

International Trade Committee

Oral evidence: UK Freeports, HC 258

Wednesday 24 February 2021

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Members present: Angus Brendan MacNeil (Chair); Mark Garnier; Paul Girvan; Sir Mark Hendrick; Anthony Mangnall; Mark Menzies; Taiwo Owatemi; Lloyd Russell-Moyle; Martin Vickers; Mick Whitley; Craig Williams.

Questions 197 - 257

Witnesses

I: Rt Hon Steve Barclay MP, Chief Secretary to the Treasury, HM Treasury; Luke Hall MP, Minister for Regional Growth and Local Government, Ministry of Housing, Communities and Local Government; and Rachel Campbell, Deputy Director, Regeneration and Urban Policy, Cities and Local Growth Unit, Ministry of Housing, Communities and Local Government.

Examination of witness

Witnesses: Rt Hon Steve Barclay MP, Luke Hall MP and Rachel Campbell.

Q197 **Chair:** Welcome to the International Trade Committee's final session on freeports. This is a session with Ministers from both HM Treasury and the Ministry of Housing, Communities and Local Government. I will let the witnesses introduce themselves, even though we know some of the witnesses quite well and will not take any time away from them. First, Steve Barclay.

Steve Barclay: Good afternoon, Chair and good afternoon to colleagues on the Committee. I am Steve Barclay, Member of Parliament for North East Cambridgeshire and Chief Secretary to HM Treasury.

Chair: Thank you very much. Can I also ask Luke Hall to introduce himself in his own terms?

Luke Hall: Luke Hall, Minister for Local Government and Regional Growth at the Ministry of Housing, Communities and Local Government. Robert Jenrick sends his apologies today. It was felt that as he is involved in the ongoing decision-making process about the locations, it was more appropriate for me to attend today. Thank you for accepting me instead.

With me I have Rachel Campbell, who is the Deputy Director for Regeneration at MHCLG

Q198 **Chair:** Okay. Rachel, are you happy with that introduction or do you want to add anything yourself?

Rachel Campbell: No, I am happy with that. Thank you.

Q199 **Chair:** Very good. It is good to see Ministers here. It has taken a while to get a Minister here, as you will know. It took the intervention of the Chair of the Liaison Committee and the Prime Minister to get this session to happen. It should have happened a couple of months ago. We are glad to see you here. We hope the responsibilities for freeports have now been sorted out between the various Government Departments.

Can I start with the Chief Secretary to the Treasury? Government have stated that they want freeports to play a significant role in boosting trade, attracting investment and driving productive activity across the UK. What does HM Treasury estimate the value of this increased trade and investment to be?

Steve Barclay: Until we see the locations, Chair, it is very difficult to model exactly what the impact on jobs, inward investment, and innovation will be.

On innovation, one of the opportunities of freeports is how can they work in a bespoke, targeted manner with regulators, in the green sector for example, by getting to market more quickly. On jobs, I see some



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previous witnesses to this Committee have given some indicative figures in evidence, but clearly outcomes will be shaped by locations and the size of the sites. The tax side will be shaped by the nature of the customs, and also, of course, outcomes in general will be shaped by the industries themselves. The economic benefits will vary between sites and the sectors the sites focus on. The wider point is about attracting inward investment, boosting trade, and, above all, creating jobs. What I always take from discussions with colleagues across the House is the need for us all to be focusing on jobs. One of the opportunities of freeports, and one of the key benefits, is the enabling of innovation and trade to drive quality jobs.

Q200 Chair: As Chief Secretary to the Treasury, do you have any feel as to what this might mean in GDP terms for the UK? An Australian deal might be worth about 0.02% of GDP. An American deal might be worth about 0.2%. Is there any feeling about the range and where freeports might be in that firmament of GDP gain? I presume they are in the realms of GDP gain. It would be a wrong thing if they were to be in the realms of GDP loss, of course.

Steve Barclay: We will be doing modelling once we see where the successful bids are and put them into an effective modelling assessment. It is very hard to create a model until we see the locations, the nature of the business focus and specialism within those sectors, and what kinds of innovation they are seeking to achieve.

I did note in previous evidence to the Committee talk about small shifts in trade and how they relate to GDP. I think people even referenced back to the Chancellor and a paper he wrote in 2016, forecasting just over 80,000 jobs, and one of your witnesses suggested it could be almost double that. I realise that people have given you some different figures, but I think for reasons that I hope you can understand, until we know where the locations are and the focus of the businesses on those sites, it is very hard to do any modelling, but we do intend to do it once the successful bids are agreed.

Q201 Chair: At the moment it would fair to say that we have no idea what the GDP gain from freeports will be.

Steve Barclay: It is a regeneration intervention. As the Scottish Government, the Welsh Government and others would say, regional interventions are not about the whole of the economy or GDP as a whole. They are targeted interventions that are particularly focused on driving innovation.

Your wider point is perfectly reasonable, but we will be doing the modelling once the successful bids are agreed.

Chair: Okay. Thank you very much for that. I will move now to Mr Anthony Mangnall, who is waiting patiently.

Q202 Anthony Mangnall: I am always patient, Chair. Thank you.



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Thank you, too, to both our witnesses. I don't mind saying to both of you that it has been a marathon to try to get Government Ministers to come before this Committee to discuss freeports.

If I may start with you, Chief Secretary, where does responsibility for freeports lie within the Government?

Steve Barclay: First, can I apologise to the Chair and members of the Committee? Colleagues will know that I, having spent four years on the Public Accounts Committee, hugely value the work and importance of Select Committees. Those on this Committee who know me will know how much I appreciate the work of Select Committees.

The freeports policy, partly because of its innovation in using a range of government levers, brings into a play a number of Government Departments. The Treasury and MHCLG have co-designed the policy. As Luke Hall mentioned, the Secretary of State for MHCLG will lead the assessment of bids. The decision will be signed off by the Chancellor.

On the design, I am sure it will not surprise you that areas such as the tax policy is very much led by Treasury and HMRC colleagues. Regeneration and the planning side is led through MHCLG. Luke Hall may want to come in on that.

I think the Chair had originally corresponded with DIT. DIT will obviously have a role, working with the successful bidders on the trade elements.

There is also a very important role for the devolved Administrations and we may also come on to that in the questions. I have had a number of conversations with counterparts about their roles.

Other parts of government, such as the Home Office through the Border Force, have a role in ensuring that the security elements of the policy are effective. BEIS also has a role with business perspectives.

HM Treasury and MCHLG lead on a number of policy areas. Luke Hall may want to add something from his perspective.

Luke Hall: That was a very comprehensive answer. I do not have much to add. The Chief Secretary is quite right.

One small point is that HM Treasury and MCHLG will work together on a lot of the delivery aspects. MCHLG will be the main point of contact for bidders and freeports once they are selected.

At this point, may I add my own apologies for the fact that it has taken so long to get Ministers here? I am pleased to be here today.

Q203 **Anthony Mangnall:** Thank you both, and thank you for your kind words. It is great that you are here.

With that in mind, I would like to ask a follow-up question. You have just identified three Departments that will have oversight in different areas of



freeports. How will we secure parliamentary scrutiny over the success of freeports, whether that be in oral sessions or otherwise? Will members from DIT, the Home Office, the Treasury and MCHLG attend one another's oral sessions so that no Back Bencher is left out of the loop in trying to ask pertinent questions about the success of freeports?

Steve Barclay: My experience in my current and previous roles—indeed, this hearing today is a reflection of it—is that when Parliament wants to scrutinise, it will assert its will and ensure it happens.

On policy questions for Departments, there will be various different areas, for example on the tax offer within the freeports policy from a Treasury point of view.

