

Subject:	i360 Loan Restructure Update		
Date of Meeting:	2nd December 2021		
Report of:	Executive Director Economy Environment & Culture		
Contact Officer:	Name:	Max Woodford	Tel: 01273 291666
	Email:	max.woodford@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report updates on the process and timetable for arriving at a final loan restructure for the loan from the city council to the i360. The latest timetable means the restructure cannot be completed before the end of December and therefore the report proposes that the December 2021 payment is taken upon completion of the restructure; and that the payment is in line with what it would have been had the restructure taken place prior to the end of December 2021.

2. RECOMMENDATIONS:

- 2.1 That the committee notes the process and timetable for officers to come back to committee with a proposed final restructure of the loan to the i360.
- 2.2 That the committee agrees that the December 2021 repayment should be taken upon completion of the restructure and should be for the sum that would be payable had the restructure completed before 31st December 2021.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 Previous reports brought to this committee have highlighted the strong beneficial impact the i360 has had on the local economy, and the way in which the attraction has acted as a positive beacon for seafront regeneration.
- 3.2 Previous reports have also addressed the fact that lower than expected visitor numbers have resulted in deferral of elements of repayments of the loan the city council made to the i360. In particular, the covid pandemic has had a significant impact on income and cashflow into the i360.
- 3.3 The city council has established a cross-party Member Working Group (MWG) to closely monitor performance and to advise this committee on the best steps to take to protect the public purse and the city council's investment in the attraction. The board and management of the i360 have developed an effective working relationship with that MWG, and since January 2019 they have taken steps to turn around performance and manage costs. However, the impact of the pandemic is of course still being felt.

- 3.4 Despite this, strong steps are being taken by the i360, and there are clear signs of recovery, and a credible 5 year business plan is being developed to ensure the attraction will be able to pay off the loans owing. Some recent steps include:
- There is an increasing focus on yield (average price paid), income and managing costs – over just considering visitor numbers; and this has improved profitability.
 - For example during the year to date (starting July 2021 as the i360's years run July to June) the attraction maintained an admissions yield much higher than budget and consequently achieved a Net Admissions Income that was significantly higher than budgeted for. This includes the key summer months.
 - The previously outsourced management of the restaurant and conferencing spaces and been brought back in house to be overseen by the management of the attraction. This gives a closer control over both quality and alignment with the rest of the offer of the attraction. Again, during the summer months this saw a notable increase in catering revenue.
 - New revenue streams, and improved publicity and social media coverage, have been driven by innovative ideas such as the iDrop abseiling and the Tower Climb. Other new plans for diversifying revenue streams are being explored.
 - The Skybar (in the pod) and the retail shop have both shown strong performance recently, up on both comparative years and on budget.
 - A lot of strong marketing and PR work has been done, with the attraction having a strong high quality social media brand, and also having used for high profile outside broadcasts, with Good Morning Britain using the pod for weather forecasts.
- 3.5 The most recent report to this committee, in July 2021, addressed the issue of supporting the attraction by deferring the June 2021 payment while the attraction recovered from the Spring 2021 lockdown. On the advice of the MWG, that report proposed that the long-term restructure of the loan ideally take place ahead of the December 2021 loan repayment becoming payable.
- 3.6 Subsequent to that meeting, officers began the process of securing commercial advice to complete the restructure. Due to the size of the contract (and the procurement considerations that result), and the complexity of the work that needs to be done (see 3.6, below) it was not possible to complete the restructure in time to report it in a final form to this committee. In addition to the commercial advice, the city council has had to re-engage expert advice on the attraction market, as the commercial loan advice can only really have any value if the 5 year visitor and income projections the i360 have made are considered to be deliverable.
- 3.7 Avison Young are providing the commercial restructure advice, and Leisure Development Partners LLP (LDP) are providing the market advice. The process for coming to a final restructure is:
- LDP Need to review the robustness of the i360's five year business plan
 - Avison Young undertake a commercial review of the business plan
 - Avison Young will suggest terms of the revised loan agreement, using the broad terms agreed by this committee in December 2019 and only proposing moving away from those where there have been material changes
 - Avison Young undertake financial modelling of the loan based on proposed revised agreement

