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| <b>Meeting:</b>      | Coast to Capital Board Meeting no. 40 |
| <b>Date:</b>         | 4 July 2018                           |
| <b>Report Title:</b> | Brighton i360                         |
| <b>Report by:</b>    | Paul Castle                           |
| <b>Item No:</b>      | 4 (b)                                 |
| <b>Part:</b>         | A                                     |

**Recommendation:**

1. To note the recent update from operators on the performance of the i360 and plans for discussions with the owners over the next six months.

## 1. Summary

In June 2014 the LEP invested a total of £4m into the i360 project via the Growing Places Fund. This investment represented 8.7% of the total project value alongside £36.2m of PWLB funding secured via Brighton and Hove City Council (BHCC) and funding from shareholders totalling £9.1m.

The investment case for the project was significantly based on the impact that the i360 would have on the regeneration of the Western end of the Brighton seafront and the boost it would bring to the area's visitor economy. The project was targeted with creating 150 FTE jobs directly with further indirect jobs being created in the surrounding hotels, bars and restaurants.

These objectives have already been largely met. The issues facing Coast to Capital relate to management of our debt to the operators of the attraction.

The i360 attraction opened to the public in August 2016 and was formally opened by the Duke of Edinburgh in October of that year. The attraction won a Visit England Gold award for innovation in tourism earlier this year.

## 2. Current Performance

We have recently learned from the operator that visitor numbers for the attraction have been significantly below projections. These were projected at 800,000 in the first full year of operation falling to 700,000 in 2019. In spite of a strong performance in the first month, only 502,000 were recorded in the first year. In the current second year of operation visitor numbers are expected to reach approximately 350,000.

The significant shortfall in projected visitors can be associated to a number of factors that have affected the performance and overall revenue of the attraction. These include a number of breakdowns and mechanical failures and attraction closures due to the weather resulting in a number of negative press articles which adversely affected future bookings. There have also been continued disruptions to rail services between Brighton and London.

In an effort to increase revenue and reduce costs a reorganisation of staff was implemented. Alongside the cost savings, the business has developed several new revenue streams as well as introducing improvements to existing sources of income.

'Sky Dining' is a new initiative, which involves customers dining on the pod itself in the evenings. As well as being a new income stream, this product has created positive media interest and has helped to build brand awareness. Abseiling from the pod is being introduced this year, which, like the Sky Dining, will help to raise the profile of the business as well as providing a new income stream. An improved retail sales strategy has resulted in a retail spend increase of over 20% compared to the first year.

### **3. Financial relationship with the i360**

The Coast to Capital loan ranks second in the debt structure of the attraction, behind the loans made by BHCC. The debt structure for i360 is relatively complex, with a so-called waterfall structure giving the operator flexibility to defer repayment of our loan out to 2021. To balance this, Coast to Capital claims include not only our £4m loan at a 3.75% interest rate but also a separate Payment In Kind claim which was designed to allow us to benefit from the long-term profitability of the project.

The Company's poorer than expected revenues in the first year and a half since opening has had two adverse financial consequences. It has not been able to set aside any funds towards repayment of the LEP loan. No repayments to our loan have yet been made, and we have made no provision for this in our 2018/19 budget. The Company is also struggling to make the required payments to the Council. The Company has paid in full the Council loan instalments due on 31 December 2016, 30 June 2017, and 31 December 2017.

The directors of the i360 have therefore approached both the LEP and BHCC with a restructuring proposal which is currently under consideration.

### **4. Debt Restructuring Proposal**

The Growing Places committee met with representatives of the i360 and BHCC on the 12<sup>th</sup> June and requested further information from the directors of the i360.

It was agreed by the committee that once further information had been obtained it would review the current loan structure and would make a further recommendation to the LEP board. This recommendation may include a reduction in the current PIK interest and a capitalisation of the current accrued interest into a participation note I.e., profit share. A separate request to extend the loan to 2025 would require further clarification from Government as this would take the repayment past the current parliamentary spending period.

