

CABINET

**COUNCILLOR BARBARA HURST
PLANNING AND ECONOMY PORTFOLIO HOLDER**

18 SEPTEMBER, 2018

**COUNCILLOR GARETH LYON
CORPORATE AND DEMOCRATIC SERVICES
PORTFOLIO HOLDER**

KEY DECISION: YES

REPORT NO. CEX1805

**RELOCATION OF GULFSTREAM AEROSPACE LIMITED (GULFSTREAM)
MAINTENANCE REPAIR AND OVERHAUL (MRO) FACILITY**

SUMMARY AND RECOMMENDATIONS:

This report updates Members on the process to secure the relocation of the Gulfstream Aerospace Limited MRO facility to TAG Farnborough Airport and to agree in principle a support package from the Council to Gulfstream

RECOMMENDATIONS:

That Cabinet agrees to:

- (i) provide business rates relief up to the state aid maximum of €200,000 (approximately £180,000) over three years once the new facility is developed in line with the Council's policy for new businesses and an annual rate to be agreed with Gulfstream;
- (ii) provide up to £100,000 of financial support to Gulfstream matched by the Enterprise M3 LEP, Hampshire County Council and Gulfstream itself for training, development and relocation services with the detail to be agreed as part of the budget setting process; and
- (iii) provide a revised estimate to the budget for 2018/19 allowing £10,000 of the above £100,000 with immediate effect.

1. INTRODUCTION

- 1.1 The Council was advised by the Department for International Trade (DIT) a competitive UK wide process was underway to identify a site for Gulfstream to accommodate the relocation and expansion of its Maintenance Repair and Overhaul (MRO) facility from Luton Airport.
- 1.2 TAG Farnborough airport expressed an interest to the DIT and engaged the Council, the Enterprise M3 LEP and the County Council in supporting its bid and in providing a package of appropriate support.

2. BACKGROUND

- 2.1 It was announced at EBACE, the business aviation conference in Geneva, at the end of May 2018 that Gulfstream are to locate their new maintenance, repair and overhaul (MRO) facility at TAG Farnborough Airport, and that this new centre will become operational in 2020.
- 2.2 Gulfstream initiated a competitive site selection process in 2015, benchmarking at least 6 alternative airport locations across the UK, and Hampshire County Council, in partnership with Enterprise M3 LEP and Rushmoor Borough Council, developed a public sector support offer to sit alongside the commercial proposition from TAG Farnborough Airport.
- 2.3 Construction of the new 200,000 sq ft facility will commence next year subject to planning permission, on a site within a short distance of the new Farnborough conference and exhibition centre, which opened this year. This major investment will ultimately bring around 400 jobs into Farnborough.

The Company

- 2.4 Gulfstream engineers, manufactures and services prestige business aircraft. Headquartered in Savannah, Georgia, USA, Gulfstream operates facilities on four continents and employs more than 15,000 people worldwide. The Parent company is General Dynamics which employees 95,000 people worldwide.
- 2.5 Since 2003, Gulfstream has conducted major business operations at London Luton Airport and employs circa 300 personnel – the Luton facility primarily serves Gulfstream's customers in the Europe, Middle East, and Africa ("EMEA") region.

Project Overview

- 2.6 In 2014, Gulfstream announced two new larger aircraft models (G500 and G600) and it needed to identify a site to develop new larger facilities to perform MRO services more efficiently and cost effectively. Initially 6 airport sites around the UK were shortlisted and assessed. The result being that TAG Farnborough Airport was selected as the preferred location.
- 2.7 Over time it is envisage that the number of staff at the new facility will grow to circa 400, a mix of new and existing roles. Clearly, not everyone will relocate from Luton so the area will benefit from a high number of new well paid and highly skilled jobs. The facility will be 200,000 square feet meaning the Council will benefit from a substantial increase in business rates income.

Timescales (indicative)

Planning application – September 2018

Anticipated Planning approval – November 2018

Construction to commence – April 2019

Completion – June 2020

Operational - September 2020

3 CONSULTATION

- 3.1 None – The commercial confidentiality excluded any ability to consult widely.

4 DETAILS OF PROPOSED COURSE OF ACTION

- 4.1 As part of the competitive process the public sector (the Council, the County Council and the Enterprise M3 LEP) came together to develop a support package that would promote the area making it attractive to Gulfstream.

