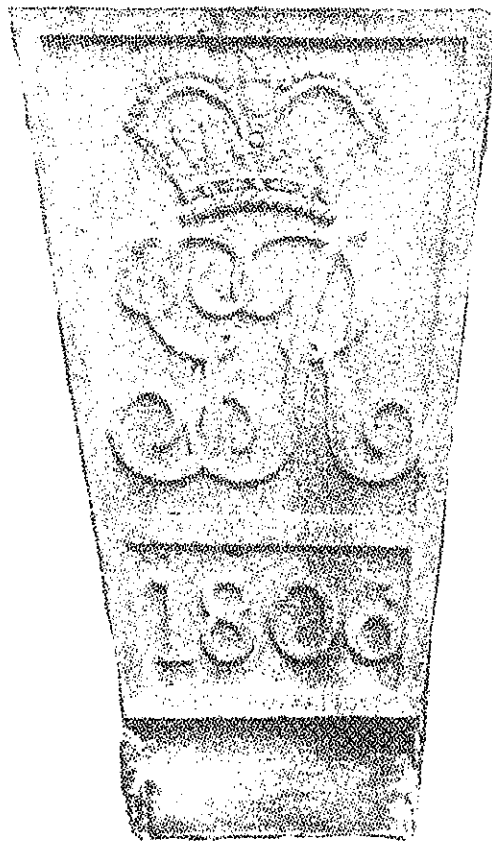


Fort Regent: A Battle For The Future



A business-driven study
for potential future use of Fort Regent

Scottish & Newcastle plc.[®]

INDEX

1. PREFACE, SCOPE AND KEY ELEMENTS OF THE STUDY
 - 1.1 Preparation
 - 1.2 Purpose
 - 1.3 Scope
 2. FORT REGENT
 - 2.1 Introduction
 - 2.2 Description
 - 2.3 Facts and figures
 - 2.4 Observations
 - 2.5 SWOT analysis of Fort Regent
 - 2.6 Conclusion
 3. THE MARKET
 - 3.1 Introduction
 - 3.2 Catchment areas
 - 3.3 Facts and figures
 - 3.4 Conclusion and observations
 4. FORT REGENT IN THE MARKET
 - 4.1 General
 - 4.2 Observations and strategic guidelines
 - 4.3 Improvement quota for Fort Regent
 - 4.4 Conclusion
 5. POTENTIAL ALTERNATIVE ACTIVITIES
 - 5.1 Upgrading current facilities
 - 5.2 Leisure pool complex
 - 5.3 Museum
 - 5.3.1 Artist impression Museum
 - 5.4 The town on the hill
 - 5.4.1 Introduction
 - 5.4.2 Base case
 - 5.4.3 Additions to base case
 - 5.4.4 Overall conclusion
 - 5.4.5 Artist impression "The town on the hill"
 - 5.5 H.M.S. Fort Regent
 - 5.5.1 Introduction
 - 5.5.2. Facts & figures
 - 5.5.3 Sumary of results
 - 5.5.4. Conclusion
 - 5.5.5 Artist impression HMS Fort Regent
 6. EPILOQUE
 - 7 APPENDIX
-

1. PREFACE, SCOPE AND KEY ELEMENTS OF THE STUDY

1.1 PREPARATION

This document has been prepared by the Leisure Division of Scottish & Newcastle plc for the States of Jersey.

1.2 PURPOSE

The purpose of the study can be summarised as follows:

- to review the current operation of Fort Regent, including a physical survey of the premises and a study of the access to Fort Regent, and
- to formulate a potential future use of Fort Regent, taking account of the Island's strategy for tourism and leisure.

1.3 SCOPE

The scope of this study is an investigation into various potential uses of Fort Regent in such a way that the operation will:

- have a financially sound basis in both the short and the long term, and
- be in line with the Island's general philosophy for tourism and leisure.

This is a direct and explicit "business-driven" study which does not include irrelevant circumstantial information. The conclusions are single-minded and non-political.

Edinburgh/Rotterdam, May 1995

*“If you want to understand a Forest, talk with it, walk with it
Analysing every single leaf in it gives knowledge*

Knowledge blocks understanding”

2. FORT REGENT

2.1 INTRODUCTION

Fort Regent has been the subject of several studies, research documents and discussions over the past years. In this first section we will not add to the extensive paperwork by analysing in detail every inch of Fort Regent.

Although important efficiency improvements are possible in the current operation of Fort Regent, we do not propose to pursue this issue further.

Any extensive analysis will (again) come to the conclusion that:

- The financial position of Fort Regent is structurally bad and the trend is negative.
- Fort Regent is not tuned towards demand.
- Fort Regent is “tolerated” rather than “enjoyed”.

This analysis will not be repeated. After reading previously produced studies and research and after discussions with various responsible people, we came to the unanimous conclusion:

**Let's forget everything we (think) we know about Fort Regent
because something dramatic should happen to it !**

2.2 DESCRIPTION

Fort Regent is currently the Island's main provider of leisure and indoor sports facilities to both club (62% of total visits) and non-club members. (12% of total visits). In addition, Fort Regent plays a role in the tourism industry, providing exhibition and concert space, conference facilities and various other visitor attractions. Currently about 160,000 tourists visit Fort Regent annually.

2.3 FACTS AND FIGURES

The financial position of Fort Regent is not good and is deteriorating.

