

Summary of Loan Restructure

Objectives of the loan structure

When designing the loan restructure Avison Young have taken into account the following objectives of the Council.

- Full recovery of the original loan (including deferred payments to date)
- Recovery of the loan in the shortest possible time
- The recovery of the loan while ensuring the viability and growth of the i360 business plan.

The loan restructure has been done in a manner which seeks to align the objectives of the i360 with those of the Council to drive performance to ensure the Council achieves full recovery of its loan while the i360 is able to become a more prosperous business that continues to support the local Brighton economy.

In the context of the historical underperformance of the attraction, the Council is mindful that while the i360 is confident of delivering on its business plan, there are no guarantees that this will be achieved, and any restructuring arrangement needs to maximise the cash received at any given point in time.

Loan Balances

It is the intention that the Loan Restructure will take effect from the 1st July 2022.

The outstanding senior loan balance (including deferred balances) at the last repayment deferral, on 31st December 2021 stood at £42,742,341. The balance on 30th June 2022 at the next payment date will be £43,808,761 accounting for the interest accrued between 1st January 2022 and 30th June 2022.

Under the existing loan agreement, the i360 is due to make their next loan repayment on the 30th June 2022, of £1,492,304. However, the expected payment is due to be £700,000, which represents the available cash in the business (less operational balances required). Therefore, the Council loan balance and therefore the Principal under the new loan agreement will be £43,108,761.

After the novation of the LEP loan, the Council also received the benefit of the junior loan of £4,060,000.

The ultimate shareholders in the i360 have together made loans totalling £10,491,753 to finance its construction and operation, and in part to finance repayments to the Council. No repayments have been made to the loan note holders in respect of these loans or interest on them and they are therefore still owing.

i360 Business Plan

The loan restructure worked up by the Council has been underpinned by the five-year business plan presented by the i360. This represents the period covering 1st July 2022 and 30th June 2027. Leisure Development Partners (LDP), the Council's leisure attraction advisors have been through the business plan and broadly have endorsed the assumptions that have been adopted to arrive at the above outcomes.

There have been areas which LDP have challenged (e.g. marketing expenditure), but the i360 have articulated confidence and rationale for their adopted assumptions. Therefore, the Council are working on the basis that the business plan put forward by the i360 is reasonable and achievable under normal market conditions. The i360 has signed up to the delivery of

Summary of Loan Restructure

this business plan and it forms the basis of the financial analysis carried out to support the loan restructure.

Given it is not possible to forecast the business plan further than five years, for the purpose of the performance measures agreed as part of the cash sweep after year five the current year five forecast is assumed to be the level that performance needs to be exceeded thereafter.

Cash sweep Structure

The Council's priority is to recover its loan as soon as practicable and ensure that there is no write off the loan and that any payments deferred to date are recovered. In order to achieve this, the loan agreement will require that the i360 pay the Council all surplus cash generated by the attraction (less any operational cash float and maintenance reserve requirements, as set out in the heads of terms at Appendix A). This 100% cash sweep will operate for the first 5 years. After year 5, subject to delivery of the i360 business plan, a small profit share mechanism will be implemented, in order to support the gradual repayment of the loan note holder balances. The profit share mechanism will kick and operate as follows:

- 1) The i360 delivers its Five-Year Business Plan (measured cumulatively) as currently forecast.
- 2) Should the above be successfully delivered, every pound generated over and above the year 5 business plan forecast will be applied to the Council loan and the loan note holders in a 60/40 percentage. Given the that the Council will still sweep 100% of the cash up to the that forecast, the overall proportion of loan repayments between the Council and loans note holders remains heavily skewed in favour of the Council.

The table below indicates the potential proportions under different levels of annual overperformance to the base business plan.

Surplus Over Year 5 Business Plan Levels	% of receipts going to i360 Loan Note Holder Repayment	Council Repayment (£)	Loan Note Holder Repayment (£)
100,000	1.07%	3,721,341	40,000
200,000	2.12%	3,781,341	80,000
300,000	3.12%	3,841,341	120,000
400,000	4.10%	3,901,341	160,000
500,000	5.05%	3,961,341	200,000
1,000,000	9.39%	4,261,341	400,000

This profit share mechanism seeks to act as an incentive to the i360 management to outperform against its business plan and thereby further accelerate the pace of the Council loan recovery. There will be provisions in the loan agreement to ensure that under no circumstance will the loan note holders be fully repaid ahead of the Council's total loan balances.

