

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Policy & Resources
Date:	23 July 2015
Title:	Farnborough International Limited (FIL) – Phase 2 Development Funding
Reference:	6807
Report From:	Director of Economy, Transport and Environment and Director of Corporate Resources

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1. Executive Summary

- 1.1. The purpose of this paper is to secure approval for Hampshire County Council to provide financial support for the proposed development of new permanent conference and exhibition facilities for the hosting of the Farnborough International Airshow. This is in response to a formal request from the CEO of Farnborough International Limited (FIL)¹ to provide a loan of £4.5M to assist the company in reaching their required funding target.
- 1.2. This paper seeks to:
 - a. Set out the background to the project;
 - b. Set out the economic case for the County Council to support this project;
 - c. Explain the proposed financing of the project and the proposed role and contribution of the County Council;
 - d. Highlight the key considerations including state aid.
 - e. Outline the conditions that would need to be met to before HCC funding could be released.
- 1.3. In considering the request it should be pointed out that providing a commercial loan to a private sector organisation using public money is

¹ Letter from Shaun Ormrod, CEO FIL to Andrew Smith, CE HCC dated 21st January 2015

clearly not part of the County Council's normal business and therefore irrespective of the unique nature of the Airshow, or the wider economic or social benefits this might bring, any loan must be tested against strict criteria.

- 1.4. There needs to be clear evidence that the loan could be supported on financial grounds, and the external due diligence carried out by AECOM on behalf of all interested parties has considered:-
 - a. The strength of the underlying business case and assumptions contained within it;
 - b. The strength of the company's financial position and growth prospects;
 - c. The extent to which the loan could be secured;
 - d. The wider support from the financial and aerospace related sector and strength of the "rights" to hold a biennial airshow.

2. Background

- 2.1. The UK aerospace sector is the number one aerospace industry in Europe and number two globally (to USA), with a 17% global market share, worth £29.2bn per annum and exporting 91% of what it produces. Its world class capabilities in the manufacture of some of the most sophisticated and high value parts of modern aircraft has created a high-tech and high-skill industry of 3,000 companies and 230,000 employees in the UK that creates massive economic benefits. The global aerospace market is expected to grow to \$352.5 billion by 2023 (source: Lucintel).
- 2.2. In Hampshire, the aerospace and defence sector supports 16,500 jobs and is worth £1.5bn per annum² to the local economy. We are home to a strong cluster of major players in this sector including BAE Systems, AgustaWestland, Bombardier Aerospace, Flight Safety International, TAG Aviation, Vector Aerospace, Qinetiq, Boeing Defence, Honeywell Aerospace, GE Aviation Systems and Eaton Aerospace.
- 2.3. Farnborough International Airshow (FIA) is one of the world's largest aerospace and defence trade shows, is a major asset for both the UK aerospace industry and Hampshire. In 2014, the total value of announced orders at FIA was \$205bn (including \$22bn of UK content). The size of the show is significant – over 1,500 exhibitors, approximately 100,000 trade visitors (32% from outside UK) and 75,000 visitors to the public show.
- 2.4. FIA is operated by Farnborough International Limited (FIL), a wholly owned subsidiary of ADS (the national trade organisation for aerospace/defence/security/space). TAG Aviation owns the head lease for the FIA site (75 acres) and FIL has a 99 year lease with break clauses at 2028 and 2088 (supported by a letter from the Secretary of State to ensure

² The sources of this data are Business Register and Employment Survey (data for 2013), Annual Business Survey (data for 2013) and Regional Gross Value Added (Income Approach) (data for 2012), all provided by the Office for National Statistics

continuation of FIA). From a planning perspective the site is designated for development of exhibitions and events in Rushmoor Borough Council's Local Area Action Plan, and detailed planning consent has been secured for the proposed Phase 2 development.

- 2.5. In the last show cycle (2013/14) over £5M has been invested in site capital expenditure partly funded through the Enterprise M3 Local Enterprise Partnership (LEP), with a £2.5M loan from the Growing Places Fund. This delivered the permanent Chalet Row A (Phase 1), comprising 39 individual units and a separate, bespoke 1,000 sqm exhibition building, both of which were built in time and successfully operated for the 2014 airshow.
- 2.6. Since the establishment of FIL as a business, it has continually looked for ways to improve and enhance the viability of the site both for the airshow and outside the airshow period. In 2008, its FIVE (Farnborough International Venue & Events) business was developed with this express objective and saw the construction of FIVE's indoor exhibition space (3,000 sqm). Today the site sees a variety of events taking place throughout the year and since opening has generated more than 170 events with over £5m turnover and 300,000 plus visitors.
- 2.7. This business model, together with the provision of state of the art, purpose built facilities for its airshow customers, has contributed significantly to maintaining the airshow's position as a leading global aviation event and created a growing event industry outside this period. This has enabled the FIL Board to approve the second stage of the development to further augment and capitalise on the benefits experienced from the FIVE project.
- 2.8. Phase 2 will see the replacement of the existing Hall 1/1A temporary structure with new permanent exhibition space and high quality, flexible conferencing, seminar and circulation space, that traditionally provides the core generic facilities (conference rooms, meeting rooms, media centre, restaurants and business centre) essential to the running of the International Airshow. The business case for the investment centres around the savings from not having to erect and disassemble the event buildings every two years together with the additional income generating opportunities of having permanent facilities available.

