

**FREEPORT GOVERNANCE AND WORKSTREAM REVIEW****SUMMARY**

The purpose of this paper is to summarise the business case and recommend to the board the investment of £3.5m of Freeport Seed Funding in the provision of a Digital Test Centre.

Innovative digital solutions have the potential to transform business processes and trade across the world. Freeports provide the opportunity of places to trial improvements, delivering under their objective to be 'hotbeds of innovation'. The Digital Test Bed will provide a place to test digital alternatives to trade processes; its outcome is the evidence base to support regulatory change, which will create efficiencies, reduce costs, and overcome barriers to trade and growth.

The provision of the Digital Test Bed also aligns strategically with our Investment Zone Digital sector proposition.

**RECOMMENDATIONS**

It is recommended that the Board

- i. Approves the business case to allocate £3.5m to the Freeport Digital Test Bed.
- ii. Delegates authority to TVCA Chief Executive, Section 73 Officer, and Monitoring Officer to approve the full business case on final cost confirmation and to enter into contracts to deliver the project as proposed.
- iii. Approves the change request to DLUHC to re-profile the drawdown of funding for the Freeport Digital Test Bed project.

**Business Case Executive Summary**

1. Freeports are special areas within the UK's borders where different economic regulations apply. The policy offers a variety of tax and customs incentives to attract investment to specific sites.
2. Eligible businesses in specific tax sites enjoy a range of incentives, such as enhanced capital allowances, relief from stamp duty and employer national insurance contributions for additional employees. In addition, on designated customs sites, businesses can benefit from a range of customs measures, allowing imports to enter the Freeport custom sites with simplified customs documentation and delay paying tariffs. For example, businesses operating inside designated areas in and around the port may manufacture goods using

these imports, before exporting them again without paying the tariffs and benefit from simplified customs procedures. This has important cash flow and cash saving benefits.

3. In the stakeholder engagement work undertaken whilst developing the Teesside Freeport business case, a reluctance to take up customs site status by port and customs site operators became apparent. The reasons identified for this were summarised into cost implications and access/egress issues. These barriers prevent the practical take up of the Freeport Customs offer. This is because there is a significant investment required by customs site operators to erect sufficiently secure fences around their boundaries to meet the requirements of HMRC, which commercially is not viable as a speculative business investment. Further, the operational practicalities of getting through security gates, and working within these fences, presents operational restrictions for use of land, and, literally, these secure perimeters are barriers for people and products, leading to difficulties for employees getting onto site to work, amongst other logistical bottlenecks.
4. The cost implications and access/egress issues are preventing the provision of the customs offer; offers which could be beneficial and be an attractor for business investment and growth in the area. As a result, the Freeport Policy benefits are not being exploited to the full, and a discussion arose locally to consider: could there be another way?
5. Bringing together port and logistics experience, and customs expertise of the Freeport, along with security consultancy, the Freeport Hub supported the development of a possible alternative to provide a pragmatic solution. The full document demonstrating a possible new 'how' is provided in the Business Case at Appendix 2 – Approach to Customs Security. This sets out a concept for a zoned model for security, supported by digital means to embed the chain of custody, where goods are tracked and re-authenticated at each transition point within the Freeport. This model recognises the need to offer the same level of security as currently required, but with reduced resource requirements.
6. This model is the subject of discussions with HMRC's officers, and whilst an innovative idea, cannot simply be adopted without rigorous testing and an evidence base of data.
7. In parallel with the development of Teesside Freeport is our proposal of innovating trade processes towards a world of Frictionless Trade. This was put forward in our initial EOI for Freeport status. TVCA's Innovation and Digital leads, along with the Freeport Director, led the way by working with the International Chamber of Commerce, bringing together government departments, finance, trade and academia, and funding the establishment of the Centre for Digital Trade & Innovation (C4DTI). This international resource is based at Teesside University, as is the Industrial Digitalisation Technology Centre (IDTC). The IDTC provides real solutions by integrating digitalisation into businesses. These practical outcomes have generated time, production and financial efficiencies for SMEs. This beneficial digital expertise within the

IDTC, crosses over and is available for application to trade and other processes.

