

**Brighton & Hove
City Council**

**SPECIAL POLICY & RESOURCES
COMMITTEE
ADDENDUM**

4.00PM, THURSDAY, 6 MARCH 2014

COUNCIL CHAMBER, HOVE TOWN HALL

ADDENDUM

ITEM **Page**

STRATEGIC & POLICY MATTERS

135. BRIGHTON i360 **1 - 68**

Joint report of the Executive Director for Environment, Development & Housing and the Executive Director for Finance & Resources (copy to follow).

Contact Officer: Katharine Pearce *Tel: 29-2553*

Ward Affected: Regency

PART TWO **Page**

STRATEGIC & POLICY MATTERS

137. BRIGHTON i360 **69 - 96**

Appendices to the Joint report of the Executive Director for Environment, Development & Housing, and the Executive Director for Finance & Resources; Item 135 on the Agenda (circulated to Members only).

Contact Officer: Katharine Pearce *Tel: 29-2553*

Ward Affected: Regency

Subject:	Brighton i360		
Date of Meeting:	6 March 2014		
Report of:	Executive Director, Finance & Resources Executive Director, Environment Development & Housing		
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Ward(s) affected:	Regency/ALL		

Note: The special circumstances for non-compliance with Council Procedure Rule 23, Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting), are that officers were unable to complete the review of draft documentation and consideration of the financial and legal implications of the recommendations until the 28th February.

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report seeks agreement for an increase in loan financing from that agreed by the council in July 2012 to enable the Brighton i360 to commence construction and spur the wider renewal and regeneration of the city's seafront.

2. RECOMMENDATIONS:

- 2.1 To agree that Option A referred to in this report is the preferred option, so that the Council will borrow from the Public Works Loan Board (PWLb) and lend a further £21.4M to Brighton i-360 Ltd in addition to the £14.8M agreed in July 2012.
- 2.2 To authorise the Executive Directors of Finance & Resources and Environment, Development & Housing, after consultation with the Chair of Policy and Resources Committee, to finalise the revised terms and enter into the proposed loan agreement with Brighton i360 Ltd with a target of financial close by May 2014 and to take all steps necessary or incidental to the completion and implementation of the agreement.
- 2.3 To authorise the Head of Legal and Democratic Services to complete all necessary documentation and take all necessary action to effect completion of the proposed loan agreement.

- 2.4 To approve the inclusion of the loan agreement to Brighton i360 Ltd in the Capital Resources and Capital Investment Programme 2014/15 (and the following two years' capital programmes) to be funded through unsupported borrowing.
- 2.5 Allocate resources generated by the i360 towards reinvestment in the wider development of the seafront and its infrastructure.

3. BACKGROUND

3.1 In July 2012, Policy and Resources Committee authorised officers to finalise terms and enter into a loan agreement with Brighton i360 Ltd. This was on the basis that the council, as the senior lending partner provided £14.8m to the project alongside investment from other partners as set out in Table 1 below.

3.2 Table 1: i360 Project Financing July 2012

	Senior Loan Finance	Equity Finance	Total
BHCC (through the Public Works Loans Board - PWLB)	£14.8m		£14.8m
Marks Barfield		£6.0m	£6.0m
Coast to Capital LEP	£3.0m		£3.0m
Equity Partner		£15.0m	£15.0m
Total	£17.8m	£21.0m	£38.8m

- 3.3 At the end of November 2012, Marks Barfield were informed that their principal equity partner could no longer commit to the project. Council officers and Coast to Capital LEP agreed to provide time and advisory support to Marks Barfield and their financial advisors to secure a replacement investor.
- 3.4 As reported to Economic Development & Culture Committee in September 2013, a number of alternative leisure equity investors expressed considerable interest in the project. However, in the current economic climate, equity investors (specialising in leisure and tourism) have considerable choice in terms of shorter loan term periods and potentially higher returns than the i360 project. Consequently, without a council underwrite, an equity funding partner has not been secured. Marks Barfield, Coast to Capital LEP and their respective financial advisors remain committed to the project and alongside council officers have been active in exploring alternative financing options.
- 3.5 For the project to go forward in 2014, a deliverable funding solution would need to be found by the end of the current financial year. This would allow a start on site in spring 2014, and an opening in spring 2016 in time for the commencement of the peak visitor season.

New Funding Options

3.6 Three revised funding options emerged since September 2013 and these are set out below:

Option A Preferred	Increased PWLB & Coast to Capital LEP 'Growing Places' Loan Funding To significantly increase the senior loan made by the council and the length of the loan to 27 years. The LEP remain fully behind the project and are prepared to treat their funding as junior to the council loan for a higher return and to increase their loan.
Advantages	<ul style="list-style-type: none"> • The amounts received by the council in terms of the one-off arrangement, commitment fees, annual risk margin on the loan are commensurate with the risk associated with the larger loan and the longer period of the loan. • With this option, the council does not take any interest rate risk and by borrowing from the PWLB accesses the cheapest form of loan finance available. • The council as senior lender has first call on the assets and can exercise step in rights should the project be significantly less successful than anticipated. • This option affords the lowest risk of a state aid challenge. • The council receives 50% of any surplus in order to repay debt early if the attraction does better than expected. • There is an option for early refinancing should the i360 be more successful than anticipated. The council would be compensated for loss of margin on commercial terms and would benefit from an annual increase in the percentage of the ticket income from 1% to 2.5% which would continue for the life of the attraction.
Risks	<ul style="list-style-type: none"> • There is increased risk to the council because the loan is larger, for a longer period of time and the finance at greater risk than the council's loan (i.e. the equity and junior debt) is smaller. However, the project can still afford to make the payments due to the council in full with a 40% reduction in the anticipated (Base Case) visitor numbers.

Option B	Underwritten Pension Fund Annuity Funding & Increased Coast to Capital LEP 'Growing Places' Loan Funding Corporate Pension Funds providing the funding (for a minimum period of 35 years) with the council acting as guarantor.
Advantages	<ul style="list-style-type: none"> • Option B provides the highest payments to the council because the annual risk margin payments are indexed to inflation rather than a fixed amount as in option A and the payments are over a longer period.
Risks	<ul style="list-style-type: none"> • Option B presents a range of tax issues that make the structure overly complex, restrictive and the financing more expensive. • Payments to the Pension Fund are linked to RPI which is an unknown variable adding to risk which together with the more expensive borrowing puts a greater overall strain on the finances of the project. Therefore the risk is increased that the council would receive insufficient income if visitor numbers are far lower than anticipated compared to option A. • The agreement with the Pension Fund would be fixed for the period of the loan and could not be refinanced. • Option B has a slightly higher risk of challenge under state aid.

Option C	BHCC Underwritten Private Bank Loan Financing The council underwrites the visitor numbers for a period of time until the project can be re-financed providing certainty for a bank to provide the loan finance in the interim.
Advantages	<ul style="list-style-type: none"> • The risk could be lower than option A and for a much shorter period assuming the project is successful.

Risks	<ul style="list-style-type: none"> • The payments to the council for risk guarantee are the lowest of the 3 options and are for a potentially much shorter period. • The council will not receive arrangement and commitment fees. • There is a higher risk of state aid challenge because the benefits to the council are lower. • The bank will have first call on the assets and step in rights should the project be significantly less successful than anticipated. • The borrowing costs are likely to be higher than option A.
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Business Case Considerations – Preferred Option A

3.7 From the table above the balance of risk and return and the added flexibility make Option A the preferred option. By pursuing Option A, the proposed senior loan from the council is £36.2m which represents 78% of the total revised costs of the project. The period of the proposed loan is 27 years, approximately half the expected life of the i360 of at least 50 years.

Table 2: i360 Project Financing December 2013

	Senior Loan Finance	Equity Finance & Junior Loan	Total
BHCC	£36.2m		£36.2m
Marks Barfield		£6.0m	£6.0m
Coast to Capital LEP		£4.0m	£4.0m
Equity Partner			n.a.
Total	£36.2m	£10.0m	£46.2m

3.8 A table showing a breakdown of the increase in project costs since the July 2012 report is shown at paragraph 7.5.

3.9 The i360 remains a priority investment for the Coast to Capital LEP. It meets its criteria for moving ahead swiftly and thereby having a direct economic benefit in the short to medium term and the project is also included within their draft Strategic Economic Plan. The LEP have converted their initial £3m senior loan to a £4m junior loan. They have also now agreed Heads of Terms for the loan with Marks Barfield and the council. Final determination was agreed at their Infrastructure Meeting on 27th February 2014.

Benefits for the City Council of pursuing option A.

3.10 Pursuing Option A offers the following benefits for the city council:

- The council would receive £0.985m per annum for 25 years in a fixed risk premium to reflect the commercial nature of the loan, £0.060m uplift in business rates and £0.070m in Section 106 payments. The fixed risk premium equates to £21.2m in total at today's prices.
- The council would receive a further £1.1m in one-off arrangement and commitment fees.
- A significant increase is expected of up to £0.3m per annum in the current £1.0m income per annum from Regency Square car park.
- Increased income is also expected from council owned Seafront properties

- The i360 would act as a catalyst for new businesses in the area generating increased business rate income e.g. Preston Street.
 - The council would receive 50% of any surplus created if the attraction does better than expected in order to repay debt early.
 - There is an option for early refinancing should the i360 be more successful than anticipated. The council would be compensated for the loss of margin on commercial terms and will benefit from an annual increase in the percentage of the ticket income from 1% to 2.5% (which would continue for the life of the attraction).
- 3.11 A key benefit of the revised funding proposal is the opportunity for the i360 to act as a catalyst for the wider renewal and regeneration of the city's seafront. The new revenue stream secured of £1.1m per annum, plus additional parking income and business rate revenue would place the city council in a better position to address urgent and essential maintenance and repair works to the Seafront infrastructure as outlined in paragraphs 3.24 to 3.27 below.

Wider economic and regeneration benefits to the City

- 3.12 The West Pier site is located in a part of the city which has long been recognised as in need of renewal. The final regeneration of the West Pier site and delivery of i360 will be hugely beneficial for the existing businesses in Preston Street and along the Seafront as well as the many small and large hotels which rely upon tourism for their income. It is estimated that the i360 will attract 700,000 to 750,000 visitors in a stable year, including an increase of new visitors to the city of 165,000-305,000. These additional visitors to this part of the city will encourage new businesses to set up which will have knock-on positive benefits in the wider area.
- 3.13 The Seafront is regarded as of vital importance to the tourism industry and plays a major role in attracting business visitors and the promotion of the wider city region. The i360 will support the delivery of an estimated 25 of the 35 key objectives within the draft Seafront Strategy including making best use of the remaining seafront development sites and ensuring they deliver balanced, high quality development which meet the needs and aspirations of the city.
- 3.14 The i360 will generate activity all year round, providing new impetus and support for retail, catering, and hotels by attracting an estimated 27,000 to 49,000 additional overnight visitors to the city. Overnight visitors spend 8 times more than day visitors and it is estimated this new additional spending alone will create a potential 52 new jobs.
- 3.15 The i360 will act as a focal point around which other businesses can begin to thrive and this in turn will support growth for the city's tourism economy. The overall job impact of regeneration proposals can depend upon a number of variables, but has been calculated as delivering from 169 full time equivalent jobs (excluding jobs created by additional tourism income) to a maximum of 440 jobs, if jobs created by wider additional tourism spend (of between £13.9m to £25.4m per annum) are included.
- 3.16 In summary, the economic and regeneration benefits of the Brighton i360 will:

- Provide a high-quality visitor attraction for an estimated 700,000 -750,000 people each year, making it the most visited paid for attraction in Brighton and Hove;
- Draw additional investment into its immediate vicinity acting as a catalyst for regeneration of the Seafront;
- Offer spin-off benefits to the local economy by attracting between 165,000 to 305,000 additional visitors to Brighton & Hove, representing a 2% to 3.6% increase in visitor numbers;
- Increase tourist revenue by between £13.9 million to £25.4 million per annum from year 1 onwards;
- Help deliver high value overnight stays worth eight times more to the local economy than day visitors;
- Help deliver high value business tourism visitors - conference delegates spend on average 2.5 times as much as leisure visitors;
- Operate all year round, helping to even out fluctuations in tourism revenue;
- Raise Brighton & Hove's profile as a vibrant, modern city;
- Help to deliver the vision of the draft Seafront Strategy to “.....create attractive, sustainable, high quality environments for residents, businesses and visitors throughout the year”.