3. Economic Impact and Value of the Farnborough International Airshow

- 3.1. The primary economic benefit of the Farnborough International Airshow is as a showcase for the UK aerospace industry. As stated above, announced orders at the 2014 show included \$22bn of UK content. The Airshow is backed by the major UK based aerospace businesses, including BAE Systems, Rolls Royce, Bombardier and Lockheed Martin. Again, as stated above, the aerospace sector in Hampshire alone supports around 16,500 jobs.
- 3.2. The direct economic impact of FIA to within a 25 miles radius of Farnborough is estimated at £35M (gross expenditure is £60M), including the generation of around 162,000 bed nights.

- 3.3. The Farnborough International Airshow (FIA) is now coming under increased competition from other events around the world including Dubai, Singapore, Russia and China. Notably, the German government has invested over €30m in new facilities at the Brandenburg Airport to accommodate the development and growth of ILA Berlin, Germany's international airshow. The development of the new facilities at Farnborough will help FIA to secure its long term position as a global shop window for the international aerospace community.
- 3.4. As recognised by Enterprise M3 LEP in their Strategic Economic Plan (March 2014), the South East has limited provision of major international conference and exhibition venues with more than 5,000 sqm of exhibition space and able to accommodate over 2,500 delegates. Whilst London is a key provider of venues, the imminent closure and redevelopment of Earls Court, coupled with the high costs associated with London, means that it is not always an attractive proposition. Similarly, whilst venues are available in both Bournemouth and Brighton, these coastal locations have relatively poor transport links and limited connections to core business locations. Enterprise M3 has identified the lack of a high quality international standard major events venue.
- 3.5. Such venues can act as a key attractor to the county, bringing local, regional, national and international delegates to the area. With its extensive and fast rail links, good road and motorway network and proximity to Heathrow and London, the north of Hampshire is an ideal location for such a development. A permanent events venue in Farnborough would also maximise the benefits of proximity to TAG Farnborough Airport, the UK's premier business aviation airport.
- 3.6. Launched in 2008, Futures Day has now become an integral part of the Farnborough International Airshow. With the objective to inspire our younger generation into a career in Aerospace, the initiative saw over 5,000 11 to 21 year olds from the region attend the show and participate in a variety of talks and educational activities. The proposed new facilities will allow FIL and ADS to develop this initiative further allowing more children from the region to participate.
- 3.7. The County has a range of powers under which it can make the loan including promoting economic development, the power to give capital grants or loans as well as the general power of competence. Given the significant economic contribution that the FIA makes to the County and the fact that the airshow is unique in the region and also attracts international recognition, it is considered that on an exceptional basis, County Council funding should be provided to this commercial project, subject to certain conditions outlined later in this report.

4. Financial Considerations

- 4.1. Details of the overall financial arrangements for the project and the funding and loan terms between FIL, Rushmoor Borough Council, Enterprise M3 LEP and the County Council are set out in the confidential appendix.
- 4.2. Whilst this report outlines a strong local and national economic case for supporting the Airshow through a County Council loan totalling £4.5m, the County Council is of course fully aware that it must protect this investment, representing as it does, the use of public money to assist a commercial organisation.
- 4.3. The use of public funding in this way is in itself subject to rules around state aid and the County Council and other funding partners must satisfy themselves that any support is state aid compliant as part of the due diligence work that is currently being undertaken.
- 4.4. The formal due diligence on the business case and other key issues has been commissioned by Enterprise M3 LEP on behalf of all partners and has confirmed that the project is viable based on a range of assumptions that have been tested as part of the due diligence work. Other considerations in terms of the loan terms and other legal issues are also set out in the confidential appendix for information.
- 4.5. This report seeks delegated authority for the Director of Corporate Resources, in consultation with the Chief Executive, Head of Legal Services and the Leader to agree all terms and documentation in respect of any future loan agreement, on the basis that the following conditions are satisfied :
 - a) That the overall project can be delivered within the cost and time parameters outlined in the business case
 - b) That all other funding partners agree their funding contributions
 - c) That loan terms achieve a loan rate that is compliant with state aid rules and that the repayment period for HCC does not extend beyond 2028
 - d) That the County Council is party to any loan security arrangements that are put in place
 - e) That the overall deal and the County Council's part in it, is assessed as being state aid compliant.