Some things required for freeports already exist in legislation. For example, MCHLG already has certain planning powers. Treasury already has powers under the Customs and Excise Management Act to designate areas for customs purposes. To the extent that new legislative areas will be required, the House will have an opportunity for scrutiny, for example through the Finance Bill. Where new legislation is required, obviously the House will be able to scrutinise it and of course there are many other opportunities for scrutiny. I was in the Chamber yesterday for an Opposition day debate in which I was scrutinised on wider economic policy, which included freeports. There are multiple opportunities, I am sure, for colleagues to raise issues with Ministers.

Q204 **Mick Whitley:** I have a question for Steve Barclay.

The bidding prospectus indicates that announcements about successful bids will be made in the spring. Can you be more specific?

Steve Barclay: The line may have been clear to others but was not clear to me or Luke. Would you mind repeating the question?

Mick Whitley: The bidding prospectus indicates that announcements about successful bids will be made in the spring. Can you be more specific?

Steve Barclay: Not today, I am afraid. I am conscious that saying "spring" can be a bit like the old adage that in Treasury, autumn lasts from early September to the fall of the last leaf from the last tree in December.

For today, our language is "spring", but obviously this is a policy area that the Chancellor has supported for a very long time and therefore we are keen to work at pace to get it delivered as soon as possible. There will inevitably be some difference between the freeports timescales within England and those in the devolved Administrations. It is crucial that we have a robust process. We are focused on ensuring that the decision-making process runs properly and effectively, as I think the Committee would expect. We are keen to move at pace but cannot, I am afraid, give a specific date today.



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Mick Whitley: Chair, may I ask a quick supplementary?

Chair: Yes, of course.

Q205 **Mick Whitley:** When do you expect the first freeports to be operational?

Steve Barclay: Although, again, one does not want to give hostages to fortune, I would rather answer the question than not.

Our aim is to try to have them operational by the end of the year. At the same time we recognise, as was touched on just a moment ago, that the House will want to scrutinise further. We will want to bring legislation forward, and that will be at the will of the House. There will be a number of dependencies on the route, but as an indicative timeframe, we are extremely keen to move at pace and we would like them to be operational by the end of the year.

Q206 **Mark Menzies:** This question is for both Ministers but may I start with the Chief Secretary, please?

Why did the Government decide to establish up to 10 freeports? Will that number be subject to review in future?

Steve Barclay: First, it was because that was the commitment we gave in the Conservative manifesto and the bidding process has reflected that. At the same time, as I think you are aware, Mr Menzies, we have been asked in response to consultation whether we would be open to moving on that number, or if 10 was a rigid number. Our position is that if we receive high-quality bids, we will be open to considering the number. The Scottish Government have also voiced a view.

As part of having a proper engagement and listening exercise, we will look at the quality of the bids that come in and use that to shape our response about the number of freeports. However there are two reasons for "up to 10". One is because that is what was in the manifesto and the reason that was in the manifesto was that this is about being innovative. It is about quality. One of the concerns sometimes levelled at Government is whether this will be innovative and of high quality. The more freeports you have, the weaker the proposition risks becoming. The desire is to listen to stakeholders and engage properly, but also to champion the innovation and quality of the bids that come in.

Q207 **Mark Menzies:** Before coming to Luke Hall, may I follow up with a supplementary?

Why did Government decide to set the limit of the outer boundary for proposed freeports at 45 km? Does that not limit bids that might potentially be more imaginative? I fully accept your point about high-quality, imaginative bids, but have there been any thoughts that setting the 45-km restriction could maybe put limits on that?

Steve Barclay: The 45-km outer limit is not a physical boundary. It limits the maximum distance between sites within the freeport. For example, one of the areas that people could explore is combining an



airport with a seaport. One of the innovations could be to have components flown in, used to make an end product, and then taken to the maritime port and shipped out to another destination, benefiting from the wider package on customs and tax within. There is some flexibility. What is in the bidding prospectus goes significantly beyond the pre-2012 arrangements. I sometimes hear from media commentary that people are saying we have had freeports before. The pre-2012 freeports were confined to the port itself and that was one of the constraining factors, because often the brownfield land that people want to develop is not within the brownfields of the ports. This is about regeneration and it is targeted. That is why we want to have a geographical limit, but there is scope for innovation within.

Q208 Mark Menzies: That's great. Thank you.

Minister Hall, can you come back to the original question about why Government decided on up to 10 freeports?

Luke Hall: The Chief Secretary made the case perfectly about the 10 we committed to in the manifesto. There is also a point about making sure we focus investment on a smaller number of places to increase the attractiveness for investors, and accordingly we have chosen a competitive bidding process. We think that, on balance, 10 is the right number. But as the Chief Secretary said, we made it very clear in the consultation response that we were open to a limited number of additional freeports if exceptional proposals were to come forward, rather than keeping firm the cap of 10. We want to make sure we are concentrating investments and making them attractive, but will also be flexible about the cap on numbers if the quality of proposals warrants it.

Steve Barclay: Adding to that, Mr Menzies, we have not said the limit is 45 km and you cannot go beyond that on pain of death. At the same time, we want to give guidance. Otherwise, we could have two sites many miles apart, which is not in the spirit of the scheme. There is scope to consider any very good place that comes in, but we want to set a framework within which bidders can move forward with a degree of confidence.

Q209 Mark Menzies: With that in mind, what consideration have the Government given to permitting freeports to be established in areas of economic activity that are not ports?

Steve Barclay: Coming back to the starting proposition, the intent of the policy is to boost trade. Currently, 95% of our goods pass through our maritime ports, so there is a natural synergy in combining innovation around the regulators, greenage and quality with regeneration opportunities, which often sit around port sites, and where there are also opportunities from a trading perspective.

Mark Menzies: That is very useful. Thank you very much.

Chair: Martin Vickers, I think you want to come in at that stage.



Q210 **Martin Vickers:** Thank you.

To some extent the Ministers have already responded to what I was going to raise about the somewhat arbitrary figures of 10 freeports and 45 km. If you have quality bids and if they are indeed innovative, why would you want to dismiss them? This is surely an opportunity to overdeliver on a manifesto commitment. There might be 15 high-quality bids.

Steve Barclay: If a high-quality bid comes in, we will consider it. At the same time, we want to take these decisions around plausible economic geography. We want freeports with strong economic connections and that is what is in the design of the way we are taking it forward. But, of course, there is a degree of openness in that we can look at quality bids and apply flexibility if there is a particular bespoke reason.

However, if one does not give a framework in a bidding process about how decisions will be taken, one risks criticism in the other direction, about there not being enough clarity about what teams are bidding against for them to come forward with a proposition.

Q211 **Martin Vickers:** Seaports are obviously coastal communities and are very much in need of increased economic activity. Surely that needs to link in to the Government's levelling-up agenda.

Steve Barclay: The levelling-up agenda is not confined to coastal ports. It may include airports, for example. You will know colleagues in the House who have spoken about individual bids. I won't get into individual bids in the course of today's evidence session, but you will know that there are colleagues looking at exploring the opportunity.

You are quite right about the wider policy intent, which is from a levelling-up perspective. That is why now, in contrast to the pre-2012 position, it is important to look at non-port areas, for exactly those reasons, Mr Vickers, regarding levelling-up and regeneration opportunities. You are also quite right that the areas that need levelling up are often concentrated in coastal communities, but they are not limited to coastal communities.

Q212 **Anthony Mangnall:** It is good to hear about the flexibility in the Government's approach to the bids. It is also good to hear from you, Minister, the point about making the opportunities attractive.

Can I go to the Chief Secretary now, to ask how the freeports package differs from incentives such as the inward processing and bonded warehouses opportunities that are already available to businesses trading internationally?

Steve Barclay: The difference is in the breadth of the package as a whole. If I compare it, for example, with what was available before, the original pre-2012 policy was limited to UK port boundaries, did not allow multiple sites, did not allow sites to interact with each other, and was focused only on customs, not on tax, spending, planning or innovation.