It should also be noted that while the Council is putting in place a cash sweep structure, the Council needs to retain its ability to exercise its security and rights should performance of the i360 not recover sufficiently over time. As such, the Council will require a minimum level of cash to be repaid at each repayment date (schedule of payments included in Appendix C). Should the repayments through the cash sweep structure fall below the schedule in Appendix C, measured cumulatively, the i360 would be default of the loan agreement. This minimum is simply in place to set a default level and the expectation is that all surpluses as described above will be paid over to the Council.

The minimum has been set by reference to the business plan and at a level that enables the i360 to grow the business to a successful and sustainable level in the first five years. The

Summary of Loan Restructure

minimums are set at a reduced EDBITA, with lower requirements in the first few years of the business plan but steadily increasing to a stable position by year five.

Heads of Terms and Repayment Scenarios

Appendix A details the heads of terms of the loan restructure. These heads of terms will be reflected in the detailed loan agreements ensuring that the Council's commercial position is protected. Within Appendix B, relevant graph visualisations are included to demonstrate the financial mechanics of the restructure and to highlight how the proposal reduces and ultimately repays the debt to the Council in as short a time as possible.

Appendix A – Heads of Terms

<p>Repayment Structure</p>	<p>The Council will implement a full cash sweep. This will ensure that all surplus cash generated by the i360 in the first five years will be paid over to the Council in full. Thereafter the cash sweep will continue but will be subject to the incentivisation mechanism articulated further down.</p> <p>If the i360 are able to deliver against its business plan forecast, the Council's will see c 38% of the loan principal being repaid in the first five years.</p>
<p>Repayment Waterfall</p>	<p>The cash received by the Council will be applied to the loan balances as follows:</p> <ol style="list-style-type: none"> 1) Council Loan Principal 2) Accrued Interest 3) LEP Loan
<p>Interest Rate</p>	<p>The interest rate proposed for the Council's senior loan is 3%. While the Council objectives are to recover its loan principal, it is also important for the Council to ensure that it is able to cover its own PWLB borrowing costs and the interest rate has been set to ensure that is achieved.</p> <p>The interest rate proposed for the Council's junior (former LEP) loan is 0%. Given that the LEP loan has been gifted to the Council there is no absolute requirement for interest to be charged and any recovery of the LEP loan will be a bonus to the Council. Furthermore, if interest was charged on the loan, the accrued balance would be significant given the waterfall priority and require a large extension of the loan term for it to be paid off.</p> <p>Interest will accrue on the outstanding Council loan balances and will be capitalised.</p> <p>Interest will be calculated every 6 months (closing balance at end of June and December).</p>

Appendix A – Heads of Terms

<p>Loan Term and Minimum Repayment</p>	<p>The Loan agreement will take effect from the 1st July 2022. The maximum loan term is to be set at 25 years. This loan term has been based on the minimum payment profile (attached) and the term could be significantly lower if the business plan achieves its forecast given the cash sweep structure will allow the Council to take all surplus cash (not just the minimum). The loan term is therefore the minimum of the 25 years and the period by which the loans are repaid (if the repayment is ahead of the 25 years)</p> <p>Appendix C sets out a series of minimum payments to be made by the i360 each six months. These payments are cumulative, in other words any surplus paid on one payment date will be taken into account in determining whether there is a shortfall later.</p> <p>Having consulted further with the i360 it is proposed that these minimum payments are set on a basis to allow for seasonal split but will be assessed on a cumulative basis.</p> <p>Failure to achieve the cumulative minimum payment at any annual repayment date (30th June of each year) will constitute a default enabling the Council to take enforcement action. This will be subject to the usual force majeure provisions.</p>
<p>First Loan Repayment</p>	<p>The first loan repayment due under the new facility agreement, is due on 31st December 2022.</p> <p>Under the existing agreement a payment will be made to the Council by i360 in respect of the period 1st January 2022 to 30 June 2022. This payment will be £700,000.</p>
<p>Security</p>	<p>All security held by the Council will continue to be applicable. Legal advice to be taken on whether this security should be refreshed.</p>
<p>Operational Cash Balances</p>	<p>The i360 will need to retain cash balances in order to meet its expenditure obligations. This operational balance to be retained by the i360 is £300,000 at the end of June 2022. The balance to be retained at each subsequent payment date will be based on the analysis provided by the i360 of expected monthly net cash flows. A forecast schedule of operational balances for the next five years is</p>