8. Freeports' objectives include being 'national hubs for global trade and investment', seeking to 'make trade processes more efficient' and to offer 'spaces to develop and trial new ideas and technologies. Combining these forward-thinking objectives, with the collaborative, innovative ecosystem present in Teesside, has led to this proposal where we provide the place to test pragmatic digital solutions to real trade problems.
9. The purpose of this outline business case (OBC) is to set out our proposal to invest part of our Freeport Seed Capital in a facility to test, and test to destruction, other means of digitally carrying out a wide range of trade, and movement of goods, processes. These innovations may lead to regulatory change, which in turn will result in significant cost savings, time efficiencies, and open opportunities for businesses that previously did not trade due to these barriers to entry. These changes will benefit not only the Teesside Freeport area – the outcomes of the Teesside Freeport funded tests will be available to all. The facility will also be available to use by other users who wish to hire the testing facility and services on offer.
10. The rationale for investment is introduced above, to overcome barriers to take up of Freeport Customs Policy benefits. However, there are several cross-cutting strategies that the proposed intervention strategically fits within.
11. TVCA's overarching role to grow the economy is set out in its Strategic Economic Plan (SEP), and this project to test innovative digital solutions to improve trade which could stimulate growth, aligns under all the SEP's strategic themes. The Tees Valley Digital Strategy's sets out an ambition to become a Smart Region by 2032, underpinning this is the essential requirement for world leading digital infrastructure and innovative technologies that enable access and opportunity for all residents and businesses. The test bed fits here as it is infrastructure to demonstrate the application of innovative digital technologies.
12. The testing facility is an enabler towards delivering national policies, particularly referencing the UK Border Strategy which aims for the UK border to be the most effective in the world. This policy sets out that the UK border should use innovation to simplify processes for traders and travellers and improve the security and biosecurity of the UK. Also, the Electronic Trade Documents Bill which seeks to digitalise international trade systems. Progressing from centuries old paper systems will also require robust testing of digital alternatives to trade bills and other documents required in the movement of goods around the world. The test bed will provide the place to generate the data and evidence base of the interface of goods movements with secure digitised monitoring will enable this Bill to be transferred into use.
13. The Teesside Freeport Digital Test Bed will be physically located at Teesside International Airport. This site has been selected due to its proximity to a live trade border and customs site. The testing facilities will provide a hybrid of lab

theoretical test space, with physical space, which will allow the testing of the interface between digital and real world.



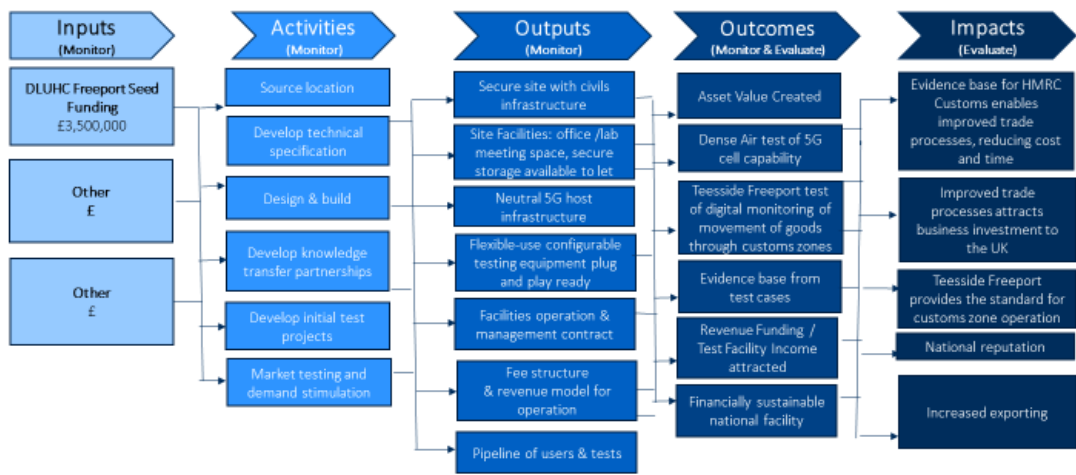
## DIGITAL TRADE TEST BED FACILITY



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14. The illustration above provides an indication of the proposed site layout. The proving ground will comprise concrete hardstanding, with a private 5G network covering the site, enabling low latency digital connections. The facilities provided will offer flexible configurations, with the use of portable buildings, and moveable gantries on which the test technology can be fixed. This will provide a micro physical trade landscape with geospatial location capability to simulate the movement of goods and services across digital borders, allowing systems and technology vendors, logistics and service providers to trial out use cases in a controlled, safe, secure, independent, and impartial environment.
15. The private 5G network, provided by Dense Air will be a neutral host end-to-end secure 5G Network, providing a highly reliable and resilient low latency network, allowing a variety of physical and digital transactions to be piloted and validated in the real world. Dense Air's 5G technology includes their new CoMP-O-RAN technology, which combines traditional 5G with mmWave and newly developed software to mesh and balance a network, increasing mobile network coverage competition.

