Notice of:	**EXECUTIVE**
Decision Number:	EX51/2022
Relevant Officer:	Alan Cavill, Director of Communications and Regeneration
Relevant Cabinet Member:	Councillor Mark Smith, Executive Member for Business, Enterprise and Job Creation
Date of Meeting	5 December 2022

BLACKPOOL AIRPORT ENTERPRISE ZONE: ANNUAL REVIEW

1.0 Purpose of the report:

1.1 This report sets out the further progress on the delivery of the Enterprise Zone and related activity at Blackpool Airport since the Executive in February 2022, outlines activity planned for the next fifteen months to the end of financial year 2023/24 and seeks approval to the further investment (as anticipated in February 2022) required to ensure the delivery of the Enterprise Zone economic benefits in a timely manner.

2.0 Recommendations:

2.1 To note the progress made on the delivery of the Enterprise Zone Masterplan to date.

2.2 To note the higher levels of risk associated with the overall whole life expenditure and income forecasts, given the increasingly volatile nature of the economy and uncertainty over the long term format of business rates.

2.3 To approve the forecast expenditure budget to the end of financial year 2023/24 of £44.20m, increasing the total approved cumulative expenditure by £14.48m from £29.72m to £44.20m, plus associated costs of Prudential Borrowing, as set out in section 6.11

2.4 To note:

a) the total estimated cumulative expenditure from April 2016 to end of March 2023 of £23.06m; the whole life expenditure forecast to the end of the Enterprise Zone in 2041 of £79.75m at present values, which with the current anticipated prudential borrowing costs currently totals £84.36m, and the estimated forecast whole life income of £71.93m as set out in paragraph 6.11.

b) These figures will inevitably change in the future and the Council will only commit resources essential to the delivery of the Enterprise Zone within the anticipated income forecast notwithstanding the projections above, will keep progress under close scrutiny and will continue to report annually to the Executive.

2.5 To note the increase in the commitment to provide match funding for the Towns Fund project from £10.5m by an additional £5.90m to £16.40m which is contained within the approval sought in recommendation 2.3.

2.6 To approve the delegation to Director of Communications and Regeneration, after consultation with the Leader of the Council, to authorise expenditure on individual schemes and property acquisitions within the Enterprise Zone and inter-related airport holdings of Blackpool Airport Properties Ltd (BAPL).

3.0 **Reasons for recommendations:**

3.1 The Enterprise Zone is essentially an enabling project which seeks to provide the sites highways and utilities infrastructure to support development of commercial property by third party developers and on occasion, by the Council acting as developer (as with the Multi-ply development). It is this third party development which secures the economic diversification, employment and business rates growth that are the overarching objectives of the Enterprise Zone. By its very nature the infrastructure has to be provided in advance of securing commercial property development and occupying business – so there is an inherent risk that the secondary development objectives are not met or are delayed. The Delivery Plan provides the best current estimate in respect of costs and income potential to offset the enabling costs, and these estimates will vary throughout the lifetime of the project. If the enabling infrastructure is not provided for any reason then the built development and economic benefits cannot be delivered.

The impacts of the Covid pandemic and the uncertainties surrounding Brexit and more recently the conflict in Ukraine and the energy, cost of living and financial markets crises continue to have varying degrees of impact upon the progress of the Enterprise Zone project, in particular disrupting some income streams which continues to make future forecasting and planning of Enterprise Zone investment difficult.

The impact of inflation contingency and delay in provision of accurate costs estimates by third parties has moved the current iteration of the Enterprise Zone delivery plan from a position where, over its lifetime, it was broadly achieving a break even position of costs against income excluding costs of prudential borrowing, to forecast now a potentially significant cash deficit of c £7.82m. This, however, represents a worst case scenario over the remaining 18 year life of the Enterprise Zone. With the forecasts subject to almost constant change, the Enterprise Zone is kept under constant review in terms of cost predictions and likely demand / income to ensure it can adapt and respond swiftly, particularly to delay expenditure and to progress in a series of smaller delivery phases if appropriate.

In February, it was estimated that spend in the current financial year to 31st March 2023 would equate to circa £15,478,000. The delivery of a number of forecast high expenditure works has been delayed, including the provision of a new Aircraft Control System for the airport – where a decision in principle on requirements is not now expected until the new year. Similarly, there have been delays in obtaining budget quotations from ENWL for the provision of the new Primary Sub-station, which means substantial spend will be delayed until financial year 2023/24. The programme for the Towns Fund Highway project has also slipped, again reducing anticipated spend. The revised expenditure forecast for the year to 31 March 2023 in now reduced to £10.18m. Expenditure originally planned for the current year has been moved forward to financial year 2023/24 and in turn some expenditure originally forecast for next year has been moved to financial year 2024/25. Further review of expenditure and resultant income will continue to better forecast likely levels of expenditure.

Whilst there exists the possibility of delaying or accelerating expenditure on elements of the enabling infrastructure to match changed circumstances – particularly new requirements for employment generating accommodation, there are some items where significant upfront expenditure has to be committed in the immediate future to ensure that the Enterprise Zone can respond to anticipated future demand, most specifically for provision of electricity sub stations which can have a lead time of 3-4 years, and have to be paid for in advance. Such infrastructure is essential if the Enterprise Zone - Phase 2 is to be able to realise the goals of securing data centres, sustainable energy solar farms and battery storage facilities. There is every hope that such up front capital expenditure will be recouped from the sought after investment but, out of prudence, allowance is not currently made for such income until this is certain. Without the commitment to provide the necessary enabling infrastructure there would be no prospect of securing this future investment

Nevertheless, even at this level, set against the anticipated new employment generated by the Enterprise Zone of 5,000 jobs, this represents a modest cost per job in the region of £2,947 when viewed against the currently forecast £14.73m cash deficit including prudential borrowing costs. Nationally job creation costs may now be expected in the region of £15-20,000+ per head. When measured against gross expenditure on the Enterprise Zone including likely costs of Prudential Borrowing the cost per job at £16,872 still remains within these national parameters

On completion of the Enterprise Zone in 2041, the investment in enabling infrastructure, employment levels, business rates generation and the long term regional economic benefit, substantial ongoing retained assets will have been created. Land and investment properties such as that occupied by Multiply components on Amy Johnson Way, a modern, upgraded sustainable and a fit for purpose airport and a first class sporting facility at Common Edge Sports Village - which will support a healthier community, in line with the Council's Priority 2 – 'Communities: Creating stronger communities and increasing resilience'

The Enterprise Zone will also have helped provide the means to generate and store sustainable energy and provided a very significant contribution to achieving carbon reduction targets set by the Council for 2030 and 2050, which have been set in response to the Council declaring a climate emergency.