The projected profit and loss account for 1994 and 1995 is made up as follows:

PROFIT & LOSS ACCOUNT	Budget 1995		Expected 1994	
	£'000	% income	£'000	% income
Total Income	1,709	100%	1,672	100%
Payroll costs	2,186	128%	2,183	130%
Other costs	1,722	101%	1,685	101%
Advertising	140	8%	140	8%
Interest	537	31%	404	24%
Total Costs	4,585	268%	4,412	263%
Profit/(loss)	(2,876)	(168%)	(2,740)	(163%)

In the meantime, actual 1994 figures have been published. In total, the 1994 profit & loss account is as follows:

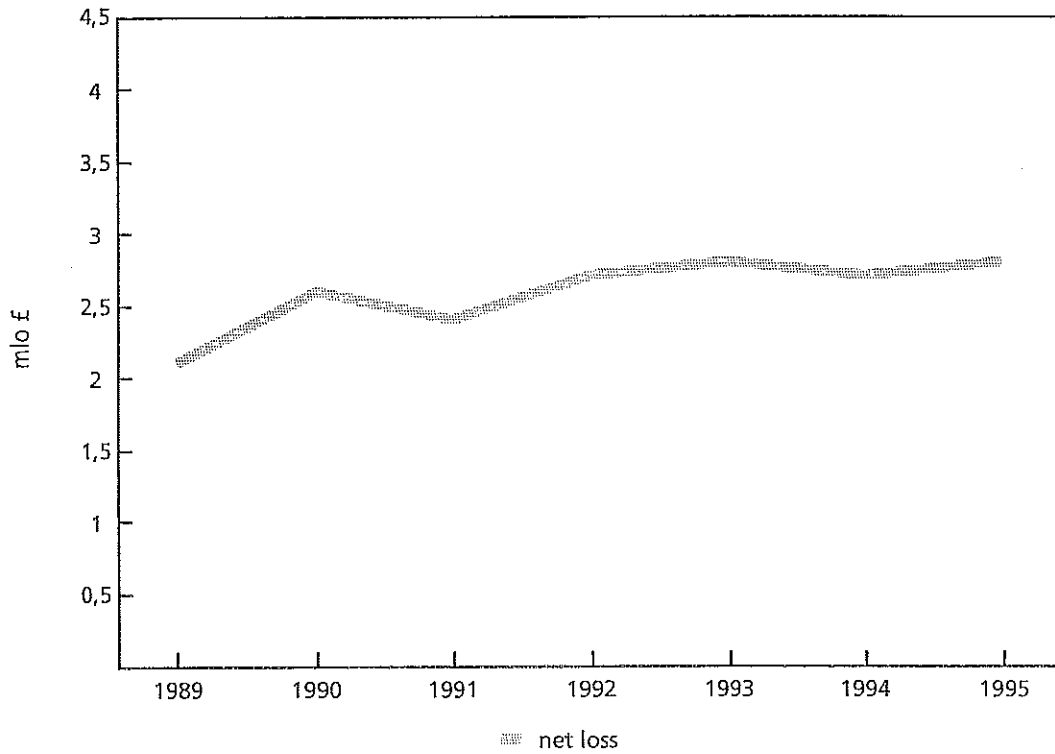
	£'000	% of income
Total Income	1,594	100%
Payroll costs	2,164	136%
Total other costs	1,680	105%
Advertising	140	9%
Interest	403	25%
Total Costs	4,387	275%
Profit/(loss)	(2,793)	(175%)

Further details of some of the major components in the profit loss account are as follows:

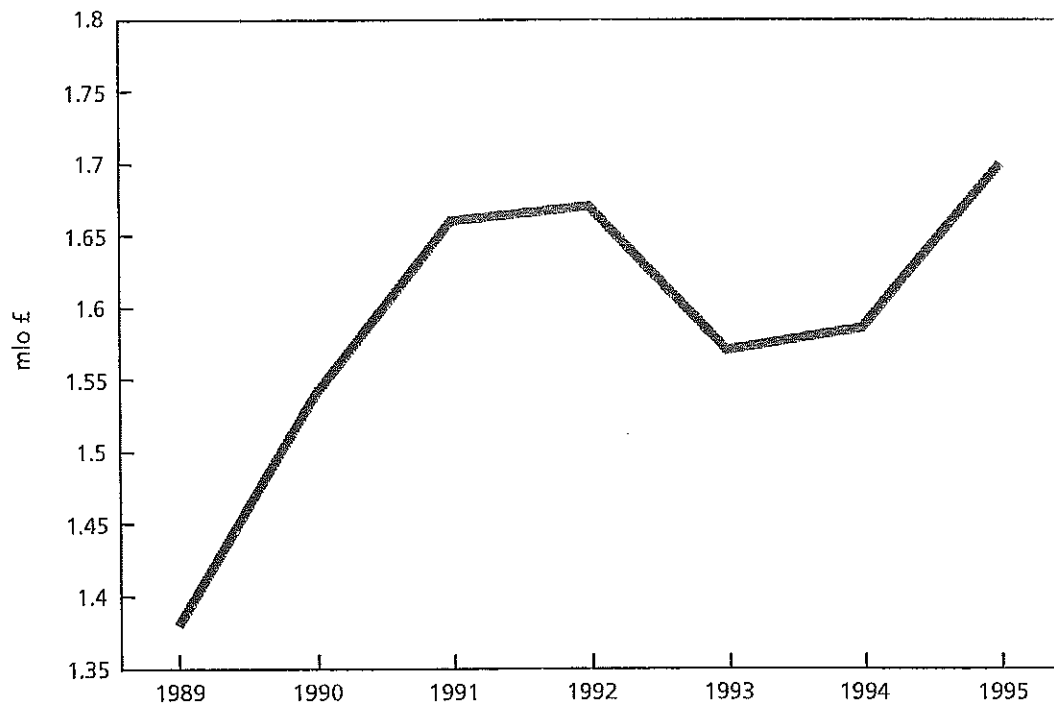
PROFIT & LOSS ACCOUNT	Budget 1995		Expected 1994	
	£'000	% income	£'000	% income
INCOME				
• entrance fees	486	29%	473	28%
• membership	263	15%	257	16%
• sports charges	546	32%	539	32%
• concerts & conferences	160	9%	150	9%
• rentals	150	9%	150	9%
• other	104	6%	103	6%
Total Income	1,709	100%	1,672	100%
Payroll				
• civil servants	672	31%	668	31%
• supervisors	73	3%	72	3%
• piazza	227	10%	226	10%
• technical	240	11%	240	11%
• cashiers	240	11%	247	11%
• la 1s	195	9%	195	9%
• Gloucester Hall	130	6%	130	6%
• stores	22	1%	22	1%
• attendants	12	0%	12	0%
• promotion	39	2%	36	2%
• skating	3	0%	3	0%
• contingency	17	1%	17	1%
• cleaners	14	1%	15	1%
• casuals	6	0%	5	0%
• signal station	40	2%	39	2%
• swimming pool	256	12%	256	12%
Payroll costs	2,186	100%	2,183	100%