Community benefit package

3.17 The developers have also committed to a number of community benefits. These include:

- Percentage of ticket revenue in perpetuity to the city council to be used for community benefit.
- Discounts for local residents (except peak season).
- Free entry for Brighton & Hove state schools to ensure that every child can visit once during their school career.
- An allocation of free tickets for local charities and community groups.
- Percentage of revenues to West Pier Trust for heritage works.

Ticket Pricing

3.18 Ticket pricing has been set by drawing upon comparable attraction pricing and research conducted by MSB Consultancy to produce a lead admission price of £14.00 by today's values (£15.00 for adults in 2016 values rounded or £12.50 exclusive of VAT). This price is comparable with local and benchmarked attractions. Children under 5 will not be charged and a range of concessionary prices for groups and pre-booked tickets will apply, including the discounts outlined above.

2014 Admission price at relevant attractions	Adult £	Child £
London Eye	19.20	12.30
Blackpool Tower Eye	12.95	9.95
Spinnaker Tower	8.55	6.75
Brighton Sealife Centre	17.40	17.40
Brighton i360	14.00	7.00
Brighton Royal Pavilion (from 1 st April 2014)	11.00	5.90

MANAGING RISK TO THE COUNCIL

3.19 As part of the further due diligence work undertaken since September 2013, the underlying business case for the project has been re-reviewed and audited by D and J International Consulting. Risk to the council has also been mitigated in the following ways:

- Independent commercial legal advice to ensure the council's interests as senior lender are fully protected.
- Independent auditing of the financial modelling to ensure this is of industry standard and all assumptions are correctly catered for within the model.
- Technical monitoring and due diligence from Gardiner & Theobald, a world renowned company who specialise in independent checks and oversight for major government departments and agencies as well as the banking sector.
- A separate and independent due diligence on the part of the Coast to Capital Local Enterprise Partnership.
- Financial advice from GVA, advisers to many public sector clients including Croydon Council and others, providing expertise in brokering partnership agreements between the private and public sectors.
- Independent review of visitor numbers from Aecom (2011) in terms of comparator attractions in the UK and worldwide as well as the methodology for assessing visitor projections.
- Fixed price contracts with lead contractors, built in contingencies and cost over run guarantee of £1m.
- An established team with a proven track record to deliver the Brighton i360.
- The Council and the LEP will also be represented on the Board of Brighton i360.

3.20 With regard to the council's position, the preferred option increases the council's exposure from £14.8m to £36.2m. Hence the business case has also been further evaluated taking into account a range of key factors. These include the construction risks, projected income earning performance, management and maintenance, and also the wider economic implications and investment opportunities for the city's seafront.

These headline risks are mitigated in the following ways:

Risk	Mitigation
<p>Construction risk.</p> <p>Risk that the construction does not complete to timetable and runs over budget</p>	<ul style="list-style-type: none"> • Gardiner and Theobald (G&T) will act as the Technical Monitor for the project and their remit is to ensure that risk mitigation in relation to the construction process has been properly addressed. Before final contract signature a thorough due diligence process and review of contractual terms and costs will be finally completed. Throughout the construction process a formal monitoring process will also be set up which will inform contract payments to Brighton i360, to be released only after sign off by G&T. G&T's responsibility is to ensure that all aspects of cost and technical risk on the project are adequately managed. Sign off by G&T will be a Condition Precedent to the final loan agreement. The council has already worked with G&T and they are familiar with the project to date. Fixed Price Contracts will be in place with each contractor and the lead

Risk	Mitigation
Proven technology and design risk	<p>contractor, will be taking overall cost risk allowing little scope for variation. As well as contingencies within the budget, David & Julia Marks have also provided a £1m fund to call upon should costs overrun.</p> <ul style="list-style-type: none"> • Brighton i360 is an innovative design but uses tried and tested technology. Built by one of Europe's leading steel manufacturers the tower follows standard construction for the modern design of tubular steel wind turbine towers. • The pod, built by POMA (who also built the London Eye pods) is driven by tried and tested cable car technology. • Ground conditions have already been subject to significant testing with on-site boreholes. • The design and construction team for the i360 project have worldwide experience in design and engineering. The design proposals are well developed and are being signed off on behalf of the council as part of the due diligence from G&T. • G&T are a world renowned company with involvement in a number of high level infrastructure projects in the UK and abroad including: Cross Rail, London Olympic Stadium Legacy Conversion, Greenwich Peninsula Regeneration, Great Ormond Street Hospital and heritage projects such as the Cutty Sark Conservation Project.
Risk that income projections fall	<ul style="list-style-type: none"> • The projected visitor numbers and visitor pricing level are fundamental to the business case and have remained robust over the life of the project. Updated visitor numbers (December 2013) have been supplied as part of the overall refresh of the Business Case and these are accompanied by latest pricing figures. Appendix 1 (D&J International Consulting – Brighton i360 Business Review) contains latest information on visitor numbers and methodology. Appendix 10 [Part 2] contains information on all revenues including catering, ticketing, merchandising and other income streams, all of which have been updated since July 2012. • It is also important to note that the Business Case for i360 relies upon several sources of funding in addition to ticketing receipts. A significant guaranteed annual rental per annum from a catering concessionaire, income from the hire of the pod for events, retail spending, package deal commissions, and sponsorship all contribute to revenue streams. These have been carefully reviewed as part of the due diligence process by council officers and officers at the Local Enterprise Partnership. LEP members are experienced business leaders in their own right and accustomed to reviewing business proposals from an industry perspective. • The project is able to continue to operate and pay the council both the margin <u>and</u> the amount due to the PWLB even if visitor numbers are 40% less than anticipated. There would be sufficient money to pay the PWLB even if visitor numbers were 55% less than anticipated. • Project reserves will also be set aside to provide a buffer should income for any reason in future years not be as high as anticipated. • If the i360 does better than expected then the additional cash will be swept into a reserve and the council will receive 50% of this cash

Risk	Mitigation
	<p>reserve as an early debt repayment. Using the PWLB funding option also enables the project to be refinanced early using private sector finance. Also, the draft loan agreement contains protection clauses providing for the financial protection of the council should this opportunity arise.</p>
<p>Risk to management and maintenance</p>	<ul style="list-style-type: none"> • Life Cycle (long term) and day to day maintenance costs are built into the business plan costings. Operational Expenditure to replace capital items, fit out and systems elements has been calculated at 5% (equivalent to £38,000 per annum). A maintenance contract will be entered into with POMA the manufacturer of the pod. POMA are a well established international company and will have contractual obligations in relation to ongoing maintenance requirements. • A “Term Service Contract Agreement” with POMA will also require 98% of planned operating time to be made available in any one calendar month. A Maintenance Reserve Account will also be formed as a condition of the loan with the council. This will serve to ensure a secure funding mechanism for maintenance remains in place for the period of the loan. • The design life of the i360 is presently set at 50 years for the purposes of all contract documentation. This is a design life, and therefore it is expected that if the attraction continues to perform well its lifespan can exceed this. All moving parts and structural components are capable of replenishment.
<p>PWLB Loan Funding Risk – Interest rate risk</p>	<p>The financial implications for the council are set out elsewhere in this report.</p> <ul style="list-style-type: none"> • Equity and junior loan funding will be used to fund the capital costs prior to the senior loan being called upon. The council will then enter into a number of fixed rate loans from the PWLB to meet the expenditure incurred as and when it is approved by an independent surveyor employed by the council. The council will be reimbursed the costs of the actual loans entered into and therefore will not take any interest rate risk.
<p>State Aid</p>	<ul style="list-style-type: none"> • To ensure state aid compliance the loan from the council must be at a market interest rate and be subject to a suite of terms and conditions which do not offer any more favourable terms than those offered by a commercial lender. The council is working with legal advisers Osborne Clark to ensure it maximises the commercial nature of the deal and therefore mitigates this specific risk. Final terms will be negotiated which balance this risk with the overall requirements of the project, with comparator projects also used to limit any possibility of meaningful challenge of the final terms.

Risk and Opportunity Register

- 3.21 The key risks are outlined in the main body of the report. Appendix 4 also itemises all the areas of due diligence.
- 3.22 Council officers have also updated the Risk and Opportunity register for the project which is attached as a Part 2 Appendix 11 and applies the council’s approved Risk Management Strategy methodology.
- 3.23 It should also be noted that the Seafront Structures are an item on the council’s Strategic Risk Register.

Generating new income to invest in Seafront renewal

- 3.24 The Seafront anchors our economic, cultural and community identity and well-being and is a symbol of our city's confidence. The preferred funding option generates an anticipated revenue stream for the city council of £1.1m per annum for 25 years which can be used to help finance essential capital investment in wider Seafront renewal. Much of the Seafront is currently in a fragile condition and in need of repair and urgently requires a programme of major renewal and sustained investment.
- 3.25 The overall condition of the seafront structures, which support the A259 road and upper promenade, has been gradually declining over many years. The majority are over 100 years old and are at or beyond their serviceable life. Current estimates indicate that approximately £70 million worth of investment could be required to repair and strengthen all the arch structures, other structural items such as retaining walls, and Seafront railings.
- 3.26 Current examples of restoration work include the reconstruction of the arch structures that are located either side of the i360 site (programmed to link with the i360), and the need to close and undertake urgent structural work to the former Shelter Hall at the junction of the A259 and West Street. The most recent example (December 2013) is the need for closure of sections of the Madeira Terraces which are no longer considered suitable for public access and will require very significant expenditure to resolve.
- 3.27 These examples demonstrate that failure to invest at an appropriate level in our Seafront infrastructure results in lost business opportunities, potential closure for occupiers and members of the public, reduction in the level of rent attainable from existing premises and a potentially further blighted Seafront in future years. Areas of boarded up shop fronts or fenced off closures will become more commonplace without the right investment.

Project Plan - Timescales

- 3.28 A timetable for financial close and public opening of the i360 has been agreed by all the parties and is attached as Appendix 2. A Financial Close by May 2014 should lead to a planned site commencement date in June 2014 and an opening to the public in June 2016. In the event of the Committee agreeing the recommendations, a letter of intent will be issued to the main contractor to allow for final detailed design to commence *before* financial close is achieved in May 2014. Although this will attract a cost for the developer (estimated to be in the region of £100k) it will ensure site commencement in June 2014, which in turn will allow for an opening to the public in June 2016.

Monitoring and reporting

- 3.29 Policy and Resources will be provided with regular TBM monitoring reports on construction progress based upon reporting from the council's own technical monitor Gardiner and Theobald. General progress reports post opening will also be reported as part of TBM reporting. In addition, project updates will be given to the Economic Development and Culture Committee as part of the regular Major Projects Update reports to each meeting of that committee.

Audit

- 3.30 A report on the original loan structure was considered by the Audit and Standards Committee on 26 June 2012. This set out the approach being taken to risk management and due diligence and set out the assurance role for Internal Audit over the project. The revised project will continue to be overseen by Internal Audit who will undertake more work leading up to Financial Close in May 2014. Internal audits will then be scheduled throughout the project lifecycle.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Officers together with the Coast to Capital LEP and expert financial advisers have considered a range of options that might enable funding to be raised to allow the i360 project to move forward and these are set out in the main body of the report.
- 4.2 At present no alternative preferred funding options have been identified, other than those explored in paragraph 3.6 above.
- 4.3 If the council determine not to proceed, it is likely that the starting date would continue to remain uncertain until the economic recovery allows new investors to be secured. As a consequence the West Pier site could remain sterilised for the foreseeable future with consequences for the vitality of the seafront which anchors the city's visitor and tourism economy.
- 4.4 Implications of a further delay to the development, might include:
- Higher project financing costs.
 - Increased construction costs.
 - Deferred/loss of, future income to the city council.
 - No new "investment pot" to protect seafront infrastructure and to protect and grow business and investment income for future years.
 - Loss of business rates income.
 - Loss of funds to implement permanent landscaping scheme.
 - Existing scarce resources have to be re-prioritised from current and future revenue and capital service budgets.

Wider Implications of not proceeding

- 4.5 If the council were to consider not proceeding with the i360 project for the foreseeable future there would be significant implications for the Seafront, for the city and also for the owners of the site, the West Pier Trust. These impacts are listed more fully in Appendix 8 but would include:
- The Seafront, as the shop window of the city, and a key economic driver for tourism, remains blighted by a derelict site at its centre and all that this entails in terms of image, income and amenity issues.
 - Resolution of the site remains uncertain, and the council is faced with the possibility of having to manage this decline. Urgent maintenance works to the derelict arches are still required and also works to the root end of the West Pier (owned by the West Pier Trust).