Appendix A – Heads of Terms

	<p>included at Appendix D. This accounts for the forecast expenditure in any given month and the income that is expected to be generated from the operations of the attraction as set out in the five-year business plan. These amounts will be reviewed from at each payment date to ensure that the amount being retained within the business is not excessive but is sufficient to meet the i360's expenditure obligations.</p>
<p>Major Maintenance Reserve Account (MMRA)</p>	<p>It was originally envisaged in 2014 that a MMRA or sinking fund needed to be established and that this should commence at £300,000 annually from 2023 building up to a total of £3,000,000.</p> <p>We have been provided with a report by John Roberts (attached to the P&R report) who is the technical adviser to I360 in respect of the major maintenance required on the attraction. Key points:</p> <ul style="list-style-type: none"> • The updated report highlights the fact that there is an onsite technical team undertaking daily checks and this cost is reflected in the operating expenses. • Additionally, the operation of the tower is suspended for a period in January each year to allow a full inspection to be undertaken to achieve the necessary Government certificate to allow operation for the next 12 months. Again, the costs of this are reflected in the operating expenses. • The report advises that due to the positive operating performance of the attraction a lower figure is now appropriate. • It estimates that the MMRA should be commenced in year 10 (from first operation) i.e. 2026 onwards at £150,000 per annum to establish a fund of £1,500,000 by year 20 when the first major works are anticipated. The £150,000 would be set aside after the Council's cumulative minimum repayments have been met • These monies will be retained in a charged bank account that the Council will have security over and in event of a default

Appendix A – Heads of Terms

	<p>can be utilised as the Council feel appropriate including repayment of debt</p> <ul style="list-style-type: none"> It is further proposed that a technical review be conducted on a yearly basis to review the proposed reserve to ensure its adequacy to meet future major maintenance costs.
Cash Sweep Structure	<p><u>Year 1-5</u></p> <p>In the first 5 years of the restructured facility 100% of cash generated will be used in repayment of lender principal after the deducting of:</p> <ul style="list-style-type: none"> Operational cash float as set out above. Payments to the MMRA of £150,000 per annum commencing June 2026 (the minimum repayment will need to be met in all instances before this balance is deducted) <p><u>Year 6 onwards</u></p> <p>From year 6 it is proposed that once the net cash revenue forecast set out for year 5 in the current business plan is achieved then a repayment of loan note holder balances will be allowed on excess cash generated above that forecast and above the reductions referred to above at each payment date.</p> <p>This will be limited to 40% of excess cash generated over the current business plan forecasts from year 6 onwards, with 60% being allocated to Council's debt repayment.</p> <p>This repayment of loan note holder balances will be subject to the restriction that at no time will the loan note holders be repaid in full ahead of the Council receiving full repayment of its outstanding loan balances.</p>
Governance and Monitoring of Business Performance	<p>Governance provisions are to be agreed and included within the loan agreement. The below provides an overview, though further detail may be added as appropriate to ensure that the Council has</p>

