governance arrangements;
- **The Financial Case** – analysis of associated costs including infrastructure, skills, governance, communications, security, innovation, planning, affordability, regular financial modelling and reporting, scenario planning, capital and revenue requirements, financial risk assessment; and
- **The Management Case** – work programming, risk management, governance arrangements (including structure, membership, powers, delegations, accountabilities and responsibilities), delivery team structure, stakeholder management and engagement, shared learning and building expertise, arrangements for dealing with security, monitoring, evaluation and feedback.

7.3 As outlined in Section 6 the proposed collaborative approach to the OBC (and beyond) will be crucial in providing communities and stakeholders with a better understanding of the implications of the Green Freeport and how this and the wider benefits will be delivered. The OBC will give further information on how the proposal will be delivered. In particular it will:-

- set an outline allocation of Green Freeports seed capital;
- set an outline allocation of further technical and capacity support;
- better define boundaries and the zones in which tax reliefs will apply, as well as detailed information on how the proposed sites comply with the set tax criteria;

- confirm local commitments of funding, planning, and other resources; and
- set a deadline by which the FBC should be developed

7.4 Draft guidance on the setup phase for Green Freeports in Scotland has been published, with formal guidance on the OBC expected to be released shortly. It is estimated that preparation of the OBC will take around 3-4 months from that date, with 'the setup' phase taking 12-24 months and the Green Freeport being operational thereafter. Lessons learned from the process that English freeports have gone through over the past two years will hopefully lead to more streamlined process. However, with Green Freeport, there is now the need for both Scottish and UK Governments continue to work together.

7.5 The intention is for a report to be taken to a future meeting of The Highland Council updating members on the OBC.

Designation: Interim Depute Chief Executive

Date: 27 February 2023

Authors: Malcolm Macleod
Allan Maguire, Head of Economic Development & Regeneration
Douglas Chisholm, Tourism & Inward Investment Team Leader
Scott Dalgarno, Development Plans Manager

Background Papers: [Green Freeports Applicant Prospectus](#)
[The Highland Council's Regional Spatial Strategy](#)
[The Highland Council 30 June 2022 – Item 14 Green Freeport Bid](#)

APPENDIX 1 – Package of Incentives

Tax sites

- Land transactions within tax sites benefit **land and building transaction tax (LBTT) relief** (new legislation required).
- 10% rate of **structures and buildings allowance (SBA)** on construction or renovation every year for 10 years.
- 100% **Enhanced Capital Allowances (ECA)** for the first year investing in new plant and machinery assets.
- Employers pay 0% **NIC contributions** on salaries up to £25,000 for new employees in first three years.
- 100% **non-domestic rate relief** eligible businesses for 5 years.

Customs sites

- **Import duties suspended** for goods for storage and / or processing until goods leave the customs site.
- **Duty inversion** for goods entering customs zone with higher tariff than final product.
- **Customs duty exemption** on imported goods processed in the Green Freeport and re-exported (subject to Free Trade Agreements).
- Import **VAT** on goods entering the Freeport is suspended.
- **Simplified import and export procedures.**

Investment and funding

- £25 million in **seed capital** to improve accelerate development and provide infrastructure.
- Local Authorities **retain 100% of uplift in non-domestic rates revenues for 25 years** - offering **income stream to borrow** to invest upfront in infrastructure, skills and other associated programmes.

Innovation

- **New Regulatory sandboxes** that will relax specific regulations to test innovative propositions.
- A **Green Freeport collaboration hub** gives a platform to create regional innovation hubs.

Planning

- Local Authorities encouraged to adopt place-based planning approaches, such as **Masterplan Consent Areas (MCAs)**, to provide greater planning certainty and enabling streamlined decision-making.

APPENDIX 2

Maps of tax and custom site boundaries as submitted as part of the Green Freeport bid.

