ST. HELIER WATERFRONT LEISURE COMPLEX: TERMS OF LEASE

Lodged au Greffe on 6th July 1999
by the Policy and Resources Committee

STATES OF JERSEY

STATES GREFFE

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PROPOSITION

THE STATES are asked to decide whether they are of opinion -

(a) to approve the lease by the public to CTP Ltd. of approximately 8 vergées of land west of the Albert Pier, St Helier (as shown on Drawing Nos. 1704/1 and 1704/2) for a period of 150 years at a nominal rent and in return for a capital premium of £620,000, the land to be used for the construction of a leisure complex comprising -

(i) leisure and competition pools;

(ii) health and fitness studio;

(iii) two fast food restaurants;

(iv) night club and café/restaurant with live entertainment;

(v) public house;

(vi) ten screen cinema;

(vii) public square;

(b) to approve the payment of a grant of £10.9 million to CTP Ltd. for the construction and management of the leisure complex, the grant to be released on the basis, and under the terms, of a development agreement between the Waterfront Enterprise Board Limited and CTP Ltd. and approved by the Finance and Economics Committee;

(c) to authorise the Attorney General and the Greffier of the States to pass the necessary contract on behalf of the public.

POLICY AND RESOURCES COMMITTEE

Note - The Finance and Economics Committee has studied these proposals with great care. Officers of the Treasury, in conjunction with Waterfront Enterprise Board (WEB), have analysed the financial details and the proposals are currently being examined by the States' Auditors (PriceWaterhouseCoopers). Therefore, having thoroughly considered the proposals, this Committee supports the granting of a lease to CTP Limited (CTP) on the terms set out in the Heads of Terms of lease as detailed in the joint report by CTP and WEB. The Committee believes that the agreement will, at a cost to the States not exceeding £10.9 million, deliver the quality leisure facilities sought by the States in a cost effective manner, whilst safeguarding the interests of the States. The inclusion of a competition pool and spectator facilities avoids the potential capital cost of £4.5 million to refurbish the Fort Regent pool and removes the current revenue deficit funding requirement of £200,000 per annum. The terms also enable the States to share directly in the success of the facility operators, through a profit-sharing arrangement, whilst minimising the States exposure to risk of operating deficits. In addition to the direct financial benefits, the Committee acknowledges the positive impact that a total capital investment in the tourist industry of some £25 million will have on the economy of the Island.

REPORT

1. Introduction

1.1 The construction of a leisure complex on land west of the Albert Pier (“west of Albert”) is a major and much required investment in support of the tourism industry, from which the Island residents will also benefit greatly. It involves the States and the private sector working together to their mutual advantage, and represents an important commitment to, and a statement of confidence in, the future of the industry in the Island. The States have previously indicated their support for a leisure pool, and the Policy and Resources and Finance and Economics Committees, in supporting the proposed scheme, are confident that the Waterfront Enterprise Board (WEB) have negotiated terms which both serve and safeguard the interests of the tax payer and the Island generally.

2. Background

2.1 At its meeting of 19th September 1995, the Tourism Committee asked the Waterfront Enterprise Board to allocate land west of Albert for a leisure pool.

2.2 The Tourism Committee presented proposals to the Tourism Investment Fund (TIF) Sub-Committee. This Sub-Committee approved the proposal to grant aid to the project, which it considered to be the number one priority.

2.3 On 14th May 1996, the States approved the rezoning of twelve vergées of land west of Albert for a leisure pool and car park.

2.4 In marketing the site for this purpose, WEB was advised throughout by consultants Deloitte & Touche. Initially, Antler Properties (C.I.) Limited were selected as the preferred developer. However, because of the continuing dispute with Les Pas Holdings Limited over the ownership of the site, Antler withdrew their interest. A replacement developer was sought and found in CTP Ltd. (CTP).

2.5 In December 1998, the Tourism Committee instituted a review of the project (the Graham Wason Report) which came out in favour of proceeding with the proposal.

2.6 In January 1999, the TIF Sub-Committee asked WEB to incorporate into the leisure complex a facility that would replace the existing outdated pool at Fort Regent.