Appendix A – Heads of Terms

	<p>all the required reporting information to monitor the provisions within the loan agreement.</p> <p>The Council will retain all the security which it already has within the existing loan agreement.</p> <p>This includes an agreement with the i360 and its bank under which the Council has full access to the company's records and bank accounts and to take over control of the accounts if it feels it necessary to do so.</p> <p>The 2014 loan agreement also contains strict controls on the operation of those accounts which will remain in place, subject to such changes as are needed to reflect the new arrangements summarised in this paper.</p> <p>The new loan agreement will set out a procedure for assessment of each half-yearly payment to ensure that the payments made to the Council are the maximum which can be paid after taking account of the deductions mentioned previously.</p> <p>Whilst payments are proposed as bi-annual it will be a condition of the facility that monthly management accounts are provided by the 20th of the following month.</p> <p>The existing arrangements for regular meetings between i360 management and the Council working group will continue, as will the current arrangement under which a Council representative sees all board papers and attends board meetings. The frequency of the meetings will be as a minimum Monthly, though the Council at its discretion will be able to request meetings at a different frequency during the loan duration as deemed necessary.</p> <p>The Council will report back to P&R committee at a frequency to be agreed to provide regular update to elected members on the progress of the loan repayments and performance of the i360.</p>
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Appendix A – Heads of Terms

	<p>The Council may elect to employ third party loan monitoring services, and the i360 shall be required, to provide all required information for the loan monitor to provide the Council confirmation that the loan repayment amounts are in adherence to the loan agreement.</p>
Maintenance Reserve Account (MRA)	<p>The original loan facility agreement set out a proposed requirement that a Maintenance Reserve account be established with a balance of £250,000 to pay for routine maintenance.</p> <p>It appears that this account was not required and has never operated since maintenance is carried out on a routine and regular basis by the i360 technical team and the cost for that is reflected in the accounts.</p> <p>Furthermore, any funds allocated would only reduce the amount available for loan repayment. Therefore this reserve is not required under the restructured agreement.</p>

Appendix B – Illustrative Examples of Loan Repayments

This appendix provides an illustration of how the Council's loan repayments would be profiled over time under different repayment levels. There are three scenarios shown below:

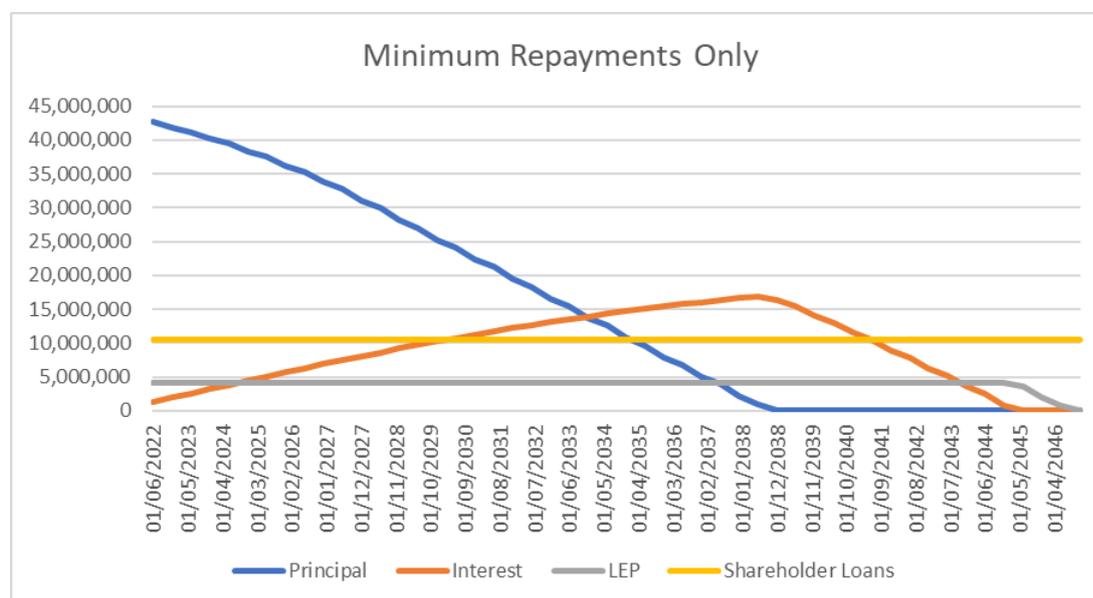
- 1) Minimum Repayment – This scenario sets out the profile of Council repayments if the i360 performance only enables the minimum repayments to be met.
- 2) Business Plan Achieved – This scenario sets out the profile of Council repayments if the i360 achieves its five year business plan and continues to deliver at the year five levels for the remainder of the loan term.
- 3) Business Plan Achieved plus a £1m surplus from year six - This scenario sets out the profile of Council repayments if the i360 performance delivers to the business plan forecast for the first five years and then achieves a £1m surplus over and above year five levels for the remainder of the loan term.