- There is an adverse impact upon Seafront businesses due to exposure to closure and/or business interruption. The former Shelter Hall at West Street and Madeira Terraces are recent illustrations of the impact of closure and costs associated.
- The loss of circa 700-735,000 visitors to the western seafront area impacts upon the ability to create thriving new business's here, particularly within the western arches.
- Seafront landscaping remains unresolved for the old boating lake (west of the site) and paddling pool area (east of the site). There is a risk of potential closure of the section of Upper Promenade above the redundant arches in the future if they are not able to be restored. The cost for this would most likely be required from council budgets instead of being funded as part of the i360 overall building works.

5. COMMUNITY ENGAGEMENT & CONSULTATION

Business Consultation

- 5.1 Marks Barfield Architects remain active in the city and have attended many business events to provide talks and information about the i360 project. The Economic Partnership and the business community in general remain very supportive of the i360 proposals. Many businesses will derive a direct economic benefit from the presence of the i360, and these include the businesses in Preston Street and the immediate surrounding area as well as hotels and other tourism related businesses who will see a direct benefit from the additional estimated 165,000 – 305,000 new visitors each year and the increase in higher spending overnight visitors.

Pre-Construction

- 5.2 Marks Barfield have continued to work behind the scenes whilst funding is secured to ensure that all licences and permissions are in place to achieve a start on site within weeks should a funding resolution be secured (Appendix 9). Consultation will continue with all businesses affected by the construction process including with the council team in relation to proposals for sections of the i360 tower to be delivered by sea. Discussions relating to future works such as installation of the temporary beach access road and ongoing arches re-instatement works will continue up to and including a start on site.

6. CONCLUSION

- 6.1 Alternative funding options have been fully explored by all parties but at the present time no alternative option is available to enable a start on site in 2014.
- 6.2 It is judged that an alternative quality project would take several years to put in place taking into account scheme design, public consultation and a planning process. A new proposal would in all likelihood still need to address a potential private-public funding arrangement. Were an alternative future scheme to be achieved, the council will still be faced with having to find a resolution to the derelict arches and Seafront landscaping, potentially from its General Fund. There are no cheap or short term options for this challenging Seafront site.

- 6.3 A 'do-nothing' option has considerable negative reputational, physical and financial impacts on the city long term and the regeneration, business uplift and job impacts will not occur. The current proposal meets important objectives for the city that are included within the Economic, Tourism and draft Seafront Strategies.
- 6.4 There remains a serious underfunding of Seafront Infrastructure which sits on the council's Strategic Risk Register and which this proposal could assist with resolving.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications

- 7.1 The council can undertake borrowing under the prudential regime if the loan repayments are affordable. The i360 is projected to generate a net income stream that is sufficient to cover the Public Works Loans Board (PWLB) borrowing costs approximately 3 times over and therefore meets the affordability test. The loan to the i360 must be on commercial terms and principally to achieve this the council will receive a margin over and above the cost of borrowing from the PWLB.
- 7.2 As the loan is self financing it does not limit the council in terms of other investment decisions such as providing new school places and in fact provides a significant new net income stream which Members can decide how to use. Earmarking this income for investment in essential works to the Seafront means that existing scarce resources do not have to be re-prioritised from current and future revenue and capital service budgets.
- 7.3 The proposal does not come without risk but everything has been done to mitigate those risks and thorough due diligence has been carried out on the business case and the supporting financial model has been subject to independent checks.
- 7.4 All the external costs incurred by the council of developing the funding arrangements of this project to date and in the future have and will be met in full by the developer.

Cost of the scheme

- 7.5 The total cost of the scheme is £46.2m an increase of £7.4m in the 18 months since the July 2012 report. The table below explains the cost increase.

Estimated project cost July 2012	£38.8m
Inflation on construction costs and impact of currency movements	+£3.0m
Increases in fees	+£0.5m
Net changes in arrangements fees*	+£0.5m
Net changes in financing costs*	+£2.4m
Overall project contingency	+£1.0m
Revised project cost December 2013	£46.2m
*Most of the increase reflects the higher payments to the council	

Proposed Funding

- 7.6 An analysis of the different funding options explored by officers is included in the body of the report and the senior loan route preferred. The proposed senior loan from the council is £36.2m which represents 78% of the total costs of the project. The period of the proposed loan is 27 years which is approximately half the expected life of the i360 of at least 50 years. The senior loan takes precedence over all other funding streams should the project run into financial difficulty. The funding of the project would be as follows.

Senior loan from the council	£36.2m
Junior loan from the LEP	£4.0m
Equity from Marks Barfield and associates	£6.0m
Total funding	£46.2m

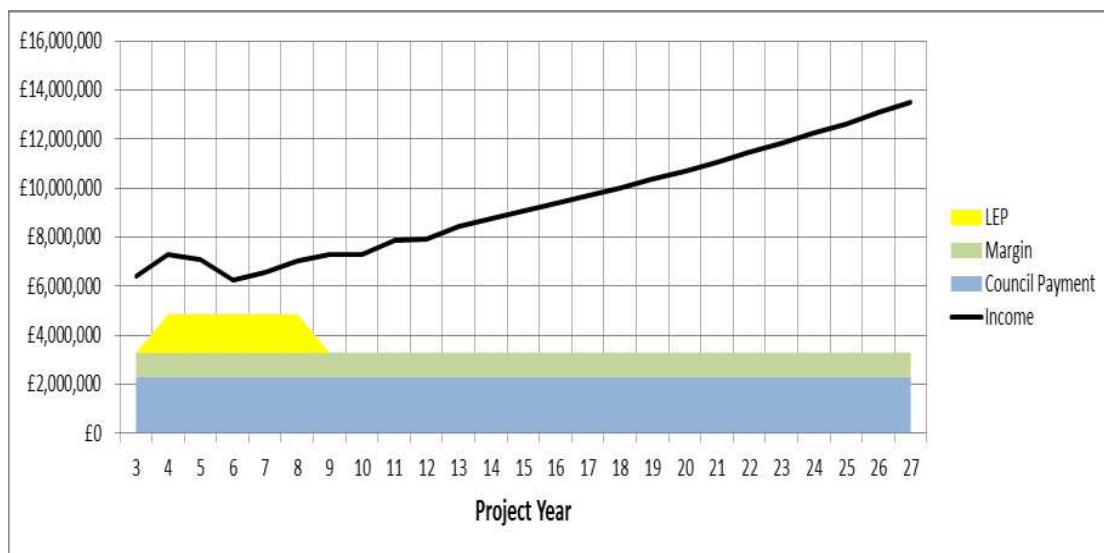
- 7.7 The equity and junior loan funding would be used to fund the capital costs prior to the senior loan being called upon. The council will enter into a number of fixed rate loans from the PWLB to meet the expenditure incurred as and when it is approved by an independent surveyor employed by the council. The council will be reimbursed the costs of the actual loans entered into and therefore will not take any interest rate risk.
- 7.8 A risk contingency has been provided for in the construction costs and a further contingency of £1 million has been provided in the overall project budget. The council loan will be limited to £36.2m and any projected overspend in cost over and above the contingency provisions must be valued engineered out of the project or will be met by a cost over run guarantee of £1m from Marks Barfield.

Income streams and financial risk mitigation

- 7.9 The council will charge a margin to the project on top of the cost of the PWLB loan to reflect the commercial nature of the loan to the i360. The other terms and conditions associated with the loan have been negotiated on commercial terms using independent external legal advice. The table below shows an income stream based on the agreed 3.75% margin.

Annual revenue streams	
Agreed margin of 3.75%	£0.96m
S106 income share from 1% of ticket sales	£0.07m
Council share of i360 business rates	£0.06m
Total per annum	£1.09m
Total over the 25 year loan at today's prices assuming an inflation discount of 2.5% per annum	£21.20m
Administration Costs	£0.02m
One-off income	
Arrangement and commitment fees	£1.09m

- 7.10 The council can use the arrangement and commitment fees to complete the refurbishment of the Seafront around the i360 at the same time as the construction works are taking place.
- 7.11 In addition the council should be able to generate higher rents and therefore additional business rates from the Seafront arches and additional car parking income of up to £0.3m per annum from increased usage of the Regency Square car park. Further business rates should be generated by new and expanded businesses setting up in the surrounding area for example an uplift in business rates of 20% from Preston Street would generate a council share of about £0.05m per annum.
- 7.12 The following chart compares the total projected income stream from the i360 with the payments due to the council based on the most likely estimate of visitor numbers with an average attendance of 739,000 per annum. Note project years 1 and 2 cover the construction period of the i360.



- 7.13 The project is able to continue to operate and pay the council both the margin and the amount due to the PWLB even if visitor numbers are 40% less than anticipated. There would be sufficient money to pay the PWLB even if visitor numbers were 55% less than anticipated and it is only if numbers fall below this level would there be any possible contribution from local council taxpayers.
- 7.14 Project reserves will also be set aside from operational income to provide a buffer should income in future years not be as high as anticipated.
- 7.15 Using PWLB funding option also enables the project to be refinanced early using private sector finance and the draft loan agreement contains protection clauses providing for the financial protection for the council should this opportunity arise.
- 7.16 If the i360 does better than expected then the additional cash will be swept into a reserve and the council will receive 50% of this cash reserve as an early debt repayment. In this circumstance, the council would also be compensated for loss of margin on commercial terms and will benefit from an annual increase in the

percentage of the ticket income from 1% to 2.5% which would continue for the life of the attraction.

- 7.17 Para 4.3 to 4.5 sets out the likely consequences, financial and otherwise, if the project does not proceed. Broader Implications are also set out in Appendix 8.

Finance Officer Consulted: Mark Ireland

Date: 28/02/14

Legal Implications:

Council's Statutory Powers

- 7.18 As per the previous report, the Local Authorities (Land) Act 1963 will be relied on in terms of the main power for the proposed loan and Section 111 of the Local Government Act 1972 and the general power of competence under the Localism Act 2011 will be relied on in respect of the incidental arrangements.
- 7.19 Section 3 of the 1963 Act provides that a local authority may advance money for building works, where it is satisfied that it would be for the benefit or improvement of its area. Such an advance, together with interest thereon, must be secured by a mortgage of the land and the amount of the principal of the advance must not exceed nine-tenths of the land's value or nine-tenths of the estimated value of the completed building. This requirement will be satisfied as will the other standard loan provisions set out in the Act.
- 7.20 In deciding whether and how to exercise its powers in relation to this proposal, the committee must consider the council's fiduciary duty to conduct its administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of the council tax payers. However, it is in the council's discretion to determine what the interests of the council tax payers are and how they are best served following its analysis of the relevant costs and benefits. Thus in considering this matter, in terms of fiduciary duty, the council must disregard all irrelevant matters and have regard to issues such as the burden of the terms of the arrangement and the expenditure involved for the council tax payers, as well as the benefits it will bring. This needs to be considered both generally and specifically to those who will directly gain or suffer from the proposal. This balancing exercise is for the council to determine after having given due consideration to the appropriate weight to be afforded to the relevant factors.

State Aid

- 7.21 To ensure state aid compliance the loan from the council must be at a market interest rate and be subject to a suite of terms and conditions which do not offer any more favourable terms than those offered by a commercial lender. These requirements are considered to be met, so that no state aid is involved in the proposed transaction.

The Brighton Wheel

- 7.22 The legal agreements relating to the Brighton Wheel at Daltons Bastion allow for the council to give 6 months notice to the wheel's operators, Paramount, to

cease operation of the wheel once works start on site for Brighton i360. Without notice, the current lease will expire on 30.08.2016. Consideration as to the implications of concurrent operation of the two attractions is not considered pertinent to the present purpose of this report, and it is therefore proposed that at the present time, the current lease is left to run its course with Paramount, as planned. If Paramount choose to ask for an extension to their lease and the i360 is operational, a decision will need to be made at this time with regard to any renewals or extensions by the council.

Lawyer Consulted:

Bob Bruce

28/02/14

Equalities Implications

- 7.23 The i360 will be accessible throughout to people with disabilities and will improve access to the seafront lower promenade. A new lift to the east of the Heritage Centre will make the development easily accessible and accessible toilets are located at the upper prom entrance area and also below in the Heritage Centre and cafe area. Toilets in the lower area have recently been redesigned to ensure they comply with the council's aspirations for public WC's and will be open to members of the public who are not necessarily using the centre or visiting the attraction. Marks Barfield have also committed to a system of concessions for local residents and specific promotions to be offered to local schools and colleges. They will build upon this in partnership with the West Pier Trust who already have packages for schools that take place at the West Pier site and the Fishing Museum (which also houses a collection of West Pier memorabilia).

