

Report to:	EXECUTIVE
Relevant Officer:	Alan Cavill, Director of Communications and Regeneration
Relevant Cabinet Member:	Councillor Mark Smith, Cabinet Member for Levelling Up- Place
Date of Meeting	11 December 2023

BLACKPOOL AIRPORT ENTERPRISE ZONE: ANNUAL REVIEW

1.0 Purpose of the report:

1.1 This report sets out for review and approval:

- a) The further progress on the delivery of the Blackpool Airport Enterprise Zone and related activity at Blackpool Airport since the Executive of 5 December 2022
- b) Outlines activity planned for the next fifteen months to the end of financial year (FY) 2024/25; and,
- c) Seeks authority to proceed with planned activities, related investment expenditure and required prudential borrowing in relation to:
 - Continued progression with work to undertake Phase 1 - highway and utility provision at Eastern Gateway and Airport East.;
 - Advance preparatory work and property acquisition to facilitate delivery of phase 2 at Silicon Sands, together with approval in principle to progress developments for a technology demonstrator data centre, solar farm and battery storage.
 - Confirmation of relevant delegated authorities including the letting of larger construction contracts and formal expenditure approvals in respect of match funding under the Town Deal.
 - To confirm amended governance arrangements

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 present volatile nature of the economy and uncertainty over the long-term format of business rates.
- 2.3 To note, the total estimated cumulative expenditure from April 2016 to end of March 2024 of £32.17m and the proposed works to take place.

- 2.4 To approve the forecast expenditure budgets set out in exempt Appendix 7a, to the end of financial year 2023/24 (£14.85m), 2024/5 (£13.19m) and Town Deal project spend in 2025/26 (£8.62m), totalling £54.17m (from the current approval of £44.2m) and to note the increased whole life cumulative expenditure estimate of £ 83.69m at present values to March 2041.

The £54.17m forecast expenditure referred to above includes:

- a) The increase in the commitment to provide match funding for the Towns Fund project from £16.4m approved in December 2022 by an additional £2.8m to £19.2m.
 - b) The capital costs in relation to the Phase 1 works (Eastern Gateway and Area A / Airport East) and shown in Appendix 7d.
 - c) The initial capital spend profile in relation to key enabling items in respect of Phase 2 (Silicon Sands) including the proposed development of a Tech Demonstrator its project methodology and proposed funding model.
 - d) Expenditure of up to £200,000 to prepare a planning application and undertake due diligence for the development of a solar farm at Blackpool Airport.
- 2.5 To delegate to the Chief Executive in consultation with the Leader of the Council the direct contract award to the preferred contractor for the road infrastructure following the period of Early Contractor Involvement (ECI) (as set out in detail in exempt Appendix 7e).
- 2.6 To approve the delegation hierarchy and thresholds, to authorise expenditure on individual schemes and property acquisitions within the Enterprise Zone and inter-related airport holdings of Blackpool Airport Properties Ltd (BAPL) as set out in exempt Appendix 7g.
- 2.7 To authorise the Head of Legal Services to enter into the NEC4 construction contract for the construction of Eastern Gateway, Common Edge Road and Airport East Access highways once approved by the Chief Executive under recommendation 2.5.
- 2.8 To note the ongoing review of the Airport business strategy and masterplan and its role in determining the nature and timing of new operational infrastructure provision and that a further report will be presented to the Executive in 2024 to identify Enterprise Zone investment in airport infrastructure spend which is not included within the funding approval sought in recommendation 2.4.

3.0 Reasons for recommendations:

- 3.1 Recommendations 2.1 to 2.4 are to record the current actual and future forecast expenditure. Whilst the estimated lifetime costs of £83.69m includes proposed airport infrastructure expenditure, the current approval sought for £54.17m does not

include airport infrastructure spend or the estimated additional costs of Prudential Borrowing set out in Appendix 7c (exempt).