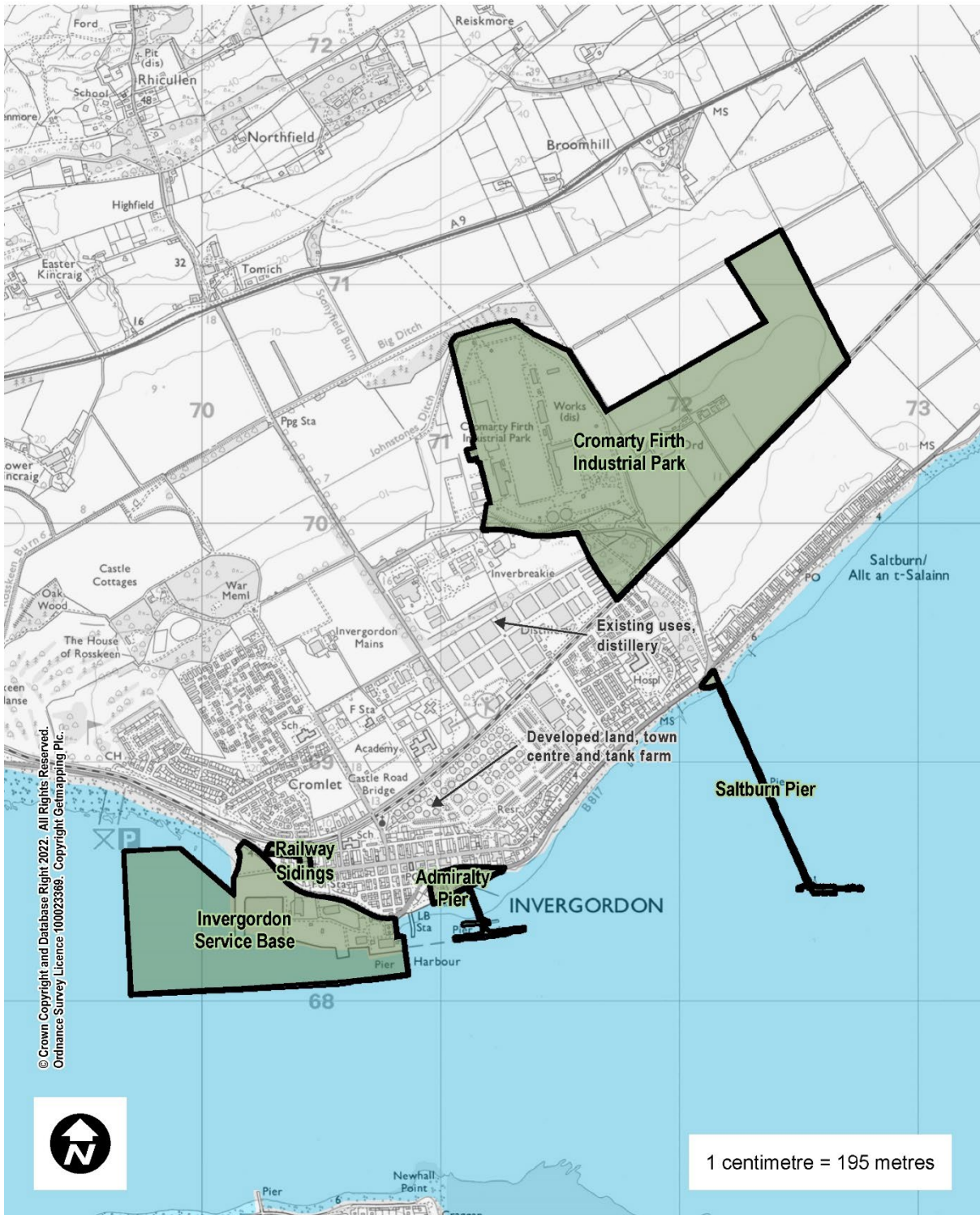


Inverness and Cromarty Firth Green Freeport Nigg and Pitcalzean Tax Site (306.4 ha)