Sustainability Implications

- 7.24 The sustainability implications have been thoroughly documented and reviewed as part of the planning process for the i360 project. The i360 is a low energy use solution which is assisted in its drive mechanism by energy supplied from the wind turbine (20% estimated). The installation of heat pumps provides air heating and cooling in the pod and heritage centre and will provide an estimated 30% of the total thermal heating energy use. Grey water and rainwater recycling is included within the design.

Any Other Significant Implications

- 7.25 All significant implications are dealt with in the main body of the report.

SUPPORTING DOCUMENTATION

Part 1 Appendices:

1. D&J Consulting Business Review Ch.1 to Ch.5
2. Timescales
3. Target Visitors/Capacity
4. Due Diligence & Council Advisors
5. Revised Loan Structure
6. West Pier Trust Position Statement
7. UK Local Authority PWLB funded projects
8. Implications of not proceeding
9. Work Undertaken to Date by Marks Barfield Architects

Part II Appendices:

10. D&J Consulting Business Review Ch. 6
11. Risk and Opportunity Register

Documents in Members' Rooms

1. Policy and Resources Committee report: July 2012

Background Documents

None

Appendix 1

“Brighton i360 Business Review redacted: Chapters 1 to 5”

Brighton i360 Business Review - Redacted



D & J
International
Consulting



Project No. 1339

Marks Barfield Architects

January 2014



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1 EXECUTIVE SUMMARY

Introduction

- 1.1 D & J International Consulting has been working alongside the Marks Barfield Associates planning team to evaluate the potential attendance and financial performance of the planned i360 in Brighton. This report presents an updated review of the business potential for the attraction.

The i360 Concept

- 1.2 The i360 is a 140m high observation tower planned for a site at The West Pier in Brighton. The site is currently vacant and detailed plans have been prepared and approved by Brighton Council for the development of the attraction.
- 1.3 Having previously designed the London Eye, Marks Barfield Architects have designed the i360 as an evolution of this iconic attraction. The tower will contain a single capsule that will rise up around a narrow shaft offering visitors a 20-30 minute ride.
- 1.4 The site affords views along the coast and inland to the Sussex downs, providing a unique viewing experience for residents and tourists to the city.

Available Markets

- 1.5 The Brighton catchment market is significant with a two hour travel time reaching into London and bringing some 15.5 million people within two hours of the site.
- 1.6 In addition, the south coast tourist market is a strong one with 5.3 million domestic tourists and 1.6 million international tourists staying in locations within one hour of Brighton each year.

Regional Attractions

- 1.7 Brighton has a number of attractions for visitors including Brighton Pier, Brighton Pavilion and the Sea Life Centre. Other attractions along the coast and inland make the area an important focus for visitors in the region.

Attendance Projections

- 1.8 In evaluating the potential visitor volumes to the i360 we have taken account of the regional resident and tourist markets, visitation to other attractions in the area and the performance of comparable observation attractions around the world. These have been assessed quantitatively and qualitatively in the determination of the attendance projections.
- 1.9 We estimate that in the target opening year of 2016, the Brighton i360 should be able to attract some 822,600 visits, 48 percent of which will be tourists.
- 1.10 Over time, as seen at similar attractions around the globe, the mix will become more tourist-orientated, and we anticipate that visitation will reduce to around 697,500 by 2019, of which 74 percent will be comprised of tourists. Attendance will increase gradually after this as the markets grow.

Financial Projections

- 1.11 The Brighton i360 team has undertaken price testing research to evaluate an appropriate admission price, which has been set at £15.00 for adults in 2016 values. Allowing for VAT



and discounts for children and groups, this would provide a per capita admission income of around £9.13. In 2016, with an annual attendance of 822,500, this would generate £7.5 million in ticket income for the i360.

- 1.12 Merchandise, events, sponsorship and F&B operations would provide additional income and lead to a total anticipated income at the i360 of £12.0 million in the first full year. This includes a catering concession with a guaranteed minimum rental level.
- 1.13 A detailed staffing plan has been developed. This draws on operational experience of the London Eye and other attractions and on the anticipated visitor dynamics of the i360. A ride maintenance and operating contract has been agreed with Poma and this has been built in to the plan along with budgets for marketing, utilities, maintenance and administrative costs. These have been developed by the operations team, and D & J International Consulting has reviewed these costs in light of regional and internationally comparable attractions.
- 1.14 The attraction is forecast to deliver strong levels of operating profit in current values with a projected EBITDA of £6.2 million in 2016 rising to £8.2 million in 2026.



2 INTRODUCTION

Introduction

- 2.1 In 2011, the economics team at AECOM, under the guidance of David Camp, undertook a review of the management's business model for the planned i360 attraction in Brighton. The review involved liaison and discussion with the i360 team, independent research and analysis, and the development of a revised business model.
- 2.2 Since that review the business plan has evolved, market dynamics have changed and the report requires updating. This report provides this updated review of the i360 Brighton business model utilising latest available data.

The D & J International Consulting Team

- 2.3 In January 2013, David Camp left AECOM to set up D & J International Consulting. This review has been undertaken by the D & J international Consulting team and David has been assisted in the review by Julie Vile, Partner and Tim Shepstone, Affiliate.



3 THE i360 CONCEPT

Introduction

- 3.1 The i360 will provide a state-of-the-art iconic viewing tower with supporting retail and F&B offerings on Brighton seafront.

i360

- 3.2 The concept for i360 is at an advanced stage. The i360 is a viewing tower and will offer a similar experience to the London Eye. On embarkation, passengers will be taken up vertically in a double-glazed pod to a height of around 140 metres, all the while experiencing views of Brighton and Hove, the English Channel and the North Downs. After a period held at the top the pod will then return to ground level where the passengers will disembark.
- 3.3 In total, each ride should take up to between 20 and 30 minutes and the pod is designed to hold up to 200 passengers. Ancillary developments at ground level will include a high quality F&B outlet and a small retail outlet through which guests will exit.
- 3.4 The attraction is likely to be open all year round; however it will be closed for approximately two weeks each January for maintenance in addition to Christmas Day. Opening hours will be longer during the summer months from May through to August, with optimum opening hours in the shoulder season and shorter opening hours during the winter period.
- 3.5 During the evenings, from 6pm onwards, the i360 will be able to operate as a sky-bar. Passengers will be able to purchase drinks inside the pod as well as prior to the ride in the boarding area, and the length of each ride will be increased to 30 minutes, including a five minute turnaround time.
- 3.6 The current plan is that the attraction will open in 2016.

Site Location

- 3.7 The site for the proposed attraction is located on the sea front in Brighton, at the foot of the base of the old West Pier. The West Pier is some 400 yards west of Brighton Pier and, whilst Brighton Pier has flourished over recent years, the West Pier currently lies in a state of disrepair as a result of the pier's collapse in 2002 and subsequent fire in 2003. Plans to restore or rebuild the pier have yet to be realised.
- 3.8 The site at the foot of the West Pier is currently vacant and the site area is sufficient to accommodate the i360.

Site Attributes

- 3.9 The site meets a number of key success criteria for an attraction development. These include a location close to the town centre, beach and major hotels hence population and tourists, as well as being located close to the main Brighton attractions such as Brighton Pier, Sea Life Centre and the Royal Pavilion.
- 3.10 An estimated five million people visit the sea front in Brighton each year. The seafront is also used by local residents for walking and jogging year round and is a very popular promenade for walking in the summer by tourists.



Access

- 3.11 Public transport to Brighton is good with strong road and rail links to London and the wider South East region.
- 3.12 At a more local level, there is a 15 minute walk between the site and the main Brighton train station and buses from the station stop near to the site. While road access to Brighton is good, congestion can be a problem in Brighton. However, there is ample parking close to the site, with some 507 spaces in the underground car park in Regency Square.

Site Surrounds

- 3.13 As already indicated, the site is in a strong tourist location and it should benefit from the large number of overnight and day visitors staying in the area. The adjacency to the seafront also gives the site an extra advantage and views along the beach would be attractive to visitors.
- 3.14 The site is close to the Hilton Metropole, the largest residential conference centre in the South East, the Brighton Centre and the Grand Hotel Brighton. All these properties are important to Brighton's sizeable conference market and this will offer a large potential market for the i360 in terms of ticket sales and corporate packages.

Summary & Implications

- 3.15 The site for the i360 attraction is located along the sea front in Brighton at the base of the old West Pier, which is vacant. It is a strong location in terms of being adjacent to the town centre and accessible to resident and tourist markets. Public transport links are also good and there is ample parking nearby.
- 3.16 The concept is similar to the London Eye in that the underlying principle is for a high quality observation attraction and a ride. Passengers are taken up vertically in a pod to a height of around 140 metres and after a 20-30 minute experience are then returned to ground level where the passengers will disembark via retail and F&B outlets.



4 AVAILABLE MARKETS

Introduction

- 4.1 In order to assess the future potential of the i360 attraction there is a requirement to understand the markets that drive visitation, namely the resident and the tourist markets. In this section we set out our estimates of the current and future size of these markets.

Methodology

- 4.2 We have measured the available markets based upon drive-time isochrones. In general, attractions draw residents living up to two hours away. Those people visiting the proposed attraction who live beyond the two-hour drive time catchment area, are likely to stay in the area overnight and are therefore considered either domestic or international tourists, as appropriate.
- 4.3 We have defined the resident market as those people living within two hours travel time of the proposed site, and we have considered two isochrones: 0-60 minutes' drive time from the site (primary market) and 60-120 minutes' drive from the site (secondary market).
- 4.4 Tourists generally travel for up to one hour from their holiday base when visiting attractions. Therefore we have defined the tourist market as comprising people staying away from home in locations within one hour's drive of the site. Tourists are split into two distinct markets: overseas visitors (international tourists) and UK residents (domestic tourists).
- 4.5 Some domestic tourists will also be residents of the two hour catchment market. We have evaluated the size of this sub segment and removed these people from the resident market total as the i360 will appeal most strongly to tourists visiting the area.
- 4.6 Such market definitions allow comparisons of market size and potential at the proposed project to existing attractions both in the UK and abroad.

Resident Markets

- 4.7 As mentioned, we have defined the resident market for the i360 attraction as those people living within a two-hour travel time of the site, and we have considered two isochrones: 0-60 minutes and 60-120 minutes' drive-time from the site. The catchment market drive-time isochrones are shown in Figure 4.1. They have been created by using Microsoft Map Point software.
- 4.8 We have evaluated the population within the two hour travel time isochrones using Census data and drawn on official ONS regional population projections to extrapolate future market sizes.
- 4.9 As noted earlier, to avoid double counting, it is important to remove residents living in the two-hour catchment market who are also counted within the one-hour domestic tourist market. From detailed ONS (Office of National Statistics) and Visit England statistics, based on survey data, we have been able to ascertain the place of origin of domestic tourists to the South East region. This indicates that just under 44 percent of domestic tourist visitors to the tourist catchment market also reside within the two-hour resident drive time market. This is equivalent to a total of approximately 2.3 million people. We have therefore removed these people from the available resident market, as they are counted in the domestic tourist market. This effectively reduces the primary market from 3.7 million to 1.4 million in 2012.



FIGURE 4.1: I360 DRIVETIME CATCHMENT MARKET



Source: Microsoft Map Point

- 4.10 Figure 4.2 reveals the size of the primary and secondary resident market from the target opening year, 2016, through to 2026.
- 4.11 There are almost 16.2 million residents in the catchment area in 2016. Nine percent of the market population reside within the one hour catchment market and 14.8 million residents (the remaining 91 percent) are within the 60-120 minute catchment area, which includes Greater London.
- 4.12 This is an important day trip market for Brighton. The most recent survey data from 2009 indicates that 80 percent of day trippers visit Brighton more than once each year.

FIGURE 4.2: I360 RESIDENT MARKET PROJECTIONS (2012 – 2026)

	2012	2016	2021	2026
Primary (0 - 60 minutes)	1,374,733	1,415,731	1,466,600	1,518,121
Secondary (60 - 120 minutes)	14,120,731	14,763,905	15,486,166	16,130,740
Total	15,495,464	16,179,636	16,952,766	17,648,861

Source: ONS & D & J International Consulting

Tourist Markets

- 4.13 The tourist market will provide an important source of visitors to the i360. Tourists generally travel for up to one hour from their holiday base when visiting attractions. Therefore we have defined the tourist market as comprising people staying away from home in locations

within one hour's drive of the site. The tourists are split into two distinct markets; domestic and international tourists.