The Enterprise Zone is essentially an enabling project which seeks to provide the development sites, highways network and utilities infrastructure to support development of commercial property by third party developers and on occasion, by the Council acting as developer. 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 enabling 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 activity planned within the next 12 months includes:

- a) Construction of the new highways – Eastern Gateway, Airport East and Common Edge/School Road reconfiguration.
- b) Demolition of 2 School Road.
- c) Acquisition of a new 2MW substation
- d) Relocation of existing airport infrastructure, primarily VSP and the administration offices
- e) Enabling works in respect of a three storey, 30,000 sqft Technology Demonstrator.
- f) Identifying development partners in respect of the Technology Demonstrator at Silicon Sands.
- g) Ongoing feasibility in respect of an 18MW solar farm, 50MW battery farm and district heat network.
- h) Ongoing dialogue with the airport in respect of the Masterplan.
- i) Ongoing marketing and communications – including exhibiting at UKREiiF 2024 in Leeds.

3.2 Recommendation 2.4 seeks approval to an increase in the forecast match expenditure against the original business case which secured the £7.5m Towns Fund grant.

The project was originally anticipated to cost in the order of £18m, and included as such within the December 2022 Executive report, with £7.5m being contributed via the Blackpool Town Deal and the balance by match funding from the Council. The Town Deal spend has to be completed by March 2026.

The last year has been economically and technically challenging with significant inflation in the cost of construction materials, this has resulted in delays to the design and in negotiating the contracts for the new highways to be built. These delays have resulted in a far lower expenditure for financial year 2023/24 than had been estimated in the delivery plan approved in December 2022. This expenditure will now largely fall in financial year 24/25 and 25/26 which is reflected in the forecasts set out in Appendix 7a. The overall costs have increased with the Town Deal funding itself remaining constant, anticipated cost increases are reflected in the match fund element and the funding regulations require approval to such increases to be formally recorded.

- 3.3 Recommendation 2.4 is to approve the forecast expenditure (set out in exempt Appendix 7e) in respect of the new highways at Eastern Gateway and Airport East to open up in excess of 10.5 Ha of land for development across two locations, and in respect of the costs of remodelling Common Edge Road and School Road Junctions. A plan showing the commercial development plots enabled following constructions of the Eastern Gateway is included as Appendix 7f.

Approval of this expenditure will permit a construction contract to be let (in accordance with recommendation 2.5) and enable construction work and provision of utility service diversions and new supplies to commence in January 2024 with a projected completion and opening of the highways by Summer 2026.

- 3.4 Recommendation 2.4 is to approve the forecast expenditure in respect of advance enabling works to prepare for the future development of the Silicon Sands on former airport operational land, including provision of a 2MW electricity substation and other utility infrastructure, site clearance, security fencing and relocation of temporary buildings to release initial sites for development.

The Enterprise Zone masterplan approved in 2020, identified phase 2 of the Enterprise Zone as the Knowledge Quarter, occupying approximately 50 acres of land along the Squires Gate Lane frontage to be released for development by relocation of Airport operational facilities. In recognition of the development focus around digital industries and data centres this area has now been restyled as 'Silicon Sands', to better reflect the intended target uses and support marketing activity a more focussed and less generic title.

The recommendation also seeks approval in principle to progress proposals for the development, in conjunction with private sector development partners to be identified, of a low carbon technology demonstrator data centre of 2MW capacity. The envisaged pilot project will deliver a three storey technology demonstrator facility of between 16 and 24,000 sq ft. This will accommodate a data centre of initially 2MW and potentially up to 4MW capacity, utilising liquid immersion cooling technology.

The technology demonstrator project will pave the way for development of further data centres within the Enterprise Zone and will, when operational, enable new businesses locating within the Enterprise Zone and wider Fylde coast to access the high capacity, ultra-low latency compute to support advanced manufacturing, digital health, and financial, leisure and service sectors; resulting in significant diversification of the local and sub-regional economies, and providing the means to onshore critical national data storage. Initial activity will focus on identifying appropriate development and operational partners, and securing firm interest in operating proposed Research and Development facilities and tech hub business floor space. The proposed development, which will be subject to approval of a full business case which will be dependent upon securing up to £6m of grant funding by DHLUC and identification of private sector partners. This is the next step in implementing the recommendations of the Innovation Catalyst run in conjunction with Lancaster University and subsequent outline business case prepared by the Connected Places Catapult.