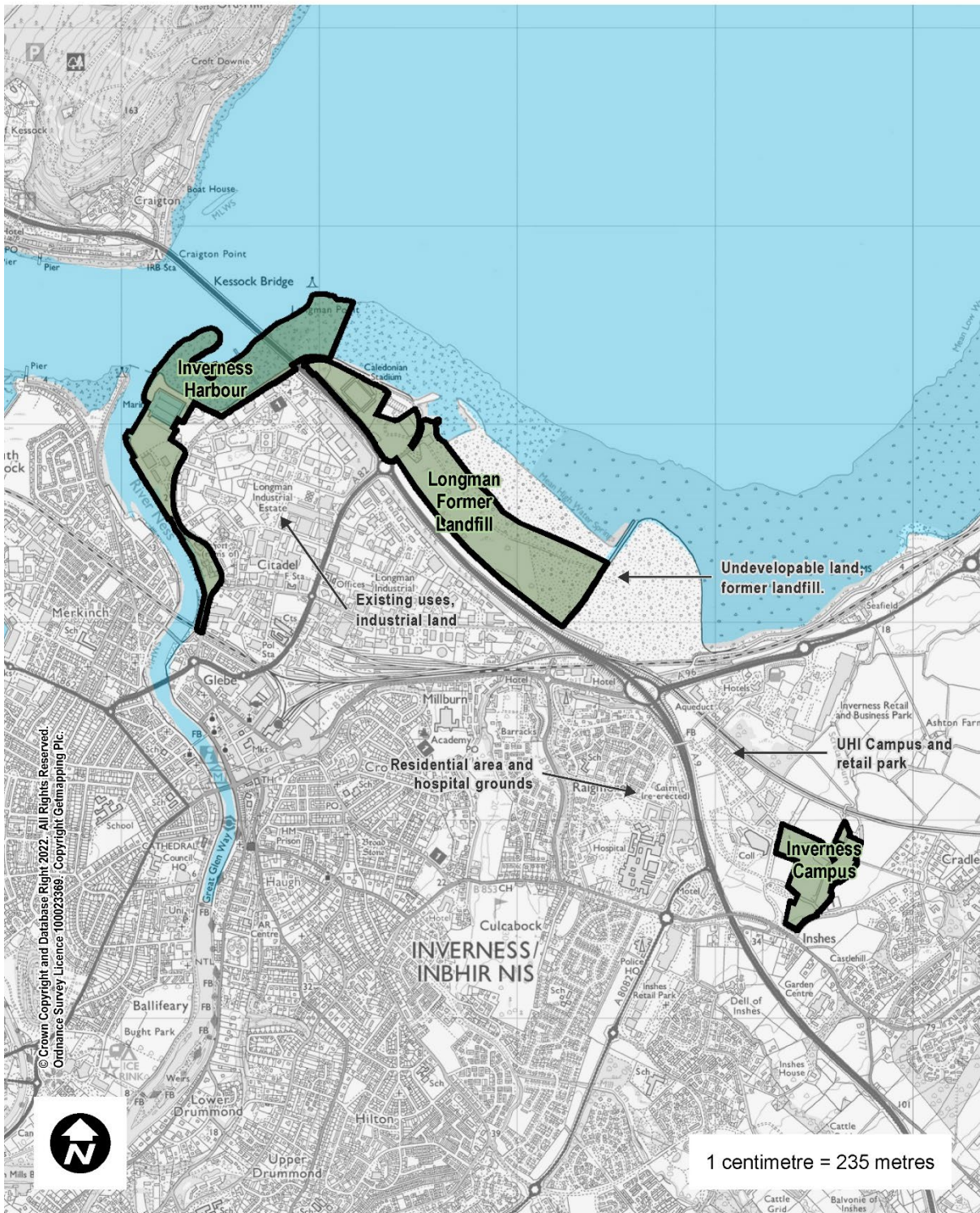
© Crown Copyright and Database Right 2022. All Rights Reserved.
Ordnance Survey Licence 100023389. Copyright Getmapping Plc.