- 4.14 Visit England collates data on all forms of overnight trips by British residents via a national survey. The data is collected annually and data on regional tourism visitation is prepared as a rolling three-year average to avoid anomalies caused by small samples.
- 4.15 The data reveals that while Brighton has seen increased domestic tourism volumes, visits to the wider South East region have not been as strong. Domestic tourism in the South East region declined to 2010 since when it has stabilised. However, volumes remain well below the peak domestic tourism numbers seen in the region at the turn of the century.
- 4.16 In 2012, there were 5.34 million domestic tourists staying in areas within one hour of Brighton. We have allowed for a gradual annual growth rate of 0.5 percent per annum to project future tourism numbers.
- 4.17 The most recent survey on domestic tourism behaviour in Brighton was conducted in 2009. This indicated that only a third of domestic tourists to the town had visited Brighton previously that year.
- 4.18 By contrast International tourism has been growing from a low point in 2001. It reached a peak in 2007 and while the global economic crisis impacted it negatively in following years since 2010 volumes have been increasing and we have incorporated continued growth in our projections of international tourist arrivals.
- 4.19 In 2012 there were 1.58 million international visitors staying in locations within one hour of Brighton. The future projections incorporate ongoing international tourist volume growth of 1.0 percent annually.
- 4.20 Incorporating the growth rates we anticipate that the domestic tourist market is expected to grow to 5.73 million by 2026, as shown in Figure 4.3. By the same year, the international tourist market is expected to be 1.81 million, giving a total of 7.54 million tourists by 2026.

FIGURE 4.3: I360 TOURIST MARKET PROJECTIONS (2012 – 2026)

	2012	2016	2021	2026
Domestic Tourists	5,340,900	5,448,522	5,586,104	5,727,160
International Tourists	1,575,500	1,639,472	1,723,101	1,810,997
Total Tourists	6,916,400	7,087,994	7,309,205	7,538,157

Source: Visit England, ONS & D & J International Consulting

Summary & Implications

- 4.21 The projected primary resident market is relatively modest in size at almost 1.4 million residents. In comparison, the secondary market is far larger at 14.1 million, as it includes Greater London. The total current resident market totals 15.5 million people, which represents a strong opportunity for the i360.
- 4.22 Future population growth within the South East will lead to over 1.5 million people living within one hour of Brighton by 2026 and a further 16.1 million living between one-and two-hours away.
- 4.23 The domestic tourist market is considerably larger than the international tourist market at 5.3 million compared with 1.6 million in 2012.



-
- 4.24 Tourism growth will lead to 5.7 million domestic and 1.8 million international tourists staying in locations within an hour of Brighton by 2026.



5 ATTENDANCE PROJECTIONS

Introduction

- 5.1 In this section we have outlined the attendance analysis, derived market penetration rates and attendance projections for the proposed i360 Brighton. The proposed opening date for the attraction is 2016; we have therefore provided attendance projections for the first ten full years of operations up to and including 2026. We have projected the attendance for the i360 in three scenarios (low, medium and high) derived through a market penetration rate analysis and our experience with worldwide attractions.
- 5.2 With the i360 pod having a fixed capacity, we have considered the unconstrained market potential to derive theoretical attendance levels and then evaluated the impact of any capacity constraints on the attraction and how this may affect the annual admission levels.

Assumptions

- 5.3 The market and financial projections for the proposed attraction are based upon the following key assumptions:
- The selected site will be of a suitable size and configuration to develop the i360 attraction.
 - The site will be located on Brighton & Hove seafront, with good access to main roads and public transport.
 - It will operate all year round with shorter opening hours during the shoulder and off-seasons.
 - There will be experienced operations teams.
 - A strong pre-opening marketing campaign will be implemented, with continued strong marketing in subsequent years.
 - The attraction will open in 2016.

Unconstrained Attendance Estimates

Attendance Potential & Estimated Market Penetration Rates

- 5.4 Market factors define the basis from which attendance potential is derived, while the scope of the attraction determines its drawing power or market penetration. The scope and drawing power of an attraction is a function of numerous endogenous factors such as level of initial investment, capital reinvestment, marketing strategy, image and brand identity, as well as exogenous variables such as the competitive environment and climatic conditions.
- 5.5 Estimates for attendance for the i360 are derived through a market penetration rate analysis based upon the market factors, conditions experienced at comparable projects and other local attractions. Market penetration measures the propensity of available market segments to visit an attraction and is defined as the ratio of attendees from a potential market segment to total market segment size.
- 5.6 In order to derive potential market penetration rates for the proposed i360 we have used derived data from market penetration rates among a range of comparable attractions including the London Eye, Spinnaker Tower and international operations.
- 5.7 To do this we undertake an analysis of the catchment markets for the various comparable attractions. We also undertake interviews with the management at the attractions to obtain as accurate a picture as possible of the source of their visitors. By applying this data to the



throughput levels we are able to determine the likely visitor mix profile and thus the market penetration rates.

Factors Affecting Attendance Potential

- 5.8 Evaluation of attendance cannot be strictly quantitative and must account for key qualitative factors specific to the regional market, the site, and the quality of the proposed project design. Thus, the following key factors were taken into consideration throughout our analysis.

Strengths and Opportunities

Site and Concept

- 5.9 Located along the seafront promenade in Brighton, the attraction will benefit from the high footfall generated by the Brighton seafront. Both residents and tourists pass the site as part of the natural pedestrian flows in Brighton.
- 5.10 There is parking close to the site as well as bus links servicing the immediate area from the train station and surrounding areas. Within the wider region, transport links are strong, with good rail links to London and good road access to London and the South East.
- 5.11 The viewing tower concept is popular throughout the world. In the UK, the success of the London Eye indicates that the viewing tower concept is popular with resident and tourist markets. With a novel design and original experience such as that offered by the i360, we feel the proposed concept should be considered as a positive.

Resident Market

- 5.12 The primary catchment market is modest in size. However, the secondary market is significantly larger as the two hour catchment encompasses the entirety of London.
- 5.13 In addition to there being a large resident market, the population in London and the South East is generally more affluent than the rest of the UK.

Tourist Market

- 5.14 There are substantial numbers of domestic tourists visiting the area. Visiting friends & family, and holiday & leisure form key reasons for visits by both domestic and international tourists. At the majority of viewing towers worldwide, the tourist market tends to be the key source of visitors.
- 5.15 Whilst the international tourist market is relatively modest in size there is a significant foreign language student market that studies in the city each year and provides an important visitor segment for Brighton attractions.

Regional and Comparable Attractions

- 5.16 There are currently no directly competitive attractions in the immediate area. The Sea Life Centre and The Royal Pavilion are the main gated attractions in Brighton & Hove.
- 5.17 The presence of Brighton Pier and its rich history is a useful driver of footfall along the seafront.



Weaknesses and Threats

Resident Market

- 5.18 The propensity of residents to visit increases the nearer to the attraction they live. Therefore, given that the primary resident market is modest in size, the attraction will not benefit from having a strong primary resident market base.

Tourist Market

- 5.19 Viewing towers are typically popular with international visitors as the experience give tourists a chance to get a bird's eye view of the area they are visiting. However, the international tourist market is modest in size in comparison to the domestic tourist market.

Regional and Comparable Attractions

- 5.20 Although there are a limited number of competitive attractions in the immediate area, there is an overlap with the London Eye resident catchment market. The London Eye offers a similar concept and has now established itself as a London icon.

Derivation of Market Penetration Rates

- 5.21 We provide our rationale for the projected penetration rates that we consider the i360 could achieve. We have estimated market penetration rates based on comparable attractions, modified by the qualitative factors discussed above.

Primary Resident Market

- 5.22 Primary market penetration rates at viewing towers are generally higher than those achieved in the secondary resident market as propensity to visit decreases the further away from the attraction a person lives.
- 5.23 The primary catchment market for the i360 is of a modest size and is generally smaller than those seen at the majority of comparables we have reviewed; therefore we might expect a penetration rate at the higher end of the range of competitive set. However, since the previous study the dynamics of the market have changed somewhat with domestic tourism declining in volume but day trips increasing. Day trippers make more frequent visits to the Brighton area than holidaymakers and are unlikely to make multiple visits to the i360.
- 5.24 Taking these factors into account, we estimate that i360 could achieve a market penetration of 2.0 percent under the medium scenario in a stable year, at the mid-range for viewing towers but at the low end of the range for selected leading UK attractions.
- 5.25 Interest in the i360 from local residents would be higher than this in the opening years as the development of the i360 would receive significant regional media coverage. As seen at other observation attractions we would expect strong penetration rates from local residents in the early years, settling back to more modest levels over time.

Secondary Resident Market

- 5.26 At the majority of visitor attractions, penetration rates within the secondary resident market are considerably lower than those of the primary market. This reflects the decreasing propensity to visit an attraction as drive time increases.
- 5.27 In general, at viewing towers, penetration rates in the secondary market are around half that of the primary market, and we feel that given the strong seaside location the i360 should be able to achieve a medium penetration rate of 1.0 percent in this market in a stable

year. As with the primary resident market we would expect stronger penetration rates in early years.

Domestic Tourist Market

- 5.28 The domestic tourist market for i360 should offer a promising opportunity given its nature, with a high number of leisure and VFR (visiting friends and relatives) visitors. However, given the other available leisure activities in the area, appeal of the beach and level of repeat visitation to the area, we have taken a somewhat cautious view on the domestic tourist market penetration rate.
- 5.29 We estimate that the i360 could be able to achieve a medium penetration rate of 6.0 percent in this domestic tourist market in a stable year. This is at the low end of the range for viewing towers but at the high end of UK attractions' penetration rates for this market segment.

International Tourist Market

- 5.30 Viewing towers typically perform strongly in the international tourist market. Although there are relatively few international tourists visiting the area, we feel that there is an opportunity for a strong performance in this market. In a stable year, we estimate a penetration rate of 12.0 percent under the base-case scenario, which is at the higher range of performance of comparable viewing towers but equivalent to some leading UK attractions.

Total Projected Theoretical Attendance

- 5.31 The attraction attendance potential takes into account the size of the resident and tourist markets and characteristics, quality and scale of the attraction, proximity and level of competition, pricing, market spending power, market acceptance/behavioural characteristics, level of investment, and numerous other factors.
- 5.32 Market penetration rates were applied to the total population of each of the defined market segments to estimate attendance potential at the proposed attraction. To provide some context to the market penetration rates applied to the i360, Figure 5.1 shows the ranges at a selection of attractions.

FIGURE 5.1: MARKET PENETRATION RATES

Attraction	Resident			Tourist		
	Primary (%)	Secondary (%)	Total (%)	Domestic (%)	International (%)	Total (%)
Observation Attractions						
Max	11.5	10.7	5.4	30.3	71.9	35.9
Ave. Weighted	2.8	1.4	2.1	6.7	15.1	8.8
Median	2.1	1.0	1.2	9.8	22.7	11.6
Min	0.2	0.1	0.1	1.8	2.1	2.2
City Attractions						
Max	6.1	4.8	5.4	12.4	12.5	12.5
Ave. Weighted	4.3	1.9	2.9	2.4	6.6	4.4
Median	3.9	1.5	2.4	1.9	1.9	1.4
Min	1.3	0.6	1.7	0.6	1.2	0.7

Source: D & J International Consulting

- 5.33 Observation attractions included in the benchmark analysis include the London Eye, Spinnaker Tower, Blackpool Tower, Empire State Building, Berlin TV Tower, Willis Tower and the Auckland Sky Tower. City attractions include Brighton Pavilion, Brighton Museum, Sea Life Centre, London Transport Museum and the London Aquarium.
- 5.34 Based on our analysis of the local attractions market and performance of selected attractions, key-market specific and site-specific factors, as well as qualitative considerations, the market penetration rates and attendance potential in Figure 5.2 were developed for the i360 in a stable year of operation.