The project addresses multiple issues in respect of the Levelling Up ambitions and the Lancashire 2050 vision. It will make a significant impact toward achieving net zero carbon within the digital economy, demonstrating ability to make savings of up to 60% in energy consumption against conventional air cooled data processing and enabling ongoing research into the decarbonisation of the critical but carbon heavy data sector. Its impact will be supported and enhanced by linked projects for the development of a solar farm on the south side of the airport and provision of battery storage capacity of up to 50MW.

- 3.5 Recommendation 2.4 is to approve expenditure of up to £200,000 in respect of preparing and submitting a planning application for the development of an 18mw solar farm at Blackpool Airport. An initial feasibility study has identified that a solar farm can be profitably developed on the south side of Blackpool airport. The solar farm would support the development of data centres at the Enterprise Zone and generate a positive annual cash return whilst also contributing up to an estimated 50% of the required carbon reduction needed to achieve net zero objectives in the council's climate action plan. The planning application is likely to take up to a year to secure, and will require a number of detailed supporting studies, including environmental, ecological and glint and glare studies. The allocated funding would also be used to undertake further due diligence feasibility studies and determine the most appropriate delivery approach. Work is also continuing to prepare a full business case and to determine the most appropriate route to undertake development – potentially with private sector partners. The identified locations for the solar farm sit within the airport boundary although outside of the designated Enterprise Zone, whilst the battery storage location and the associated sub stations would be located within the Enterprise Zone. The Enterprise Zone delivery plan reflects some potential future income from leasing land for the Solar Farm and has also to-date covered the cost of undertaking the initial feasibility study. As securing planning consent is key to

being able to progress the solar farm by whichever delivery route, it is considered appropriate that the cost of progressing to planning permission be met from the Enterprise Zone budget, until such time as a viable stand-alone project can be approved, at which point accrued cost would be transferred.

- 3.6 Recommendation 2.5 is to delegate to the award of the construction contract for the Eastern Gateway and Area A highways, subject to the outcome of final negotiations on cost including those of utility diversions and new connections being within the budget parameters set out in Appendix 7e (exempt).

It is proposed the direct award will be negotiated with a contractor under the STaR Procurement Framework, which the Council has access to and which permits a compliant, direct award to be made to the top ranked contractor under the framework.

As site investigations and detailed design have been undertaken over the past 12 months, ECI has enabled the development of the budget, programme and specification of the new highway and associated works. The final budget remains subject to final negotiations with the proposed contractor. The delivery plan reflects the present best estimate of costs. A final figure will be agreed in principle by the end of December and if within budget parameters set out within Appendix 7e (exempt) the proposal is to proceed with the direct award under the NEC4 contract.

It is proposed that as part of the direct award, the primary contract would include the requirement for the provision of mini-competitions/tenders with regards to works to be sub-contracted, including items such as excavations, disposal and surfacings. This will allow the Council to review and provide instruction in order to maintain cost efficiency and value for money. A direct award and ECI will also provide the Council with the ability to maximise the outputs expected from the contract with regards to social value. Early engagement will allow for the Council and contractor to agree a social value delivery programme with a specific aim of aligning these with the main principles of the Enterprise Zone and LEP, primarily local employment and the creation of high skilled job opportunities.

- 3.7 Recommendation 2.6 is to reconfirm the delegation for approval of expenditure within the approved Enterprise Zone delivery plan to the Director of Communications and Regeneration.

The Eastern Gateway and Area A project comprises the majority of the Blackpool Enterprise Zone phase one delivery budget, it is therefore imperative that cost efficiency and program timings/delivery are evaluated at every stage. It is proposed that as part of the internal governance, financial approval threshold levels are agreed, including those relating to cost variance due to material changes. Officer Non Key decisions will be required for all new expenditure commitments, and will allow swift

progression of activity with minimal delays to implementation of works. As set out in Appendix 7g (exempt).

- 3.8 Recommendation 2.7 authorises the Head of Legal Services to complete a formal NEC4 contract for the construction of the Eastern Gateway and Common Edge Highways once the contract value has been approved in accordance with recommendation 2.8.
- 3.9 Recommendation 2.8 is to note the airport business review and recovery strategy and masterplan in relation on key operational infrastructure will be completed in early 2024. This will determine the timing, cost and delivery potential of the noted items which will be highlighted in a separate report to Executive, but timing of said spend is yet to be determined.

