

**CABINET
28 JULY 2015**

**CHIEF EXECUTIVE'S REPORT
REPORT NO: CEX1503**

**FARNBOROUGH INTERNATIONAL LIMITED – PERMANENT EXHIBITION
FACILITIES**

1. PURPOSE

- 1.1 This report seeks approval to provide a loan of £4.5m to Farnborough International Ltd (FIL) for the development of new permanent exhibition facilities.

2. BACKGROUND

- 2.1 Farnborough International Ltd (FIL) is a wholly owned subsidiary of ADS, a major trade association for the promotion of aerospace, defence, security and space industries globally. The sector supports around 3,000 companies across the UK and employs around 230,000 people. ADS supports its members by creating business development opportunities and through training and skills development.
- 2.2 FIL operates the Farnborough International Airshow alongside other business streams including FIVE (Farnborough International Venue and Events) and international consultancy (Bahrain International Airshow, India Aviation and Airshow China).
- 2.3 Farnborough International Airshow (FIA) is one of the world's largest aerospace and defence trade shows. In 2014, the total value of announced orders at FIA was \$204bn, of which \$12bn entered the UK supply chain. 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 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 continuation of FIA).
- 2.5 In order to maintain its position as one of the world's premier air shows, FIA is increasingly coming under pressure to improve its facilities. To date the Airshow has relied almost entirely on temporary structures, which are dismantled after each event. Not only are these increasingly uneconomic to erect and fit out, they fall short of customer expectations in the 21st century and are below the standard available at rival global aerospace events.
- 2.6 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.

- 2.7 Phase 2 of FIL's development plan is to build permanent facilities (Hall1/1A) to replace temporary structures that are disproportionately expensive to erect and fit out. This would meet the known requirements of the Airshow and provide a purpose built, high quality venue available for exhibitions, conferences and seminars throughout the rest of the two-year cycle of the Airshow, in accordance with the lease terms with TAG. It is this proposal that Rushmoor are being asked to consider for funding.
- 2.8 The project builds on the success of, and experience gained from, FIVE (Farnborough International Venue & Events) which was developed as part of FIL's objective of improving and enhancing the viability of the site. This saw the construction of FIVE's indoor exhibition space (3,000 sqm) with a variety of events taking place throughout the year, generating more than 170 events since opening, with over £5m turnover and 300,000 plus visitors.

3. ECONOMIC BENEFITS

- 3.1 This project will contribute to the long-term future of FIA by providing permanent, modern facilities for the Airshow and an additional income stream between shows. As referred to in paragraph 2.3, FIA14 generated \$204bn in orders and commitments with £12bn for UK suppliers. 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.
- 3.2 Farnborough is home to some of the major players in the aerospace industry including BAE Systems, Agusta Westland, Bombardier Aerospace, Flight Safety International, TAG Aviation, Vector Aerospace and Qinetiq. Additionally, Boeing Defence, Honeywell Aerospace, GE Aviation Systems and Eaton Aerospace are all based within Hampshire. In total, the sector is worth £1.5bn per annum to the local economy and supports around 16,500 jobs across the County.
- 3.3 Enterprise M3's Strategic Economic Plan (SEP) identifies significant demand for high quality investment in provision of major international exhibition and conference space with more than 5,000m² and the capacity to accommodate over 2,500 delegates. This gap was identified during engagement with large international businesses located within the Enterprise M3 area and with specific reference to the development of the SciTech Corridor. With extensive and fast rail links, good road and motorway network and proximity to both Heathrow and London, the northern part of Enterprise M3 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.
- 3.4 It is recognised that such venues can act as a key attractor to the region, bringing local, regional, national and international delegates to the area. For example, in recent years the development of high quality exhibition, conference and meeting facilities have proven to be a key component in the success of the regional growth strategies in Glasgow, Aberdeen, Harrogate, Manchester, Liverpool and many others.

3.5 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.

4. FINANCIAL IMPLICATIONS/RISK ASSESSMENT

4.1 Rushmoor is one of four funding partners looking to support FIL's plan to build a permanent exhibition centre known as Hall 1/1A. The partners include the Local Enterprise Partnership, Enterprise M3, who are brokering the deal, Hampshire County Council (HCC) and Barclays Bank. The funding partners have been working collaboratively to assess the project and the Chief Executive and/or the Chief Financial Officer have represented Rushmoor at all stages.

4.2 Rushmoor's contribution to the total costs of around £29m, will be £4.5m, provided as a loan repayable at 4% interest. Rushmoor's loan will be drawn down between 2016 - 2018, in alignment with the proposed construction period, to enable the facility to be ready for use at the 2018 Airshow. Interest is payable quarterly, from the date the funds are drawn down while the repayment of capital is to be made between 2024 and 2026 funded through the net profits made from the airshows and other event income over the period.