The financial modelling within the Delivery plan has deliberately adopted a pessimistic approach to risk and there is a realistic optimism that a number of factors bulleted below will result in a significant reduction in the currently forecast cash gap. Value engineering will be constantly undertaken to minimise costs and identify additional income generation and there will be opportunity to defer expenditure on some elements of the present masterplan. However, any delays in delivering new buildings within the Enterprise Zone has a direct impact on the total lifetime income that can be generated via business rates growth retention so it is imperative that the Council remains committed to the continued realisation of these massive benefits for the Blackpool economy and its residents. Further modelling is ongoing to seek to break down the anticipated infrastructure expenditure into a series of sub phases with a view to increasing the ability to vary the pace of investment.

In addition to the direct employment opportunities enabled the Enterprise Zone will add in the region of £2bn cumulatively to the gross value added of the Fylde Coast and the investment in Solar Farm and renewable energy will both enable the area to compete in the data/digital industry sector and contribute potentially 50% of Blackpool's ambitious carbon reduction targets as part of the commitment to addressing the Climate Emergency.

In the Mini-Budget of Friday 23 September 2022 the concept of Investment Zones was raised and Blackpool Enterprise Zone was provisionally identified as a beneficiary given its relatively successful track record against other Enterprise Zones to-date. Whilst there was little by way of confirmed benefits from the proposed Investment Zones an expression of interest was submitted to the Department for Levelling Up, Housing and Communities in accordance with bid requirements on 14 October 2022. It now appears that following the Autumn Statement the concept of Investment Zones is unlikely to move forward on the Enterprise Zones and the prospect of extension to the recently expired Enterprise Zone fiscal incentives is also unlikely to be restored.

Mitigation of the current forecast gap includes :-

- There is currently no residual value attributed to the Airport or other retained land and property investment at the end of the Enterprise Zone Project in 2041
- Until the full study of the Solar Farm feasibility has been completed limited income / capital value has been attributed to this.
- No Income has yet been attributed to the proposed Battery Storage facility as this remains an unknown.

- No income has yet been allowed for contributions to the Energy infrastructure from Battery Storage, Solar Farm and off shore wind farm connections, nor in respect of reduced operating costs for the airport and Enterprise Zone which may enhance land values
- The provision of fully serviced plots at Eastern Gateway and energy and data enabled plots at the Airport Knowledge quarter will yield higher incomes than presently included within the financial model
- The 40% optimum bias reduction in income model should be improved upon with strong pipeline demand
- Cost estimates, particularly for the Towns Fund scheme, include very substantial contingency allowances, with costs reductions likely when tenders and fully costed utilities works become available.
- Further work is to be undertaken to break down the Enterprise Zone into a series of smaller self-contained delivery elements, within the two primary phases, to better assess the value and optimum timing of each element to maximise benefit. Some expenditure remains overarching such as the revenue marketing and delivery team costs which can be flexed to reflect short term requirements.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

4.1 Maintain the existing approval for expenditure of up to £29.72m and seek to contain spend by delaying elements of the project, whilst also extending the timeframe for undertaking this expenditure by a further year to the end of financial year 2023/24. However, this is unlikely to be sufficient to complete the whole of the revised Phase 1 and Towns Fund works which will only be completed by 2025/26, and may create difficulty in committing to some elements of the extended Phase 1 works where these might extend beyond financial year 2022/23. In particular it would put the ability to secure the full Towns Fund grant at risk.

4.2 Approve the full £79.75m required to complete all the revised Phase 1 and Phase 2 works. In the light of the ongoing economic turbulence there is a high probability that there will be additional delays and fluctuations in demand, as well as new emerging opportunities such as the data management sector which will require a more flexible and responsive approach, thus it would be inappropriate to make such a large commitment at this stage.

4.3 Limit further activity to provide enabling infrastructure until there is proven demand for specific elements. This would not provide the flexibility to respond to often short lead time requirements from occupiers, and would significantly reduce the potential of the Enterprise Zone to generate income to meet the costs of infrastructure, ability to meet its ambitious targets of 5,000 new jobs, and the potential to generate more than £2bn gross value added for the economy, and make meaningful contribution to securing carbon reduction targets.

5.0 Council priority:

5.1 The relevant Council priority is: “The economy: Maximising growth and opportunity across Blackpool.

6.0 Background information:

6.1 Executive Summary:

- Blackpool Airport Enterprise Zone is a 25 year project at the heart of efforts to grow and diversify the regional economy, its long lifespan means that it has to be a flexible project able to identify and adapt quickly to ever changing economic influences and opportunities. The Enterprise Zone has been successful to-date supporting 2137 new employment opportunities against a lifetime target of 5000 and presents the unique chance to enable Blackpool to be at the core of the North West’s key digital industry sector, provide substantial levels of sustainable energy and contribute to securing carbon reduction targets whilst also securing a sustainable future for Blackpool Airport.

Progress since February 2022

- Good progress has been made with the delivery of the Phase 1 of the Enterprise Zone, with the new £6m Common Edge Leisure facilities on target to be fully complete and operational by March 2023, releasing 10.5Ha of commercial development land. Engagement with interested parties in positive and ongoing.

- The present turbulent economic environment makes it difficult to accurately forecast both expenditure and income generation over the extended lifetime of the Enterprise Zone, a problem exacerbated by a need to rely upon high level cost estimates and a deliberate decision to include large contingency allowances until design work is completed, tenders received and full budget prices provided by statutory undertakers. High levels of optimism bias have also been applied to potential rates and land sale income. As such the consequence is that the present equation of cost against income for the full delivery of the Masterplan indicates a deficit of £7.82m, to which the cost of prudential borrowing has to be added giving an overall forecast shortfall of £14.73m. For the current purposes, therefore, it is proposed to only implement those elements of the Masterplan that can be contained within the forecast income and keep the position under review.