- 4.2 The public sector offer included:

- Possible business rates relief;
- Enabling loan facility (up to £3M via the EM3 LEP);
- Training support;
- Relocation support (for existing staff);
- Recruitment support;

- 4.3 Gulfstream has completed a comprehensive application form and the highlights in the application form are as follows:-

- Business rates payable of approximately £356k per annum
- In excess of £10m payable over 30 year lease
- 40% of this income to be retained by the council in the Business Rates Retention Scheme
- Relocating skilled staff from Luton
- New employment opportunities for local residents
- Gulfstream and its employees will bring spending power into the Borough utilising local services, thereby underpinning other local employment
- Raising the profile and credibility of Farnborough as a business location

Full details of the application are set out in Appendix 1 of this report.

5 ALTERNATIVE OPTIONS

- 5.1 Not to support the bid process

6. IMPLICATIONS (of proposed course of action)

Risks

- 6.1 There are no risks to the Council and the Council along with its partners will be working with Gulfstream and TAG Farnborough Airport to ensure that the opportunities arising from the new MRO will be accessible to people from all communities and of all abilities.
- 6.2 The financial support proposed will be administered by the County Council and managed in accordance with its procedures of grant

Legal Implications

- 6.3 In terms of state aid considerations, the business rates relief at the de minimis level is attributable to the investment in the new building (capital investment). The support being offered against training, relocation and recruitment is attributable to the people element of the project. The training is deemed to be a different measure and therefore the combination of the two elements of support is considered to be state aid compliant. To meet state aid requirements, any support offered against training has to be matched by Gulfstream on a 50/50 basis.

Financial and Resource Implications

- 6.4 By offering business rates relief up to the maximum level available the cost to the Council will be in the region of £72k. That said, without the relief the Council would not benefit to the tune of £142k pa in business rates once the facility is operational.
- 6.5 In terms of the financial support the Council will offer up to £100k over two years and once again when measured against the business rate receipt the investment is more than recouped.

7. CONCLUSIONS

- 7.1 Gulfstream is a globally recognised brand and securing this investment is a significant success that TAG Farnborough and its partners including the Council were able to secure for the relocation and expansion of the MRO facility. This new facility represents a significant investment for Gulfstream and its parent company.

The inward capital investment is in the region of £50m and although the

exact wider economic benefit for the region is difficult to value, the investment will bring 400 new jobs. It is expected that the majority of staff will need to be recruited locally, with a range of local employment opportunities in technical (engineers, fitters, etc.) and office based management and customer services roles.

The MRO facility will require supply chain partners in relation to components repairs and maintenance, which will create significant opportunity for local businesses supplying Gulfstream and generating further economic benefit for the local economy.

- 7.2 The new facility will enhance Farnborough's global reputation in the aerospace industry and associated technologies with positive economic benefits to Rushmoor, its residents and businesses.

BACKGROUND DOCUMENTS:

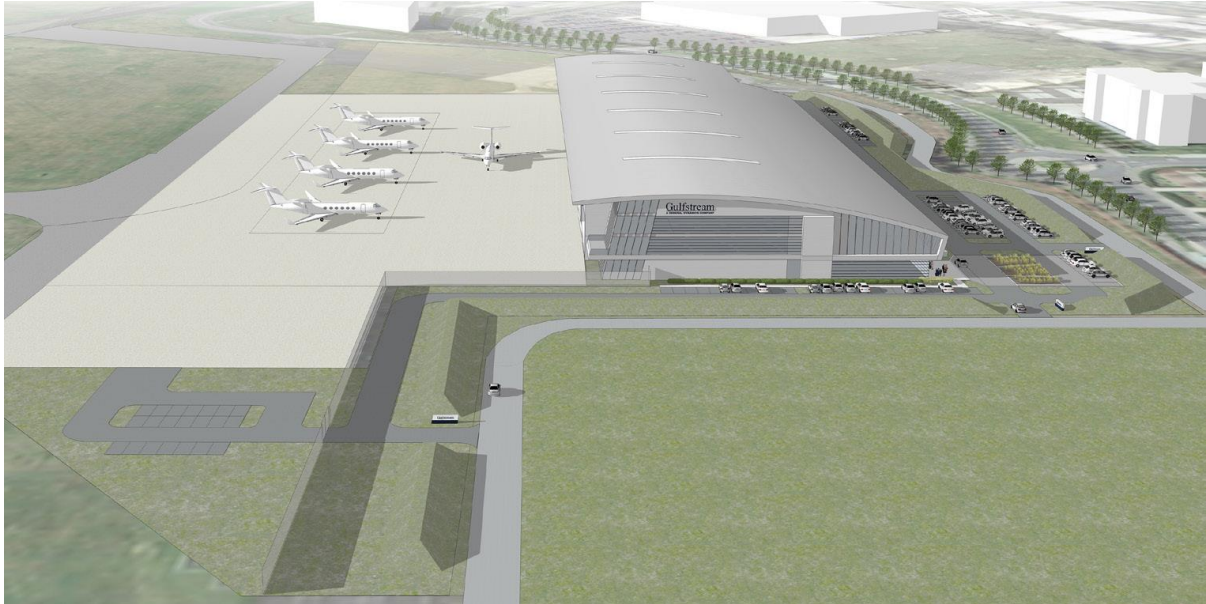
Gulfstream Application Form – Growth Incentive Relief