FIGURE 5.2: MARKET PENETRATION RATES

	Market Size	Market Penetration Rates			Projected Attendance		
	2021 (000s)	Low (%)	Mid (%)	High (%)	Low	Mid	High
Resident Market							
Primary Resident Market	1,467	1.0%	2.0%	3.0%	14,561	29,332	43,998
Secondary Resident Market	15,486	0.5%	1.0%	1.5%	76,734	154,862	232,292
Subtotal Resident Market	16,953				91,295	184,194	276,290
Tourist Market							
Domestic	5,586	4.0%	6.0%	8.0%	222,332	334,887	446,888
International	1,723	10.0%	12.0%	14.0%	172,310	206,772	241,234
Subtotal Tourist Market	7,309				395,754	541,938	688,122
Total	24,262				487,851	726,132	964,413

Source: D & J International Consulting

Ten Year Theoretical Attendance Projections

- 5.35 Modern attractions with strong marketing campaigns and high visibility achieve opening year attendance levels at or close to their maximum potential. During the first few years of operation locals tend to have a strong interest in visits to new attractions. Thus viewing tower penetration rates in the resident market are typically significantly higher than in a stable year as the attraction is a novel experience. Tourists, on the other hand, tend to build up their interest levels and so the penetration rate in the tourist market is not as high in the early years as the stable year as the attraction is still to establish itself within this market.
- 5.36 We have therefore incorporated a higher penetration rate in the resident markets in 2016 falling to a stable year penetration rates by 2019. Conversely, we have incorporated lower penetration rates in the tourist markets in the earlier years of operation, rising to a stable year by 2018.
- 5.37 In locations with growing markets, this pattern results in a gradual increase in visitation beyond year five once stable penetration rates have been achieved. We have allowed for these patterns in our ten-year attendance projections. The resulting attendance projections from 2016 to 2026 are shown in Figure 5.3.

FIGURE 5.3: MARKET PENETRATION RATES AND THEORETICAL ATTENDANCE TO I360 BRIGHTON

	Market Size			Market Penetration Rates			Projected Attendance		
	2016 <i>(000s)</i>	2021 <i>(000s)</i>	2026 <i>(000s)</i>	2016 <i>(%)</i>	2021 <i>(%)</i>	2026 <i>(%)</i>	2016	2021	2026
<u>Resident Market</u>									
Primary Resident Market	1,416	1,467	1,518	5.0%	2.0%	2.0%	70,787	29,332	30,362
Secondary Resident Market	14,764	15,486	16,131	2.5%	1.0%	1.0%	369,098	154,862	161,307
Subtotal Resident Market	16,180	16,953	17,649	2.7%	1.1%	1.1%	439,884	184,194	191,670
<u>Tourist Market</u>									
Domestic	5,449	5,558	5,727	5.0%	6.0%	6.0%	272,426	334,887	343,343
International	1,639	1,723	1,811	8.0%	12.0%	12.0%	131,158	206,772	217,320
Subtotal Tourist Market	7,088	7,309	7,538	5.7%	7.4%	7.4%	403,584	541,659	560,663
Total	23,268	24,262	25,187	3.6%	3.0%	3.0%	843,468	725,853	752,333

Source: D & J International Consulting

Ride Capacity and Operating Implications

Pod Capacity

- 5.38 Based on the detailed design and information received from the client team the i360 pod will have a capacity of 200 people.

Ride Length

- 5.39 During daytime opening hours, prior to 6pm, the ride length will be twenty minutes including a two minute turnaround period. During evening opening hours, post-6pm, the attraction will operate as a sky-bar and the ride length will be increased to 30 minutes including a five minute turnaround time.
- 5.40 The hourly capacity of the i360 will therefore be equivalent to 600 people per hour during daytime operating hours reducing to 400 people per hour during sky-bar operating hours in the evenings.

Operating Hours

- 5.41 In Figure 5.4 we outline the proposed seasonal opening hours for the i360. We note that the attraction is anticipated to close for seven days during January for maintenance and also on Christmas Day.

FIGURE 5.4: I360 ANTICIPATED OPENING HOURS		
	Winter (Oct to Mar)	Summer (April to Sept)
<u>Opening Hours</u>		
Monday to Thursday	10am - 6pm	10am - 6pm
Fri, Sat, Sun & Bank Hols	10am-10pm	10am-11pm
<u>Operational Hours</u>		
Monday to Thursday	8	8
Fri, Sat, Sun & Bank Hols	12	13

Source: i360

Seasonality

- 5.42 Factors which may impact the seasonal distribution of attendance at the proposed attraction include public holidays and school holidays, passing footfall, weather and current operating patterns at local attractions.
- 5.43 In order to assess the potential seasonality of attendance we have reviewed data from local competitive attractions including the Brighton Sealife Centre, the Royal Pavilion and Brighton Museum. In addition, this data has been compared against historic tourism seasonality arrival data for Brighton. We have used the average monthly seasonality data from all these sources to provide a benchmark level of monthly visitation for the proposed attraction
- 5.44 As shown in Figure 5.5 and Figure 5.6, the benchmark seasonality data suggests a peak month of July during 2013, accounting for 14.4 percent of total annual visitation. As shown in the table, we have accounted for closures during January, for maintenance, in addition to

Christmas Day. Projected lost visitation during these days is anticipated to be recouped throughout the remainder of the year.

FIGURE 5.5: ESTIMATED MONTHLY UNCONSTRAINED ATTENDANCE FOR I360 BRIGHTON (2016)

	Operating Days			Monthly Distribution (%)	Monthly Attendance
	Weekend Days ¹	Weekdays	Total Days		
January	8	9	17 ²	2.5%	21,193
February	12	16	28	6.5%	54,429
March	16	15	31	7.5%	63,017
April	13	17	30	10.8%	90,874
May	15	16	31	9.5%	79,900
June	14	16	30	11.8%	99,799
July	12	19	31	14.5%	122,289
August	15	16	31	13.4%	112,740
September	13	17	30	8.6%	72,959
October	12	19	31	7.3%	61,786
November	14	16	30	4.3%	36,518
December	14	16	30 ³	3.3%	27,964
Total	158	192	350		843,468

Note:

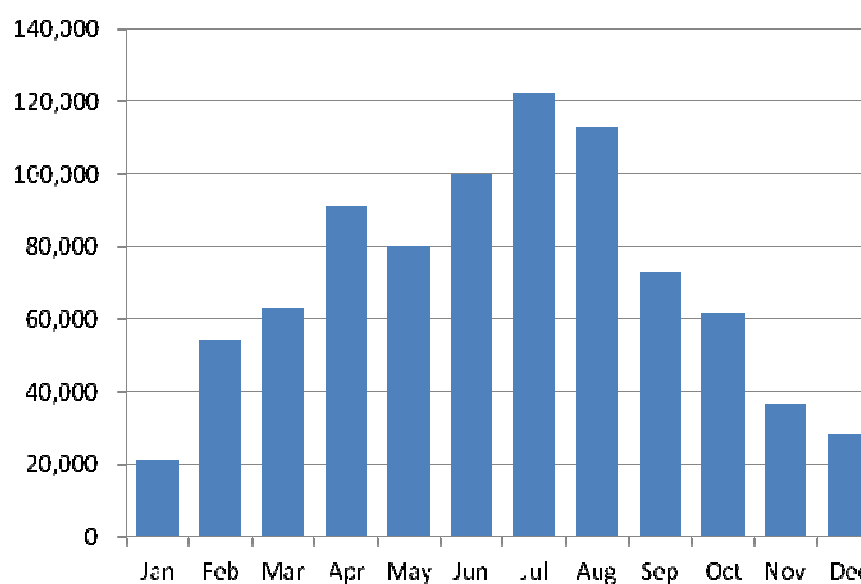
¹ Weekends includes Bank Holidays

² Closed for a two weeks for maintenance

³ Closed for Christmas Day

Source: i360

FIGURE 5.6: ANTICIPATED MONTHLY ATTENDANCE TO I360 BRIGHTON



Source: D & J International Consulting



Peak Operating Hours and Capacity Constraints

- 5.45 For our assessment we have based likely daily demand patterns on experience of the operation of the London Eye operation. In general, peak daily attendances at this type of attraction are between 12.00 and 14.00 hours.
- 5.46 During some peak periods the visitor demand will outstrip the maximum hourly capacity of the pod, and therefore there will be a ceiling on the number of people that can physically ride the attraction on busy days. The visitors that do not manage to get on the ride due to capacity constraints are considered to be frustrated demand and while some may be persuaded to ride at a different time, day trippers and tourists may not be able to do so and these potential visits will be lost.
- 5.47 The proposed long opening hours and large pod capacity will allow the attraction to satisfy the majority of demand, though there will become a point when with fewer visitors at the attraction during early and late parts of the day, the marginal revenues per visitor will not cover the marginal operating costs and consequently the operation will not be breaking even at that time. As a commercial operation, tight monitoring of operating efficiencies will be essential. Management will need to monitor visitor numbers for the first year of operation to determine the optimum opening hours.
- 5.48 Based on our demand assessment under the medium attendance scenario, we anticipate there will be capacity constraints between 12:00 and 14:00 during weekends and Bank Holidays in June and August. However, the peak under-capacity during these periods is at a level that is manageable through effective ticketing systems. We therefore believe any capacity concerns can be addressed through efficient operating processes which will allow visitation to be spread out throughout the day resulting in minimal lost visitor demand through overcrowding.

Wind Closures

- 5.49 Based on data received from the client team we have incorporated within our analysis the potential impact of high winds which could lead to the closure of the attraction for safety reasons. We have outlined the projections for wind closure days in Figure 5.7. The data presented in the table represents the potential worst case impact on visitation demand during the opening year, 2016, under the medium demand scenario. This is standard practice, for example at the London Eye or theme park rides.
- 5.50 We have anticipated that high winds could potentially close the attraction for extended periods, but in reality the impact may be lower than projected as the ride may be able to operate safely for short periods of the day depending on conditions. As shown in the table, the projected periods of closure will result in a 2.4 percent drop in potential annual visitation due to unmet demand from potential visitors.



FIGURE 5.7: IMPACT OF WIND CLOSURES ON VISITATION DEMAND

	Unconstrained Visitor Demand (2016)	Days Closed Due to High Wind (%)	Constrained Visitor Demand (2016)
January	21,193	5.5%	20,019
February	54,429	4.4%	52,030
March	63,017	2.5%	61,422
April	90,874	2.1%	88,928
May	79,900	2.5%	77,914
June	99,799	1.5%	98,337
July	122,289	1.4%	119,607
August	112,740	0.6%	112,049
September	72,959	1.7%	71,719
October	61,786	5.4%	58,479
November	36,518	3.5%	35,225
December	27,964	4.0%	26,853
Total	843,468		822,584

Source: i360, D & J International Consulting

Constrained Annual Attendance Estimate

- 5.51 Based on the analysis presented in this section, we feel that there is sufficient potential demand in the market to drive an attendance of around 843,000 visits in 2016 under the medium attendance scenario. However due to the uneven demand patterns throughout the year, closures due to maintenance and wind there will potentially be capacity constraints at the i360.
- 5.52 These factors have been accounted for within our analysis and we present the actual projected attendance estimates for Brighton i360 under the base case medium demand scenario in Figure 5.8. As shown, we anticipate an opening year attendance of 822,600 during 2016 gradually reducing to 697,500 by 2019. This decline of 18 percent is a typical pattern seen at other comparable visitor attractions. Due to the anticipated subsequent growth in the available markets, we have projected that attendance will then increase gradually up to 733,700 by 2026.

Attendance Scenarios

- 5.53 In addition to the medium base case attendance scenario presented in Figure 5.8 We have also provided two additional attendance scenarios based on our low and high market penetration rates as set out previously. We provide ten year attendance forecasts under the high and low scenarios in Figure 5.9 and Figure 5.10 respectively.