- A range of measures and opportunities to close the gap have been identified and there is a programme of regular review and value engineering. Despite the economic uncertainty there is an imperative to continue key investment expenditure to meet obligations under the Town Deal and to ensure that long lead power infrastructure can be provided to support anticipated investment in data centres and renewable energy technologies, with delay in progressing infrastructure having the impact of reducing future income generation.

6.2 Project overview:

Much of the activity within the last eight months, since the February 2022 Executive has been by way of preparatory works with summary of key highlights of progress set out in paragraph 6.3 below. The next fifteen months are expected to see the translation of the preparatory work undertaken this year into activity on the ground; with the completion of the sports facilities at Common Edge and commencement of new highways and utility infrastructure construction within the Towns Fund project, for which outline planning consent and Secretary of State approval was obtained in November. To support the increased delivery activity, two project managers have been recruited to the Enterprise Zone team, one by way of a fully funded three year secondment from Fylde Council. This increased capacity will enable the team to accommodate the higher workloads and also provide some capacity to support the extensive Growth and Prosperity programme as this also shifts into full delivery mode.

Appendix 6a, to the Executive report contains a more detailed commentary on progress in the Enterprise Zone.

6.3 Key Project Highlights:

The main highlights of progress since 2020 (further project highlights and milestones are noted in Appendix 6a, to the Executive report):

- Completion of new Common Edge grass sports pitches which came into full use in October 2021
- Planning Consent obtained from Blackpool and Fylde Councils for a new sports pavilion and changing facilities at Common Edge. Detailed design commissioned for new 3G pitch and floodlit rugby pitch at Common Edge.
- Grant application submitted to Football Foundation securing £250,000 of grant funding for changing facilities, approved in December 2021
- Practical completion of a 40,000 sq ft new build commercial development for Multiply at Amy Johnson Way in August 2021. Lease to Multiply completed 13th December 2021 and fully occupied and operational from March 2022
- Business case prepared and approved by Town Deal Board and the Council's Executive (under delegation) and DLUHC for £7.5m of funding for highway works, including Eastern Gateway access road, Common Edge upgrade and two new access points from Amy Johnson Way to Blackpool Airport
- Concluded negotiations and completed purchase of house and stable at 2 School Road (to enable highway junction improvements at School Lane/Common Edge Road) and completed the acquisition of 2.74 acres of land

from Zonex Limited (to allow development of Airport East).

- Detailed design commissioned for new highways at Common Edge Eastern Gateway access and airport access. Wilde Consulting appointed
- Secured Outline planning consent from Blackpool Council, Fylde Council and Secretary of State approval for development of Highways at Common Edge and Eastern Gateway.
- Successful transition of CAA operational licences from Regional and City Airports to Blackpool Airport Operations Ltd, with effect from 1 November 2021

6.4 Enquiries, Jobs and Investment:

Momentum in attracting new business and employment and investment has been maintained despite the continuing adverse economic climate with the present position set out in Table 1, which represents good progress against the whole life targets established for the Enterprise Zone of 180 new businesses, 5000 jobs, £300m of private sector Investment and £2.08bn gross value added. Quantifying the levels of private sector investment is complicated as many businesses are reluctant to share sensitive commercial information, but approaching £50m is anticipated to have been secured to date.

TABLE 1: Outputs : April 2016 to November 2022		**Lifetime Target by 2041**
Total new jobs (including safeguarded relocated and construction FTE)	**2137**	**5000**
New Companies located on site	**133**	**180**
Live enquiries received (last 12 months) for new property or land on the Eastern Gateway, Innovation Quarter and Blackpool Airport	**25**	**n/a**
Total completed new developments	**10**	**n/a**
Completed refurbishments and extensions	**6**	**n/a**

As with any large scale business park development with a core of established private sector controlled accommodation, there is also an inevitable churn within the Enterprise Zone business community, with some job losses having occurred most notably within smaller businesses occupying easy in/easy out accommodation at Flexspace and Business First, although such accommodation is usually swiftly re-occupied. Overall the level of employment attrition as a result of Covid-19 and the subsequent period of economic turmoil has been relatively small. There have been some bigger employers taking space most notably Lancashire Constabulary who have 100 staff in occupation at Indemnity House and MyOplo/Tandem Challenger Bank have increased their headcount at Viscount House to c250.

The Enterprise Zone retains the capability of achieving or exceeding the 5,000 jobs target over its lifetime, although the gross value added potential may have reduced slightly from the originally forecast cumulative £2.1bn as a result of delays in bringing new development on stream, but will still be close to £2.0bn and may still exceed this if successful in securing significant investment in the data sector.

6.5 Marketing and Enquiries:

The approved Enterprise Zone Marketing Strategy continues to be implemented with strong links to the inward investment activity led by the Growth and Prosperity team under the “Blackpool Makes it Work” business campaign, also working closely with the Department for International Trade, the LEP and Marketing Lancashire to promote the Lancashire Enterprise Zones brand for the four Lancashire Enterprise Zones. Further details on the marketing to date and strategy is located within Appendix 6a

6.6 Blackpool Airport

The Enterprise Zone team has continued to provide extensive support to the Blackpool Airport management team in the face of some significant operational challenges, and in particular took a prominent role in supporting six months of intensive activity to secure the transfer of CAA operating licences for the Aerodrome and Air Traffic Control Services, from the outgoing contractor Regional and City Airports to Blackpool Airport Operations Ltd (BAOL); a task that was successfully concluded on 1 November 2021. Support will continue particularly in respect of marketing and property management support. Further details are outlined in Appendix 6a.

6.7 Blackpool Airport Enterprise Zone – Towns Fund (Phase one)

This project looks to create a new entry and exit point for traffic into the Blackpool Airport Enterprise Zone (Eastern Gateway access road), connection Common Edge Road to Amy Johnson Way. The new road’s route through the east of the Enterprise Zone will also open up 10.5 hectares of previously inaccessible development land for the creation of serviced development plots, plus a small 30 unit residential development site, thereby addressing the current lack of new development space within the EZ to accommodate businesses looking to locate and grow there. Further details on the Towns Fund process are provided in Appendix 6a.