Analysed over the past seven years, the major components of the profit and loss account have developed as follows:

FORT REGENT LEISURE CENTRE LOSS STATEMENT



FORT REGENT LEISURE CENTRE INCOME STATEMENT



2.4 OBSERVATIONS

When analysing all the facts and figures, we have to take account of some major issues:

- In general the activities of Fort Regent are not all commercially driven:
 - There is currently a clear social element in the provision of cheap sports facilities to the community of the island.
 - The pricing structure and sales mix, as well as the payroll structure, are currently not solely based upon commercial market conditions.
- The infrastructure of Fort Regent is not complementary to both sport and leisure. It is clear that various attractions have been added during the past years without a strategic goal. The Fort does not have a clear identity.
- The various users of the facilities such as sports, leisure, conferences, theatre, entertainment, etc. make it impossible to give a clear and single-minded presentation to the market. The result is seen in the profit and loss account.
- Currently the Fort is intensively used for various sporting facilities. The historic surroundings are not of any interest to the local users of these facilities. As far as they are concerned, the technical aspects are much more important than the visual surroundings.
- Fort Regent breathes "low quality" instead of a "warm welcome" to visitors and users by poor access, out-of-date interior, bad signing, poor presentation and service.
- For the current operation, far too much space is available. The attention and care given per m² is below standard.

-
- The building and its location are unique. Professional handling of Fort Regent in terms of concept, marketing and operation will without doubt create a profitable experience for the "mind" (visitor) and "money" (States of Jersey).

2.5 SWOT ANALYSIS

The SWOT analysis (Strengths - Weaknesses - Opportunities - Threats) of Fort Regent results in the following:

STRENGTHS

- unique site
- volume of the site
- close to St Helier
- historic value
- all weather facility

OPPORTUNITIES

- restore historic values
- improve quality of goods and services
- no competition on the market

WEAKNESSES

- social character of the Fort
- non-utilisation of historic values
- general low quality of goods and services
- bad access to the Fort
- no clear concept

THREATS

- social and political involvement
- financial

2.6 CONCLUSION

The scope of the study is to evaluate the possibility of eliminating the financial losses of Fort Regent. We conclude that:

“Although the current cost structure can be optimised, especially in the payroll sector, the financial results in respect of the current activities are of such a magnitude that cost savings in themselves will only improve the situation slightly.

“A radical change in the application of the infrastructure of Fort Regent should be considered. This radical change can be exercised under various options which are dealt with in section 5.”

3. THE MARKET

3.1 INTRODUCTION

The future development of Fort Regent must be dictated by the market in order for it to be a successful going concern.

The fact that Jersey is an island and also a tourist destination has implications for the marketing of Fort Regent.

NEGATIVE

- The market size is extremely strict and limited
- There is a strong market variance through seasonality

POSITIVE

- Competitive influences from outside the island are virtually non-existent
- The current leisure developments and infra-structure on the Island, are not shopistacated, therefore it is relatively easy to "stand above the crowd" for any new development within Fort Regent.

3.2 CATCHMENT AREAS

The fact that Jersey is a relatively small island sets very strict limits and opportunities in respect of the catchment areas.

There are three possible catchment areas:

- Local residents
 - Overnight tourist visitors
 - Day tourist visitors
-
- **Local residents:** The population of Jersey amounts to approximately 84,000 people. Given the size and current spending of 5 million pounds annually¹, this group cannot play a sizeable role in a profitable development of Fort Regent. This group will only add a marginal extra turnover to (profitable) Fort Regent activities.
 - **Overnight tourist visitors:** In 1993, 684,000 people visited Jersey for a period of more than two days². Without any doubt, this group represents the most important source of turnover for a project the size of Fort Regent.
 - **Day visitors:** In general, 140,000 day tourists visit Jersey each year³. As far as lifestyle and spending behaviour are concerned, which is important for the development of Fort Regent, this group complements the overnight visitors.

Tourism is the only substantial catchment area for a "profitable" Fort Regent.

The marketing of Fort Regent should therefore be a two step approach:

1. Correct marketing of the Island will create potential
2. This potential will be the market base for Fort Regent

¹ Touche Ross Report, October 1993, page 55

² Statistical Review 1994, States of Jersey, page 64

³ Statistical Review 1994, States of Jersey

3.3 FACTS AND FIGURES

(Extracted from Touche Ross Report, October 1993 and Statistical Review 1994, States of Jersey)

- Resident spending on sports/leisure

Consumer spending on participation 1991: £4.5 million to £6.0 million

- Total visitors spend (excluding fares)

1989	£322 million
1993	£255 million

- Total number of visitors

	Overnight visitors	Day Visitors	Total
1989	830,000	140,000	970,000
1993	684,000	140,000	824,000
1994		-4% on 1993 figures expected	

- Tourist accommodation

In 1993 there were 21,700 beds available in the peak season from May to September but only 18,000 of these are considered to be of a "marketable quality".

Occupancies in the peak season reached an average of 72%.

- Spend per visitor

	Total Spend Visitors	Number of Visitor	Spend per visitor
1989	£322 m	970,000	£332
1993	£255 m	824,000	£309

• Spending Behaviour

On average, the tourist spending behaviour can be split as follows. These percentages represent a weighted average between the various nationalities:

1993	%	£m
• Accommodation	54%	137.7
• Eating out	12%	30.6
• Clothes/jewellery	9%	23.0
• Transport	7%	17.8
• Gifts	7%	17.8
• Entertainment	6%	15.3
• Other	5%	12.8
Total	100%	255.0

• Annual Tourist Spend

On average, tourist spend is split over the year as follows:

1993	Number of Tourists	Spend £m	%
January	3,000	1.1	0.4%
February	10,000	3.7	1.6%
March	19,000	7.1	2.8%
April	64,000	23.9	9.4%
May	101,000	37.7	14.5%
June	95,000	35.4	13.9%
July	115,000	42.9	16.8%
August	117,000	43.6	17.1%
September	89,000	33.2	13.0%
October	52,000	19.4	7.6%
November	10,000	3.7	1.6%
December	9,000	3.3	1.3%
Total	684,000	255.0	100%

Note: 84,7% of tourist spend is realised between April and September.