A fourth illustration has also been provided, showing a comparison of the total Council loan repayments across each of the above scenarios.

Scenario 1: Minimum Repayments Only

Key Outputs:

- 100% cash sweep until Council loans repaid
- 25 years before Council loans are repaid
- Loan note holder balances remain unpaid until after year 25

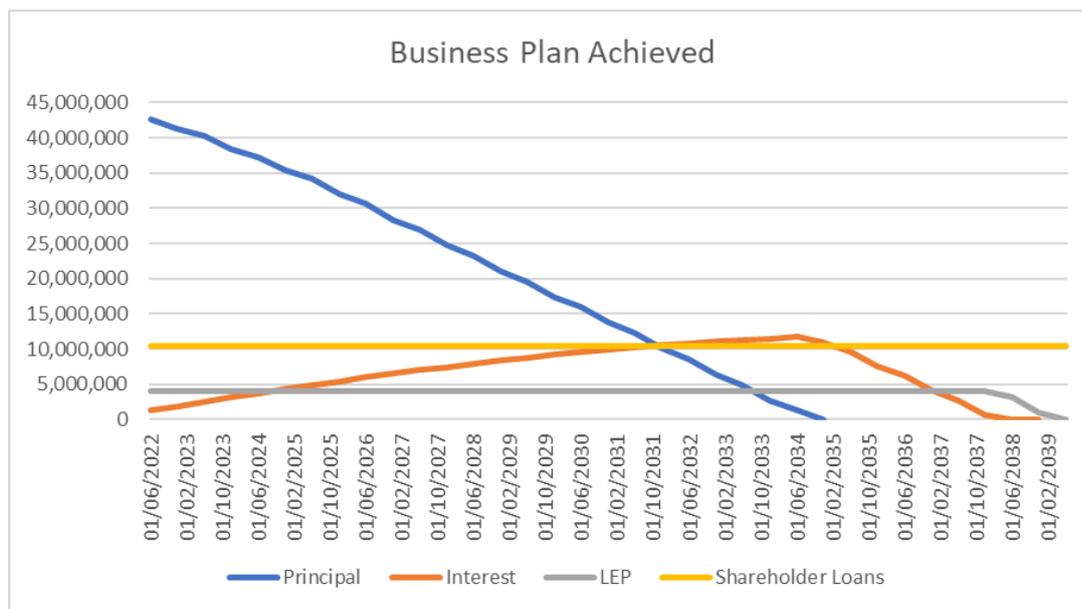


Scenario 2: Business Plan Achieved but no surplus

Key Outputs:

- 100% cash sweep until Council loans repaid
- c18 years before Council loans are repaid
- No repayments made to loan note holders until after year 18

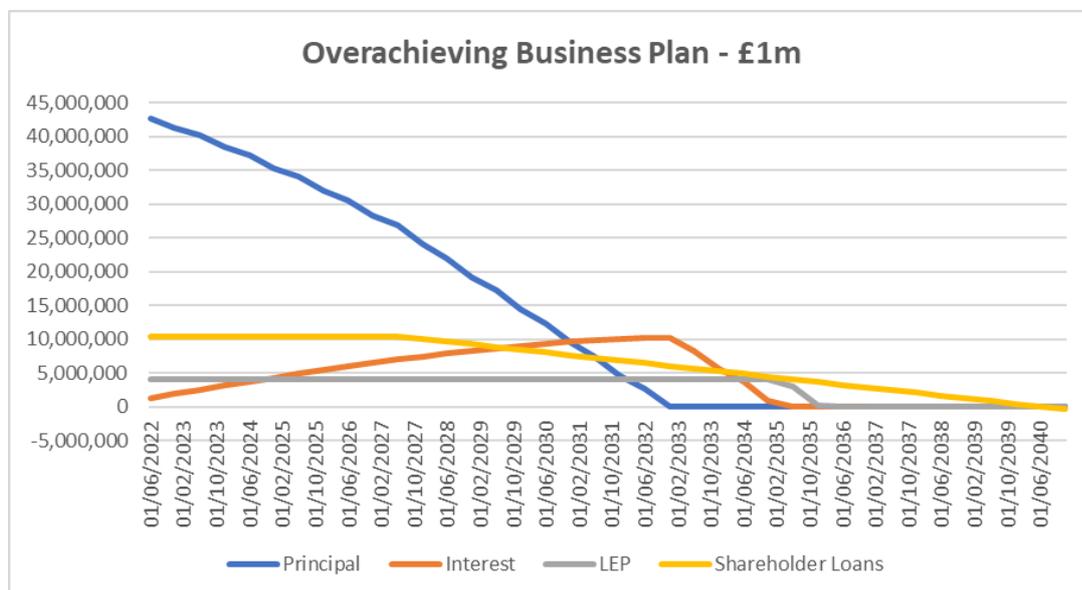
Appendix B – Illustrative Examples of Loan Repayments