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Within your question you ask how it compares with particular elements of customs policy such as bonded warehouses. The freeports policy is about concentration, bringing together: an investment of £175 million in England, and obviously Barnett consequential will apply; planning opportunities, which I am sure Luke will speak to, bringing local authorities and other stakeholders together; tax benefits on the sites—stamp duty and land tax relief—so that people can invest in site acquisitions; the structures and buildings allowance, to support the improvement of the sites; enhanced capital allowance for plant and machinery; business-rates relief; and the employers' NICs relief.

It is not a question of picking out one bit of customs policy and comparing that with what there was before, in 2012, or with what there is outside of the wider freeports policy. What you have is the package on the customs side, the tax side and the planning side, and some seed funding.

There is also the area that I often feel gets slightly overlooked. This is also about innovation and how those sites work with regulators, so that products can be brought—*[Inaudible.]* It is a package of offers.

Q213 Anthony Mangnall: Following up on that, we are, with great gusto, signing free trade agreements with countries around the world. Does the relevance and pertinence of freeports remain in place as we strike new deals? Do you see a knock-on impact on the viability of freeports from further free trade agreements?

Steve Barclay: Freeports become even more important in so far as this is about innovation. What the UK needs to do as part of building back better is to embrace innovation in various high-quality jobs, looking with our regulators at how we can get products to market more quickly, particularly in the innovation space. One of the frustrations I hear when I speak to businesses is that things can sometimes be too slow. That is also important in areas such as planning. Often, when we chat with the business community, the frustration is about the pace of decision making, not the decisions themselves. Having freeports will offer opportunities as part of building back better, as part of global Britain. Obviously, signing free trade agreements is a great thing from a business point of view, but it is also important that businesses are being innovative so that ultimately we have products that people want, both domestically and outside.

Q214 Anthony Mangnall: A large part of this is that innovation can be spurred on by the Government and you have mentioned that a number of times in the course of your remarks. What resources are you putting out and making available to enhance the process and ensure that Government agency is available to spur on this innovation and the freeports?

Steve Barclay: That will partly be shaped by the bids. The regulatory response to what is required will depend on the sectors in the freeports and therefore what is being manufactured on these sites. Clearly,



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something in the green technology space is different from motor manufacturing, so the innovation and the regulator will change. The point is the commitment from the Government to respond quickly to innovation.

I touched earlier on seed funding. Also, bringing the various governance bodies together will be important from planning and investment points of view. Creating those hubs of innovation will be hugely important. How they react with the regulator will be shaped by the nature of the businesses that use the sites.

Q215 Anthony Mangnall: There has been a bit of criticism about freeports from UK TPO, which has suggested that the tariff inversion benefits of freeports are limited. Do you agree with that statement?

Steve Barclay: It is a huge and exciting area of policy. When we talk about innovation, it is also sometimes about things that are already there but that businesses find slow or difficult to access. It may be that different parts of government are not working together as well. We touched earlier on how this is an area of policy that interacts with lots of different Government Departments. Therefore, it would be hugely helpful to have a mechanism where the businesses in those freeports that want to be innovative have the advantages from a customer's point of view, from a tax perspective, in terms of planning and local decision makers coming together, and also have access from a government point of view. Things like the freeports regulation engagement network will help to bring everyone together. It is the collective that is important rather than the individual measures within.

Q216 Anthony Mangnall: This is my last question before I hand back to the Chair. I am sorry to be taking up a lot of time.

We heard in an earlier session that the take-up of UK export finance was far below par and below expectation. I want to use that as an example of what happens when we do not see the take-up and we do not see the support that we expect and what we might want from businesses. What contingency have you put in place, or would you have in place by the time freeports are created, to make sure that maximum opportunity is achieved by businesses wishing to trade internationally?

Steve Barclay: First, the nature of this process means that we are dealing with businesses that do want to engage because they have been through a bidding process in order to secure freeport status. We are dealing with a cohort that actively wants to engage and that sees the opportunities.

Secondly, there are clear incentives for that engagement, not least in areas such as tax policy, which make it attractive for them.

There are also other policy areas. You will recall from the last spending review the significant uplift in the R&D budget that we committed to—over £14 billion. There is a huge number of areas where businesses want



to engage through the freeports and that was one of the things that came out of the consultation process, not just in terms of the English response but across the United Kingdom. There is a very strong response in areas such as Scotland and Wales from businesses themselves, which saw the value of the package. It is important to view what is offered to the freeport sites as a collective package.

Q217 Mick Whitley: This question is for the Chief Secretary.

Why were the specific tax incentives that formed part of the freeports package chosen and how will they support businesses to achieve the Government's objectives for freeports?

Steve Barclay: That is a very good question. It goes to the heart of how we see the freeport sites operating as drivers of regeneration and innovation.

I mentioned the stamp duty land tax earlier. On a £700,000 freehold you would get a saving of £24,500. That is incentivising businesses to invest in sites that need regeneration.

Mr Vickers mentioned that often sites around ports that may well become, or are likely to become, freeports are areas that need levelling up. What you want is businesses investing in those areas, in things like site acquisition. When they have the land, they need to invest in the buildings and the plant and machinery, and they also need to recruit, and that is the tax package that has been put together. There is a structures and buildings allowance. If you spent £100,000, you could offset £10,000 per year for 10 years against your taxable profits. That is £1,900 a year. From the enhanced capital allowance, you would be able to offset £35,000 of expenditure on plant and machinery against taxable profits, saving £6,650. On operational costs, your business rates, if your usual bill was £20,000, you would not pay anything. On your national insurance contributions, for salaries up to £25,000—say you had 20 people on that rate—you would save £41,000 a year. The tax incentives will incentivise businesses to go after innovation because of the other aspects of the package around the regulators but also to invest in those areas that need levelling up. That is how the structure of the tax package was shaped.

Q218 Mick Whitley: What is the anticipated change in revenue to the Exchequer from these measures?

Steve Barclay: Ultimately, and as always within the Treasury, the real prize on offer is increased productivity. We want to grow. It is about how we create more jobs and more business activity.

Earlier we mentioned the mix of airports and ports. For example, if you had a business that was operating with components coming in from the USA, perhaps being flown into a site in the UK, and then making a product, which was then being taken to a port and exported, that is creating increased, and often new, economic activity, which clearly is of benefit to the area. Modelling the benefits of that activity—this speaks to



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the Chair's opening question—is shaped by the locations and nature of the businesses on the sites. The freeports policy is about incentivising productive investment in deprived areas. That is the key. From a levelling-up point of view, how do we incentivise businesses to invest in the areas that are deprived and in need? This policy is creating an incentive.

Q219 Mick Whitley: What legislation will be brought forward to support the establishment of freeports in the UK? When will it be introduced?

Steve Barclay: Luke Hall may want to come on this as well.

On legislation, the first point to make is that the policy sits under a combination of existing and new powers. To the extent that there will be new powers, we will need to put the relevant legislation in place. We will need to do that this year.

I do not envisage any sort of freeports Bill. There are a number of areas of legislation already in place. For example, I previously mentioned that we do tax decisions through the Finance Bill, so you would not need to have separate legislation. Some of the legislation, for example around customs and excise, is already in place. We already have the power to designate areas for customs purposes. On the MCHLG side of things, there is the matter of legislation for changes to the permitted development rights for ports, but that is something that Luke Hall could speak to.

Luke Hall: Shall I jump in on that question, Chair? The Chief Secretary has summed it up pretty well. There might not be a freeports Bill; this is about a number of individual changes to be made to existing legislation. On permitted development rights, we have committed to amending the regulations by the end of this calendar year. Also under our Department there will be separate changes to business rates. We aim to implement business rates designated areas as part of the freeports package through regulations by 1 April 2022. We expect that to be delivered through a negative SI procedure and be implemented in early 2022.

I do not have anything else to add on that.