Inverness and Cromarty Firth Green Freeport Invergordon Tax Site (168.09 ha)

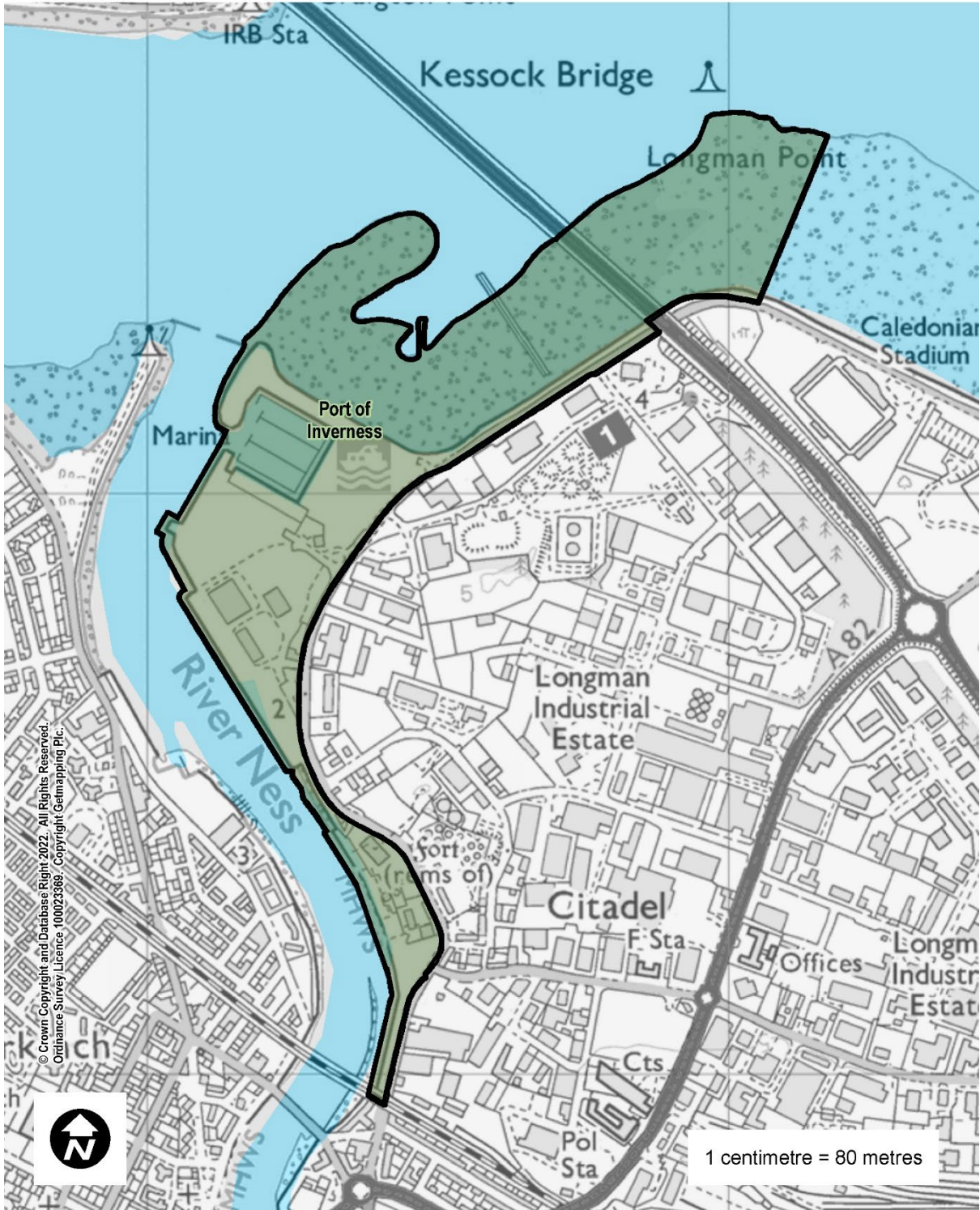


Inverness and Cromarty Firth Green Freeport