The relocation of the VSP and administration building is included in the current agreed delivery plan and within the funding projections for financial year 24/25 as the relocation of these facilities will enable the delivery of the proposed technology demonstrator. This project is subject to a separate business case.

- 3.10 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? **No**
- 3.11 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 £44.20m 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 24/25. However, this is unlikely to be sufficient to complete the whole of the revised Phase 1 and Towns Fund works, the funding for which must be completed by March 2026, and may create difficulty in committing to some elements of the extended Phase 1 works where these might extend beyond financial year 24/25. In particular it would put the ability to secure the full Towns Fund grant at risk.
- 4.2 Approve the full £83.69m 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 Blackpool Airport Enterprise Zone is a 25 year project at the heart of efforts to grow and diversify the regional economy and the strategic objective in the overall Growth and Prosperity Programme of Creating Jobs in the Growth Sectors. 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 2,471 new employment opportunities against a lifetime target of 5,000 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.

6.2 Blackpool Airport

The Enterprise Zone team continues to support Blackpool Airport in the development of its future strategic action plan and financial planning. The airport’s ability to deliver against its action plan is dependent upon the provision of new and replacement operational infrastructure via the Enterprise Zone, including provision of a new fuel farm, fire station and air traffic control facilities in addition to new and upgraded aircraft parking aprons and hangars; funding for which is reflected in the total costs of the Delivery plan, alongside projected business rates income rates from new facilities.

Equally, the Enterprise Zone cannot deliver to its full potential without relocating old and time expired facilities along the Squires Gate frontage, for the development of Silicon Sands. The proposed new Solar farm is also key to delivery of the airports forward strategy – helping reduce operational costs and generating rental income from the site of the Solar farm.

6.3 Progress since December 2022:

- a) The Common Edge Sports Village completed, with the new floodlit rugby league pitch being handed over to Parks and Leisure. The new £3m pavilion opened on the 30 June 2023 following completion of the Division Lane

Junction improvement works, which had been delayed by a number of unforeseen issues. The new grass pitches have completed their second season of use – and again hosted a very successful Blackpool Cup youth tournament over Easter and May bank holiday weekends, voted the best competition of its type in Europe for a second year. The tournament will return to Blackpool in 2024.

- b) The highways improvements works, which involved the reconfiguration of the junction of both Division Lane East and West with Common Edge Road completed in May 2023. This allowed the formal use of the Sports Pavilion and associated facilities. The highways upgrade has been of particular benefit to the local residents and highway users in general with access and egress from these junctions significantly improving providing better visibility and turning provisions.
- c) Extensive site investigations have informed the detailed design of the highways across a challenging site with large areas of peat and a high water table subject to tidal influence. With the design complete early contractor involvement has seen progression toward an agreed contract price and programme – with the construction contract on an 18 month programme close to agreement.
- d) Following planning approval for the road in November 2022, all pre-commencement planning conditions have now been submitted for approval.
- e) Statutory undertakers are fully engaged for diversion of existing services and provision of new connections, which alone will exceed £3.5m in cost, with their activities co-ordinated with the main contractor. The first diversion works of trunk telecommunications cables will commence in November 2023 and be completed before the Christmas break.
- f) A second planning application was submitted to Fylde Council in August 2023 to secure consent for the realignment of the junction from Amy Johnson Way to provide access to the eastern sector of the Airport and enable development of new hangar accommodation. A decision on the application is anticipated in January. The provision of new hangar accommodation accessed from the new private roads will allow the commencement of releasing land on the Squires Gate frontage for new development. The application seeks consent for the realignment of the existing highway, a new estate road, a new business premises, three aircraft hangars of 20,000 sqft each and two 'Code C' hangars totalling 90,000 sq ft. Initially only the roads, the business facility and two northernmost hangars can be constructed. The access road will open up the potential for developing land to the west of the 'J-Max' hangar for up to three Code C hangars capable of accommodating aircraft up to A321 and B737 size.

