

Subject:	i360: Covid-19 Support		
Date of Meeting:	1st July 2021		
Report of:	Executive Director Economy, Environment & Culture		
Contact Officer:	Name:	Max Woodford	Tel: 01273 291666
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 This report proposes ongoing measures necessary to support the continued working cashflow of the i360 during the Covid-19 pandemic, which is continuing to have a negative impact on the entire visitor economy. However, the report notes encouraging early figures from the i360 as it restarts following lockdown. The report identifies the need to support the i360 as a means to preventing future additional costs to the city council in the future.

2. RECOMMENDATIONS:

That the Committee:

- 2.1 Agrees to defer the loan payment due in June 2021, but request that any funds over and above the cashflow necessary to keep the attraction operational are paid to the Council in part payment of the sums owed;
- 2.2 Notes the ongoing meetings and information provision between the i360 management and board and the i360 Member Working Group;
- 2.3 Notes that the terms of the loan restructure, agreed in December 2019, should now be implemented ahead of the December loan repayment, and that confirmation of the final detailed terms of the restructure will come to this committee for confirmation before that payment becomes payable.
- 2.4 Notes that officers have progressed the novation of the Coast to Capital Local Enterprise Partnership (LEP) loan agreed at Policy & Resources Committee in December 2019 and that execution of the agreement is imminent.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The i360 is a key part of the city's visitor economy, having carried well over one million visitors. A report to the December 2019 P&R Committee set out the strong economic and social impact the Brighton i360 has had, already contributing £89.6 million to the Brighton & Hove economy. By the time the £36.2 million loan from the city council and the £4.0 million LEP loan, that were invested to fund its construction are repaid, the i360 will have contributed £640

million to the city's economy. This represents a return of £15.90 for every £1.00 of public sector investment. It has also generated direct additional income for the council which has been or will be reinvested in the seafront.

- 3.2 However, like much of the rest of the economy, the Covid-19 pandemic has had a massive impact on the attraction. The board took the decision to close on Thursday 19th March 2020, ahead of the government mandated lockdown announced on 23rd March that year.
- 3.3 The first national lockdown took place over weeks of good spring weather, when the i360 would expect to make significant income. In June 2020 P&R (Recovery) Sub-Committee agreed to defer the loan payments due in June and December 2020, acknowledging that the cashflow situation for the attraction would be hit by lockdown.
- 3.4 Later in summer 2020, the attraction was able to reopen in a socially distanced manner. The i360 performed well when compared to other attractions around the country, and whilst visitor numbers were obviously down, costs were managed well and by many indicators the attractions performed very well. For September 2020 the visitor numbers were only down by 13% from the 2019 figures, and yields (spend per head) were kept high. The marketing spend remained in proportion with the total budget, with marketing continuing during the lockdown. Furthermore, steps were taken to bring the underperforming hospitality concessions back in house and run them directly.
- 3.5 However, the overall visitor economy remained limited by a lack of foreign visitors, and towards the end of the year the second wave struck, resulting in a second lockdown over November followed by the tier structure and then a third more severe lockdown from 6th January 2021.
- 3.6 Lockdown business grants and furlough have helped the management of the i360 to control costs and a bounceback loan was received from government. However, the situation with a slow release from lockdown going into this summer season – with the attraction only reopening on May 17th – means that the cashflow into the attraction has not really restarted in earnest.
- 3.7 Notwithstanding this, early figures for the first four weeks from the restart have shown strong performance in what are difficult circumstances. They are running overall down on visitor numbers by 19% but it has been an improving picture week on week. The Bank Holiday week this year vs 2018/19 was up by 7%. Retail has performed down by 12% but again improving week on week and the Skybar has increase revenues by 33% vs 2018/19 since re-opening. All these numbers are ahead of their initial forecast, which gives confidence as they move into their peak trading summer period. The catering business is performing even better. They opened on 12 April for outside dining only, and then with restricted numbers for indoor dining available from 17th May, and are running at 75% increase on the comparative year of 2018/19.
- 3.8 With the limited foreign travel, they are expecting a strong summer for Brighton with increased staycations and day trips. Once out of the main summer period the future is of course more uncertain which is a concern expressed by the city-wide visitor economy businesses.