Mick Whitley: Thank you, Chair.

Chair: We can now turn again to Mark Menzies, who is waiting patiently in file.

Q220 Mark Menzies: Thank you, Chair. Again, this question is to the Chief Secretary.

Freeports in England will have access to a share of £175 million of seed capital funding. How was that figure arrived at?

Steve Barclay: First, the quantum is based on what we think would be a reasonable sum for some of the things that are needed for freeports from an infrastructure and works perspective. In some ways, some of the



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media debate about direct funding misses the wider benefits. The much wider benefits of the policy come through the tax and customs levers and the planning opportunities.

Sometimes people hear the £175 million, which is for England, and is separate from Barnett consequentials, and wonder if that means that the freeports policy is not a particularly striking policy because that does not sound like the largest of sums.

The point is that this is not about making infrastructure works. It is about innovation and businesses themselves being incentivised to invest, which business, not Government, should do. Businesses invest in the land, the plant, the machinery and the job creation. Government support the innovation, not least through the regulators, ensuring that we can get speedy decisions on things like planning. The real benefit from Government is not so much from the seed funding but from the tax and innovation opportunities. Then there is the support from bodies like DIT for the bids that are successful.

Q221 Mark Menzies: You have already touched on this, but what types of projects does Government expect this funding to support?

Steve Barclay: I will leave this to Luke.

Luke Hall: Thank you, Chief Secretary.

As the Chief Secretary said, the £175 million is for capital costs only. We would expect that to be focused primarily on land assembly, site remediation, and small-scale transport infrastructure, perhaps to connect sites within the freeport. It is for that type of capital cost.

Any seed funding that can be accessed by any individual site will depend on the submission of an outline case. Our expectation is that all freeports that have their business case accepted will get similar shares of the £175 million. Having said that, we will look closely at, and consider, any larger bids that cover exceptional circumstances, perhaps that come with a significant amount of private sector investment or represent particularly good value for money. We see the funding as primarily for site remediation against purpose and subject to a detailed business case being delivered this year.

Q222 Mark Menzies: One final supplementary question. Bearing in mind that we are operating in a very competitive global environment, what ongoing investment or financial support will Government provide to ensure UK freeports can compete with similar zones internationally.

Steve Barclay: Colleagues across Government have looked at international comparators and the lessons to be drawn from them, as well, of course, as looking at the experience from pre-2012.

On ensuring competitiveness, of the key levers, the tax lever is the one that is demand led, which comes back to the issue of difficulties from a



modelling point of view. I think that is where the scheme is most generous, but in terms of fully ensuring that we maximise the opportunity, that is where the wider nature of Government support is important. The UK freeport offer is a unique one, so I think it is globally attractive. It builds on the best examples that we have looked at from other areas. It is not the same as other international freeports. It is something that is different. Bodies like DIT will work very closely with the successful bidders to ensure that, depending on what sectors they are focused on, we get the right package of support in.

Q223 Chair: Chief Secretary, to continue a little bit on some of the stuff we have been talking about, the UK Major Ports Group in a briefing note says that it is not a silver bullet, that freeports would not be the main part of the levelling up that the north of England needs, and that it would be only one strand to probably a quite complex bow. Would you agree with that?

Steve Barclay: I absolutely agree that there is a huge amount of Government activity beyond freeports in terms of levelling up. Let me give you one specific example. You will have seen at the spending review that we had a review of the Green Book. One of the key things there was about moving away from something that I am sure will resonate with one or two members of the Committee, which is schemes being judged purely on the BCR score and shifting the way we approach our assessments for schemes to align much more with the strategic objectives of the Government, which is to level up. That is why independent voices like Jim O'Neill, for example, recognised the importance of the changes on the Green Book review. The document does not put the focus on that that perhaps it should, but there are changes in things like the way we assess programmes that are important.

Of course, you will also recall that the Chancellor made specific spending commitments around levelling up as well, and there is work going on with Luke's Department and with Rob Jenrick on that as well. The levelling-up agenda is really across the whole of government. It is a whole of government effort and feeds into things like the Green Book review. It feeds into speeding up infrastructure, High Speed 2 and so forth and the commitments we will make on rail through CP6, HIP2 funding, the 48 hospitals building programme—

Q224 Chair: I am a bit worried about a very extensive list. I get the point that it is just one strand to the bow.

If I can move on a little bit further, what level of funding is being set for freeports in the devolved nations and how will you ensure that they are not disadvantaged in regard to freeports within England? What is the funding going to be? If you, let's say, have nine freeports in England and one in Wales, how will the funding for the Welsh freeport compare to the nine in England? Will it be exactly the same? What is your reasoning for funding?



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Steve Barclay: It is a very important point and it is one that I have had a number of discussions with colleagues in the devolved Administrations on. I am very grateful to them for the constructive discussions, particularly with the Scottish Government, that we have had.

As you will know, the Barnett formula is the key arrangement we have in terms of sharing risks and resources across the UK. In the normal way, the £175 million will then be subject to Barnett consequential. Of course, as you will know, again in absolutely the normal way for all policy, that is not hypothecated so it is for the devolved Administrations to—

Q225 **Chair:** Can I stop you there? If there is £175 million to be spent, let's say, on nine freeports in England, that will work out at about £19 million per freeport. However, if you Barnettise it, even for Scotland that would only be £15 million and for Wales, if the freeport was in Wales, it would be a lot less. You are telling us, then, that the freeport advantage to an English freeport is going to be considerably greater than the freeport funding for a Welsh or a Scottish freeport coming from the Westminster Government?

Steve Barclay: No, because what you are missing with that is you are only taking one part of the financial package. The per head funding through Barnett is higher to the Scottish Government, £125—

Q226 **Chair:** But specifically on the freeports, if a freeport goes into Scotland—you are Chief Secretary to the Treasury, the man with the numbers—what funding will that receive and what funding will be available between the other nine in England, let's say, or the one in Wales? I want to keep nine in England for the example of this, just to drill down here.

Steve Barclay: It is a really important point. First, the main benefit of a freeport, as was covered in the question from Mr Menzies, is not the seed funding.

Q227 **Chair:** I am aware of all that. I want to discuss the seed funding, however. I wanted to talk about the seed funding you are giving per freeport and the location of freeports where that might change.

Steve Barclay: I appreciate, Chair, the passion on this issue, but can I take this through clinically and methodically?

Chair: I just hope we get answers.

Steve Barclay: We are. First, the main benefit is the tax offer. That is the main benefit, not the seed funding. Of the seed funding, which is a component, the point is that that goes through Barnett, which is not hypothecated. The Barnett funding that the Scottish Government receive, as they do for lots of other schemes, is more generous per head than it is for England. The allocation will be applied as it is with other policies, and it will be for the Scottish Government then, through their funding through Barnett, to do as they do in other areas of policy, consistent with the statement of funding policy, which says that it is for each devolved



Administration to determine how overall Barnett funding is allocated within their devolved responsibilities.

Chair: Yes, I hear all that.

Steve Barclay: That is what the statement of funding policy makes clear, so that is what is applied in respect of that. I do not think that one should miss the fact that the main benefit is not around the seed funds but in terms of the seed funding that is done through Barnett. It is done consistent with the statement of funding policy. Then we would expect each devolved Administration to allocate its funding that it gets through Barnett. So with the Scottish Government's £125 to the English £100, it would be expected to allocate from within that, as it does in other areas of policy under the statement of funding policy.

Q228 **Chair:** We do remember that Barnett is identifiable spending and it is amazing what cannot be identified, such as MPs' expenses in London, indeed, in the non-identifiable spending category.