Scenario 3: Business Plan Achieved + £1m per annum from Year 6 onwards

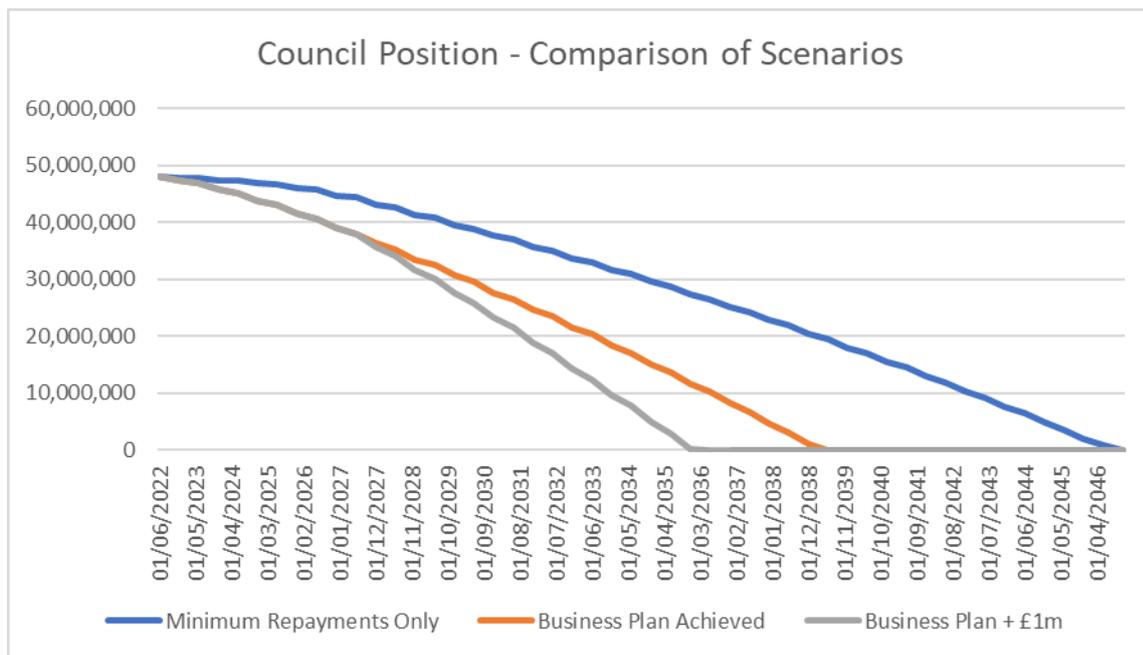
Key Outputs

- 100% cash sweep until Year 6
- 60/40 share between Council Loans and loan note holders for amounts in excess of business plan (in this illustration £600k to Council, £400k to loan note holders)
- c14 years before Council loans are repaid



Appendix B – Illustrative Examples of Loan Repayments

Comparison of Scenarios



Appendix C – Minimum Repayment Schedule

This appendix sets out the minimum repayments required under the new facility agreement effective from 1st July 2022, that will be required from the i360 on a periodic basis. Falling below this figures will trigger a default under the loan agreement and the Council will have the ability to exercise its security rights within the agreement.