3.4 CONCLUSIONS AND OBSERVATIONS

Based upon our observations, the analysis of the catchment areas and of the past facts and figures, it is clear that the tourism industry in Jersey has gone, and is going, through some rough times.

- The number of tourists and their spending behaviour is declining strongly. As far as we are aware there is no tangible sign of a reversal of this trend.
- A part of the accommodation is of a (too) poor quality.
- The current supply of the tourist industry is of "yesterday" when the current consumer demand is mainly focused on "tomorrow".
- Seasonal fluctuations are very important in the tourist figures. Six months of the year account for 85% of the total tourist income on the island.

Catch 22

In our view, Jersey suffers from a "catch 22" situation in positioning the tourist product for today's market.

- Jersey Tourism aspires to the upper segment of the market. **Sea, silence, safety and scenery** are important and valuable Unique Selling Points ("USP") in today's (and tomorrow's) tourist market.
- The upper segment tourists will not find on Jersey the combination of accommodation quality and infrastructure that will meet their basic requirements.
- The majority of accommodation on Jersey has become, over the years, of relatively low quality because of lack of investment. Therefore it will only satisfy the lower segment of the market.
- The leisure offer by Jersey Tourism being "sea, silence, safety and scenery" is not attractive to the lower segment of the market, which perceives it as boring.

Because of this, it is impossible to position Jersey in today's over-competitive tourist market successfully. Whatever position is chosen, the Jersey-product will always show a gap:

UPPER SEGMENT GAP:

quality of accommodation and infrastructure towards basic needs.

LOWER SEGMENT GAP:

the leisure offer is perceived as boring, and the extremely high travel costs to Jersey.

4. FORT REGENT IN THE MARKET

4.1 GENERAL

Whatever activities are developed in Fort Regent, the source of the related income could originate from:

1. Increased/shifted turnover based upon an increased spend from residents of the Island.
2. Shifted turnover from existing Island facilities.
3. Increased total Island turnover based upon an **increased volume of tourists** coming to the Island.
4. Increased total Island turnover based upon an **increased spend per tourist** coming to the Island.

Given the size of the Island and the minimal contribution to the total Jersey national product, attention should be focused on options 3 and 4 since the net increase in the tourist income will have a similar impact on the total national income of the Island.

4.2 OBSERVATIONS AND STRATEGIC GUIDELINES

After analysis of the available data and documents, and discussion with various representatives of the government and tourist departments, and discussions held with Fort Regent staff, we believe that the future development of Fort Regent is dependent on the tourism industry. As an extra element to this, it is clear that any new development in Fort Regent will have to take account of the seasonal aspect of the Jersey tourism industry.

Any successful development in Fort Regent (and on the Island) in respect of tourism will depend on the ability of the Government to close the gap in the positioning and scope of tourism in Jersey.

This gap can be closed in developing and stimulating either of the following alternatives:

- Leisure for the lower market segment, and leisure infrastructure.
- Investment in tourist accommodation to satisfy the basic needs of the upper segment.

In our view, the only correct strategy for tourism on Jersey will be to move towards the upper segment because:

- Natural USPs of Jersey are consistent with and aspiring for this segment.
- The structure of the Island is not consistent with mass tourism. Positioning related to the highest possible spend per visitor contributes organically to the natural assets and the economy of Jersey.

The States of Jersey will therefore have to consider stimulating directly (investments) or indirectly (grants, subsidies) investment in the tourist industry and accommodation.

The possible solutions we have prepared in section 5 do take account of this correct positioning of Jersey in "tomorrow's" tourist market.

4.3 IMPROVEMENT QUOTA FOR FORT REGENT

In section 3 we indicate a clear decline of both the number of staying visitors and the spend per visitor.

Setting targets in terms of turnover and spending is always a very difficult issue.

However, using the recent actual history as a reference, regaining the lost ground between 1989 and 1993 cannot be considered as an impossible target:

	1989	1993
Turnover	£322 m	£255 m
Number of visitors	970,000	824,000
Spend per visitor	£332	£309

If the 1989 actual situation could be restored (taking account of inflation) this would have the following financial consequences, using the current split between the various tourist sectors:

	Current Spend £m	Increase £m	Target Spend £m
Accommodation	137.7	36.2	173.9
Restaurants and pubs	30.6	8.0	38.6
Boutiques	23.0	6.0	29.0
Gift Shops	17.8	4.7	22.5
Entertainment	15.3	4.0	19.3
Transport	17.8	4.7	22.5
Other	12.8	3.4	16.2
Total	255.0	67.0	322.0

By reaching the actual 1989 tourism income level of £322 million per annum, an increase of £67 million will be achieved.

Fort Regent certainly qualifies to catch a portion of this potential, provided that the necessary quality changes are made to the Fort.

The sectors which are of importance for potential future usage in Fort Regent are:

	Current Spend £m	Increase £m	Target Spend £m
Restaurants and pubs	30.6	8.0	38.6
Boutiques	23.0	6.0	29.0
Gift shops	17.8	4.7	22.5
Entertainment	15.3	4.0	19.3
Total	86.7	22.7	109.4

The total financial loss for Fort Regent expected for 1995 amounts to £2.9 million. The financial effects of any future activity at the Fort will have to be measured against the above figures.

4.4 CONCLUSION

Taking account of the lay-out, location, infrastructure and history of the Fort, we conclude that **tourism is virtually the only possible catchment area** for a profitable development of Fort Regent.