6.8 Proposed Acquisitions:

Within the next 2 years it will be necessary to acquire additional leasehold and freehold interests in property within the Enterprise Zone. A small parcel of leasehold land is to be acquired from AFC Blackpool, this is agreed in principle subject to final agreement of heads of terms. The objective in securing additional property interests will be to enable delivery of key infrastructure, including the new airport access, and to bring forward existing serviced sites for development where there has been a reluctance by private sector owners to do so in a timely fashion.

In the medium term (within 5 years) there may be a need or an opportunity to purchase additional property interests within Blackpool Business park or where occupied on long lease by aviation tenants at the airport to assist relocation. High level costs estimates have been included within the financial cost model for such opportunity purchases.

Where property acquired is presently used by operational tenants at the airport, better quality alternative accommodation will ultimately be provided closer to the airport's main operational runway. Whilst negotiations are ongoing it is necessary that details remain confidential.

6.9 Consultation:

Over much of 2022 consultation with the local community and key airport stakeholders has been undertaken via newsletter and in smaller discussion groups with key stakeholders for the Towns Fund Highway scheme. A further public engagement event is to be held on the 19 December 2022 to inform local community and business of the works planned over the following 12 months. Further details are located within Appendix 6a, to the Executive report.

6.10 Revised Delivery Plan:

In line with the revised Masterplan for the Enterprise Zone, and the availability of additional information to support more accurate development cost estimates and timing of activities, the Delivery Plan model has also been updated to reflect the anticipated timing of expenditure and income over the life of the Enterprise Zone, and in particular the period to the end of the next full financial year 2023/24.

Expenditure is broadly separated into two phases – the first, where works are underway, this encompasses the relocation of the Common Edge Sports facilities and the Towns Fund supported Highway works outlined above and some long lead advanced works for phase two. The second phase relates to provision of new aviation infrastructure to release land for commercial development and the development of the Knowledge Quarter which will include provision for data centres and sustainable power generation and storage.

Some overarching expenditure relates to both phases of development including the costs of the delivery team, consultancy support and the marketing of the Enterprise Zone

£25.97m of expenditure is planned for the next 16 months to the end of financial year 2023/24 (to bring the total forecast spend on top of the £18.23m to date to £44.20m) includes key property acquisitions, construction of changing rooms, car park and 3G pitch at Common Edge, progressing of the Eastern Gateway Access road and Common Edge highway works, a new junction at Amy Johnson Way, utility diversions and off site reinforcement, provision of a sub–stations at the airport, advance payment for the primary sub-station and the construction of two additional points of access to the airport estate to facilitate the construction of two new private aircraft hangars, together with associated consultancy, staff and marketing costs, and a related contingency allowance.

There has been an increase in the forecast overall project expenditure as a result of material costs increases and progression of detailed design. The revised Delivery Plan model (Appendix 6c to the Executive report – exempt from publication) estimates a required expenditure of £79.75m to complete both Common Edge and airport phases over the period to 2041 with the bulk of infrastructure expenditure incurred over the next ten years. There will be a significant gearing up of spend in the period to March 2024 with the next stage of activity as detailed above. The estimates are based on current prices with contingency allowances made for risk and inflationary pressures on materials costs. Costs are based on pre-tender estimates of detailed designs and for this reason we have maintained a general contingency. The cost of prudential borrowing would be additional to these estimates. The Towns Fund grant will also generate £7.5m of income in this period.

Of particular note, the costs of utilities infrastructure has risen significantly since the February 2022 report. Originally the costs were high level estimates but costs are now based on initial design and budget estimates from the statutory undertakers and still include an element of future proofing, with more accurate budget figures received from ENWL and United Utilities having now been included. As per the Delivery Plan (Appendix 6c to the Executive report), officers have built in a breakdown of the different utilities costs to monitor these as they are confirmed. The initial primary substation, which was to be located on the Eastern Gateway, has been replaced with a series of on-plot smaller sub-stations. An additional primary substation, with a higher capacity, has been proposed for Airport West/P2 car park and will future proof the anticipated electricity requirement to support development, specifically from the data/digital sector, and will also be crucial to ensuring the development of the proposed solar farm and battery storage facilities which require access to the network for export of power.

It is anticipated that a significant portion of these additional capital costs will be recovered from the providers of the Solar farm and Battery Storage, and via the higher land values achievable for specialist data use. Out of prudence these additional incomes have not yet been built into the financial model, whilst contributions are negotiated.

It is difficult to isolate all specific costs for each of the two masterplan development phases with many areas of cost overlapping, particularly relating to the delivery and marketing activity, consultancy fees and some property acquisition and off-site costs including utility reinforcement. As detailed design work progresses it becomes a simpler task to break down the provision of Enterprise Zone infrastructure costs and analyse this against overall income and benefits.

Table 2 below illustrates the variations in the key expenditure components between the approved delivery plan from December 2020 and the revised forecasts:

TABLE 2 : COMPARISON OF PHASE 1 EXPENDITURE FORECASTS		
Description	**Approved Delivery plan from December 2020**	**Revised forecast to Mar 2027**
Infrastructure	£5.73M	£0.00 M
Employment Land/Town Deal Highway	£0.00M	£ 29.48 M**
Knowledge Quarter	£0.00M	£2.15 M
Airport	£0.00M	£12.78 M
Sports Development/Local Facilities/Future Residential	£0.00M	£5.99 M
Direct Development	£4.11M	£ 0.00 M
Consultancy/fees	£1.1M	£ 1.91 M
EZ Delivery	£1.59M	£ 3.36 M
Other costs	£5.54M	£ 0.95 M
Land Acquisition costs	£10.55M*	£ 11.53 M ***
Contingency 5%	£1.1M	£ 2.78 M
GRAND TOTAL COSTS	**£29.72M**	**£ 70.5 M**

*Included provision for Squires Gate Industrial Estate purchase

** Now includes extra costs for Common Edge Highway and primary sub-station brought forward from Phase 2 which are in excess of £8m, and also reflects increased cost estimates as a result of greater knowledge of ground conditions, design progression and the tendered cost of enhanced replacement sporting facilities at Common Edge to satisfy Sport England requirements. The timescale has also been extended by 4 years.