CONTACT DETAILS:

Report Author	Paul Shackley, Chief Executive
Head of Service	Vacant, Head of Economy, Planning & Strategic Housing Peter Timmins, Interim Executive Head of Finance

New Application for Growth Incentive Rate Relief (Discretionary)

Gulfstream Aerospace Limited



Gulfstream Aerospace Limited are an aeronautical company who design, develop, manufacture, market and service high quality business jet crafts.

They are headquartered in Savannah, Georgia USA and operate facilities on four continents and employ more than 15,000 people worldwide.

The parent company is General Dynamics, which employees 95,000 people worldwide.

Since 2003, Gulfstream has conducted major business operations at Luton Airport, London and employs 300 personnel.

In 2014, Gulfstream announced two new larger aircraft models (G500 and G600) and required a new site to develop new larger facilities to perform Maintenance, Repair and Overhaul (MRO) services more efficiently and cost effectively. Initially 6 airport sites around the UK were shortlisted with Tag Farnborough Airport selected as the preferred location.

Not only will this project provide significant employment locally and bring skilled workforce to the borough, the facility will be 200,000 square feet providing a substantial increase in business rates income.

Further information about Gulfstream Aerospace Limited can be found at <http://www.gulfstream.com>.

As the project is in the early stages, it is difficult to predict what Business Rates Income we will receive. However, a comparison has been carried out on a similar aircraft hangar on the airfield and the rates income for the current financial year is £345,000.

Under our discretionary powers, the council has devised a new form of relief known as Growth Incentive Relief. The relief is devised to attract inward investment and economic growth, which Gulfstream are demonstrating.

Any award of discretionary rate relief is subject to state aid limits. The De Minimis regulations allow an undertaking to received up to €200,000 (£180,000) in any three-year period.

Therefore, if Rushmoor BC were to award the maximum amount of £180,000, under the current Business Rates Retention Scheme, the financial effect on RBC over these three years would be £72,000.

However, this is offset by an annual business rates income of £356,000, which will be the approximate amount payable in 2019/20. The terms of the lease is for 30 years and therefore will generate in excess of £10m, 40% of which will be retained by RBC.

In their application, Gulfstream advise of the following:-

Please describe the nature of your business?

Headquartered in Savannah, Georgia (USA), Gulfstream operates facilities on four continents and employs more than 15,000 people worldwide. Gulfstream designs, manufactures and services prestige business-jet aircraft and has produced more than 2,800 aircraft for customers around the world since 1958. Gulfstream conducted its major business operations at London Luton Airport where it employed around 300 personnel before deciding to construct a new purpose built facility at TAG Farnborough Airport. The

facility primarily serves Gulfstream's customers in the Europe, Middle East, and Africa ("EMEA") region.

Gulfstream's parent company is General Dynamics Corporation (GDC), an aerospace and defence company which employs around 95,000 people world-wide.

Gulfstream is committed to remaining in the London area, which has the highest volume of Gulfstream traffic in Europe. London is home to the company's European Parts Distribution Centre near Heathrow Airport and Sales and Design Centre in Mayfair. Gulfstream has more than 225 aircraft based in Europe, along with 180 in the Middle East and Africa.

For what purposes does the organisation use the premises?

The premises will be home to Gulfstream's maintenance, repair and overhaul (MRO) operation in the UK and will consist of new purpose-built facilities at TAG Farnborough Airport. The growth of the Gulfstream fleet and increased size of our aircraft has required us to ensure we have sufficient capacity to deliver excellent customer service to our clients. The MRO facility will comprise of hangar, office and parts warehouse space to support the full range of MRO operations.