I just want to check through the numbers here. Given that you have not given me numbers, I want to present you with some numbers. If you have £175 million of seed funding for England and you have nine freeports in England—I am not talking about per head; I am talking about a freeport here, Chief Secretary—that gives £19.5 million roughly per freeport in England. If there is a freeport in Scotland with Barnett funding, that will get £15.2 million, about £4.3 million less than an English freeport's funding. A Welsh freeport will get even less still on the seed funding. Do you agree or disagree with those figures from the seed funding?

Steve Barclay: I disagree, with respect, Chair. First, you presume that the allocation in England is uniform across all ports, which it is not. Secondly—

Q229 **Chair:** Can I rephrase that, then? Will the nine freeports in England share £175 million between them?

Steve Barclay: It won't be nine. The expectation—

Chair: If there are nine freeports in England, would they share £175 million between them?

Steve Barclay: The seven freeports in England will be allocated under Barnett £175 million and that will then be subject to Barnett in the usual way, in line with the statement of funding policy. The point is, as with other areas of policy, the devolved Administrations would then allocate to their freeports in exactly the same way as they would for other things that are being funded through the Barnett consequentials.

In addition, to help the Scottish Government and the DAs to do that, what we have done, which we have not done before, is we have had an unprecedented up-front guarantee, given the volatility of Covid, to enable



devolved Administrations to have more certainty when it comes to making those allocations.

Q230 **Chair:** On those numbers—forgive me for labouring this, but we are taking quite a while on it—each of the seven freeports in England would on average get about £25 million of seed funding, but in Scotland, if there are two, they would share £15.2 million between them, giving them about £7.55 million each. You do see that there is a funding disparity per freeport, not per capita? We are not talking per capita here, Minister; this is funding for freeports. You do see there is a funding disparity for freeports, whether they be in England or in one of the devolved nations?

Steve Barclay: What I do not accept is that there is a disparity with the way the Barnett formula works.

Q231 **Chair:** We are not talking about the Barnett formula, Minister. With respect, and you know this, we are talking about the seed funding that has been made available for England.

Steve Barclay: The seed funding is being applied through Barnett, so you cannot dismiss it. With respect, if I can finish—

Q232 **Chair:** But Barnett is per capita and we are talking about per freeport.

Steve Barclay: If I can finish my answer, the point is that under the statement of funding policy the devolved Administrations determine how they allocate their overall Barnett funding. In any event, the main benefits are not the seed funding. In terms of assessing the value of freeports, in this case to Scotland, it is very misleading to separate out the seed funding in terms of freeports from the overall value of the offer, because the overall value of the offer is much more driven by the tax benefits. That is a scenario from which Scotland benefits. To some extent, you could say that Scotland will get 20% of the tax benefits for 10% of the population. Are you saying that that is unfair to English freeports?

Q233 **Chair:** I am saying that your seed funding is starting off on a very disproportionate and unfair foundation. I think that anybody watching can see what these numbers are and where the numbers are. We will leave it there on the numbers because the numbers are fairly obvious as to what is happening.

Before I finish, why will freeports now succeed this time around when we remember the previous freeports in the UK withered on the vine in the 2012 Budget with the then Chancellor George Osborne? Why do you think freeports are going to find a niche this time that they lost back nine years ago?

Steve Barclay: It is a very good question and it is one that quite early on I wanted some reassurance and clarity on myself. In short, it is because the offer that the Chancellor and the Secretary of State at MHCLG are bringing forward is a very different offer to what was in place pre-2012.



The pre-2012 freeports were located within UK port boundaries. That did not mean that they were particularly attractive locations in terms of the investments on innovation that we are targeting now, particularly compared, as I say, with those inland sites that are within the 45 km outer boundary. The new freeport model permits multiple sites. Those sites can interact with one another. The pre-2012 freeport sites only offered customs benefits; there was no tax. The tax offer that we covered earlier included the employer NICs, business rates, stamp duty and so forth. There was no spending, so that seed money we have just been covering—the £175 million—was not part of the pre-2012 offer. There was no planning within that pre-2012 freeport offer, and there was no innovation offer in terms of the regulator.

If one looks at those pre-2012 freeport sites, they were very much designated within ports and for ports, which is a completely different proposition to what the new model is doing. What the new model is doing is it is asking local authorities, ports and investors to come together and develop a vision in terms of regenerating a particular area. I think it is a very helpful issue to draw out through your question because there is sometimes confusion between the 2012 position, which in essence was just a copy and paste of what EU freeports do, and what we have now designed, which is a much more bespoke and wider offer.

Chair: Thank you very much, Chief Secretary. I do enjoy our exchanges, both public and private, but I do not want to dwell on this any longer. I am aware that time is going on and I will move to Mark Garnier.

Q234 **Mark Garnier:** I was rather enjoying that, Angus, you were doing splendidly well.

Luke Hall, I would like to go to you. We have heard from a number of witnesses in the past in our inquiry that there is going to be economic displacement as a result of freeports, where businesses may move from one part of a district to another part in order to take advantage of the opportunities, and that actually it is going to be impossible to stop that. What is your view on that? Do you think that we should be trying to minimise that? Do you think that we should accept it? How do we deal with that?

Luke Hall: Clearly, the focus here is on encouraging new investment, creating businesses and jobs in some of the most deprived communities in the country, rather than harmful displacement. That is absolutely not what we want to see, which is why bidders have had to explain how their choice of tax sites minimise displacement of economic activity. That is really important to minimise displacement from the wider local area, especially in economically disadvantaged areas. This will be an important part of the assessment process, which is happening now. We are confident that that risk is being minimised.

The CST might want to say more about the tax measures, but the tax measures have been very carefully designed as well to encourage new



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economic activity. We want to make sure that we have the power to prevent access to tax reliefs where businesses or operators are found to be abusing those. One example of that could be that, on the NICs relief, it is possible that a business could try to claim an employee is in a freeport when they are not and try to claim the relief on that employee. To prevent that, we are going to write into the legislation rules on what constitutes an employee being in a freeport, and then HMRC will track compliance from that and will have the power to claw back reliefs if they are fraudulently claimed with, ultimately, a power to de-designate a tax site if there is lots of non-compliance.

We really do think through the process that we have designed, which is being carried out now, we are minimising the risk of any harmful displacement of that type.

Q235 Mark Garnier: I want to go to Steve Barclay in a second, but just on that last point where you could take away the privilege of being a freeport if there is non-compliance, did I hear that right? Potentially, if people are abusing the system, you could just negate the whole thing—is that right?

Luke Hall: We could de-designate a tax site if there is lots of non-compliance.

Q236 Mark Garnier: Who is enforcing the compliance? It will be HMRC, presumably, that would.

Luke Hall: HMRC tracks compliance—that is right.

Q237 Mark Garnier: Who enforces compliance as opposed to tracking it?

Luke Hall: I might have to look to Steve if that is okay.

Q238 Mark Garnier: Do not worry—it is an important point, but I will not press it because I have a couple of questions to ask Steve very quickly. I will go to Steve and ask him these questions and perhaps he can pick that up in his answer.

Steve, a little bit earlier in responding to Mick Whitley you were talking about why we are doing this. Ultimately, you suggested that the real reason was to improve productivity and that the win that the Government get out of this is productivity. Having spent six years on the Treasury Committee, I can translate productivity into increased taxes, and long may we continue to increase the output of the UK so that we can pay for all those services we love. Steve, how are you going to know that this policy itself is genuinely increasing productivity and is not necessarily taking it from elsewhere? What measures are you going to be applying to this to make sure that it is successful in its own right?

Steve Barclay: It is a very real consideration that we have focused on in the design. Very senior people like Nicholas Macpherson—who, as you know, Mr Garnier, is a former Permanent Secretary of the Treasury, no less—have raised a concern. If one looks at the enterprise zones, one of



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the concerns with enterprise zones was to what extent there is displacement activity. It is a very live risk that you identify.