*** includes brought forward acquisition of property for Phase 2 Airport

Total expenditure on the Enterprise Zon project from April 2016 to end of October 2022 stands at £18.23m inclusive of the costs of acquiring Blackpool Airport in 2017 with forecast spend to the end of the current financial year at £23.06m. This figure is lower than originally forecast for the period to end of March 2023 as a result of the expenditure delays outlined above. However, with the progression of the road contracts from the beginning of financial year 2023/24, expenditure is anticipated to move closer to the initial profiles.

A series of graphs at Appendix 6d to the Executive report (exempt from publication) illustrate the current expenditure forecast compared to the projected spend envisaged in February 2022 showing how this has lagged slightly behind forecast. The graphs also similarly illustrate the anticipated shift in the forecast receipt of income and the years when expenditure exceeds income, there will be a continued requirement for prudential borrowing.

The approved January 2021 Delivery Plan estimated a total income generated from retained business rates growth, land sales and grants of £74.25m. This has decreased with the revised draft Delivery Plan now anticipating a total Enterprise Zone lifetime income from retained business rates growth, likely land disposals, rentals and grant including £7.5m of Towns Fund of some £71.93m. This estimated income includes a deduction of 40% to reflect optimism bias reduction of forecast income to reflect the probability that income generated from retained business rates and land sales/rental will be lower than the full potential or delayed due to:

- weaker demand
- delays in delivery and occupation of new premises
- potential requirements to subsidise the Enterprise Zone rates baseline income where this could be impacted by voids, bad debts and successful rating appeals

The Optimism Bias income reduction percentage used in February 2022 was set at 40% and has been maintained to reflect increased economic uncertainty.

A more detailed summary of the forecast expenditure to progress the two Enterprise Zone delivery phases approved in February 2022 (Common Edge and Airport) are illustrated in the Table 3 below. The forecast, combined expenditure to progress Phases one and two to the end of financial year 2022/23 is £31.32m as set out in Table 3 below:

TABLE 3	2022/23			2023/24			GRAND TOTALS
	phase 1	phase 2	**Total**	*phase 1*	*phase 2*	**Total**	
Employment Land/Town Deal Highway	£4,095,314	£ -	£4,095,314	£10,887,224	£	£10,887,214	£14,982,537
Knowledge Quarter	£10,000	£	£10,000	£1,589,100	£	£1,589,100	£1,599,100
Airport	£485,085	£	£485,085	£4,605,000	£	£4,605,000	£5,090,085
Sports Development/Local Facilities/Future Residential	£2,258,842	£	£2,258,842	£1,637,910	£	£1,637,910	£3,896,753
Direct Development	£	£	£	£	£	£	£
Consultancy / Fees	£165,000	£ -	£165,000	£201,000	£ -	£201,000	£366,000
EZ Delivery	£530,500	£ -	£530,500	£520,394	£	£520,394	£1,050,894
Other Costs	£180,780	£ -	£180,780	£313,750	£	£313,750	£494,530
Land Acquisition Costs	£2,113,027	£	£2,113,027	£375,500	£	£375,500	£2,488,527
Contingency costs	£341,927	£	£341,927	£1,006,494	£	£1,006,494	£1,348,421
GRAND TOTAL COSTS	**£10,180,476**		**£10,180,476**	**£21,136,372**	£0	**£21,136,372**	**£31,316,848**

Some project elements included within the above total will continue to require expenditure into financial year 2023/24 and possibly beyond, particularly the Highways/Towns Fund project, utility provision and works at the airport. A detailed business case will be produced for each specific element of project works and expenditure will only be committed beyond financial year 2023/24 where there is a clear and compelling case for doing so to complete delivery and deliver outputs and outcomes.

6.11 Prudential Borrowing:

As reported in December 2020, the early income streams generated by the Enterprise Zone are likely to be insufficient to meet the costs of investment required to provide enabling infrastructure, and it will be necessary to undertake prudential borrowing. It has been agreed that prudential borrowing for the Enterprise Zone will be applied at a discounted rate during the development phase of the scheme and that this will be on the basis of interest until the end of March 2025, with capital repayments commencing in the 10th year of the Enterprise Zone and being recovered over the following 25 years, which will extend beyond the life of the Enterprise Zone.

The Enterprise Zone Model, attached at Appendices 6c and 6d to the Executive report (exempt) demonstrates the Enterprise Zones ability to repay the Prudential Borrowing incurred over the life of the scheme. Included in the model are capital receipts, other incomes, such as rents, and business rates which can be used to repay the borrowing.

The current capital cost of the Enterprise Zone is £79.75m, excluding the cost of Prudential Borrowing. The full cost of the Enterprise Zone including the estimated costs of prudential borrowing is £84.36m. The cost of prudential borrowing is the amount of interest charged on the borrowing. As interest rates change, this total cost is also subject to change and will be kept under yearly review with the rest of the costs of the Enterprise Zone.

Currently, the model demonstrates that the Enterprise Zone would have a cash shortfall of £14.73m. In other words, there would be £14.73m worth of Prudential Borrowing costs, both principle and interest, over the life of the scheme that the Enterprise Zone does not recover in the incomes mentioned above and which would have to be funded from elsewhere. By today’s prices, referred to in the model as NPV, this cost is £12.47m. Changes to the pooled rate may alter this figure

Benefits that do not produce a cash-flow or other direct cash receipt are not factored into the Net Present Value model as they could not be used to contribute to the repayment of Prudential Borrowing. For example, any residual value of Blackpool Airport including planned new investment and sports facilities has not been included as the value within the airport could not be used to repay Prudential Borrowing unless it were sold.

6.12 Management of Risk:

In light of the expected the economic volatility and the difficulty this presents in accurately forecasting expenditure and particularly income, performance against the Delivery Plan will continue to be closely monitored on a monthly basis by the Enterprise Zone Delivery Team and Finance Team and reviewed by the bi-monthly Project Board. Full revisions of the Delivery Plan will continue to be reported annually.

In addition to maintaining and regularly reviewing the Project Risk Register, regular bi-monthly meetings of the Enterprise Zone and Airport Project Board are held to review progress, tackle issues and make decisions and recommendations to the Chief Executive in accordance with the delegation agreed in July 2018. There is also a regular monthly review with the Finance Team who have now identified a dedicated officer to work on monitoring progress and the financial implications.

