

Subject:	i360 June 2019 Loan Payment
Date of Meeting:	11th July 2019
Report of:	Executive Director, Economy, Environment & Culture
Contact Officer: Name:	Max Woodford
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Ward(s) affected:	All Wards

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report sets out the steps being taken by the BAi360 to return the attraction to a financially sustainable footing, and seeks agreement to a sum for the June 2019 payment from BAi360 Ltd towards the PWLB loan from the city council. This payment is pending a long term restructure of the loan expected in Autumn 2019.

2. RECOMMENDATIONS:

- 2.1 That the Committee notes the progress being made by BAi360 to return the attraction to a financially sustainable footing.
- 2.2 That the Committee agrees to defer up to £1.342 million of the total payment due on 30 June 2019.
- 2.3 That the Committee agrees not to take default action at this stage in relation to the failure to hit the financial ratios set out in the loan agreement.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The i360 opened to the public on 4 August 2016 and has since carried well over one million visitors. It has also generated direct additional income for the council which has been or will be reinvested in the seafront; in particular in the landscaping of the council owned land around the i360, contributions towards the refurbishment of the Madeira Terraces and festoon lighting along the seafront.
- 3.2 However, recent reports to this committee have noted that visitor numbers have been lower than anticipated; and in particular they were lower than forecast through 2018, in keeping with a number of indoor attractions in the city, such as the Royal Pavilion, which suffered falls in visitor numbers despite it being a very hot summer. This meant that the i360 was not able to make the full anticipated 30th June 2018 and 31st December 2018 payments to the city council of both the loan repayment and the margin.

- 3.3 PR&G committee agreed to defer £0.570 million of the £1.492 million due on 30th June 2018. The £0.922 million payment made by the BAI360 enabled the council to pay the PWLB amount owing that month.
- 3.4 Then in December 2018 PR&G Committee agreed to defer £0.880 million of the £1.492 million total payment due on 31st December 2018.
- 3.5 On both previous occasions when the Council agreed to defer payments, it also agreed not to take default action in relation to the failure to achieve the financial ratios set out in the loan agreement. This Committee is asked to repeat this decision.
- 3.6 The Council has instigated work to consider restructuring the loan in the long term to protect the council's position and maximise the returns on the loan payment. GVA (now known as Avison Young) were appointed to work on financial modelling with a view to arriving at a preferred recommendation for restructuring the loan. They produced an initial report which was noted by Committee in December 2018. However, without a better understanding of the BAI360's plans to turn around its performance – and the visitor numbers that might support – GVA were not able to recommend a restructure option to the December 2018 PR&G meeting. Likewise, they were also not able to advise whether the city council should step in to take control of the i360. They did advise that stepping in is not necessarily the option that would result in the city council getting the largest amount of its money back as it could immediately result in a write down of the value of the asset.
- 3.7 For this reason, PR&G Committee decided in December 2018 that the city council should defer any loan restructure until after the summer season of 2019 to take a view on the steps the i360 Board were taking to improve visitor numbers. In doing so it was proposed the city council would also defer any elements of loan payments in that period (i.e. the June 2019 payment) which the i360 is unable to make whilst remaining financially solvent. The committee decided that officers should return with this report to PR&G Committee to determine the amount of deferral at the end of June 2019.
- 3.8 The December 2018 PR&G report also set out that the city council had appointed visitor attraction specialists LDP to look into the existing and potential commercial performance of the attraction and to advise on whether the i360 is taking all available steps to maximise income and enable it to meet its obligations to the council under the loan agreement. LDP found that the attraction was underperforming in key market sectors, and that this could be attributable to a lack of marketing spend. If the i360 were to be performing at the expected level for an attraction of this type, and therefore having the expected degree of market penetration, then it should be achieving visitor figures of 433,204 by 2020/21 and 486,419 by 2021/22. This level of visitor number would enable the i360 to pay all of the PWLB element of its loan from 2021/22.
- 3.9 For this reason it was it was also recommended that the i360 be set a number of key performance indicators to show that the board has considered both the advice of LDP and is enacting its own plan for a turnaround in visitor number. These KPIs included:

- Marketing spend should be on target to reach 8% - 10% of revenue over the year.
 - A clear marketing strategy for the effective spend of that budget should be in place and be delivered.
 - Visitor numbers should remain on target to hit 364,860 by the end of the 2019/20 financial year.
 - The i360 Board should show an ongoing commitment to ensuring it has the relevant skills and experience sitting around the table.
- 3.10 At the end of May 2019 the Chair of the i360 Board wrote to the chief executive setting out the various actions have been taken since December 2018, to drive performance at the BAI360 (Appendix 1). This note sets out that a new management team have been appointed, a new Head of Marketing and an enhanced marketing budget. Officers continue to sit as observers at board meetings and have noted the increased skills that have been brought into both the organisation and the board.
- 3.11 The note sets out how the Board has addressed the suggestions in the LDP report, and how they have managed to cut their cost base while still remaining a Brighton Living Wage employer.
- 3.12 The steps taken to improve performance will not have an immediate effect. Steady growth over a number of summer seasons would be necessary to get the BAI360 onto a sustainable financial footing. However, the spring months of 2019 have seen a growth in visitor numbers, and the projections are that they will be in line with or above the figures LDP suggested they can reach, and would need to reach to be able to pay back the PWLB element of the city council's loan.
- 3.13 The June loan payment is always more of a challenge for the BAI360 than the December one as the summer season has not got into full swing and it covers the period of the January maintenance close-down where there is no income at all. Furthermore, due to the slow nature of any turnaround, and the additional money that the board is investing into marketing, the cash flow situation at the BAI360 means that there will need to be a deferral of a considerable element of the June payment. The i360 are expected to make a payment of at least £150,000 on the 28 June (officers will update the Committee orally on whether this payment was made). They state that they hope that they will pay more, but this will be dependant on trading in June. This would therefore require a deferral of up to £1.342 million. The city council would expect this to be a lowest payment we receive before the improved performance starts to work through to an improved cash-flow situation.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 A report will be brought to a future PR&G Committee meeting before the December payment is due, setting out a proposed option for a long-term loan restructure. The report last December on work done by GVA, in discussion with LDP, had resulted in all options available being reduced down to the four options set out in that report, but it was decided that the council's financial interest was best served by giving the i360 time to get itself onto a more financially sustainable footing. GVA will produce a final report making a recommendation to the Council in the Autumn.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 The i360 has received a wide range of supportive statements from local businesses, charities and other organisations. Businesses have focussed on the beneficial impact on tourism to the city and the improvements made to a previously run down part of the seafront.
- 5.2 The council is due to receive 1% of ticket sales in perpetuity to spend on local initiatives with about 25% of this sum allocated to fund part of the landscaping works and discussions continue with local organisations about how to spend the remainder.