16. It is planned that the facility will test Freeport initiated tests, whilst demand will be stimulated via the operator's business development function to generate income from other digital process tests.
17. The potential benefits from digitalisation, and therefore the test facility, are explored in the Evidence of Need and Economic Analysis sections of the business case. The benefits discussed there are small relative to the wide range of processes that can be digitised which are yet to be applied and tested here.



18. A long list of options to deliver this testing facility differing quality accommodation, from a minimum viable product, temporary modular buildings to enhanced personnel facilities in a permanent building, in a range of locations across the area, and for differing durations. These were combined with differing commercial arrangements and shortlisted against affordability and delivery risk considerations. The selected option is a lowest risk option for both set up and running costs and provides flexibility of layout and is modular and scalable.
19. The preferred option is where TVCA (as accountable body for the Freeport Funds) takes the lease over the land and builds the asset. The asset will provide a concrete base, on which to locate rented modular portable buildings, and set up gantries with the basic technology provided as the foundational platform on which tests can be run.
20. TVCA retains ownership of the asset and becomes the landlord of the facility, which is operated by a third-party operator, with the capability to run tests, on a landlord / tenant basis, paying market rate rent.
21. The structure of transferring the risk of the ongoing operation of the facility via the landlord / tenant relationship, is considered too high risk to attract an operator on an open-ended basis. To reduce this risk within the options, a pilot facility is proposed, with suitable break clauses in both lease agreements reduces the risk whilst retaining the opportunity to continue the operation of the facility should a market be established.



22. The Cost to build the facility and operate tests is estimated at a maximum of £3.5m, benefits based on the GVA from jobs created, by the operator to run the site and the tests, of £6.9m, generating an NPV of £2.46m and BCR of 1.72.
23. The project will be led by TVCA, with nominated project management resource allocated to support the Chief Digital Officer. The commercial arrangements are for TVCA to lease the land, build the facility and let it on a market basis to an operator. This structure reduces the risk of non-compliance with Subsidy Control Regulations and Public Sector Procurement rules. The ownership of the publicly funded asset will be retained in the public sector. The operator will be responsible for the day-to-day management and running of the facilities, including the delivery of the bespoke tests. The operator will provide the academic rigour to the independent testing processes undertaken at the facility.
24. The facility will be funded using Freeport Seed Funding, via TVCA as the accountable body, which will provide assurance for the project. The Freeport instigated customs tests will also be funded.
25. The expenditure will include the securing of a lease over the land, planning and design costs, hard standing / concrete base, connections to utilities. Also, the provision of buildings for the facility users, workshop and storage space and agnostic basic testing facilities, relevant to all test requirements. This includes re-configurable gantries and 5G infrastructure.
26. The operator will be able to leverage further funding and generate income from other innovation funds and from commercially operating the facility. The facility is modular in design, and therefore flexible in its configuration which also allows for scaling the facility up or down to meet demand. This provides a lower risk and lower cost solution until demand for such a facility is demonstrated. Once the name is known, and the wide range of innovative digitalisation applications determined and tests defined, more confidence in an income stream from a pipeline of work could result in a review and requirement for a more permanent facility.
27. The capital element of the project will be managed using PRINCE 2 type best practice methodologies. The pre-existing partnership with Dense Air will provide the 5G technology as part of their Memorandum of Understanding with TVCA that provides 5G investment into the region. The operational delivery of the facility will be led by the operator; as a market landlord / tenant relationship is in place, TVCA will not steer the outcomes of the facility, seeking only rental return on the investment. Freeport instigated tests will pay to use the facility.
28. As the project develops further risk will reduce. Currently high risks are around the impact of non-delivery on the achievement of Freeport objectives from the seed funding, and reputational risk which will also impact on achieving Digital Innovation Region, and the funding opportunities linked to that status. Costs and project delivery plans are closely monitored in the development phase, the risk reducing as physical delivery gets nearer.