The facts and figures shown above indicate that there is an existing total mass available amounting to £86.7 million. In addition, returning to the 1989 situation would create an extra potential of £22.7 million.

Taking into account that 85% of the annual tourist income is generated in six months, the biggest portion of the Fort Regent turnover will also be realised during that period. The financial analysis of any future usage of Fort Regent has to take account of this.

An aspiring development within Fort Regent is profitable in two ways

- direct, within the Fort Regent development
- indirect by giving a major impuls to tourism (raise in total spend and total bednights)

5. POTENTIAL ALTERNATIVE ACTIVITIES WHICH COULD BE DEVELOPED IN FORT REGENT

Recognising the link between the general tourism aspects of the Island and the future of Fort Regent, as set out in the previous sections, there are various potential usages which can be developed within Fort Regent.

In the following pages we set out a brief description of these possibilities, sometimes consisting of an individual project, sometimes consisting of a combination of solutions.

This section contains the following:

CONSIDERED BUT REJECTED ALTERNATIVES

- Upgrading of current equipment
- Leisure pool complex

CONSIDERED ALTERNATIVES IN LINE WITH SCOPE AND STRATEGIC GUIDELINES

- Museum
- Fort Regent :
"the town on the hill"
- The world of imagination and
experience : H.M.S. Fort Regent

Considered, but rejected alternatives

5.1 UPGRADING OF CURRENT EQUIPMENT

It could be considered as an option to continue, and even expand, the current activities of the Fort in terms of indoor sporting facilities and leisure for both individuals and club members.

The current financial results, however indicate that simple continuation of the activities will inevitably lead to further deterioration of the financial position.

For 1994, it is expected that the total net loss will amount to about £2.7 million.

For 1995 a negative result of £2.9 million is forecast.

The upgrading of the current sport facilities to acceptable standards comparable to a Jardin des Sports at Center Parcs, would require an investment of £6.2 million. This does not take account of the cost adapting the other areas within the Fort to acceptable standards.

Conclusion

Based upon the high investment cost and the limited population of Jersey, we conclude that the continuation of the provision of indoor sporting facilities, even of a higher quality level, cannot take place without material financial subsidy from the States of Jersey.

For efficiency reasons and to be able to offer a clear concept to the market we advise to remove the sporting facilities from Fort Regent.

See appendix page 46

5.2 LEISURE POOL COMPLEX

Various reports and studies produced in the past suggest the construction of a leisure pool complex within Fort Regent.

A physical survey of the location indicated that the only area suitable for the construction of a leisure pool would be between the current existing swimming pool and the Fort itself. The construction of a pool within the curtilage of Fort Regent would create huge problems in terms of infrastructure.

The expected financial results of such a leisure pool would have the following outcome:

P&L LeisurePool	£	note
Income	2,360,000	1
Payroll	1,200,000	2
Energy	600,000	3
Maintenance	850,000	4
Depreciation	460,000	5
Operational profit/(loss)	(750,000)	

Notes:

1. Following assumptions are made:

- Average entry price of £10 per visitor.
- Maximum capacity of 1,200 people at any one time and 2,500 people per day.
- Total number of visitors per annum is estimated to be 236,000.

This is calculated based on an occupation varying from 500 visitors a day in the low season to 2,500 visitors a day at peak times in the high season.

2. This payroll cost includes the necessary staff for the swimming pool, reception area, security, technical staff and management.
3. Includes electricity, gas, water and chemicals.
4. Covers both building and inventories.
5. Based upon a 15 year economic lifetime of the pool costing in total £7 million.

Our experience also proves that the traditionally expected spin-off of pool visitors to catering and retail outlets is minimal.

Conclusion

Based upon the high annual cost of operating a leisure pool, we conclude that, on its own, a leisure pool cannot be operated on a profitable basis. However, it should be recognised that a leisure pool would provide a material positive side impact to the general image of tourism.

To be able to offer a clear concept to the market we advise against a leisure-pool within Fort Regent.

See appendix page 46.

Considered alternatives, in line with the scope of the study and the strategic guidelines set out in chapter 4.

5.3 Museum

Consideration could be given to restoring the historic values of the Fort and operating it as a museum.

The scope of such an operation could be limited, or could be seen in a wider context.

Fort Regent would serve as an historic place to visit. The roof would be taken off. All historic elements would be put back into focus. Catering and retail facilities, supportive to the historic values would be available.

The expected profit and loss account would be as follows:

museum	£	notes
Ticket income	550,000	1
Retail, catering and recreation income	650,000	2
Total income	1,200,000	
Cost of sales	250,000	3
Other variable costs	240,000	4
Depreciation	395,000	5
Operating profit/(loss)	315,000	

Notes:

1. Based upon 1,000 visitors per day in June, July and August; 250 visitors per day in April, May, September and October, and closure in the other months of the year, we estimate that about 130,000 people will visit the museum every year. At a rate of £5 per adult and £2.50 per child, these visitors would generate ticket income of £550,000 per annum.
2. A spin-off amount of £2 per visitor for catering, £1 per visitor for shops, and £2 per visitor for recreation would be reasonable, resulting in generation of £650,000 in turnover.
3. At a labour plus food cost of 60% in catering and 70% in retail, the cost of sales, including direct payroll costs, would amount to £250,000.
4. Experience indicates a normal variable cost percentage of 20% of turnover.
5. Estimated investment cost

The investment cost for the reconstruction of the historic Fort is as follows:

• Removal of roof structure	£ 192,000
• Floor works	£1,285,000
• Work on ramparts and ditches	£3,360,000
• Other removals	<u>£3,060,000</u>
Total	£7,897,000

Allowing for a 20 year write-off period for the restructuring cost for turning Fort Regent into a museum, then a charge of £395,000 per annum has to be taken into account.

The above description of a museum can be expanded to such an extent that the Fort would become a real USP for the Island of Jersey.

Fort Regent could become an ideal location for regimental reunions (taptoes).