Until the next review which is proposed takes place at the end of financial year 2022/23, the Delivery Plan will continue to be monitored and the financial modelling fully updated on a monthly basis allowing the flexibility to slow the pace of expenditure where this is warranted by delays in income needed to support prudential borrowing, and ensure the timely delivery of enabling infrastructure to match changing demand, and also to enable rapidly emerging opportunities to be captured, with further recommendations presented to Executive where circumstances warrant a change to activity. The Enterprise Zone Enterprise Zone risk register which is shared with the Blackpool, Fylde and Wyre Economic Prosperity Board and LEP Enterprise Zone Governance sub Committee will also be updated on a monthly basis.

6.13 Does the information submitted include any exempt information? Yes

Appendices 6c and 6d are not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered on balance that the public interest would not be served by publishing information at this stage as this information would undermine the Council's position in future negotiations and could risk the parts of the scheme not being able to proceed.

7.0 List of Appendices:

7.1 Appendix 6a: Further Background Information – Enterprise Zone/Airport
Appendix 6b: Approved Masterplan - phases
Appendix 6c: Revised Delivery Plan (exempt)
Appendix 6d: Comparative expenditure and income graphs (exempt)

8.0 Financial considerations:

8.1 The table below indicates the actual costs and income incurred on the scheme to date along with a forecast to 31 March 2023 and for the entirety of the scheme. They do not include the costs of prudential borrowing which will be necessary in the early stages of the scheme to facilitate development at the Enterprise Zone.

	ACTUALS to <u>31 March 2021</u>	**FORECAST to <u>31 March 2023</u>**	**TOTAL <u>SCHEME COST to 31 March 2041</u>**
	<u>£ M</u>	**<u>£ M</u>**	**<u>£ M</u>**
COSTS	**9.9**	**23.06**	**79.74**
INCOME	**0.8**	**6.1**	**71.93**

The financial position of the scheme and its performance will continue to be monitored and an annual update will be provided to Executive.

For clarity the spend approved does not directly result in the income stream projected and is predicated on circa £300m of private sector investment once the infrastructure and other works have been completed. To date it is estimated conservatively that some £50- 60m private sector investment has been secured in new premises and capital spend on plant and machinery.

9.0 Legal considerations:

9.1 None directly arising from this report.

10.0 Risk management considerations:

10.1 The primary areas of risk are associated with cost and income, with many elements including the present Energy and cost of living crisis, residual impacts of Brexit, the lasting impacts of Covid-19 and changes to the taxation system out of the control of the Council as accountable body. A full risk register is maintained on a monthly basis.

10.2 <u>Costs:</u>
Until elements of the project are designed and full site investigation and planning requirements are known, there is a significant risk that costs may increase against initial estimates, we can already see this impact in terms of increased estimates for highway costs as additional site investigation data becomes available. There is also a risk post-Brexit and during the Covid-19 recovery period that there will be cost

inflation in the construction sector if there are shortages of materials or labour. Wherever appropriate, detailed value engineering exercises will be undertaken to reduce cost without impact on quality. All major cost elements within the Delivery Plan contain an appropriate level of contingency and there is also a whole scheme contingency allowance included.

10.3 Income:

The impact on income from the cumulative effects of Ukraine, Energy costm Brexit, Covid-19 and the natural fluctuation in market demand over the long lifespan of a project of the complexity and length of the Enterprise Zone, makes it particularly difficult to forecast the timing and quantum of income as we move further into the future.

In particular over the 2020/21 year, the retained rates growth income has had to be deployed to backfill the Enterprise Zone baseline rates income, when collection of business rates within the Enterprise Zone designated boundary from Fylde and Blackpool failed to exceed the baseline threshold established in December 2016. This was a result of voids and delays in establishing rateable values at Squires Gate Industrial Estate, non-payment and default of bad debts across the wider estate. This requirement to backfill the baseline rates income is a potential risk as the retained rates in 2021/22 was possible due to one off COVID reliefs that are not likely to continue into 2022/23 onwards.

There is also a risk that land values on disposal may not be as great as forecast, as construction costs increases outstrip increases in rents and capital values. Similarly the delivery of individual buildings may also be delayed against forecast, which will reduce the quantum of retained business rates income and land sale receipts.

10.4 Business rates:

The potential for a future change in the national business rates system also adds uncertainty whilst the funding of Enterprise Zones is based on retained rates growth, a replacement equivalency formula will need to be negotiated with Government for funding and the outcome of such negotiations cannot be guaranteed. At present the forecasts for income from retained business rates growth reflect a deduction of 40% for optimism bias from potential income, to cover delays and the impact of rates appeals, voids and bad debt. The level of deduction for Optimism Bias has been increased from the figure of 30% utilised in December 2020.

10.5 Planning:

The Common Edge playing fields currently form part of the Blackpool Greenbelt, and as the outcome of the Local Plan Part 2 Examination (which took place in December 2021) will not be confirmed until spring 2023 – when a final consultation phase on Part 2 of the local plan has completed. The planning application approved by the Council on 11 October 2022 had to be referred to the Secretary of State for determination and whilst delays until 2023 were anticipated Secretary of State's approval was received on the 10 November 2022. Some 39 planning conditions will no need to be met, but a substantial risk to being able to progress has been removed.

10.6 Mitigation:
At present there is a strong pipeline of enquiries which is outstripping supply and at the end of the Enterprise Zone term, there will still be significant asset value held by the Council, not least the airport and the Common Edge sports facility. Full reviews of the Masterplan will be undertaken every five years with interim refreshes when appropriate, whilst the Delivery Plan will be monitored annually and adjusted to reflect progress, opportunity and the changing environment.

11.0 Equalities considerations:

11.1 None directly arising from this report.

12.0 Sustainability, climate change and environmental considerations:

12.1 None directly arising from this report.

13.0 Internal/external consultation undertaken:

13.1 Consultations have been undertaken with relevant directorates within the Council including the Growth and Prosperity Board, Finance, Legal Services and Leisure, Blackpool Airport Operations Ltd and operators based at Blackpool Airport.

13.2 Following the further consultation on the Masterplan any significant revisions identified will be presented to Executive for final approval. Subsequent approval consultation on individual elements of the Enterprise Zone will take place through the normal planning application process.