- g) Work has also continued with support from consultants WSP, to determine power requirements to serve future phases of the Enterprise Zone – with specific focus on opportunities to provide sustainable power solutions with a combination of onsite Solar PV, battery storage and potential connections to offshore wind farms.
- h) Phase 1 of the Silicon Sands is progressing, with feasibility studies and concept drawings ongoing. This project is being fiscally appraised and delivery method discussed. If successful with the funding submission, it is possible development of this facility will commence on Q3/4 2024. To enable this development the demolition of the former airport fire engineering workshop was completed in July 2023.
- i) Agreement has been reached with Electricity North West Limited that they will provide a 32mw primary substation and wider network reinforcement to support data centre related development at Silicon Sands, and of the proposed Solar farm. This has allowed several million of costs included within the approved 2022 Delivery plan to be removed and has helped mitigate the impact of material cost inflation.
- j) Dialogue is ongoing with Lancashire County Council in respect of the Enterprise Zone within the prism of the proposed Lancashire Devolution Deal. The Enterprise Zone has been submitted to Lancashire County Council as a ‘strategic employment site’.
- k) Marketing of Common Edge Phase 1 – Eastern Gateway, has been ongoing throughout 2023, and was officially launched at UK REiiFF May 2023. The communications strategy has been refreshed with a new Blackpool Digital marketing brochure produced, which alongside the Connected Places Catapult business case has been central to supporting funding bids for the proposed technology demonstrator data centre

6.4 Does the information submitted include any exempt information? Yes

The information regarding the commercially confidential cost estimates of the schemes in Appendices 7a, 7b, 7c, 7e and 7g is exempt from publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

7.0 List of Appendices:

- 7.1 Appendix 7a: Blackpool Enterprise Zone Infrastructure Costs Model (Exempt)
- Appendix 7b: Blackpool Enterprise Zone Graphs (Exempt)
- Appendix 7c: Blackpool Enterprise Zone Prudential Borrowing Model (Exempt)
- Appendix 7d: Eastern Gateway Highway- General Arrangement
- Appendix 7e: Eastern Gateway Highway – Budget Costs (Exempt)
- Appendix 7f: Eastern Gateway - Commercial Development Plots
- Appendix 7g: Proposed Governance Structure (Exempt)

8.0 Financial considerations:

- 8.1 a) 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

	<u>ACTUALS to</u> <u>31 March</u> <u>2023</u>	<u>FORECAST to</u> <u>31 March</u> <u>2024</u>	<u>FORECAST to</u> <u>31 March</u> <u>2025</u>	<u>TOTAL</u> <u>SCHEME COST to</u> <u>31 March 2041</u>
	<u>£ M</u>	<u>£ M</u>	<u>£ M</u>	<u>£ M</u>
COSTS	17.32	32.17	45.55	83.69
INCOME	4.15	10.19	18.87	66.99

- b) The financial position of the scheme and its performance will continue to be monitored and an annual update provided to Executive.
- c) For clarity the spend approved does not directly result in the income stream projected and is predicated on a minimum of circa £300m of private sector investment once the infrastructure and other enabling 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.
- d) 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 identified 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 will have 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.

- e) Expenditure is broadly separated into two phases – the first, where works are underway, 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 Silicon Sands which will include provision for data centres and sustainable power generation and storage.
- f) 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
- g) 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 7a– exempt from publication) estimates a required expenditure of £83.69m 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. The estimates are based on current prices with contingency allowances made for risk and inflationary pressures on materials costs. Costs are based on design costs but, due to the recent economic uncertainty, we have maintained a 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.
- h) Of particular note, the costs of utilities infrastructure remains high since the December 2022 report. As per the Delivery Plan (Appendix 7a exempt from publication), we have built in a breakdown of the different utilities costs to monitor these as they are confirmed.
- i) 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.
- j) 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.