29. Negotiations on the leasehold on the site are continuing which will reduce financial risk, for TVCA as head tenant, and the operator. This will also contribute to meeting Green Book and Subsidy Control requirements for value for money and market assessment of rents.
30. Negotiations with the operator, and their business plan for operations, are yet to be concluded. Until a satisfactory agreement has been reached, this remains a significant risk to the delivery of the tests, for which the facility is being built.
31. Social Value will be maximised by using TVCA procurement policies, which, wherever possible, points constructors to use local suppliers and workforce to deliver capital projects. Greater social value will be derived from the benefits of the learning gained from the tests carried out at the facility. Digitising trade processes could lead to efficiencies in the movement of goods and has the potential to reduce costs of trade such that the barriers to entry for exporters are reduced, allowing smaller businesses to begin to trade. This more locally based growth has great benefits to Teesside communities generating £200m in new economic growth in Teesside.
32. There is opportunity in the design of the site layout of the facility in its environs, to plan in mitigating its carbon and emissions with the consideration of biodiversity for example aligning with Trees for Tees programme.
33. The key stakeholders to this project are mapped out in the business case at Appendix 3 and represent all the parties involved closely in the development, management, development, and delivery of the project. These encompass public, private sector organisations, as well as academia. Each has their own motivations for contributing to the project, and these expectations have been key to the development of the optimum legally compliant structure, as set out in the Preferred Option.
34. It is anticipated that the marketing of the facility and its uses will be led by the operator, to 'sell' their testing offer and generate income to create a financially sustainable facility. The initial low-cost phase allows time to develop and refine their offer, and to develop and grow the market demand for digital testing. There will be co-development of communications with TVCA to ensure Freeport contribution and brand is recognised.
35. The outputs, outcomes and impacts will be monitored across a range of methods, as set out in the Monitoring and Evaluation Plan. The delivery against project milestones and the outputs of the physical facility will be monitored by the Performance, Risk and Assurance team of the accountable body, supporting the project manager. The outcomes of testing will feed back to each test commissioner. Wider reporting of the impacts of projects will also be derived from the relationship TVCA has with the Centre for Digital Trade and Innovation. Data will also be provided to Freeport Policy team at DLUHC as required by the Freeports Framework in the Memorandum of Understanding.

36. The longer-term aim is that the case for a digital test facility is proven and ongoing investment in testing and possibly a more permanent facility established. At this early stage of market development, the demand is not certain, and there are various points in the lease where the landlord can break the contract without further rent costs.
37. The whole business case document with further details behind this executive summary is provided at Item 8a.

### **Change Request**

38. The complex innovative nature of the project and its delivery options has led to the prudent delay of significant expenditure. This, however, impacts on the funding drawdown of the Seed Funding allocation from DLUHC as set out in the Memorandum of Understanding signed in February 2023.
39. The Freeport Full Business Case (FBC) finalised in September 2022, estimated an even drawdown profile of the £3.5m allocation for digital projects, comprising £1.75m each financial year, 23/24 and 24/25. At the time of writing the FBC the delivery of the digital test bed project, as described above in this report, was not fully conceived.
40. The revised profile for the digital test bed project estimates small spend this financial year on professional fees and investigations, with the significant physical construction costs incurred in 24/25 and digital test construction costs later in 24/25 and ongoing throughout 25/26.
41. The board is asked to approve the request to submit a change request to DLUHC to re-profile the £3.5m allocation, expected to spend £0.5m in 23/24, £2.0m in 24/25 and £1.0m 25/26. The request to DLUHC will be submitted in January 2024 at the latest.

### **FINANCIAL IMPLICATIONS**

42. The approval of the business case delegates the management of the £3.5m funds to the Accountable Body for investment in the project as proposed.
43. The budget for the project is monitored by the Strategy and Accountability for Public Money workstream. TVCA provides assurance and management of the funding as the accountable public body. The performance management of the seed funding investment is examined by this workstream.



## **LEGAL IMPLICATIONS**

44. The board is asked to delegate to TVCA Chief Executive the ability to enter into legal contracts as required, these include leasing the land, procuring the constructors to deliver of the project, and a letting agreement with an operator.
45. Compliance with Subsidy Control Regulation and Public Sector Procurement Regulations have been considered in the design of the project, and the delivery of the project will be in accordance with current regulatory requirements

## **RISK ASSESSMENT**

46. The risks associated with this project are summarised in the business case. These are managed in accordance with TVCA Group Risk Management policy at project level, and at Freeport Programme level.

## **CONSULTATION & COMMUNICATION**

47. Stakeholder engagement meetings has taken place in the development of the business case.

## **EQUALITY & DIVERSITY**

48. No specific impacts on groups of people with protected characteristics have been identified.

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