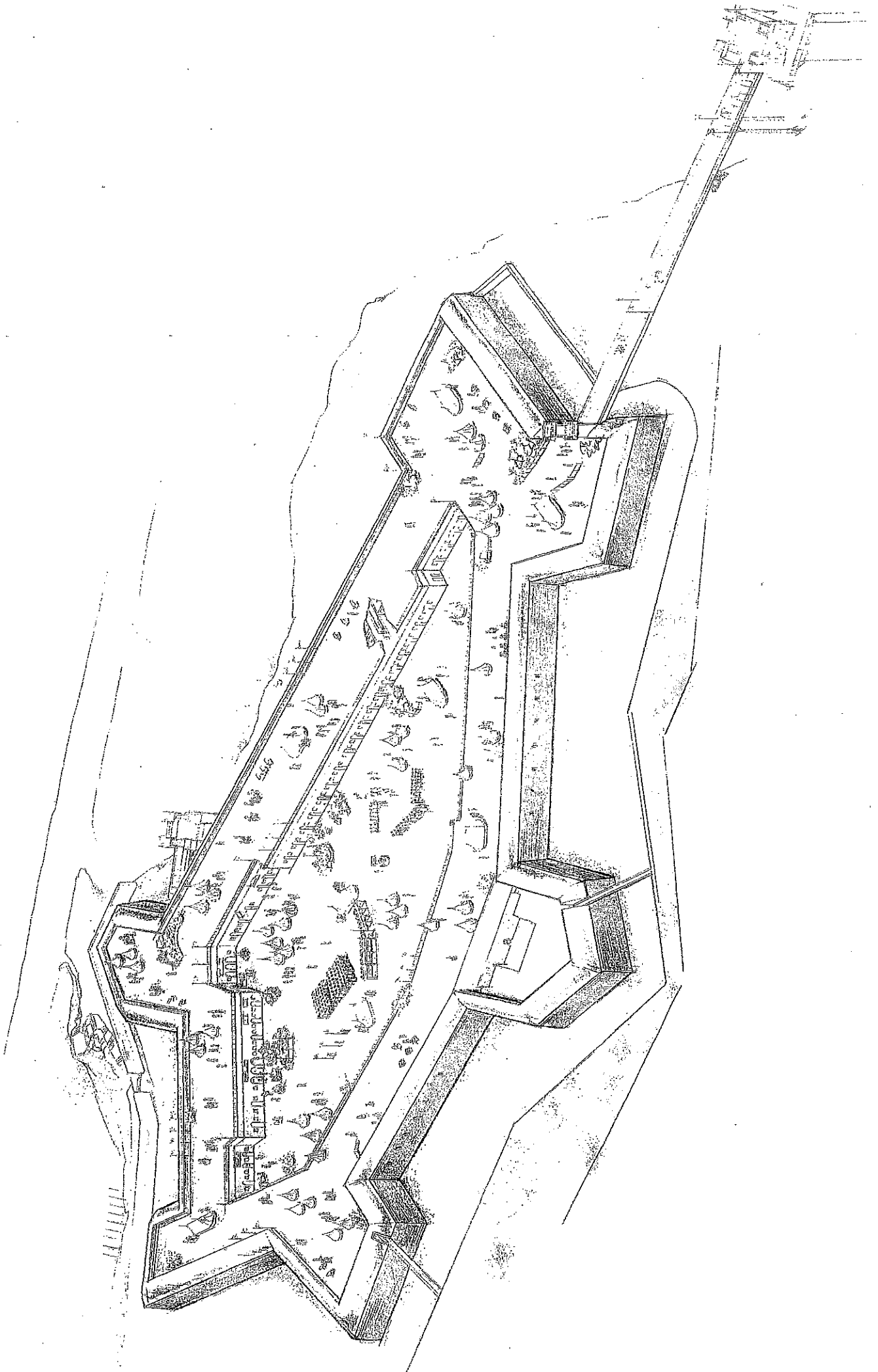
Obviously there would be a material investment cost involved in such an operation. However, this cost should, in the long term, be financed by extra visitors and/or increased admission fees. The above calculations take account of a very conservative figure of 130,000 visitors per annum. Given the actual visitor figures for the Living Legend and the Underground Hospital, a substantial increase to the number of visitors of 130,000 per annum should be feasible.

Conclusion

Turning Fort Regent into a museum will surely answer both the scope of the study and the strategic guidelines for the Island of Jersey.

The financial loss situation would be eliminated, even taking account of the restructuring cost of the Fort.

Artist impression
"The Fort Regent museum"



5.4 Fort Regent : "the town on the hill"

5.4.1 Introduction

In this proposal, Fort Regent would be turned in to a Leisure, Entertainment and Shopping experience.

A combination of theatres, shops, restaurants, pubs, entertainment and recreation would create a unique experience in a high quality, high standard environment.

The approach to this proposal is as follows:

The project consists of a **base case** and a number of **additional facilities**.

A) The **base case** consists of the following:

- Provision of free space for shopping, eating and drinking facilities within Fort Regent. This free space would be concentrated within the perimeter areas set out in the drawing. This space would be franchised out to private operators. The States would generate letting income as a result of these franchises.
- Design, construction and maintenance of all "general" areas being:
 - children's play area
 - cinema, theatre, events
 - landscaped and terraced gardens
 - access facilities
 - square facilities
 - walkways

B) The **additional facilities** will be constructed and operated by private investors. These facilities are optional and are not absolutely necessary for the success of the base case. These facilities have to be measured against the general standards set. It is the responsibility of the States to guard these standards.

Examples of such additional facilities are:

- health hydro
- bowling
- Sega hall

The logic behind this approach is based upon the need to find a balance between the task of ensuring that the general strategy, the concepts and the standards are safeguarded, and the economical exploitation of commercial activities within the Fort. The States would have to agree to carry out the first part of this activity, with the second part being carried out by private investors.

5.4.2 Base case

As stated in the introduction, the base case consists of two main elements, being:

- the provision of shopping and catering facilities
- the provision and maintenance of general facilities

Shopping and catering facilities

In section 4, page 19, we noted that currently an amount of £86.7 million is spent on the Island on catering, shopping, gifts and entertainment. In addition we noted that if the 1989 figures could be restored another £22.7 million could be added to the £86.7 million current income.