14.0 Background papers:

14.1 Blackpool Airport Enterprise Zone: Annual Review 7th February 2022 (EX9/2022)

15.0 Key decision information:

15.1	Is this a key decision?	Yes
15.2	If so, Forward Plan reference number:	3/2021
15.3	If a key decision, is the decision required in less than five days?	No

15.4 If **yes**, please describe the reason for urgency:

16.0 Call-in information:

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

17.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 25 November 2022 Date approved:

18.0 Declarations of interest (if applicable):

18.1 Councillors Campbell and Farrell both declared prejudicial interests, the nature of the interest being that they were both Non-Executive directors of Blackpool Airport Operations Limited and Blackpool Airport Properties Limited which would be impacted by the implementation of the Airport Enterprise Zone.

(Councillors Campbell and Farrell left the room during consideration of the item and took no part in the discussion or voting.)

19.0 Summary of Discussion:

19.1 Mr Alan Cavill, Director of Communications and Regeneration presented the report to the Executive. Mr Cavill highlighted the successes of the Enterprise Zone but that increased issues with the costs of borrowing and construction that the Council would only commit resources essential to the delivery of the Enterprise Zone within the anticipated income forecast notwithstanding the projections above and would keep progress under close scrutiny and report annually to the Executive. Councillor Smith, Cabinet Member for Business, Enterprise and Job Creation reminded the Executive of the success of the Enterprise Zone with 2,000 jobs created or retained and its associated contribution to the delivery of Council’s priorities.

20.0 Executive decision:

20.1 The Executive resolved as follows:

1. To agree that Appendices 6c and 6d to the Executive report Revised Delivery Plan and Comparative expenditure and income graphs, are not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as it includes detailed costings that enable the Enterprise Zone to continue to be viable. The publication of such information could prejudice continuing and future negotiations.

2. To note the progress made on the delivery of the Enterprise Zone Masterplan to date.

3. To note the higher levels of risk associated with the overall whole life expenditure and income forecasts, given the increasingly volatile nature of the economy and uncertainty over the long term format of business rates.

4. To approve the forecast expenditure budget to the end of financial year 2023/24 of £44.20m, increasing the total approved cumulative expenditure by £14.48m from £29.72m to £44.20m, plus associated costs of Prudential Borrowing, as set out in section 6.11.

5. To note:

a) the total estimated cumulative expenditure from April 2016 to end of March 2023 of £23.06m; the whole life expenditure forecast to the end of the Enterprise Zone in 2041 of £79.75m at present values, which with the current anticipated prudential borrowing costs currently totals £84.36m, and the estimated forecast whole life income of £71.93m as set out in paragraph 6.11.

b) These figures will inevitably change in the future and the Council will only commit resources essential to the delivery of the Enterprise Zone within the anticipated income forecast notwithstanding the projections above, will keep progress under close scrutiny and will continue to report annually to the Executive.

6. To note the increase in the commitment to provide match funding for the Towns Fund project from £10.5m by an additional £5.90m to £16.40m which is contained within the approval in resolution 4.

7. To approve the delegation to Director of Communications and Regeneration, after consultation with the Leader of the Council, to authorise expenditure on individual schemes and property acquisitions within the Enterprise Zone and

inter-related airport holdings of Blackpool Airport Properties Ltd (BAPL).

21.0 Date of Decision:

21.1 5 December 2022

22.0 Reason(s) for decision:

22.1 The Enterprise Zone is essentially an enabling project which seeks to provide the sites highways and utilities infrastructure to support development of commercial property by third party developers and on occasion, by the Council acting as developer (as with the Multiply development). It is this third party development which secures the economic diversification, employment and business rates growth that are the overarching objectives of the Enterprise Zone. By its very nature the infrastructure has to be provided in advance of securing commercial property development and occupying business – so there is an inherent risk that the secondary development objectives are not met or are delayed. The Delivery Plan provides the best current estimate in respect of costs and income potential to offset the enabling costs, and these estimates will vary throughout the lifetime of the project. If the enabling infrastructure is not provided for any reason then the built development and economic benefits cannot be delivered.

The impacts of the Covid pandemic and the uncertainties surrounding Brexit and more recently the conflict in Ukraine and the energy, cost of living and financial markets crises continue to have varying degrees of impact upon the progress of the Enterprise Zone project, in particular disrupting some income streams which continues to make future forecasting and planning of Enterprise Zone investment difficult.

The impact of inflation contingency and delay in provision of accurate costs estimates by third parties has moved the current iteration of the Enterprise Zone delivery plan from a position where, over its lifetime, it was broadly achieving a break even position of costs against income excluding costs of prudential borrowing, to forecast now a potentially significant cash deficit of c £7.82m. This, however, represents a worst case scenario over the remaining 18 year life of the Enterprise Zone. With the forecasts subject to almost constant change, the Enterprise Zone is kept under constant review in terms of cost predictions and likely demand / income to ensure it can adapt and respond swiftly, particularly to delay expenditure and to progress in a series of smaller delivery phases if appropriate.

In February, it was estimated that spend in the current financial year to 31st March 2023 would equate to circa £15,478,000. The delivery of a number of forecast high expenditure works has been delayed, including the provision of a new Aircraft Control System for the airport – where a decision in principle on requirements is not now expected until the new year. Similarly, there have been delays in obtaining budget quotations from ENWL for the provision of the new Primary Sub-station, which means substantial spend will be delayed until financial year 2023/24. The programme for the Towns Fund Highway project has also slipped, again reducing anticipated spend. The revised expenditure forecast for the year to 31 March 2023 in now reduced to £10.18m. Expenditure originally planned for the current year has been moved forward to financial year 2023/24 and in turn some expenditure originally forecast for next year has been moved to financial year 2024/25. Further review of expenditure and resultant income will continue to better forecast likely levels of expenditure.