It has also been agreed that a period of close monitoring will be carried out over the Summer season in relation to the attraction's performance and visitor numbers. Both the LEP and BHCC will continue to engage further. Recent correspondence with the i360 Board is attached.

26<sup>th</sup> June 2018

Dear i360 Board of Directors,

Coast to Capital and Brighton & Hove City Council are writing this joint letter to propose a way forward for the following 6 months. This letter is not intended to be legally binding but sets out the intended direction of travel envisaged by the Council and Coast to Capital. The proposals are also subject to agreement by the Council's Policy Resources & Growth Committee on 28<sup>th</sup> June 2018.

We understand that the i360 will be unable to meet its obligation to make the margin repayment to the council when it falls due on the 30 June 2018. Council officers will be recommending to Committee on 28<sup>th</sup> June that the margin repayment is deferred, on the basis that the i360 pay £922,296.52 on 30<sup>th</sup> June to enable the Council to pay the PWLB the same amount on the same day.

We would like to schedule a series of meetings so that representatives of the council, LEP and i360 Board will meet regularly over the next five months to discuss a long term restructuring of the loans, so that agreement can be reached before the next payments are due on 31 December 2018. These meetings will be attended by a commercial advisor, and a senior team taken from Max Woodford, Alice Rowland, Nick Hibberd, and a Finance officer on behalf of the Council; and Jonathan Sharrock, Tony Middleton, Paul Castle and Ravi Shankar on behalf of the LEP. We will be in touch shortly to start scheduling these meetings.

During the period to the 31<sup>st</sup> December 2018, the council as senior lender will increase the level of oversight of the i360's operations in order to give comfort to both tax payers and its members that the council is taking appropriate steps to protect its investment. This will also offer the council and the LEP assurance that the i360 is managing the attraction effectively and implementing its plan to increase visitor numbers. We will discuss this provision of additional support with you, which is likely to be a commercial adviser with specialist experience of visitor attractions. To reassure you, we do not see this as stepping-in to take over operations; they are there to observe and provide additional advice on improving the financial performance of the i360.

The i360 will also be in breach in relation to the Debt Service Cover ratio and the Loan Life Cover Ratio. Again, the council will not take action in relation to this breach until the 31 December 2018 at the earliest.

Coast to Capital acknowledge that there will be a breach in relation to the interest payment due to it on 30 June. We confirm that we will address this payment in line with the terms of the contract. Similarly the LEP will not seek to recover default interest on this payment.

Both the council and Coast to Capital need to avoid any risk that the restructuring could be viewed as state aid and / or a breach of the council's fiduciary duty to tax payers. A court or the European Commission could ultimately order the i360 to repay state aid so it is in all of our interests to avoid this. We will therefore work with our legal advisors to ensure that we are compliant and that we

are acting as a commercial investor would in either the council's or the LEP's position. Council and LEP Board members will also need reassurance that the council is securing the best commercial outcome that it can whilst securing the long term future of the i360. That said, we are committed to working with the management and owners in good faith to use our best endeavours to agree a long term restructuring proposals which secures the future financial viability of the i360.

Assuming these proposals are acceptable to you, the council will take a decision to a special Policy, Resources & Growth Committee on the 28<sup>th</sup> June. Future long-term restructuring proposals will also need to be approved by the council's committee. We will aim to take a further report to PRG in the period before the next payment is due on 31<sup>st</sup> December 2018.

Both the council and Coast to Capital remain committed to ensuring the long term future of the i360 which it sees as vital to Brighton's offer to visitors. We acknowledge the huge personal and financial commitment of the shareholders and directors and want the i360 to be a big success now and in the future.

Yours sincerely

**Geoff Raw**

Chief Executive, Brighton & Hove City Council

**Jonathan Sharrock**

Chief Executive, Coast to Capital LEP