This schedule is only the minimum for the purposes of default and the Council will be due all cash surpluses subject to retention of operational cashflows and major maintenance reserve account provisions.

Default will be measured on a cumulative basis, enabling surpluses from prior periods to offset lower periodic repayments. As an example if In December 2022, the i360 pay the Council £1m but only pay the Council £500,000 in June 2023, this will not constitute default as the Cumulative amount of £1,500,00 has been achieved.

The total payments set out in this schedule are on the basis that the full 25 year term will be required to repay the Council's balances and as such the interest that will be accrued will be greater than if the loan repayments are made at a faster rate than the 25 year term. Therefore, the cumulative totals should not be considered as the expected total repayment to the Council. The Council will always receive its Principal balance back and the difference between the minimum schedule total cumulative payment and the actual Council payment, will be down to the interest that is charged over the loan term.

Period	Minimum Amount	Cumulative Amount
Dec-22	900,000	900,000
Jun-23	600,000	1,500,000
Dec-23	1,026,000	2,526,000
Jun-24	684,000	3,210,000
Dec-24	1,169,640	4,379,640
Jun-25	779,760	5,159,400
Dec-25	1,333,390	6,492,790
Jun-26	888,926	7,381,716
Dec-26	1,520,064	8,901,780
Jun-27	1,013,376	9,915,156
Dec-27	1,732,873	11,648,029
Jun-28	1,155,249	12,803,278
Dec-28	1,732,873	14,536,151
Jun-29	1,155,249	15,691,400
Dec-29	1,732,873	17,424,273
Jun-30	1,155,249	18,579,522
Dec-30	1,732,873	20,312,395
Jun-31	1,155,249	21,467,644
Dec-31	1,732,873	23,200,517
Jun-32	1,155,249	24,355,766
Dec-32	1,732,873	26,088,639
Jun-33	1,155,249	27,243,887
Dec-33	1,732,873	28,976,761
Jun-34	1,155,249	30,132,009
Dec-34	1,732,873	31,864,882
Jun-35	1,155,249	33,020,131
Dec-35	1,732,873	34,753,004

Appendix C – Minimum Repayment Schedule

Jun-36	1,155,249	35,908,253
Dec-36	1,732,873	37,641,126
Jun-37	1,155,249	38,796,375
Dec-37	1,732,873	40,529,248
Jun-38	1,155,249	41,684,497
Dec-38	1,732,873	43,417,370
Jun-39	1,155,249	44,572,619
Dec-39	1,732,873	46,305,492
Jun-40	1,155,249	47,460,741
Dec-40	1,732,873	49,193,614
Jun-41	1,155,249	50,348,862
Dec-41	1,732,873	52,081,736
Jun-42	1,155,249	53,236,984
Dec-42	1,732,873	54,969,857
Jun-43	1,155,249	56,125,106
Dec-43	1,732,873	57,857,979
Jun-44	1,155,249	59,013,228
Dec-44	1,732,873	60,746,101
Jun-45	1,155,249	61,901,350
Dec-45	1,732,873	63,634,223
Jun-46	1,155,249	64,789,472
Dec-46	1,732,873	66,522,345

Appendix D – Forecast Operational Balances

This appendix sets out the forecast operational balances that may need to be retained by the i360 at each payment date over the current five-year business plan period. This schedule is intended to be indicative and ultimately the cash balances required to be retained within the business, will be agreed with the Council at each payment date. The actual operational balance will be dependent on the expected forecast cashflow in any the following six-month period, accounting for income and expenditure projections. Through the reporting and governance arrangements, the i360 will need to report to the Council the forward looking forecast, with justification for the required sums to be held by the i360.

Date	Forecast Operational Balance
1 st July 2022	£300,000
31 st December 2022	£650,000
30 th June 2023	£310,000
31 st December 2023	£650,000
30 th June 2024	£320,000
31 st December 2024	£700,000
30 th June 2025	£330,000
31 st December 2025	£750,000
30 th June 2026	£340,000
31 st December 2026	£800,000