The design has done a number of things. First, in the bidding prospectus, submissions have to explain how their choice of site minimises displacement, and that is very much part of the assessment process. It is not that we are saying it is not a risk; we are saying it is a risk that we need to ensure is mitigated. That is one of the ways in which bids will be assessed and evaluated.

To the extent that there is displacement, we would hope that what we are creating is something that causes displacement from overseas to the UK, not displacement within the UK. If I take my earlier example, if a global firm—you have huge experience of this from your time in DIT—decides that it can ship components to the UK, build the end product and then ship those out, that makes UK plc a more attractive environment where many of these decisions are taken on a global basis. For the sort of business that we are looking to target, the assessment that will shape the bidding process is very much looking at that end of business and guarding against the displacement in other areas.

An example of that, just to bring that to life, as part of that assessment of the bids is: is it really innovative? Is it a sector where there are other similar businesses just down the road? To what extent does the bid pertain to something that is genuinely going to be innovative and help regenerate? It is very much built into the assessment model and it was expressly set out in the bidding prospectus.

Q239 Mark Garnier: On the enforcement point, if people are abusing the privilege, Luke mentioned that it will be assessed by HMRC, but who decides? If you are going to close a free trade port down, who would decide to do that?

Steve Barclay: There is a mix. Obviously, Border Force will have a direct role in some of the issues from a security point of view in the sites. There will be, from a governance point of view, specific requirements in terms of the freeport governance body, which will be responsible for co-ordinating not only the parties on the site and the marketing of the site, but will also be tasked with the security risks involved. The port authorities, the governing body, Home Office, Border Force, and obviously from a tax point of view HMRC will all have a role in the requirements under the security risks.

Q240 Mark Garnier: On the point about how you actually measure the economic impact of a freeport, how would you assess that?

Steve Barclay: That will come through the modelling that we intend to do once we have clarity of the locations and the site of the business. Coming back to the question about monitoring and risk, clearly one of the advantages of getting the various stakeholders involved—the local authorities, the ports, business leaders and Members of Parliament—is



that if there is a concern, clearly that intelligence is more likely to be identified, as was the case in the pre-2012 model, when it was purely a port site and a port authority. There will be scope in the dialogue to identify those issues if people have concerns, but in terms of the modelling it comes back to where we started the session: what business, what site, what level of innovation. That will all shape the economic modelling.

Q241 Mark Garnier: I am being a bit techie on this one, with my enthusiasm for mathematics and economics, but it is an important question. By the way, I think that this is a fantastic idea and I am 100% behind it. For those of us who are enthusiasts, what we want to be able to do is to go back and turn around and say not only are we enthusiasts for this, but we are enthusiasts for this because of reasons. What I am trying to get from you, Steve, is how we define that it has been a success. Do we look at it in terms of jobs? Do we look at it in terms of regional tax generation? Do we look at it in terms of GVA for the region? What will you be looking at when you are at Treasury oral questions and Angus is having a go at you in public, for example, to say this has not been a success? What is your answer?

Chair: I am sure it will be a success, come on.

Steve Barclay: The three things we have said all along are that this is about boosting trade, boosting innovation and boosting jobs. If the Chancellor was here—he is one of the people who has led on freeports policy within Government—I think that he would say, “Jobs, jobs and jobs,” in answer to that question. From a Treasury point of view, our focus is very much on jobs and we will be looking at that.

To speak to your more technical point, Mr Garnier, I would say that MHCLG has a huge amount of experience in how it assesses regeneration and targeted schemes. It will be more for Luke and the team there in terms of some of those metrics as to what extent, going back to Mr Vickers’s earlier point, it has delivered levelling up. We are doing work within the Government more widely, not just for this scheme but more widely across Government policy, on how we get better at evaluation because that tends to be an area that I think it is fair to say is often expensive, time consuming and does not always get designed into policy in the way that, from a Treasury point of view, we would like. MHCLG will lead on the regeneration evaluation of it.

Luke Hall: To pick up on that point, and Steve touched on it, you are right that we need to have robust KPIs for monitoring outcomes of freeports. That is absolutely clear, so we are going to develop those using cross-Whitehall groups.

It comes back, though, to the three things that the CST mentioned, which are the three key objectives. Looking at those as outlined in the prospectus, it is the six parts I put out for consideration. On trade, that is monitoring and increasing throughput through the designated freeport



area. On investment, that is increasing investment within the freeport boundary area, the surrounding area and nationally. On promoting the region and job creation, the second objective, there is employment just in number of jobs and average wages, importantly, too. I should say average wages in deprived areas in and around the freeports—not just in the freeport, but around it as well. There is economic activity under that second objective, so that is the increase in economic specialisation in activities in high GVA relative to the makeup of the local economy. The third objective is about innovation. As set out in the prospectus, that is increased local involvement and funding R&D innovation, and then increased productivity in each target region through an increased capacity to absorb innovation.

They will be marked against all those outcomes and objectives, but we are developing them across Whitehall.

Q242 Mark Garnier: Hopefully these KPIs will pick up if you have a displacement from one part. I want to slightly widen out on this. The other thing I am interested in having your opinion on is how these new freeports will work alongside enterprise zones, if you have enterprise zones nearby. How do you see them complementing each other or, indeed, competing against each other? Have you done any research into that?

Luke Hall: That is a really important point. We would expect and hope that freeports enhance the incentives in areas that already have enterprise zones. I do not want to give a specific example without getting into the realm of bids, but it could be something like an area surrounding a port might already have a small number of enterprise zones helping to incentivise investment in a certain sector. Having freeport status as well could then further enhance the attractiveness of that area. I think they can absolutely complement each other.

For the freeports competition, we clearly stated that bidders' proposals will need to meet the core standards that we have talked about on governance structure, personnel and functions, and the experience of delivering enterprise zones suggests that the standards there are absolutely crucial for those successful place-based type interventions. It will, therefore, assess any governance proposal against those criteria to make sure that it meets the minimum standard.

The last point that I would say on this is we have also used learning from the enterprise zone model, which we have experience in, to develop freeports. We have made sure that LEPs are our example of effective personnel required for a successful freeport in the bidding prospectus. Overall, we hope that they should be complementary.

Mark Garnier: Brilliant, thank you very much.

Q243 Mick Whitley: This is to both the Chief Secretary and the Minister. How concerned are the Government about risks of illicit activity at freeports



and how will they monitor these risks on an ongoing basis?

Steve Barclay: It is important that we have controls in place and that is why we have said that freeports will adhere to the appropriate international and domestic obligations. Obviously, one of the requirements on those bidding is to demonstrate what measures they will put in place to ensure that they meet those international standards. Of course, we will then have regular compliance checks to ensure that that is done.

Part of this has also in the design been to look, as I said earlier, at what is done elsewhere internationally. We have designed these with those lessons in mind. We have ensured that we have followed best practice and then clearly within that HMRC, Home Office and Border Force will have done the checks. Things like the OECD Code of Conduct for Clean Free Trade Zones will be applied, as well as the UK's money laundering, terrorist financing and transfer of funds regulations. It is a design based on best international practice, applying international rules and regulations, and then having robust compliance checks in place through Border Force and HMRC. That includes freeports being required to share all the data with law enforcement and HMRC that is set out in the bidding prospectus.

Mick Whitley: Luke?

Luke Hall: To be honest, I do not think I have anything particularly to add to that from MHCLG.

Q244 **Mick Whitley:** Okay. I will ask you a supplementary question, then. What is the Government's view on the use of freeports for high-value luxury storage and how will it mitigate the risk of freeports being used in this way?

Luke Hall: In the freeports consultation, we were clear that we do not intend to designate freeports for purposes of high-value luxury storage. We were quite clear about that. We asked bidders to target freeport interventions and incentives at emerging sectoral clusters in their local economies. We talked a little bit about that a minute ago.