2.7 At its meeting of 19th April 1999, the Finance and Economics Committee agreed to the commencement of the undertaking in terms of the relevant Regulation of Undertakings requirements and to proposals for the provision of additional jobs at the Waterfront leisure complex. Full development permission has been obtained from the Planning and Environment Committee at its meeting of 21st June 1999. The proposal was examined by the Treasury and has been approved by the TIF Sub-Committee (21st June 1999) and the Finance and Economics Committee (28th June 1999). On 30th June 1999, the Policy and Resources Committee also approved the scheme.

3. General description

3.1 The scheme is designed to provide a multi-use leisure experience that will be attractive to both residents and visitors. The two main attractions are the ten-screen multiplex cinema that is expected to have 500,000 customers per annum, and the leisure pool complex that will attract 250,000 to 300,000 customers per annum. For comparison purposes it should be noted that the Deloitte & Touche Consulting Group predicted a throughput of around 326,000 customers to the leisure pool and Antler predicted around 300,000 customers per annum.

3.2 The scheme has two separate but architecturally linked buildings. The western building houses the multiplex cinema, fast food restaurants, themed café with live entertainment and nightclub. The eastern building contains the health club, leisure pool and competition pool, with a public house forming the frontage to the promenade. With this configuration the buildings will enclose an attractive town square. The development will have frontages to the town and to the Waterfront, an arrangement that is considered by commercial operators to be essential. This orientation is also attractive in urban planning terms, as it creates a gateway to the Waterfront and does not turn its back on St. Helier. This separation of the main buildings not only creates the opportunity for a gateway entrance from La Route de la Libération, but also for a ‘pedestrian street’ leading to an internal town square.

4. Leisure element

4.1 CTP has chosen Cannons Health and Fitness Plc. (Cannons) as its operating partner for the health club and the pools. Cannons is a highly respected public company, pre-eminent in the swimming pool management and health club sector in the United Kingdom In his report of January this year to the Tourism Committee, consultant Graham Wason said, “in my view, Cannons are probably the best operators to maximise the prospects for the Jersey leisure pool”.

4.2 The pools, facilities and attractions include flumes, wave pool, spas, beach area, party room café, outdoor and indoor lazy river and a sunbathing area. These are being designed in consultation with Cannons, whose knowledge of this market is second to none. In addition, the building envelope has been designed by architects Faulkner Brown, who are recognised nationally as being pre-eminent in the design of swimming pools and water parks.

4.3 The competition pool to replace the Fort Regent pool will comprise a six-lane 25-metre pool incorporating diving facilities and spectator seating for 220 people. The design is being evolved in consultation with the Sports, Leisure and Recreation (SLR) Committee and will be able to accommodate the Island Games.

5. Funding

5.1 The total cost of the development, including fitting out, is in excess of £25 million and will be funded by CTP Ltd., and its tenants. The original leisure pool design required a grant contribution of £8.4 million. However, at the request of the Tourism Investment Fund, the development now includes a six-lane, 25-metre competition pool with spectator facilities, to replace the existing pool at Fort Regent.

5.2 To include the competition pool, a further grant of £2.5 million is required from the Tourism Investment Fund. The alternative is to refurbish the pool at Fort Regent at an estimated cost of £4.5 million.

5.3 It is emphasised that none of the commercial elements of the scheme receive any of this grant subsidy. Indeed, the opposite is the case. It is the commercial element that will create the surplus necessary to underwrite the anticipated revenue deficit from the water elements.

5.4 It is readily acknowledged that all swimming pools and many leisure pools run with a trading deficit. In the case of the Fort Regent pool, that deficit is estimated by the Chief Executive of SLR at £200,000 per annum.

5.5 In the case of the proposed complex, the trading deficit is estimated by Cannons at circa £93,000 per annum. This deficit will be fully underwritten by the developer (CTP), but any further deficit of up to £143,000 would also be underwritten by the operator (Cannons). Furthermore, it is recommended that the premium of £620,000 to be paid to the States by the developer be set aside to cover for a ‘worst case scenario’ of losses up to £175,000 per annum. Beyond that, the States retain the right to agree or disagree to contribute further to losses being incurred. Of course, the States, in these unlikely circumstances, have the option to take back the wet side facilities and either change the operator or the use as they see fit. These ‘step in’ arrangements will be fully examined by both WEB’s legal advisers and H.M. Solicitor General before being incorporated into the development agreement and lease.