4.3 Repayment to the individual funding partners is not the same for all partners, reflecting the commercial aspects of the loan with Barclays and the varying degrees of risk between partners. A deed of repayment will be drawn up to indicate the priority order in which lenders will be paid, should there be insufficient funds to pay interest on the applicable dates. While all public sector partners are subordinated to Barclays, Rushmoor has secured agreement from both Hampshire County Council and Enterprise M3 that it will rank ahead of the other public sector funders.

4.4 While the main drivers for recommending this proposal are around the local economic benefits, jobs and skills, the interest rate of 4% will contribute to the Council's revenue position and is greater than the average returns expected from the Council's treasury management activities. Successful completion of the project should also see a significant increase in business rates payable on the permanent structure, above that currently paid for the temporary facilities.

4.5 Enterprise M3 have commissioned formal due diligence on the business case for the project, on behalf of the partners. As with any such project, the Council needs to satisfy itself that the potential economic and social benefits (as outlined above) outweigh the inherent risks and that the loan agreement provides sufficient mitigation against those risks.

4.6 For the project to deliver ahead of the 2018 Airshow, with construction commencing immediately after the 2016 show, FIL has a longstop date of September 2015 to have all funding approved. This report therefore seeks

approval for Rushmoor's share of the funding, subject (but not limited to) the following conditions being 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 are compliant with state aid rules
- d) That the Council is party to any loan security arrangements that are put in place
- e) That a Deed of Repayment is in place setting out the priority of each funding partner including ADS
- f) Key to strengthening the business model and to maximise the economic benefit of the proposed investment, we would expect FIL to establish a stakeholder group that involves the public sector partners directly engaging and contributing to the process of securing new business to the facility (events etc.)

4.7 This will allow the Heads of Terms for the loan and letters of intent to be compiled and shared with FIL, with full loan terms to be written once all partners have supplied the above and they have been accepted by FIL. In order to progress the project within the necessarily tight timescales, this report also seeks delegation to the Chief Executive, in consultation with the Leader of the Council, the Chief Financial Officer and the Solicitor to the Council, to agree all terms and documentation in respect of any loan agreement, pursuant to the conditions outlined above.

4.8 The costs associated with preparing and executing the loan agreement will be borne by FIL.

5. LEGAL CONSIDERATIONS

5.1 The Solicitor to the Council will oversee the completion of the loan agreement under the delegation referred to in paragraph 4.7. 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. Compliance with State Aid rules has been considered within the due diligence work although ultimate responsibility for compliance lies with FIL.

6. CONCLUSIONS

6.1 The investment in appropriate permanent infrastructure will support the sustainability and growth of future Airshows at Farnborough Aerodrome.

6.2 The existence and future success of the Airshow is an important enabler towards ensuring the existence and creation of jobs at the cluster of aerospace companies and supporting technologies in North Hampshire.

- 6.3 The project is expected to deliver significant job creation via both the direct construction phase and through the on-going facility management in addition to safeguarding current jobs. Increased business tourism should also provide benefits to the local area.
- 6.4 The Airshow is a key enabler for the UK aerospace industry. It supports the growth of innovation and skills with facilities that provide an excellent forum for educational activities related to core STEM subjects and other new development areas. FIL's intention is to make the facilities available for other appropriate local educational/welfare activities and they have already engaged with Farnborough College of Technology regarding links to the proposed Regional Centre of Excellence for Aerospace and Defence.
- 6.5 The project will not only assist Farnborough to grow as a location and destination, but will also provide facilities that can promote the Enterprise M3 key sectors; Aerospace, Defence, Space and Security and niche sectors in many other industries including Manufacturing Technologies; Cyber Security; Maintenance, Overhaul and Repair (MRO); Rotary and Unmanned Systems.
- 6.6 It is recognised that the Airshow is only in Farnborough for 2 months every 2 years and in providing these facilities for the Airshow, it also provides the opportunity for other events to launch, develop and grow, or relocate to these facilities during the other 22 months of the Airshow calendar, subject to the lease terms between FIL and TAG. This project therefore meets a significant gap in the market for first-class exhibition facilities outside the M25 along the M3/M4 corridors that will host events and exhibitions for future generations.
- 6.7 This project provides a unique opportunity to support the strategic aims of the Council, in particular its 'Prosperity' and 'Leadership' themes – 2 of the key themes underpinning the Council's purpose of working with others to improve the quality of people's lives. It also supports the County Council's policy to support economic development while specifically addressing a gap identified within the Local Enterprise Partnership's Strategic Economic Plan.

7. RECOMMENDATIONS

It is recommended that the Cabinet:

- (i) approves the offer of a loan to ADS/Farnborough International Ltd for the Farnborough International Hall 1/1A Permanent Venue to a maximum of £4.5m, subject to the conditions outlined in paragraph 4.6; and
- (ii) delegates authority to the Chief Executive, in consultation with the Leader of the Council, the Chief Financial Officer and the Solicitor to the Council, to agree all loan terms and documentation in respect of the loan agreement, within the parameters outlined in this report.

Andrew Lloyd
Chief Executive