FIGURE 5.8: CONSTRAINED PROJECTED ATTENDANCE DEMAND FOR I360 BRIGHTON, MEDIUM SCENARIO (2016 – 2026)

	Market Size			Market Penetration Rates			Projected Attendance		
	2016 <i>(000s)</i>	2021 <i>(000s)</i>	2026 <i>(000s)</i>	2016 <i>(%)</i>	2021 <i>(%)</i>	2026 <i>(%)</i>	2016	2021	2026
<u>Resident Market</u>									
Primary Resident Market	1,416	1,467	1,518	4.9%	2.0%	2.0%	69,034	28,606	29,611
Secondary Resident Market	14,764	15,486	16,131	2.4%	1.0%	1.0%	359,959	151,027	157,313
Subtotal Resident Market	16,180	16,953	17,649	2.7%	1.1%	1.1%	428,993	179,633	186,924
<u>Tourist Market</u>									
Domestic	5,449	5,586	5,727	4.9%	5.8%	5.8%	265,681	326,595	334,842
International	1,639	1,723	1,811	7.8%	11.7%	11.7%	127,910	201,652	211,939
Subtotal Tourist Market	7,088	7,309	7,538	5.6%	7.2%	7.3%	393,591	528,248	546,781
Total	23,268	24,262	25,187	3.5%	2.9%	2.9%	822,584	707,881	733,705

Source: D & J International Consulting

FIGURE 5.9: CONSTRAINED PROJECTED ATTENDANCE DEMAND FOR I360 BRIGHTON, HIGH SCENARIO (2016 – 2026)

	Market Size			Market Penetration Rates			Projected Attendance		
	2016 <i>(000s)</i>	2021 <i>(000s)</i>	2026 <i>(000s)</i>	2016 <i>(%)</i>	2021 <i>(%)</i>	2026 <i>(%)</i>	2016	2021	2026
<u>Resident Market</u>									
Primary Resident Market	1,416	1,467	1,518	5.8%	2.9%	2.9%	81,959	42,452	43,943
Secondary Resident Market	14,764	15,486	16,131	2.9%	1.4%	1.4%	427,353	224,130	233,459
Subtotal Resident Market	16,180	16,953	17,649	3.1%	1.6%	1.6%	509,312	266,582	277,402
<u>Tourist Market</u>									
Domestic	5,449	5,586	5,727	5.8%	7.7%	7.7%	315,424	431,185	442,073
International	1,639	1,723	1,811	9.6%	13.5%	13.5%	158,186	232,757	244,630
Subtotal Tourist Market	7,088	7,309	7,538	6.7%	9.1%	9.1%	473,610	663,942	686,703
Total	23,268	24,262	25,187	4.2%	3.8%	3.8%	982,922	930,523	964,105

Source: D & J International Consulting

FIGURE 5.10: CONSTRAINED PROJECTED ATTENDANCE DEMAND FOR I360 BRIGHTON, LOW SCENARIO (2016 – 2026)

	Market Size			Market Penetration Rates			Projected Attendance		
	2016	2021	2026	2016	2021	2026	2016	2021	2026
	(000s)	(000s)	(000s)	(%)	(%)	(%)			
<u>Resident Market</u>									
Primary Resident Market	1,416	1,467	1,518	3.9%	1.0%	1.0%	55,292	14,320	14,823
Secondary Resident Market	14,764	15,486	16,131	2.0%	0.5%	0.5%	288,307	75,603	78,750
Subtotal Resident Market	16,180	16,953	17,649	2.1%	0.5%	0.5%	343,599	89,923	93,572
<u>Tourist Market</u>									
Domestic	5,449	5,586	5,727	2.9%	3.9%	3.9%	159,597	218,169	223,678
International	1,639	1,723	1,811	5.9%	9.8%	9.8%	96,046	168,242	176,824
Subtotal Tourist Market	7,088	7,309	7,538	3.6%	5.3%	5.3%	255,643	386,411	400,502
Total	23,268	24,262	25,187	2.6%	2.0%	2.0%	599,242	476,334	494,074

Source: D & J International Consulting







5.54

Appendix 2

TIMETABLE TO OPENING IN JUNE 2016:

2014	
Policy and Resources: Subject to approval to proceed:	6 March 2014
Local Enterprise Partnership Investment Committee Approval of £4m Junior Loan	27 February 2014
Tasks to be undertaken pre-financial close:	
Meeting/s with Brighton i360 team re final Conditions Precedent and residual matters	
Final Due Diligence completed	
Final re-draft of all documentation	
Final sign off by Officers	
Sign off by Chair of Policy and Resources, Director of Finance and Director of Place	
Financial Close - long stop date	May 2014
Mobilisation Period	2 months
Start On Site	June 2014
Completion	June 2016

Appendix 3

Brighton i360 - TARGET VISITORS/CAPACITY

	Operation Statement July 2012
Ride time – start to finish 3 rides per hour * 30 minute ride time for Sky Bar during the evening.	20mins
Maximum Pod capacity	200
Visitors per annum- based upon D&J International Consulting medium projections in a stable year.	725,000
Hours of operation per day (peak month – less in winter months)	13
Projections based on above:	
Average no of rides per day over 12 month period (see note below)	28
Average maximum daily capacity	5,575
Maximum annual capacity based on 50 week year	1,951,200
Visitors as % of capacity	37%

NB: Projections above assume the following operating periods:

Winter (October to March)

Monday to Thursday 10am- 6pm (8 hrs)

Fri, Sat, Sun & Bank Hols 10am - 10pm (12 hrs)

Summer (April to September)

Monday to Thursday 10am - 6pm (8 hrs)

Fri, Sat, Sun & Bank Hols 10am - 11pm (13 hrs)

Appendix 4

Due Diligence and BHCC Council Advisers list – December 2014

Due Diligence

A due diligence process has been undertaken by Brighton & Hove City Council since March 2012, when the initial proposal to lend funds to Brighton i360 was proposed. This work has been supplemented by a separate process undertaken by the Local Enterprise Partnership, Coast 2 Capital. Due diligence will continue up to financial close and after this point be replaced by a formal monitoring process involving finance officers within BHCC and separately appointed technical monitors for the project, Gardiner and Theobald, who will oversee the project to the point of construction completion and thereafter will also assist the council in their continual oversight role as senior lender (costs to be met by Brighton i360).

1. SUMMARY OF PROJECT DETAILS

<ul style="list-style-type: none">• Project Proposed and & Growing Places Fund Borrower (Brighton i360 Ltd) Details of Borrower's Incorporated Structure
<ul style="list-style-type: none">• Project Description and use of Growing Places Fund
<ul style="list-style-type: none">• Growing Places Fund Loan requested
<ul style="list-style-type: none">• Outputs leveraged by Growing Places Fund

2. DOCUMENTATION

<p>A) STATUTORY PLANNING STATUS</p> <ul style="list-style-type: none">• Written Evidence / Statement of Planning Strategy Approach, Timescales, Documentation for Planning Submission, and Pre-Application Discussions with the Planning Authority
<ul style="list-style-type: none">• Evidence of Planning Consent (Copy of Decision Notice or Committee Resolution)
<ul style="list-style-type: none">• Evidence of Discharge of Key Conditions of Planning Consent
<ul style="list-style-type: none">• Evidence / Statement of any other Consents required for Project Delivery
<p>B) MARKET ANALYSIS & DEMAND EVIDENCE</p>

<ul style="list-style-type: none"> • Market Analysis Undertaken
<ul style="list-style-type: none"> • Marketing Strategy
<p>C) FINANCIAL ARRANGEMENTS</p> <ul style="list-style-type: none"> • Evidence confirming all other Private and/or Public Funding / Financing critical for Project Delivery
<p>D) LAND TITLE / INTERESTS</p> <ul style="list-style-type: none"> • Evidence of control over all Land / Property Interests required for delivery
<ul style="list-style-type: none"> • Copies of Title Documents and/or Lease or Option Agreements
<ul style="list-style-type: none"> • Evidence / Statement of any other Charges Over Land / Property Interests critical for Project Delivery
<p>E) COST & VALUE APPRAISAL</p> <ul style="list-style-type: none"> • Evidence of professionally prepared Cost & Value Appraisal / Business Plan (latter if applicable).
<ul style="list-style-type: none"> • Evidence of Design, Specification and Tender Brief.
<ul style="list-style-type: none"> • Evidence of Tendered Prices.
<p>F) DOCUMENTS IN ADDITION TO PROJECT DOCUMENTS TO BE ENTERED INTO BY BRIGHTON i360 LTD</p>
<ul style="list-style-type: none"> • Agreement For Lease and Lease from West Pier Trust to Brighton i360 Ltd.
<ul style="list-style-type: none"> • Professional Appointments for the Design Team and Technical Consultants.
<ul style="list-style-type: none"> • Ancillary Documents required as a consequence of the Existing Ownership Arrangements for the land adjoining the site which will comprise Access Licence and Lease of the Sitting Out Area and Arches and Deed of Surrender of the Council's existing Lease and Grant of a new Lease.

3. DELIVERY MANAGEMENT

<p>A) MANAGEMENT & GOVERNANCE</p>
<ul style="list-style-type: none"> • Statement confirming Key Project Partners, Delivery Capability and Reporting
<ul style="list-style-type: none"> • Statement outlining Project Delivery Plan / Programme, detailing Key

Milestones and Commitments to Development as a result of Securing of PWLB finance and GPF loan
B) OUTPUTS MONITORING & REPORTING
<ul style="list-style-type: none"> Statement Confirming Proposal for monitoring and reporting Outputs Delivery

4. COMMERCIAL PROPOSAL / TERMS OF AGREEMENT

A) Growing Places and Brighton and Hove City Council - LOAN TERMS
<ul style="list-style-type: none"> Loan Amount & Return Terms – Statement
<ul style="list-style-type: none"> Security Offered– Statement / Evidence
<ul style="list-style-type: none"> Repayment Terms – Statement of Repayment Mechanism/s and Timescale/s
<ul style="list-style-type: none"> Evidence of £1m cost over run facility and availability up to one year post completion
Note: The above list is not exhaustive and other matters will be included as required.

Brighton & Hove City Council Advisors.

Pinsent Mason

Pinsent Masons have experience of acting for a range of private sector lenders and developers and their specialists cover issues such as state aid, construction, property and tax. They have also acted for the European Investment Bank and advised Regional Development Agencies.

Osborne Clark

Osborne Clarke is a multinational law firm with their HQ in London and with offices in the UK, Germany, Italy, Belgium, Spain, France and the United States. The firm has 165 partners and 1,000 employees and is the 35th largest law firm in the UK.

Osborne Clarke was awarded with the TMT Law firm of the Year awarded at The Lawyer Awards June 2012.

Gardiner and Theobald

G&T is a world renowned company providing a broad range of professional services within the property and construction industries both in the UK and worldwide. They offer independent assurance, monitoring, consultancy and audit services and have worked for many major government departments and public and private sector clients. Their specialist development monitoring team has been in existence since

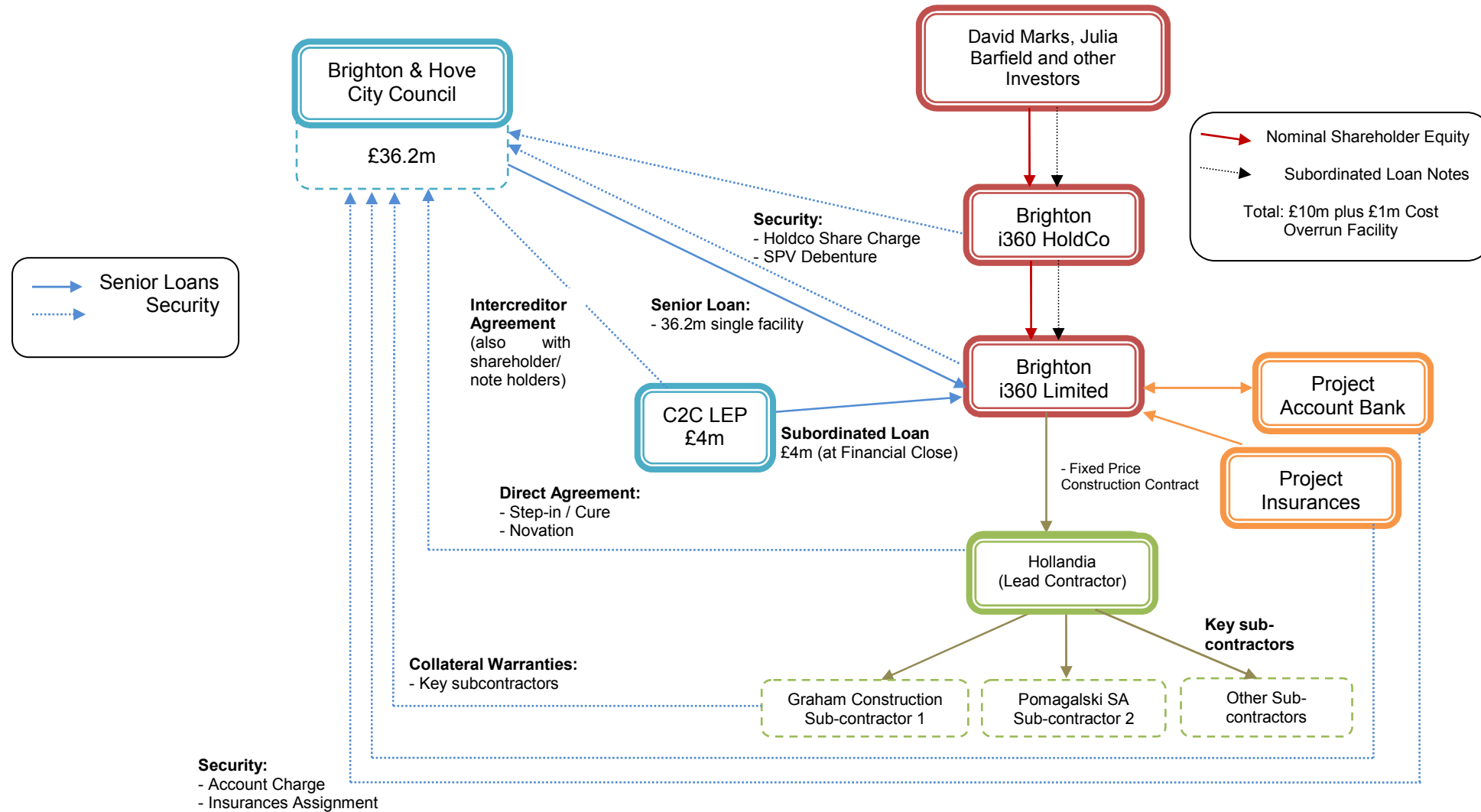
1996 and they are one of the most highly regarded monitoring teams in the UK, having advised on over £8 billion of development expenditure. G&T were procured by the council in July 2012 to assist on the due diligence and future monitoring of the Brighton i360 project.