Whilst there exists the possibility of delaying or accelerating expenditure on elements of the enabling infrastructure to match changed circumstances – particularly new requirements for employment generating accommodation, there are some items where significant upfront expenditure has to be committed in the immediate future to ensure that the Enterprise Zone can respond to anticipated future demand, most specifically for provision of electricity sub stations which can have a lead time of 3-4 years, and have to be paid for in advance. Such infrastructure is essential if the Enterprise Zone - Phase 2 is to be able to realise the goals of securing data centres, sustainable energy solar farms and battery storage facilities. There is every hope that such up front capital expenditure will be recouped from the sought after investment but, out of prudence, allowance is not currently made for such income until this is certain. Without the commitment to provide the necessary enabling infrastructure there would be no prospect of securing this future investment

Nevertheless, even at this level, set against the anticipated new employment generated by the Enterprise Zone of 5,000 jobs, this represents a modest cost per job in the region of £2,947 when viewed against the currently forecast £14.73m cash deficit including prudential borrowing costs. Nationally job creation costs may now be expected in the region of £15-20,000+ per head. When measured against gross expenditure on the Enterprise Zone including likely costs of Prudential Borrowing the cost per job at £16,872 still remains within these national parameters

On completion of the Enterprise Zone in 2041, the investment in enabling infrastructure, employment levels, business rates generation and the long term regional economic benefit, substantial ongoing retained assets will have been created. Land and investment properties such as that occupied by Multiply components on Amy Johnson Way, a modern, upgraded sustainable and a fit for purpose airport and a first class sporting facility at Common Edge Sports Village - which will support a healthier community, in line with the Council's Priority 2 – 'Communities: Creating stronger communities and increasing resilience'

The Enterprise Zone will also have helped provide the means to generate and store sustainable energy and provided a very significant contribution to achieving carbon reduction targets set by the Council for 2030 and 2050, which have been set in response to the Council declaring a climate emergency.

The financial modelling within the Delivery plan has deliberately adopted a pessimistic approach to risk and there is a realistic optimism that a number of factors bulleted below will result in a significant reduction in the currently forecast cash gap. Value engineering will be constantly undertaken to minimise costs and identify additional income generation and there will be opportunity to defer expenditure on some elements of the present masterplan. However, any delays in delivering new buildings within the Enterprise Zone has a direct impact on the total lifetime income that can be generated via business rates growth retention so it is imperative that the Council remains committed to the continued realisation of these massive benefits for the Blackpool economy and its residents. Further modelling is ongoing to seek to break down the anticipated infrastructure expenditure into a series of sub phases with a view to increasing the ability to vary the pace of investment.

In addition to the direct employment opportunities enabled the Enterprise Zone will add in the region of £2bn cumulatively to the gross value added of the Fylde Coast and the investment in Solar Farm and renewable energy will both enable the area to compete in the data/digital industry sector and contribute potentially 50% of Blackpool's ambitious carbon reduction targets as part of the commitment to addressing the Climate Emergency.

In the Mini-Budget of Friday 23 September 2022 the concept of Investment Zones was raised and Blackpool Enterprise Zone was provisionally identified as a beneficiary given its relatively successful track record against other Enterprise Zones to-date. Whilst there was little by way of confirmed benefits from the proposed Investment Zones an expression of interest was submitted to the Department for Levelling Up, Housing and Communities in accordance with bid requirements on 14 October 2022. It now appears that following the Autumn Statement the concept of Investment Zones is unlikely to move forward on the Enterprise Zones and the prospect of extension to the recently expired Enterprise Zone fiscal incentives is also unlikely to be restored.

Mitigation of the current forecast gap includes :-

- There is currently no residual value attributed to the Airport or other retained land and property investment at the end of the Enterprise Zone Project in 2041
- Until the full study of the Solar Farm feasibility has been completed limited income / capital value has been attributed to this.
- No Income has yet been attributed to the proposed Battery Storage facility as this remains an unknown.

- No income has yet been allowed for contributions to the Energy infrastructure from Battery Storage, Solar Farm and off shore wind farm connections, nor in respect of reduced operating costs for the airport and Enterprise Zone which may enhance land values
- The provision of fully serviced plots at Eastern Gateway and energy and data enabled plots at the Airport Knowledge quarter will yield higher incomes than presently included within the financial model
- The 40% optimum bias reduction in income model should be improved upon with strong pipeline demand
- Cost estimates, particularly for the Towns Fund scheme, include very substantial contingency allowances, with costs reductions likely when tenders and fully costed utilities works become available.
- Further work is to be undertaken to break down the Enterprise Zone into a series of smaller self-contained delivery elements, within the two primary phases, to better assess the value and optimum timing of each element to maximise benefit. Some expenditure remains overarching such as the revenue marketing and delivery team costs which can be flexed to reflect short term requirements.

23.0 Date Decision published:

23.1 6 December 2022

24.0 Alternative Options Considered and Rejected:

24.1 The Executive considered the three alternative options namely:

1. To maintain the existing approval for expenditure of up to £29.72m and seek to contain spend by delaying elements of the project, whilst also extending the timeframe for undertaking this expenditure by a further year to the end of financial year 2023/24. However it considered this option undesirable as it would put the ability to secure the full Towns Fund grant at risk and it would be unlikely to be sufficient to complete the whole of the revised Phase 1 and Towns Fund works which will only be completed by 2025/26, and may create difficulty in committing to some elements of the extended Phase 1 works where these might extend beyond financial year 2022/23.

2. To approve the full £79.75m required to complete all the revised Phase 1 and Phase 2 works. In the light of the ongoing economic turbulence there is a high probability that there will be additional delays and fluctuations in demand, as well as new emerging opportunities such as the data management sector which will require a more flexible and responsive approach, thus the Executive agreed it would be inappropriate to make such a large commitment

at this stage.

3. To limit further activity to provide enabling infrastructure until there is proven demand for specific elements. The Executive concluded that this would not provide the flexibility to respond to often short lead time requirements from occupiers, and would significantly reduce the potential of the Enterprise Zone to generate income to meet the costs of infrastructure, ability to meet its ambitious targets of 5,000 new jobs, and the potential to generate more than £2bn gross value added for the economy, and make meaningful contribution to securing carbon reduction targets.

25.0 Executive Members in attendance:

25.1 Councillor L Williams, in the Chair
Councillors Brookes, Hobson, Hugo, Smith and Taylor

Note- Councillors Campbell and Farrell having declared prejudicial interests left the room during consideration of the item and took no part in the voting on the decisions.

26.0 Call-in:

26.1

27.0 Notes:

27.1