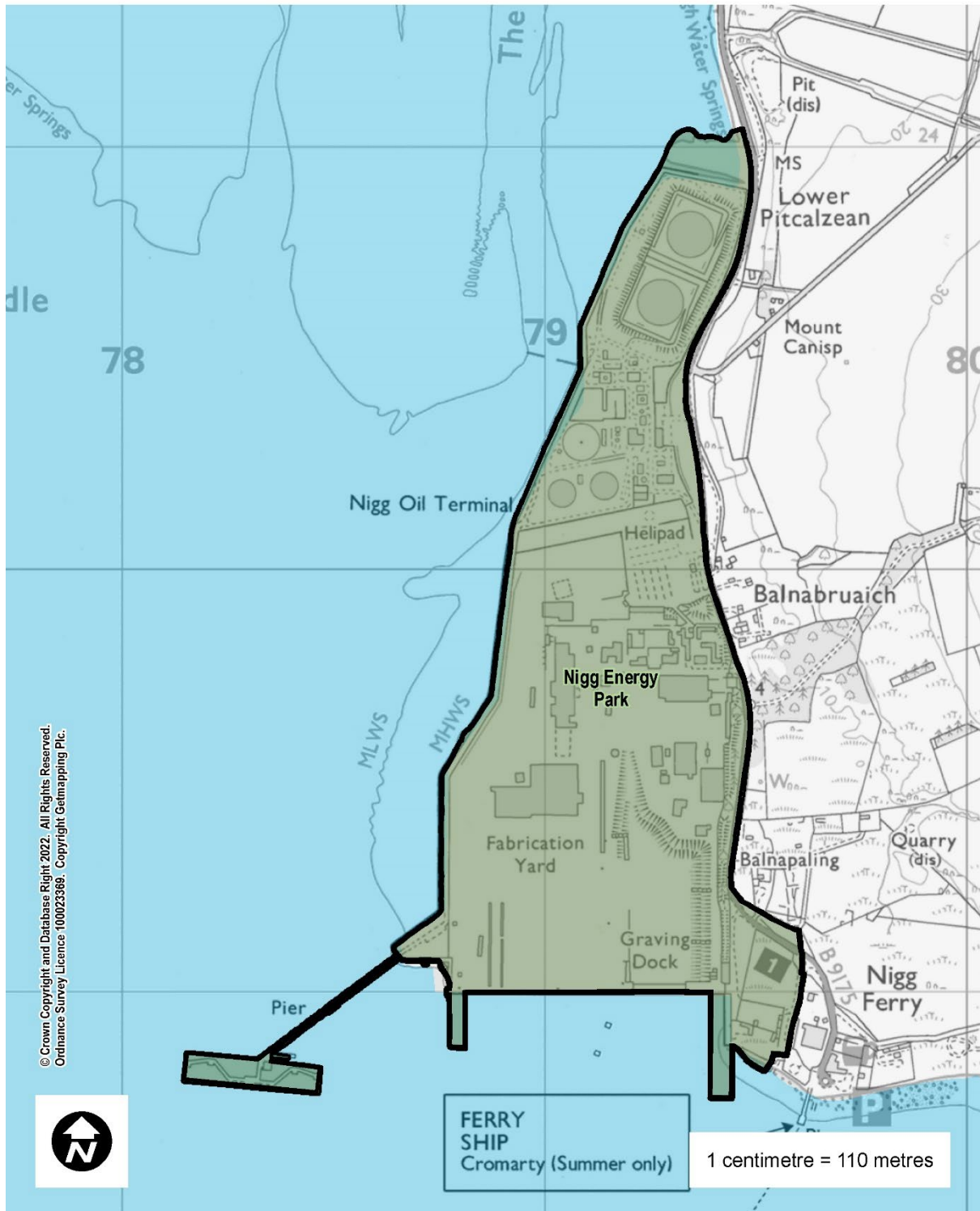
Inverness Tax Site (97.11 ha)



Inverness and Cromarty Firth Green Freeport Port of Inverness Customs Site (43.42 ha)