In addition to that, we set out in the prospectus that freeports will be evaluated on their ability to deliver against those outcomes that I outlined earlier in response to Mr Garnier's question. We will be closely monitoring the outcomes being delivered and involving other Government Departments in monitoring that; the port authority, for instance. The last point is we will also go through and outline the full business case approvals process to agree the priorities for freeports for successful bidders. I think that we have been relatively clear on that point.

Q245 **Mark Garnier:** Luke, can I turn to you on the thorny issue of the devolved Administrations? We have heard from some of the devolved Administrations that during the policy development and consultation process these devolved Administrations did not have access to all the



information that they felt they needed, including analysis and impact assessments in respect of the whole policy proposals. Luke, could you comment on that? Why was this the case and, indeed, is this truly the case?

Luke Hall: We had, in fact, extremely regular meetings with the DAs throughout the policy development and we have shared, I think, an unprecedented amount of information with them, including the draft bidding prospectus for England. I think that it would be an unfair characterisation to say that we have not shared information with them. We have shared the draft consultation and we have engaged with them on the responses relating to freeports regarding their devolved Administrations. I am not convinced that that is a completely fair characterisation. I do not know if the CST has anything extra to add to that.

Steve Barclay: I have had a number of discussions with counterparts. There has been engagement and that has also been the case at official level; for example, the draft consultation responses and the draft bidding prospectus was shared with the DAs ahead of time. I think that is a good illustration that there has been a collaborative approach.

On the point of sharing modelling, I would slightly take issue with that because, of course, a number of the powers relating to freeports are within the gift of the devolved Administrations themselves. Therefore, clearly, as you would appreciate, Mr Garnier, the modelling would need to reflect those policy decisions, which, of course, often have not been taken. The devolved Administrations have flexibility, for example, on the planning side and clearly the model would need to reflect the decisions they took in that regard.

Q246 **Mark Garnier:** If I might just leap in on that particular point, I think that it is during the policy development process they are talking about. Is it possible that we, the England Government if you like, did not share everything with them because of just that point? Do they have a legitimate complaint that they did not see everything at the early stages, possibly because of exactly that point?

Steve Barclay: From my perspective, officials both within the Treasury and elsewhere in the Government have very regular engagement with DA counterparts—extremely frequent engagement. Key documents, as I say, were shared ahead of publication, and on the modelling, we did share notes on some initial thoughts about how that might be done. As I say, there are a number of factors that will shape that, including the location, the types of business and, indeed, how the DA powers are flexed within that.

I would contend that there has been a huge amount of collaborative working. I also welcome the fact that the Scottish Government have indicated that they are open to moving the freeports policy forward. I think that reflects the fact that there has been good engagement.



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Q247 **Mark Garnier:** On that subject, do you have any idea when the freeports in the DAs are going to be delivered?

Steve Barclay: Again, that is subject to the conversations that we are having with the devolved Administrations and I am not, Mr Garnier, in a position to give a clear timetable on that today.

Mark Garnier: An unclear timetable?

Steve Barclay: Obviously, the context is shaped by the fact that I set out an indicative timetable from an English freeports perspective earlier and that will then frame the timetable in terms of the DAs, but not set it.

Mark Garnier: A fantastically evasive answer. Thanks very much indeed.

Q248 **Chair:** How free, Chief Secretary, are the DAs, as you call the Scottish Government and the Welsh Government, in setting their own choices and policies around the freeports, and where does your involvement start and finish with this?

Steve Barclay: First, let me be clear that this is a UK policy to deliver freeports. The manifesto was clear and that is our intent. Within that, we respect through the devolution settlement that there are areas of policy that are for the devolved Administrations. If I break it down for the Committee, on the customs side, customs policy is generally reserved with a few exceptions, including sanitary and phytosanitary controls, which are mainly devolved. On the tax side, most of the tax policy, as you know, is reserved, but there are some aspects such as business rates, stamp duty and land tax that are devolved. That is from a Scotland and Wales perspective. On Northern Ireland it is just business rates that are devolved. On the planning side, all the planning is devolved. Regeneration policy is part devolved, and then on innovation policy it is part reserved, part devolved. There is an interaction there.

Sometimes what is within the question is whether there is a difference perhaps on the green agenda, because obviously in the media commentary there has been talk in the context of the Scottish Government more on that side. It is worth reinforcing that in the English freeports process net zero is explicitly included within the deliverability criteria, and fair work is implicitly included within the regeneration criteria. Sometimes some of the perceived differences are perhaps more exaggerated than the reality in terms of what the bidding prospectus sets out.

Q249 **Chair:** You did say the freeports were a UK policy there. I was wondering if you were tempting me to reopen our spat on the seed funding. Depending on which UK freeport it was, some were more equal than others when it came to seed funding, but I will do my best to resist that obvious opening and move on to Northern Ireland and the WTO and so on. Do you anticipate any aspects of the freeports offer changing following the development of the UK's domestic subsidy regime or the negotiation of subsidy provisions in the UK's future free trade



agreements?

Steve Barclay: First, it is worth remembering from a freeports point of view that there are freeport customs sites in the rest of the EU as a starting point. We will need to adapt the GB freeports model for Northern Ireland to ensure that it complies with our obligations under the Northern Ireland Protocol. It comes back to the earlier question. We are working very closely with the Northern Ireland Executive to agree the model that works effectively there. Freeports from a customs point of view do apply across the EU and we are working very closely with the Northern Ireland Executive in terms of any issues on the protocol.

Chair: Thank you. Minister Hall, would you like to add anything?

Luke Hall: I don't think I particularly have anything else to add on top of that.

Q250 **Chair:** Chief Secretary to the Treasury, you mentioned the Northern Ireland Protocol there, which is quite fortuitous. Do you think that the Northern Ireland Protocol will impact freeports in Northern Ireland being established at the same time as they are elsewhere? We have already seen difficulties in trade with Northern Ireland. What do you think that a freeport will mean, how will the provision of EU state aid and what have you apply to Northern Ireland?

Steve Barclay: The devil is in the detail, but there is a lot of flexibility within the trading continuity agreement that was reached with the EU. It is exactly that detail that the Northern Ireland Executive has said it is very keen to work through with it. Those discussions are ongoing.

The underlying core is that we are extremely keen to ensure that we have the best possible offer for Northern Ireland and to ensure that that is competitive in a way that is attracting businesses. As you well know, Chair, there are particular sensitivities around the political and wider situation in Northern Ireland and as we work through the detail, notwithstanding the flexibilities contained within, we need to work through those unique circumstances and ensure that is taken forward. From a customs perspective, other than in a minor technical way, I do not think there are particular changes required, but that is something we are discussing with the Executive.

Q251 **Chair:** When we were taking evidence on this earlier, which as you know is quite a long time ago now, a question was raised to representatives from Northern Ireland as to what the reaction was in the Republic. That was done in the context of a number of concerns within the UK of displacement. There seemed to be next to no reactions in the Republic. We know that the Republic is wealthier per capita than the UK anyway, and I think the gap in GDP across the Irish border is now greater than it was between East and West Germany. Does it surprise you that there was such little reaction? Is this perhaps because much of the push for freeports is a lot to do with the Government spend that it attracts round about it rather than the viability of freeports in the longer term itself? Is



there a part of your brain that might worry about that, Chief Secretary?

Steve Barclay: No, I think it comes back to issues we have covered in some depth over the course of the session. The offer of freeports is an attractive offer. That is reflected in the responses we have had from businesses across the United Kingdom—a very strong response, including Scotland and Wales businesses saying that. The offer, as we have touched on, involves a number of factors, not just on the customs side but on the tax and innovation sides. The seed funding is part of that, but not the substantive benefit for areas from the freeport policy.

Within the EU there are freeports for customs and within the Northern Ireland Protocol there is a huge amount of flexibility. In terms of Northern Ireland, there are a number of issues. It is a more textured debate, but ultimately it is one where we will be able to offer a very attractive package and one that is both sensitive to the unique circumstances in Northern Ireland, but ultimately beneficial to the people of Northern Ireland.