- Negotiations of key terms and clauses then need to happen with the i360
 - Preparation, finalisation and execution of the new loan documentation.
- 3.8 It is proposed that the key terms of the restructure are bought back to this committee, with detailed preparation of the legal documentation then following and being completed. It is expected that the restructure terms will come to the March 2022 committee. The i360 Member Working Group has been consulted on this approach, and will continue to consider the detail of the proposed restructure ahead of making any recommendations to this committee.
- 3.9 The £4m loan from Coast to Capital LEP to the i360 has now been transferred to the city council, at no cost. That element of the loan will be restructured at the same time and amalgamated into one single loan. Repayment of that part of the loan will see the council receiving £4m over the life of the loan that it would not have otherwise received.
- 3.10 The restructure is likely to be based on a similar concept as previously: the i360 agree a business plan that sees their visitor number grow over a five year period, and the city council undertake a cash sweep. This means taking all available money in the business that is not needed to remain operational and solvent. Eventually, once visitor numbers improve this cash sweep will see the city council taking enough money to cover the loan payments – and potentially more to reclaim our lending more quickly.
- 3.11 Until the restructure is completed, the terms of the existing loan agreement apply. This would mean a payment of £1.492m becomes payable on 31st December 2021. There is still not enough cash in the business to cover that. Instead, it is proposed that the December 2021 payment is not taken on that date. The recommendation is that the council should complete the restructure in Spring 2022 and then take a payment upon completion in line with the terms of the restructure. That payment should be of the sum that would be payable had the restructure completed before 31st December 2021.
- 3.12 Previous reports that have deferred payments (no payments have ever been written off, they have only been deferred) have resulted in any unpaid elements being rolled into the main capital element of the loan and so they start to attract interest. This proposal is different as the payment is not being deferred for a long period. The proposal is that the city council receives the payment it would have done had the restructure been able to be completed in time for 31st December 2021, but that payment is just delayed by two or three months.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Policy & Resources Committee has already clearly expressed a desire for the restructure to take place as soon as possible, and this report updates on that. Alternative options have therefore not been tested as part of the preparation of this report.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The council is due to receive 1% of ticket sales in perpetuity to spend on local initiatives with about 25% of this sum allocated to fund part of the landscaping

works and discussions continue with local organisations about how to spend the remainder.

- 5.2 The i360 Member Working Group has been kept apprised of progress with both the measures to improve performance and the work around the restructure and have been consulted on taking this approach.

6. CONCLUSION

- 6.1 As this report sets out, the process to agree a long-term restructure of the loan is complex and has not been able to be completed in time for this committee. It is instead expected that new terms are sought to committee in the Spring.
- 6.2 The proposal is that the council receives the payment upon completion that it would have received, had the restructure been completed before 31st December 2021, and does not undertake a long-term deferral as has previously had to happen.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The total debt including deferred payments to 30 June 2021 is £41.662m. In addition, the loan to the i360 from the Coast 2 Capital LEP of £4.0m has been novated to the council at no cost. The proposal to defer the December payment until the loan restructure is completed will have no material impact on the council's cashflow position.
- 7.2 The fees associated with review of the business plan and completing the loan restructure will be included in the restructured loan although the council will meet the cost initially.

Finance Officer Consulted: James Hengeveld

Date: 19/11/2021

Legal Implications:

- 7.3 The options for enforcing the council's security were set out in the report which went to Policy Resources & Growth Committee in June 2018.
- 7.4 The market economy operator principle (MEOP) is a valid method to demonstrate compliance with the UK Subsidy Control regime. The MEOP requires the Council to act in a similar manner to a commercial investor in the same circumstances. It is highly likely that a commercial lender would defer the December payment in response to the current circumstances.
- 7.5 The restructure will need to comply with the current subsidy control regime. The legal team will advise on this aspect of the proposed restructure and the Council's external solicitors will be involved in negotiating the legal documents. Future reports will provide further legal implications in this regard.

Lawyer Consulted:

Alice Rowland

Date: 19/11/2021

Equalities Implications:

- 7.6 The i360 is accessible throughout to people with disabilities and has improved access to the seafront lower promenade by the building of a new lift to the east. Unisex toilets are open to members of the public who are not using the centre or visiting the attraction. The i360 has introduced a range of concessions for local residents and free tickets for local schools. The i360 is a living wage employer and does not offer zero-hour contracts. There is an apprenticeship scheme in place and training opportunities for staff at all levels of the organisation.

Sustainability Implications:

- 7.7 The i360 is a low energy user, with energy recovery when the pod is descending. The installation of heat pumps provides air heating and cooling in the pod and main building and provides an estimated 30% of the total thermal heating energy use. All electricity is purchased from renewable energy sources. Grey water and rainwater recycling has been included. Purchasing policies are based on sourcing environmentally friendly local products particularly the Sky Bar, café and restaurant.

Brexit Implications:

- 7.8 None identified

SUPPORTING DOCUMENTATION

Appendices:

None

Background Documents

1. [Brighton i360 Economic and Social Impact Report](#).