- k) Table 2 below illustrates the variations in the key expenditure components between the approved December 2022 delivery plan 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	£ 27.39 M**
Knowledge Quarter	£0.00M	£3.36 M
Airport	£0.00M	£15.36 M
Sports Development/Local Facilities/Future Residential	£0.00M	£5.86 M
Direct Development	£4.11M	£ 0.00 M
Consultancy/fees	£1.1M	£ 2.46 M
EZ Delivery	£1.59M	£ 3.39 M
Other costs	£5.54M	£ 0.99 M
Land Acquisition costs	£10.55M*	£ 12.32 M ***
Contingency 5%	£1.1M	£ 2.85 M
GRAND TOTAL COSTS	£29.72 M	£ 73.92 M
<p>*Included provision for Squires Gate Industrial Estate purchase ** Now includes extra costs for Common Edge Highway 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 ****includes airport infrastructure expenditure that is subject to change pending the result of ongoing report.</p>		

- l) Total expenditure on the Enterprise Zone project from April 2016 to end of November 2023 stands at £23.34m inclusive of the costs of acquiring Blackpool Airport in 2017 with forecast spend to the end of the current financial year at £31.78m. This figure is lower than originally forecast for the period to end of March 2024 as a result of the expenditure delays outlined above. However, with the progression of the road contracts from the end of FY 23/24, expenditure is anticipated to move closer to the initial profiles.
- m) A series of graphs at Appendix 7b (exempt from publication) illustrate the current expenditure forecast compared to the projected spend envisaged in December 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.
- n) The December 2022 Delivery Plan estimated a total income generated from

retained business rates growth, land sales and grants of £71.93m. 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 £66.99m. 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

o) The Optimism Bias income reduction percentage used in December 2022 was set at 40% and has been maintained to reflect ongoing economic uncertainty.

p) A more detailed summary of the forecast expenditure to progress the two EZ 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 2024/2025 is £28.24m in Table 3 :

TABLE 3	2023/24			2024/25			GRAND TOTALS
	phase 1	phase 2	Total	phase 1	phase 2	Total	
Employment Land/Town Deal Highway	£6,185,184	£174,187	£6,359,371	£8,877,752	£522,428	£9,400,180	£15,759,551
Knowledge Quarter	£0	£804,733	£804,733	£0	£225,000	£225,000	£1,029,733
Airport	£537,242	£1,685,000	£2,222,242	£200,000	£20,000	£220,000	£2,442,242
Sports Development/Local Facilities/Future Residential	£1,496,118	£0	£1,496,118	£10,000	£0	£10,000	£1,506,118
Direct Development	£0	£0	£0	£0	£0	£0	£0
Consultancy / Fees	£345,683	£20,000	£365,683	£266,000	£20,000	£286,000	£651,683
EZ Delivery	£603,850	£0	£603,850	£174,717	£437,942	£612,659	£1,216,509
Other Costs	£237,295	£106,250	£343,545	£45,400	£293,750	£339,150	£682,695
Land Acquisition Costs	£1,571,777	£374,500	£1,946,277	£44,000	£1,612,000	£1,656,000	£3,602,277
Contingency costs	£548,857	£158,234	£707,091	£480,893	£156,556	£637,449	£1,344,540
GRAND TOTAL COSTS	11,526,007	£3,322,904	£14,848,911	£10,098,763	£3,287,676	£13,386,439	£28,235,349

q) Some project elements included within the above totals will continue to require expenditure into financial year 2025/26, particularly the Highways/Towns Fund project, and utility provision. A detailed business case will be produced for each specific element of project works and expenditure will only be committed beyond financial year 2025/26 where there is a clear and compelling case for doing so to complete delivery and deliver outputs and outcomes.

8.2 Retained Assets

The delivery plan does not take account of the value of retained assets including the new Sports Village at Common Edge and Blackpool Airport which will benefit from additional infrastructure investment via the Enterprise Zone, as these do not directly contribute to the cost of prudential borrowing repayment. A re-valuation of these new and improved assets will be required but on historic basis of acquisition cost and investment will exceed £11m.

8.3 Prudential Borrowing:

- a) As reported in December 2022, 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.
- b) The Enterprise Zone Model, attached at Appendix 7a (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.
- c) 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 to in the immediate future to ensure that the Enterprise Zone can respond to anticipated future demand. There is every confidence 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
- d) The current projected capital cost of the Enterprise Zone is £83.69m, excluding the cost of prudential borrowing. The full cost of the Enterprise Zone including the estimated costs of Prudential Borrowing is £118.75m. 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.
- e) Currently, the model demonstrates that the Enterprise Zone would have a cash shortfall of £20.47m. In other words, there would be £20.47m 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 £16.69m. Changes to the pooled rate may also alter this

figure.

- f) Benefits that do not produce a cash-flow or other direct cash receipt are not factored into the NPV 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.