Operis Group plc

Operis has significant experience in formal due diligence and other assurance advisory work for projects in respect of financial models, legal documentation, taxation and accounting matters.

They are renowned for financial modelling expertise, due diligence and funding advice and their teams are engaged with and close to the market, with knowledge reflective of the changing world and financial markets. Clients come from a wide range of industry sectors.

Brighton i360 – Funding and Security Structure Diagram



Appendix 6

THE WEST PIER TRUST – STATEMENT ON i360

Aims of the Trust

The West Pier Trust was created in 1978. It is a charity and a limited company which owns the pier and the rights that attach to it. It is non-profit making. The objects for which the Trust is established are:

- 1 to preserve and enhance for the public benefit the area comprising the Pier, the foreshore around and below it and their immediate surroundings which are hereinafter referred to as ‘the area of benefit’;
- 2 to promote high standards of planning and architecture in the area of benefit;
- 3 to secure the preservation protection development and improvement of features of historic interest in the area of benefit.

Benefits arising from construction of i360

Following the destruction of the greater part of the West Pier and after an approach by Marks Barfield with the i360 proposal, the Trust entered into an agreement with Marks Barfield for the construction of the i360 on the site of the root end of the pier. This brings the following direct benefits to the Trust:

- Construction of an iconic visitor attraction as innovative as the West Pier in its day;
- Addressing the problem of the derelict root end of the pier, the arches underneath and attracting investment in the immediate area;
- Securing retention and rebuilding of original Victorian Tollbooths, railings, parts of the cast iron supporting structure and other key artefacts from the original pier in the new building;
- Generating an annual income to enable the Trust to continue operating and meeting its aims.

Indirect benefits to the Trust and the seafront generally will be:

- The ability to fund, subject also to Heritage Lottery Funding, the reconstruction of one of the iconic 1866 octagonal pier kiosks from the West Pier as a Heritage Centre with AV displays about the history of the pier;
- Enabling the Trust to fulfil its obligation to clear the sea wreckage. A S106 Agreement requires the wreckage of the pier between the promenade and the “sea island” to be removed;

- The ability to continue to monitor the condition and safety of the “sea island” The structure is steadily deteriorating through the effects of wind and waves and has no long term future.

In the medium term, the Trust is looking at options for the use of the land it owns on the site of the old pier. The Trust has had various approaches from interested parties, including one for the construction of a new “commercial” pier which would have comprised a substantial development including a hotel, apartments, a theatre and retail. The Trust rejected this proposal for a number of practical and aesthetic reasons. However, the Trust is in the process of exploring whether some form of contemporary pier which would complement the vision and design of the i360 could be achieved. This work is in the early stages and would be supported in part by the income generated for the Trust by the i360.

If i360 was not to proceed, the Trust would have to give serious consideration to its own future. It would be the second major development proposal for the site to have achieved planning approval but not to proceed. In the light of this, the Trust would have to work with the City Council to consider whether any development could be achieved which would be acceptable in planning and financial terms while also meeting the aims of the Trust.

APPENDIX 7

UK Local Authority PWLB funded projects

Croydon – new Council accommodation	£160m PWLB loan to John Laing for the Local Asset Backed Vehicle and the development of new council accommodation. The Council borrowed at the PWLB rate and lend on to John Laing at the market rate for the construction period (3yrs) and the lease period (25 yrs)
LB Barnet	Providing PWLB funding for infrastructure to enable the regeneration of Brent Cross Cricklewood regeneration
Bradford Council	£6m loan to developer McAleer and Rushe for the mixed-use Southgate Development
Newport Council	Friars Walk, Queensbury Real Estate £90m loan
Leeds Arena	c£40m of PWLB (total construction cost £60m).£40m of PWLB secured against operator rental stream (£20m) and car parking income (£20m)
Headingley Stadium Carnegie Stand	c£12m. PWLB funded majority of the works secured against the cricket ground revenue stream.
ACC Liverpool Exhibition Centre extension	c£40m. Conference and exhibition centre extension including HQ hotel. Council PB for the full amount secured against hotel management agreement and business plan for the extension and wider ACC Liverpool venue.
York Barbican	c£1m. The capital expenditure is to be funded from £0.687m of SMG's external resources and between £1m and £1.113m from prudential borrowing. SMG will pay the Council an annual rental over a 30 year period as tenant and the rent agreed with SMG will be set in accordance with the relevant arm's length commercial terms. The rent will be used to cover the costs of the Council's prudential borrowing.
Bristol Arena	c£30m
Elmbridge Leisure	c£5.7m New Elmbridge Xcel Leisure Complex. £5.7 million of the total cost of the project (£15 million) is being financed through prudential borrowing, of which £5.5 million was borrowed during 2005/06 with the remaining £0.2 million to be borrowed during 2006/07.

London Borough of Bexley	c£16m. Used PB (or loan equivalent) to build Sidcup Leisure Centre as part of 30 year PPP scheme. For the Sidcup element of the scheme, PB was used to make a £16m payment to the private sector construction firm on the completion of construction. By making this large payment up front they have also reduced the annual unitary charge to the PPP consortium for the operation of the centres, long terms maintenance and financing costs.
St Albans	c£15.7m. New leisure developments at Westminster Lodge. The most significant single scheme is the redevelopment of the Westminster Lodge leisure facility (£24.7m).
	Revolving funds and Housing Vehicles
Surrey CC	Establishing a revolving loan and investment fund of £75m
Wokingham	Subsidiary housing vehicle
Wandsworth	Establishing a Private Rented Sector Initiative
Daventry	Housing Vehicle
Fife Council	Revolving infrastructure fund utilising prudential borrowing

Wider Implications of not proceeding

If the council were to consider not proceeding with the i360 project for the foreseeable future the following likely outcomes and impacts should be expected for the Seafront, the City and for the owners of the site, The West Pier Trust.

Impact of not proceeding upon the Seafront

- The seafront, as the shop window of the city, and a key economic driver for tourism, remains blighted by a derelict site at its centre.
- Resolution of the site remains uncertain, and the council is faced with the possibility of having to manage this decline.
- The financial position of the West Pier Trust in the short to medium term, without the financial injection from i360, would not support major infrastructure repairs for the arches beneath the current West Pier or demolition works or restoration for the root end.
- There is an adverse impact upon seafront businesses due to exposure to closure and/or business interruption (the former Shelter Hall at West Street and Madeira Terraces are recent illustrations of the impact of closure and costs associated).
- The loss of circa 700-735,000 visitors to the western seafront area impacts upon the ability to create thriving new business's here, particularly within the western arches. Income projections from the east and western arches are amended downwards (affecting business rate and rental income).
- Seafront landscaping remains unresolved for the old boating lake (west of the site) and paddling pool area (east of the site).
- The re-building of the original West Pier Kiosk and a bid for £450-500,000 of Heritage Lottery Funding can no longer be progressed.
- There is a risk of potential closure of the section of Upper Promenade above the redundant arches owned by the West Pier Trust.
- The cost for restoration of the arches remains unresolved and the area has to be closed off indefinitely impacting upon the seafront businesses and the use and amenity for the wider area.

Impacts of not proceeding upon the City

- A catalyst for growth and additional support to the tourism economy will be lost.
- The long overdue additional foot traffic to assist Preston Street and other businesses in immediate locality (part of the Brighton Improvement District) will not ensue, resulting in ongoing difficulties being felt by these shops and restaurants.
- The city will lose a £4m capital sum which is allocated for the i360 project by the Local Enterprise Partnership.

Impacts of not proceeding upon the West Pier Trust

- Full refurbishment of the arches beneath the root end (as offices within the Heritage Centre of i360) will not take place and these will remain in situ and unresolved for an indefinite period. As described above, potential closure may be required.
- Funds to pursue future development options for a new sea based pier (to be enabled via income from lease payments by i360) are no longer available.
- The removal of beach and low tide pier supports is postponed – until funds can be identified (and these remain in situ on the beach)
- West Pier Trust Board are severely hampered in their ability to progress their heritage objectives and support future development work – see also Appendix 6.
- Heritage Lottery Funding (£450-500,000) to fund reinstatement of the original West Pier Octagonal Kiosk (as part of final landscaping proposals to east and west of i360 site) and to act as a future educational resource and focal point for heritage education) is no longer able to be progressed.
- The two original toll booths of the original West Pier (due for reinstatement as Ticket Booths as part of the i360) remain in storage and subject to further deterioration.

APPENDIX 9

Work Undertaken to date by Marks Barfield Architects

A significant amount of work has already been carried out on the Brighton i360 project and it is ready to start within 6-8 weeks of funding being secured. Marks Barfield have to date invested over £4m as risk capital to get the project “oven ready”. Specifically:

- All Permissions, consents and permits for the construction and operation of the i360 have been granted including:
 - (a) Brighton & Hove City Council has granted full planning permission and listed building consent for the Brighton i360 and has confirmed that the project has formally commenced for planning purposes.
 - (b) Under the related section 106 Agreement Brighton i360 Ltd will pay Brighton & Hove City Council a contribution of £77,000 pre-opening and 1% of ticket revenues from year two onwards.
 - (c) The Council has agreed terms to surrender its lease of part of the site and to grant licences for use of adjoining areas of the seafront during the construction period and thereafter for catering purposes.
 - (d) The Ministry of Transport has made the required Harbour Revision Order to permit the grant of the lease and the development.
 - (e) The necessary highways consents and orders are in place.
 - (f) Terms agreed with Southern Water for the sewer diversion.
- The terms of the 125 year lease have been agreed with the owners of the vacant site, the West Pier Trust. After opening a rent will be payable equal to 4% of ticket revenues.
- A fixed price construction contract is agreed with a single overriding contractor and other contracts substantially agreed with the specialist subcontractors, architects and engineers.
- Terms have been agreed for the long term operation and maintenance of the capsule and related mechanism.
- The high grade structural flat steel plate for the main tower has already been purchased, rolled and welded into sections, securing the steel supply and reducing risk against future rising steel prices.

- Advanced piling operation and a proportion of the listed building works to remove the pier beach structure has commenced.
- A full Site survey has been completed, including a detailed topographical survey, Site Investigation (ground conditions) survey, and survey of the "arches" to determine the extent of any remedial and restoration works
- The detailed design for Brighton i360 is completed and has been protected by the granting of a UK Patent (no. 0418879.3), European Design Registration (no. 000221700) and a PCT Patent Application (PCT/GB2005/00224).
- A European Community Trade Mark Registration No 3948494 for the 'i360' mark has been registered in classes 37, 41, 42 and 43. On financial close Marks Barfield will assign these and any other intellectual property rights to Brighton i360.
- Guaranteed income secured in principle through heads of terms with the catering contractor.
- Formal permission given by the Civil Aviation Authority to allow Brighton I-360 Ltd not to comply with the requirements of Article 133 of the Air Navigation Order 2005.
- Building Regulations conditional approval granted.
- Construction and Environmental Management Plan (CEMP) approved.
- Construction Traffic Management Plan (TMP) approved.
- Site Waste Management Plan (SWMP) approved.
- All pre-construction planning conditions satisfied.

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