Chair: Thank you for that. It was just interesting that there was very little reaction in the Republic to it. We will move on to Mr Martin Vickers, who is waiting patiently as ever.

Q252 **Martin Vickers:** Could I turn now to the oversight of freeports once they have been established? I understand that the Government have indicated there will be a cross-Whitehall governance body. Presumably that is going to be established at the time of the operation of the first freeport. What exactly is the form of this body?

Luke Hall: The English freeports programme, yes, is being governed cross-departmentally. We have input from all Departments involved in the freeports competition that have been listed and we discussed earlier in the delivery of freeports. For the competition, we already have a programme board and that is chaired by a senior civil servant and includes senior civil servants from all the key Departments that we discussed previously. We will be reviewing the role of that board for the delivery phase itself.

Individual freeports themselves will be governed by a body comprising the key local stakeholders, so councils and local authorities, and as part of their bids, we have asked the prospective freeports to explain the governance structures for their proposals, and how these will ensure a good level of effective oversight and governance and who this will involve. A lot of that is being drawn out through the bidding process. I will not say more about them now, but essentially through the structure of the process that we designed we are making sure that we have good governance structures for the freeports.

We are also developing a robust programme-level monitoring and evaluation scheme. That can help us to understand what works when it comes to freeports, and individual bidders have been asked as part of the



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process to set out their plans for the monitoring and evaluation of the impact of their freeport.

You are right that some of this will come out a little bit further down the line, but we already have that set-up there through the competition phase and we will review how that works going forward.

Q253 Martin Vickers: Will these oversight bodies be statutory bodies?

Luke Hall: I do not want to give that commitment at this stage. We are still looking at that. As I said, the programme board at the moment is cross-departmentally chaired by a senior civil servant, so we will review that and consider that as we move through the policy development. We certainly believe that throughout the process that we have set up through the bidding process, we have asked for a high level of governance standard and structures, but I can confirm to you as soon as I am able to, Mr Vickers, whether that is statutory or not.

Q254 Martin Vickers: If some of these civil servants who are based centrally are permanently attached to the oversight of freeports, wouldn't it be logical to base them in a freeport? Wouldn't that be part of the Government's agenda for moving civil servants around the country?

Luke Hall: You are selling our recent policy of moving to Wolverhampton as a Department—the first Department to make sure we make that happen.

We are reviewing the role of that board is what I should be clear about for the next phase. We are happy to take the Committee's views on that as well. We want to understand exactly how effective that could be for the next stage of the process. As to where geographically that board would sit, I am sure that we will be trying to understand the best way for that to interact in due course. We will have cross-government people from each freeport who will be able to interact with our freeports team from across government, so they will certainly be able to tap into central expertise regardless of the location of the oversight body.

Martin Vickers: I am very happy to suggest a port that they might be located in, Minister.

Luke Hall: I thought you might be.

Q255 Mark Garnier: Luke, can I come back to you again? I was going to ask a bit more about the evaluation process. Obviously, you had been very helpful a little bit earlier on, so you have covered quite a lot of that. There are a couple of extra things on this. When is the evaluation of success or failure going to be undertaken? Is it going to be ongoing or are you going to have a benchmark point at some point in the future? Secondly, how is it going to be undertaken? Is it going to be independently done and, if so, by whom?

Luke Hall: We will develop an England-wide evaluation framework based on the outcomes that I referred to in the answer I gave earlier—the six



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points and the three objectives. Once the competition has been completed, we will be working with each individual location to establish individual project milestones and programme outcomes that they are seeking to achieve. On top of that, we clearly want to do a lot of work around making sure there is a good, effective way of shared learning. This is essentially a new policy and a new policy development area, so we will have a good, strong culture for that as well.

As I mentioned earlier, we have been working with the What Works centre for local economic growth. It has been helping us to plan the evaluation of the policy to make sure that we learn from the best practice of similar models where they exist. We will be expecting every freeport to have a monitoring and evaluation plan agreed as part of the business case, expected to be completed in the coming financial year, so in 2021-22. Clearly it is absolutely vital that we have a strong monitoring and evaluation process. As I say, it is still under development, so I cannot be too specific about the format of that evaluation, but we will be providing more information ahead of the business case process because that is when it will be required.

Q256 **Mark Garnier:** Fantastic. Steve, do you think that Luke's officials are doing the job well?

Steve Barclay: Of course, Mr Garnier. Speaking to your more substantive question on the evaluation, I think, to be frank, you need both. You need ongoing evaluation, but you also need some clear milestones. You will have seen in the relevant documentation that particularly around tax, for example, we want to evaluate and monitor that at particular set points. Likewise, one can get into a debate as to who conducts the evaluation. The key issue is agreeing the metrics and having the quality of work around how that is done. Whether that is in house or outsourced is probably secondary to the quality of the work there.

I think that it is important to have that formal evaluation. That has been established as a key part of the programme, so it has been designed in. Bidders have been asked to submit on the basis that their proposals will be subject to that monitoring and evaluation framework. It is very much part of the design from the off, rather than something retrofitted after the event.

Mark Garnier: That is really helpful. That is about it from me. Angus, I will hand back to you.

Q257 **Chair:** We are coming almost to the end, you will be disappointed to hear, Chief Secretary and Minister Hall. I would like to ask you about the philosophy. There will be a number of people around the freeports watching this at the moment, looking to see some of the thinking, and indeed many others as well. Of course, we do not want to name anyone, but I am interested in what direction you are taking. You could go for the low-hanging fruit, shall we call them? They will be places where if you put



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in a freeport, you would see quicker economic gains than elsewhere. Maybe there are more difficult places in the levelling-up bracket, shall we say, where the gain might not be so great to the Treasury; however, the local gain might be quite substantial. I am again hesitant to mention any areas. I want to know how you would balance those two pressures there. You can have the economic gain for the Treasury more markedly in the low-hanging fruit; you can make big differences perhaps to certain areas with the levelling-up bracket. How will you balance that, Chief Secretary first and then Minister Hall?

Steve Barclay: First, as we agreed at the outset, it is not appropriate to get into individual bids.

Chair: Absolutely.

Steve Barclay: I know you recognise that, Chair, so it is within that context.

In terms of assessing it, I would make two points. First, on the policy objectives, we have been very clear around the three objectives: for these sites to be hubs for global trade and investment; for them to promote regeneration and job creation; and then for them to be hotbeds of innovation. Within the assessment of this, our starting proposition will be whether they meet the three objectives that have been set.

Within that, a second point would be that we were very clear in the review that we did of the Green Book that the assessment of schemes across all areas of policy now need to meet the strategic objectives of the Government, that is in particular to levelling up. In assessing what will be ahead for trade, it is also pertinent to consider that wider strategic objective of the Government in terms of its levelling-up agenda.

The point is that there will be, Chair, a variety of cases that will come forward, but that would be the framework that I would expect colleagues, chaired by MHCLG, to apply when considering the bids that come in.

Luke Hall: Following what the CST has said and accepting the fact that there are clear criteria under which my Department is assessing, I wouldn't add anything else at this stage.

Chair: Yes, it was basically a philosophical question at the end, so I thank you both for that. I do understand the strictures here in particular. Perhaps it is the timing of our event, but anyway, we will not dwell on that.

Thank you both for coming along this afternoon. It has been worthwhile. It takes our endeavour and inquiry into this area to an end and we are glad of that. We can move on to having a report. We wish you the best of luck with the freeports whatever they decide to be, and we hope they work well. Of course, our good wishes will never stop this Committee from examining and questioning how policies are going. Hopefully, we will have you back some other time in the future with a lot less song and



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dance. We look forward to having you back again. With that, a final thanks to the Chief Secretary to the Treasury and Minister Hall. I will leave it at that.