8.4 Mitigation of the current forecast gap includes :-

- a) There is currently no residual value attributed within the delivery plan to the Airport or other retained land and property investment at the end of the Enterprise Zone Project in 2041
- b) Until the full final study of the Solar Farm feasibility has been completed limited income / capital value has been attributed to this.
- c) No income has yet been attributed to the proposed Battery Storage facility as this remains an unknown.
- d) 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.
- e) The provision of fully serviced plots at Eastern Gateway and energy and data enabled plots at the Airport / Silicon Sands will yield higher incomes than presently included within the financial model.
- f) Technical valuation issues in respect of land held by Blackpool Airport Properties Ltd have to be resolved which may impact on anticipated gross incomes.
- g) The 40% optimum bias reduction in income model should be improved upon with strong pipeline demand
- h) 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.

9.0 **Legal considerations:**

- 9.1 Construction and utility provision contracts will need to be entered into subject to approval of recommendations.

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, increased interest rates, residual impacts of Brexit, the lasting impacts of Covid-19 on costs and working practices and changes to the taxation system out of the control of the Council as accountable body. A full project risk register is maintained and reviewed on a monthly basis.

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 monthly Project Board. Full revisions of the Delivery Plan will continue to be reported annually.

10.2 Costs:

Until elements of the project are designed and contracts are entered into, 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 and final designs becomes available. 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 costs, 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.

Over the financial year 2021/22 and financial year 2022/23, the retained rates growth income saw a nominal surplus after having backfilled shortfalls in financial year 2020/21 due to COVID. This shortfall 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.

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.

10.5 Planning:

The Common Edge playing fields were initially within the Blackpool Greenbelt, however the approval in February 2023 of the Local Plan Part 2 examination has removed this site from the greenbelt and allows the planning consent for Common Edge and the Eastern Gateway highways and commercial development to be undertaken subject to satisfying all 39 appended planning conditions the local plan has completed. The planning application approved by the Council on 11th October had to be referred to the Secretary of State for determination and whilst delays until 2023 were anticipated Secretary of State' approval was received on the 10th November. No guarantee can ever be given that planning consent will be secured in a timely fashion for any aspect of development as each application has to be independently reviewed on its merits. A large proportion of future development at Silicon Sands and for the airport infrastructure relocation sits within the jurisdiction of Fylde Council and where this is presently located in the Fylde greenbelt and very special circumstances need to be established to permit consent to be granted- for example in respect of the proposed solar farm.

10.6 Mitigations:

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 and the impact of this decision for our children and young people:

11.1 The Enterprise Zone also remains on target to achieve the 5000 new jobs supported which will add in the region of a cumulative £2bn Gross Valued Added to the local economy. This represents an average cost per job in the region of £23,750.17 when viewed against the currently forecast £118,750,833.75 total cost including Prudential Borrowing costs. Nationally job creation costs may now be expected in the region of £20 -30,000 + per head.

12.0 Sustainability, climate change and environmental considerations:

12.1 Development of the Solar Farm, battery storage, potential windfarm connections and district heating networks will all, in conjunction with the low carbon data centres make a considerable contribution towards achieving Net Zero and make a significant contribution to achieving Blackpool’s Council’s net zero targets following the declaration of a climate emergency. All new commercial buildings within the Enterprise Zone will be construction to a minimum of BREAAAM ‘Very Good’ standard. The Eastern Gateway and Silicon Sands design guides will establish clear requirements for the provision of bio-diversity net gain, the utilisation of SUDS in all drainage – with the Eastern Gateway access road incorporating drainage swales to either side – as part of a balanced drainage design which will limit surface water run off to existing greenfield run off rates.

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. 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: 19/2023

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: 1 December 2023 Date approved:

18.0 Declarations of interest (if applicable):

18.1

19.0 Summary of Discussion:

19.1

20.0 Executive decision:

20.1

21.0 Date of Decision:

21.1

22.0 Reason(s) for decision:

22.1

23.0 Date Decision published:

23.1

24.0 Alternative Options Considered and Rejected:

24.1

25.0 Executive Members in attendance:

25.1

26.0 Call-in:

26.1

27.0 Notes:

27.1