	Current spending £m	Potential increase £m	Target spending £m
Restaurants and pubs	30.6	8.0	38.6
Boutiques	23.0	6.0	29.0
Gift shops	17.8	4.7	22.5
Entertainment	15.3	4.0	19.3
Total	86.7	22.7	109.4

We believe that, given a correct positioning and layout for Fort Regent, a portion of this income could be achieved at Fort Regent.

It is obviously very difficult to estimate what kind of share could be allocated to the Fort. Therefore we have produced an optimistic and a pessimistic version. We have also assumed that in any future development of this kind within Fort Regent, the restaurants, pubs, boutiques and gift shops would be franchised out to private tenants, and a letting income is calculated where the entertainment activities are calculated, based upon a global profit and loss account.

We assume that:

- Optimistic version: 10% of current income and 50% of improvements will be allocated to Fort Regent.
- Pessimistic version: 5% of current income and 25% of improvements will be allocated to Fort Regent.

This would result in the following:

Optimistic version			
Turnover	current £m	increase £m	target £m
Restaurants and pubs	3.1	4.0	7.1
Boutiques	2.3	3.0	5.3
Gift shops	1.8	2.4	4.2
Total	7.2	9.4	16.6

Pessimistic version			
Turnover	current £m	increase £m	target £m
Restaurants and pubs	1.5	2.0	3.5
Boutiques	1.1	1.5	2.6
Gift shops	0.9	1.2	2.1
Total	3.5	4.7	8.2

The above figures represent the potential turnover realised within the premises of Fort Regent.

Taking into account an average of 15% letting fee of turnover, the Fort Regent letting income would amount to £2.5 million in the optimistic version and £1.2 million in the pessimistic version.

Based upon the Center Parcs experience, we have estimated the turnover per square metre of the various types of activities

Turnover per sq. m. per annum	
Restaurants and pubs	£2,400
Boutiques	£3,600
Gift shops	£3,300

Based upon this information, we can calculate the necessary space within Fort Regent in order to generate the above-mentioned turnovers:

	Optimistic	Pessimistic
Restaurants and pubs	3,000 sq.m	1,500 sq.m
Boutiques	1,500 sq.m	700 sq.m
Gift Shops	1,300 sq.m	600 sq.m
Total	5,800 sq.m	2,800 sq.m

The available space in Fort Regent for catering and shopping facilities amounts to 7,600 square metres. We estimate that the investment cost per square metre amounts to £600 for shopping facilities and £900 for catering facilities.

This figure does not include kitchen equipment, etc.

If the total available space, being 7,600 square metres, is developed for shopping and eating facilities, a total investment of £5,700,000 is necessary, taking account of a 50/50 spread between catering and retail facilities.

Since turnover is not evenly spread throughout the year, but concentrated in a few months, the necessary space to realise this turnover is more than 5,800 square metres, or 2,800 square metres, as mentioned above. Therefore we take account of the total available space of 7600 m² in the calculations.

In the last option, depreciation calculated over 20 years amounts to £285,000 per annum.

The above information would result in the following financial results as far as the shopping and eating facilities are concerned.

	Optimistic £	Pessimistic £
Turnover - letting income	2,500,000	1,200,000
Depreciation	285,000	285,000
Profit/(loss)	2,215,000	915,000

Children's playground

The Fort would provide a charge-free children's play experience within the covered area where children can enjoy themselves in a safe environment while parents do their shopping, etc.

The total cost for a 2,000 square metre area amounts to £1.2 million or, at an economic lifetime of 15 years, this equates to a yearly depreciation charge of £80,000.

The annual maintenance cost of this playground amounts to £100 per square metre, amounting to a total cost of £200,000.

Cinema, theatre, events

The rotunda, which is now equipped for events, will continue to serve this purpose, including a cinema. It is not very clear what kind of income these activities would generate. We assume that activities in the rotunda will be break-even. No income or costs are therefore charged to this part of the project, which has an estimated area of 3,500 square metres.

Other areas

Obviously all general areas have to be brought up to the required standards. The estimated investment cost to do this amounts to:

Description	Area	£ per sq.m.	£	years
Main entrance	245 sq.m.	600	147,000	15
Landscaped terraced garden	3,605 sq.m.	600	2,163,000	15
Toilet	800 sq.m.	360	288,000	15
Offices.	750 sq.m.	720	540,000	25
Access lift towers	2,500 sq.m.		2,428,000	25
Demolition costs			300,000	25
Ramparts			360,000	25
External lighting			120,000	10
Roof cleaning			216,000	25
Landscaped ramparts			300,000	25
Car parking			180,000	25
Miscellaneous			420,000	15
Lighting	(1)		120,000	15
Total general areas	7,900 sq.m.		7,582,000	

Note:

1. In order to allow tropical and sub-tropical plants to grow, ideally the current roof structure should be replaced by a new, glass roof. However, due to the very high investment cost related to this, an alternative method has been developed. Tropical plants need up to 2,400 lux for 14 hours a day in order to grow. This can be reached by building a lighting and mirror system covering 50% of the surface. This investment would cost about £30 per square metre which, for an area of 3,950 square metres, would total ±£120,000.
2. The annual depreciation charge for the above investments, based upon the economic lifetimes as estimated, amounts to £408,000.
3. The annual maintenance cost for 7,900 square metres averages about £790,000, including the maintenance payroll costs.
4. We forecast that 6 people are employed at an annual cost of £20,000 per employee.