Please provide information about how new employment opportunities will be created?

Gulfstream's purpose built MRO facility will ensure the company can provide support efficiently and effectively to meet client needs and support their aircraft. Gulfstream's latest aircraft models (G500 and G600) are larger than previous aircraft and therefore require more space to enable MRO activity than their predecessors.

Initially a bridgehead will be established at our new Farnborough facility, which will be the first step in transitioning the business from Luton to Farnborough. This approach will enable Gulfstream to continue supporting our clients whilst the business move is delivered. The initial staffing of this facility will be from existing Luton based Gulfstream employees, whilst some of our current employees will relocate with the business to Farnborough, we will need to recruit a significant amount of talent locally to ensure we can reach our requirement of around 400 staff overall.

It is envisaged that the majority of the 400 staff will need to be recruited locally, and this will represent a range of local employment opportunities, from technical roles (engineers, fitters, etc.) through to office based management, finance, admin and customer services roles.

The new MRO facility will also require supply chain partners in relation to engines, landing gear, flight deck repairs and maintenance, creating further opportunity for local businesses that supply in to Gulfstream, generating further economic benefit for the local economy.

Please give the reason for your application, including how the business brings social environmental or economic benefit to the borough and contributes towards the sustainable development of the borough?

The aerospace and aviation sectors are seen as critical opportunities for the future prosperity of Farnborough and the wider Rushmoor borough. Gulfstream was clearly identified as the type of high quality, global business which the borough wishes to attract.

Investing in this new facility is a significant decision by both Gulfstream and our parent company, and hence a robust business case has had to be developed to justify the initial outlay. In considering alternative locations for this investment, the technical and financial considerations were crucial, including any support offered by Government (national and local) to attract the project.

Gulfstream completed a comprehensive site selection process, reviewing alternative airport locations across the UK. This included consideration of the business proposition and financial support available to Gulfstream locally and was a key consideration in our decision making process. Hampshire County Council, in partnership with Enterprise M3 and Rushmoor Borough Council developed a comprehensive public sector support offer. A key element of the support package offered by Rushmoor Borough Council was Business Rates relief. A maximum discretionary level of rate relief of €200,000 (limited by state aid) can be awarded in line with the Council's Growth Incentive Policy (equivalent to circa £180,000), with business rates payable for the building - estimated at £336,000 p.a. based on a rateable value of £700,000. This would equate to business rates relief of circa £180,000 against business rates of around £10M generated over a 30 year period (the lease term) of investment.

Gulfstream is making a significant investment (30 years) in the Farnborough facility, representing both a sustainable and long-term investment for the future. Whilst we can demonstrate direct employment opportunities for job creation by those directly employed by Gulfstream, we would also expect there will be additional benefit to the local economy through families of Gulfstream employees, providing an additional source of labour for local opportunities. Additionally we would expect those living and working in the local area to generate further economic benefit as they earn and spend their wages within the local community, providing a spillover effect within local businesses.

Rushmoor and its surrounding area has a wealth of military personnel with skills that Gulfstream are interested in attracting to the business. We will actively seek to employ former service personnel with the necessary skills to join Gulfstream. This will not only provide us with staff able to perform the roles we need, but support the transition of armed forces personnel in to civilian roles without the need a break in employment, avoiding the potential need for support from the social and employment services.

Gulfstream will require staff to be trained to an appropriate level and working with Higher Education Institutions (HEI's) will need to ensure that appropriate courses are available for not only our current employees, but to those looking to our industry for a career in the future. Our business requirements will enable HEI's to develop and deliver courses that are relevant for the local community and provide opportunities for individuals to arm themselves with the skills we need to take our business forward.

Please explain why you consider your business benefits local taxpayers?

Gulfstream's proposed investment in Farnborough will benefit local tax payers in several ways:

- Bringing attractive employment opportunities to the area;
- Business rates generated by the new facility will help to underpin the delivery of local public services by Rushmoor Borough Council and Hampshire County Council;
- Both Gulfstream and its employees will bring spending power into the Borough, utilising local services, thereby underpinning other local employment;
- Raising the profile and enhancing the credibility of Farnborough as a business location, thereby assisting in the attraction of new inward investment into the Borough.