6. CONCLUSION

- 6.1 The BAi360 has been a catalyst for regeneration, both on the seafront and in the wider city and will be into the future, no matter what happens with the way the attraction has been financed. It has had a strong positive impact on the city's visitor economy while also delivering new funding streams that the city council would not otherwise benefit from. It is an iconic structure that has quickly become a key part of Brighton & Hove's global brand and imagery.
- 6.2 Strong steps have been taken towards turning around the financial performance of the attraction. However, due to the fact that this will take time to have an effect, and the fact investment in marketing has been necessary, it is recognised that the June payment will require a deferral. Officers will return with a report before the December payment is due setting out how the loan should be restructured in the long term to protect the city council's financial position.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The original loan to the i360 included the principle, rolled up interest during construction, and arrangement fees totalling £36.222 million. The loan was planned to be repaid on an annuity basis to the 30 June 2041 including a market interest resulting in 6 monthly payments of £1.492million which includes both capital repayment and interest
- 7.2 The council, like any market lender, needs to take such action as required to recover the maximum debt outstanding. A number of options are being explored, however debt restructuring once a turnaround in performance is demonstrated, is the basis on which deferred payments are being recommended. To facilitate this, payment deferrals totalling £1.450 million were approved by this committee during 2018. The latest deferral was anticipated in December 2018 although the amount was unknown at that time.
- 7.3 Advice from visitor attraction specialists LDP suggested that low surpluses would be expected during a period where marketing expenditure has been incurred for longer term gain. As the attraction's cashflows are lower in the first 6 months of the year, the funds available to service the debt are lower and the proposed payment of £0.150 million of the £1.492 million due, reflects this. As a result the proposed June deferral is £1.342 million. If approved, this deferral will allow more

time to obtain assurance over the ongoing viability of the attraction - and in turn its ability to make debt repayments.

- 7.4 The proposed payment shortfall of £1.342 million in June 2019 coupled with the deferred payments in 2018 have a cashflow impact on the council reducing the council's investment income. Interest will be charged on deferred payments in line with the loan agreement to offset this loss and this interest will be included in any proposed debt restructuring.
- 7.5 The outstanding debt is funded from a combination of external PWLB loans and rolled up marginal interest. The PWLB debt repayments are £0.922 million every 6 months and the marginal interest forms part of the i360 reserve. This reserve increases as each payment becomes due however, given the financial position of the i360 Ltd and the amount of debt deferred, no new commitments can be made against this reserve until a viable option to recover all outstanding debt is agreed. The councils draft Statement of Accounts for 2018/19 include provision for financial risks associated with the outstanding debt.
- 7.6 In addition to the loan, the ongoing viability of the i360 has a number of other financial implications for the council. The council receives a 49% share of the business rates from the attraction and potentially benefits from increased parking revenue from Regency Square car park.

Finance Officer Consulted: James Hengeveld

Date: 12/06/19

Legal Implications:

- 7.7 The Council wrote to the i360 ahead of the 28 June to inform them that officers intended to take a report to the Council's Policy, Resources & Growth Committee on 11 July 2019 and to make it clear that in the meantime they should not take the Council's receipt of the £150,000 payment as agreement that the Council will defer the June payment.
- 7.8 The options for enforcing the council's security were set out in the report which went to PR&G in June 2018.
- 7.9 Loan arrangements such as this comply with state aid law if they meet the market economy operator principle (MEOP). The council is required to act in a similar manner to a commercial investor in the same circumstances. The final report from GVA will make a recommendation which they will confirm meets the MEOP test.
- 7.10 It is lawful to defer payment in these circumstances as a commercial lender would explore in detail the options before settling on a preferred option to take forward.
- 7.11 In order to protect its position, the council has sent a reservation of rights letter to i360 in relation to the deferral in June 2018 and December 2018 and will send a further letter in relation to the deferral in June 2019 if the recommendations in this report are agreed. The Council continues to take external legal advice in relation to the loan arrangements to ensure it complies with state aid law and to support the council to achieve the best commercial outcomes.

Lawyer Consulted: Alice Rowland

Date: 26/06/2019

Equalities Implications:

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

Sustainability Implications:

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

Any Other Significant Implications:

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

SUPPORTING DOCUMENTATION

Appendices:

1. BAI360 Business Overview – May 2019