5. Timescales / Next Steps

- 5.1. The final report on the due diligence process and state aid advice will be available near the end of July 2015 and will have been assessed against the latest and agreed funding model.
- 5.2. The public sector partners have their respective "in principle" approval processes as follows:
 - a) Enterprise M3 LEP – Programme Management Group (16 July 2015) and LEP Board (30 July 2015);

- b) Hampshire County Council - Executive Member, Policy & Resources Decision Day (23 July 2015).
 - c) Rushmoor Borough Council – Cabinet Meeting (28 July 2015);
- 5.3. The Barclays Bank internal approval process would immediately follow the above approvals, but in the main, this has already been secured in principle based on the current business case position.
- 5.4. Assuming that formal offers of financial support were forthcoming from all engaged parties, then FIL would instruct their professional team to start immediately on progressing the next stage of design development (RIBA Stage 3) and progression of the procurement process to appoint a main contractor for the project. Construction would commence in July 2016, immediately following the completion of the 2016 airshow.
- 5.5. In order to meet this overall timetable, FIL have a long stop date of September to get all of the funding approved. Given the tight timescales, if the Executive Member for Policy and Resources agrees the recommendations in this report and assuming the conditions in paragraph 4.5 are met, the County Council would at this point be formally committed to providing the £4.5m loan finance. Any future issues on the wording of loan agreements / arrangements around security etc. would therefore have to be worked through as the County Council could not withdraw at this stage. All funding partners are in the same position and are aware of this fact.

6. Conclusion

- 6.1. The report rehearses in some detail the economic significance of the air show to the local, regional and national economy. For that reason alone it is an unusual and unique opportunity. The economic benefits of the air show are clearly identified as being significant to Hampshire. However, the decision to make financial support available will always be a balance of risk and reward for the financial community, the local authorities and the LEP. The risk and reward for each party will be different.
- 6.2. The County Council's existing policy is to support economic development and its continued sustainable success working with our LEP partners. Therefore, subject to suitable terms and conditions being acceptable for the loan it is recommended that the Executive Member agree to a maximum loan up to the amount of £4.5m.
- 6.3. The risk and reward for the County Council is modest in relation to its spending, reserves and existing financial policies. It is therefore possible to conclude that exceptionally the balance of arguments favours supporting the continued economic benefits that come from a successful air show, but also allows the County Council to support the objectives of Rushmoor Borough Council and the Enterprise M3 LEP.
- 6.4. Subject therefore to the terms and conditions of any loan being acceptable to the Chief Executive, Director of Corporate Resources and the Head of

Legal Services and the conditions outlined in paragraph 4.5 being met, it is recommended that the loan be given.

7. Recommendation(s)

It is recommended that :

- 7.1. Subject to the conditions a) to e) in paragraph 4.5 being met, approval is given to enable the County Council to offer a loan to FIL up to a maximum amount of £4.5m.
- 7.2. Delegated authority is given to the Director of Corporate Resources, in consultation with the Chief Executive, Head of Legal Services and the Leader to agree all terms and documentation in respect of any future loan agreement within the parameters outlined in this report and confidential appendix.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	no
Maximising well-being:	yes
Enhancing our quality of place:	yes

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

The purpose of the loan is to support a project that protects the long term future of the Farnborough International Airshow and the economic benefits that this brings to the County, the Region and the UK economy.

There is no direct impact on those persons who have a relevant protected characteristic as a result of the proposals in this report.

2. Impact on Crime and Disorder:

2.1. Not applicable.

3. Climate Change:

How does what is being proposed impact on our carbon footprint / energy consumption?

It is proposed that the new building will be designed to BREEAM 'very good' standard. The sustainable construction will utilise lightweight, modular construction techniques and high performance recyclable materials.

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

See above regarding the proposed design of the new facility. In addition, the continuation and even growth of the Farnborough International Airshow will contribute to the use of the UK aerospace supply chain by the UK-based OEMS and tier 1 suppliers, thus reducing the need to transport goods into the UK from overseas. Also, the Airshow reduces the need for UK SMEs to travel to overseas airshows to secure aerospace sector business, thus reducing their own travel patterns.