- 3.9 Since June 2020, the i360 Member Working Group has met regularly to receive updates from the i360 management team and board. They have not met during the periods the attraction has been closed, when there is no visitor information or income to report on, but have received financial accounts and board papers during those months. They have now met again following the reopening on 17th May. These meetings have helped the member working group to gain a greater understanding of the i360's financial position, and the work the management team are doing to improve the performance of the attraction and the hospitality and retail offer in very challenging circumstances.
- 3.10 Given the financial and visitor number situation, officers have not progressed the loan restructure agreed in December 2019 as this was based on agreeing improved visitor number targets, impossible while the attraction has been closed. However, now it has reopened the restructure can take place and it is proposed that it happens ahead of the next repayment date, due at the end of December 2021. The high level terms of the restructure were agreed in December 2019, and this will now be progressed, with confirmation of the final detailed terms of the restructure to come to this committee for confirmation before the next payment becomes payable. For the year July 2021 to June 2022 the i360's forecast visitor numbers for the pod are 292,000. This is a 10% drop on the last full (pre-covid) year which was 2018/19, when the pod visitor numbers were 324,000. This projection is based on the fact that foreign visitors represent between 10% to 15% of visitor numbers, and they are not expecting that market to pick up until 2022/23. But they are forecasting an additional 96,000 visitors to the site who do not go on the pod, which would take this total to 388,000.
- 3.11 Discussions have been completed on the transfer of the LEP loan to the city council (at no cost to the council), and the transfer of the loan is due to take place imminently.
- 3.12 If the i360 were to become insolvent then the city council would have to enforce its step-in rights under the funding agreement. As set out in the December 2019 P&R report, Avison Young have looked at whether it would be in the council's financial interest to exercise its step-in rights under the present loan agreement and take control of the attraction. Their report set out several reasons why such action would not be advisable, and the advice is that the council should seek to avoid enforcement options. The asset benefits from commercial and maintenance arrangements that could be terminated as a result of an insolvency or step-in by the city council, and there would be a loss of value to the asset that is likely to be worse than restructuring the loan. Furthermore, as the directors of the i360 are operating the asset in way that substantially meets the requirements of the city council and are being co-operative, there is currently no clear rationale to pursue an enforcement strategy. The advice from Avison Young was the same as they would give to a commercial lender in similar circumstances, which gives the city council a degree of reassurance that it is in compliance with the UK Subsidy Control regime.
- 3.13 For this reason it is proposed that the June loan repayment is deferred. As with all previous deferrals, this does not mean any of the loan is being written off. Instead it is proposed the loan is restructured, as agreed in 2019, by December of this year and the repayments on the loan are reprofiled. It proposed that the

i360 Member Working Group continues to meet and monitor performance closely.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Section 3.12, above, sets out why the city council enforcing its step-in rights under the funding agreement has not been advised by Avison Young.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As identified in the December P&R report, 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 ongoing impact of the Covid-19 crisis on the i360 has seen cashflow severely affected. However, we saw in the period during late summer and autumn 2020 that when allowed to reopen the i360 out-performed many similar attractions – so is in a strong place to capitalise on a future staycation focused visitor economy. The recent economic impact study released by the i360 showed that it is an important piece of the city’s visitor economy infrastructure, and letting it fail would mean we would have a closed attraction on the seafront for a number of months at a time when we would be trying to restart the city’s visitor economy.
- 6.2 However, there are a number of businesses and attractions that need help and cannot be supported with the council’s limited resources. The case for supporting the i360 in particular is more than about the wider economic reasons: It is about protecting council finances. If the i360 were to fail then the cost of getting it operational again and the loss of future loan payments would outstrip any concessions made now.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The i360 Ltd, like the whole of the visitor economy has been severely financially impacted by the pandemic. The organisation has minimised its costs during the lockdown period including utilising the nationally available government financial support. However, with limited admission income during the periods the attraction could reopen and the latest reopening period only commencing on the 17 May 2021, the company will have limited cash surpluses.
- 7.2 The recommendation to defer up to 100% of the June 2021 loan repayments will support the i360 Ltd to recover from the pandemic and therefore improve the

prospect of the council receiving loan repayments in the future. The revised loan agreement approved at Policy and Resources committee in December 2019 has yet to be finalised but once agreed will support the ongoing operation of the attraction.

- 7.3 Deferring payment will have a cashflow impact on the council; at present the council's cash investments receive very low levels of interest and so the investment income lost as a result of this deferment is considered immaterial in the current financial climate.
- 7.4 The total debt including deferred payments and accrued interest to 31 March 2021 is £41.108m before any adjustments are made for a revised loan agreement. This includes an accrued interest margin which is held as a reserve in the accounts but cannot be used as it is not cash backed. The unallocated element of this reserve currently stands at £6.806m.

Finance Officer Consulted: James Hengeveld

Date: 09/06/21

Legal Implications:

- 7.5 The options for enforcing the council's security were set out in the report which went to Policy Resources & Growth Committee in June 2018.
- 7.6 The market economy operator principle (MEOP) is a valid method to demonstrate compliance with the UK Subsidy Control regime. The MEOP requires the Council to act in a similar manner to a commercial investor in the same circumstances. It is highly likely that a commercial lender would defer the June payment in response to the current circumstances.

Lawyer Consulted:

Alice Rowland

Date: 11/06/20

Equalities Implications:

- 7.7 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:

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

Brexit Implications:

7.9 None identified.

Any Other Significant Implications:

7.6 None identified.

SUPPORTING DOCUMENTATION

Appendices:

None

Background Documents

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