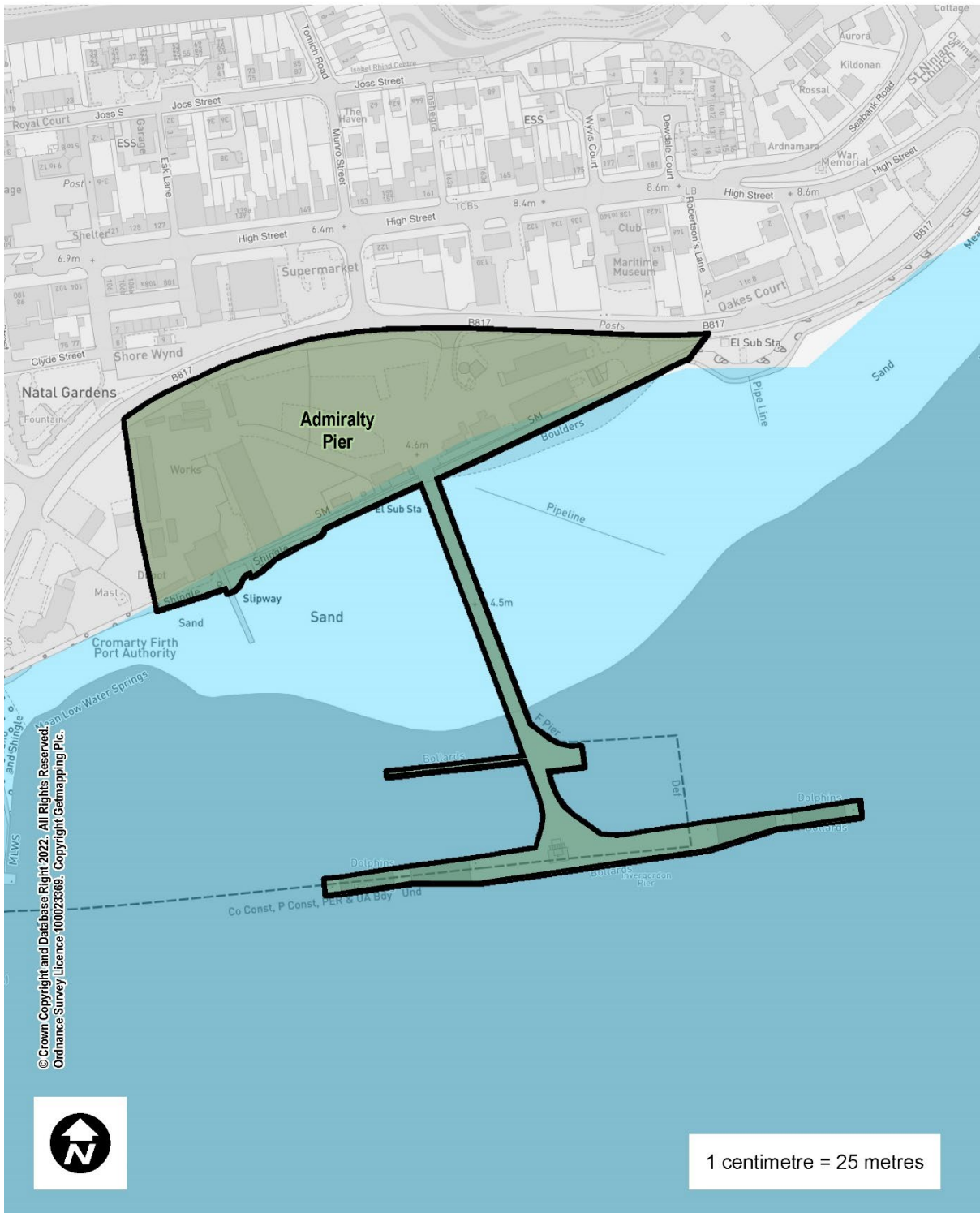


Inverness and Cromarty Firth Green Freeport Nigg Energy Park Customs Site (105.94 ha)



Inverness and Cromarty Firth Green Freeport

Admiralty Pier Customs Site (2.99 ha)



Inverness and Cromarty Firth Green Freeport Invergordon Service Base Customs Site (415.21 ha)



APPENDIX 3

Map of the Outer Boundary as submitted as part of the Green Freeport bid



Inverness and Cromarty Firth Green Freeport Outer Boundary