5.6 It is, however, just as likely, or perhaps more likely, given Cannons’ obligation to fund excess trading deficits of £50,000 per annum (index linked), that the actual losses might be less than anticipated. It might be that, as Deloitte & Touche and Antler both predicted, albeit for different schemes, a substantial trading surplus may be achieved. Deloitte & Touche predicted a surplus of £320,000 per annum on their scheme, and Antler a surplus of around £400,000 on theirs. In his report this year to the Tourism Committee and the TIF Sub-Committee, Graham Wason says, “given Cannons pre-eminent position amongst operators of such facilities, and their corporate decision to focus on health and fitness which has shown stronger financial returns than their other leisure interests, it might be expected that they could significantly outperform the Deloitte & Touche Consulting Group’s illustration”.

5.7 In this case, arrangements are in place to ensure that the States benefit from the improved position. Where the improvement leads to a profit of up to £70,000 per annum, the States share the betterment on a 50:50 basis with the operator (Cannons). Should the improvement produce a profit in excess of £70,000 per annum, all of this additional profit comes to the States.

5.8 The developer will arrange all funding, excluding the grant, and will manage the development and bear all the risks arising from the construction. The developer’s profit is fixed and, although commercially confidential, is regarded by independent assessors as being fair and reasonable.

5.9 The whole proposal has been negotiated by WEB, on behalf of the States; it has been checked as to legality, costs and values by WEB’s independent professional advisers. It has been scrutinised by the Treasury and approved by the TIF Sub-Committee, the Finance and Economics Committee and the Policy and Resources Committee. The proposals are currently being examined by the States’ Auditors (PriceWaterhouseCoopers) and, from a legal viewpoint, by H.M. Solicitor General, before legal documents are signed by the States.

6. Benefits

6.1 This partnership with the private sector brings many benefits, both direct and indirect.

6.2 Direct benefits include -

(a) capital premium of £620,000;

(b) no risk of additional States' funding to meet any overspend on capital costs: the grant requirement is capped at £10.9 million;

(c) potential for profit share if water facilities do well;

(d) cross subsidy arrangements that require the developer and operator to bear trading deficits up to a pre-determined threshold;

(e) saving of up to £4.5 million in not replacing Fort Regent pool;

(f) saving of around £200,000 per annum from avoiding deficit at Fort Regent pool;

(g) release the site value of the Fort Regent pool for potential redevelopment.

6.3 Indirect benefits include -

(a) boost to Tourism Industry from a major capital investment in excess of £25 million;

(b) increased variety of 'product' for tourists to enjoy;

(c) major 'wet weather' facility in an accessible location;

(d) boosts the Waterfront as a major venue and visitor attraction with benefits in the form of increased values;

(e) provides local people with a quality and variety of leisure facilities that are the norm in many other places but which otherwise would not be enjoyed by the Island because of our small catchment area.

7. Additional safeguards

7.1 The proposal contains a number of safeguards, in addition to those already described, to limit the States' exposure to risk. They can be summarised as follows -

(a) The predicted operational deficit to be met by the developer is underwritten by a bank guarantee.

(b) The scheme will proceed if the only units let are the cinema, pool and one other unit, and the deficit in these circumstances will be underwritten by the bank guarantee.

(c) Even if the commercial units cease trading, or trade less well than expected, the bank guarantee covers the anticipated pool deficit.

(d) Whilst the whole site of the leisure complex will be leased by the States to the developer (CTP), the States will take back on lease from the developer, for the same period at a nil or nominal rent, the fully constructed pool areas. The States will, therefore, be the operator (Cannons) landlord. The terms of the lease between the States and the operator will be constructed so as to ensure that the operator can be removed from the pool areas should losses exceed our 'worst case scenario'. Thereafter, the States would be free to seek a new operator or, subject to planning, change the use of the buildings.

(e) The grant from the Tourism Investment Fund is capped at £10.9 million. The developer makes no profit from this element and the contract will be of an 'open book' form.

8. Conclusion

8.1 It is recommended that members approve the lease of the land to CTP Ltd. for 150 years at a premium of £620,000 and approve the required grant of £10.9 million.