Capital required for investment base case		
Shops and catering	7,600 sq.m.	£5,700,000
Children's playground	2,000 sq.m.	£1,200,000
Cinema and theatre	3,500 sq.m.	p.m.
Other areas	7,600 sq.m.	£7,582,000
Total excluding rotunda		£14,482,000

Profit and loss account base case after capital injection

Optimistic version	Shops & catering	Children's playground	Cinema & theatre	General areas	Total £
Income					
- letting income	2,500,00	0	p.m.	0	2,500,000
Costs					
- payroll	0	0	p.m.	120,000	120,000
- maintenance	0	200,000	p.m.	790,000	990,000
-depreciation	285,000	80,000	p.m.	408,000	773,000
Total costs	285,000	280,000	p.m.	1,318,000	1,883,000
Profit/(loss)	2,215,000	(280,000)		(1,318,000)	617,000

Pessimistic version	Shops & catering	Children's playground	Cinema & theatre	General areas	Total £
Income					
- letting income	1,200,000	0	p.m.	0	1,200,000
Costs					
- payroll	0	0	p.m.	120,000	120,000
- maintenance	0	200,000	p.m.	790,000	990,000
-depreciation	285,000	80,000	p.m.	408,000	773,000
Total costs	285,000	280,000	p.m.	1,318,000	1,883,000
Profit/(loss)	915,000	(280,000)		(1,318,000)	(683,000)

Conclusion

The development of the base case philosophy of "the town on the hill" can, in our opinion, result in a profitable operation.

If the number of outlets have to be restricted, as in the pessimistic solution, a loss will be incurred, but on a much lower scale than current reality.

The advantages of having created an important USP for the Jersey tourism industry obviously remains.

5.4.3 Additions to the base case

The size of Fort Regent is such that, if required, extra facilities can be added to the above described base case.

Below we set out a number of potential applications which conform to the general philosophy and standards for Fort Regent.

Health Hydro

As a basic reference for this facility, we refer to the Center Parcs Aqua Sana complex in Longleat Forest.

In such a health facility, the following services would be provided:

- health spa
- gym
- holistic body treatments
- special figure treatments
- sale of related products

1. The total area required would amount to around 2,400 square metres. The average investment cost amounts to £1,440 per square metre, totalling £3,456,000. However, an area of a similar size currently included in the base case would not incur development costs of £600 per square metre, totalling £1,440,000. The net cost, therefore, would amount to £2,016,000.
2. For the calculation of the break-even point, the total investment is taken into account, resulting in a depreciation cost of £230,000 per annum.
3. Our current experience in the cost structure of such an operation is that direct cost of sales amounts to ±10% of turnover, payroll expenses to 25% and other expenses to 10% of turnover. Total costs (before depreciation) therefore amount to approximately 45% of turnover.

Break-even position		notes
No. of visitors at £20	20,900	
Break-even turnover	£418,000	
Cost of sales (10%)	£ 42,000	3
Payroll cost (25%)	£104,000	3
Other costs (10%)	£ 42,000	3
Depreciation cost	£230,000	2
Profit/(loss)	0	

Conclusion

At an average entrance fee of £20, about 21,000 visitors are needed per annum in order for a health hydro to break even.

An investigation into whether this number is feasible should be made in a more in-depth study.

Ten pin bowling

In order to evaluate the feasibility of a ten pin bowling within Fort Regent, the following break-even calculation may be of assistance:

1. The investment cost of ten pin bowling will amount to about £600 per square metre. The space required would be 2,000 square metres, which would represent an investment of £1,200,000. In addition, £1,000,000 is to be spent on a floor in order to provide sufficient heating possibilities. Out of this total of £2,200,000, £1,200,000 is saved due to the non-refurbishment of the general areas at a price of £600 1m²

For the calculation of the break-even point, however, a depreciation charge of £147,000 per annum is taken into account.

2. The ten pin bowling could be open all year round with the following opening hours:

High season : 12 hours a day

Low season : 6 hours a day

Total number of potential opening hours per annum would therefore be as follows:

High season :	5 months, or 153 days x 12 hours	=	1,836
Low season :	7 months, or 212 days x 6 hours	=	<u>1,272</u>
			3,108

The average duration of each session is 45 minutes. Therefore a total of 4,144 sessions per lane or 41,440 sessions in total, are possible.

At an average price of £9 per session, the maximum possible revenue amounts to £373,000 per annum.

3. For both service and maintenance, a total of two staff are foreseen. This means a total payroll cost of £40,000 per annum.
4. Cleaning and maintenance material cost is estimated at £20,000 per annum.

Break even position		notes
Maximum turnover	£373,000	2
At 55% occupancy	£207,000	
Payroll cost	£ 40,000	3
Other costs	£ 20,000	4
Depreciation cost	£147,000	1
Profit/(loss)	0	

Conclusion

A ten pin bowling alley within Fort Regent would fit very well, from a quality point of view, into the concept of "the town on the hill".

Also, financially, an occupancy rate of 55% during opening hours is necessary to break even. Opening hours have been conservatively set during the off-season.

Sega Hall

1. The investment in a Sega hall would be equivalent to £600 per square metre, similar to the amount currently foreseen in the general refurbishment.

About 800 square metres is required for such a hall, resulting in an investment of £480,000, which would be compensated by savings in the general refurbishment in the base case.

For financial calculation purposes, we have included a depreciation charge of £32,000 per annum.

2. Making a provision for three staff (one person permanently available) at £20,000 per person, a payroll cost of £60,000 will be incurred.

3. Other operating expenses are estimated to be £20,000 per annum.

4. A net expenditure of £2 per visitor and a gross margin of 50% is taken into account.

Break-even position		notes
No. of visitors at £2	112,000	4
Break-even turnover	£224,000	
Machine letting cost	£112,000	4
Payroll cost	£ 60,000	2
Other costs	£ 20,000	3
Depreciation cost	£ 32,000	1
Profit/(loss)	£ 0	

Conclusion

A Sega hall within Fort Regent would fit very well, from a quality point of view, into the concept of "the town on the hill", provided that the necessary quality requirements are respected.

In order to break even, about 112,000 visitors should visit the Sega hall. As an example, the Living Legend now has 160,000 visitors per annum, therefore this target should easily be reached.

5.4.4. Overall conclusions

Based upon two critical requirements being that all facilities have to:

- fit in with the set tourism standards in respect of the Island of Jersey, and
- resulting in a liquidation of the current loss-making position of Fort Regent,

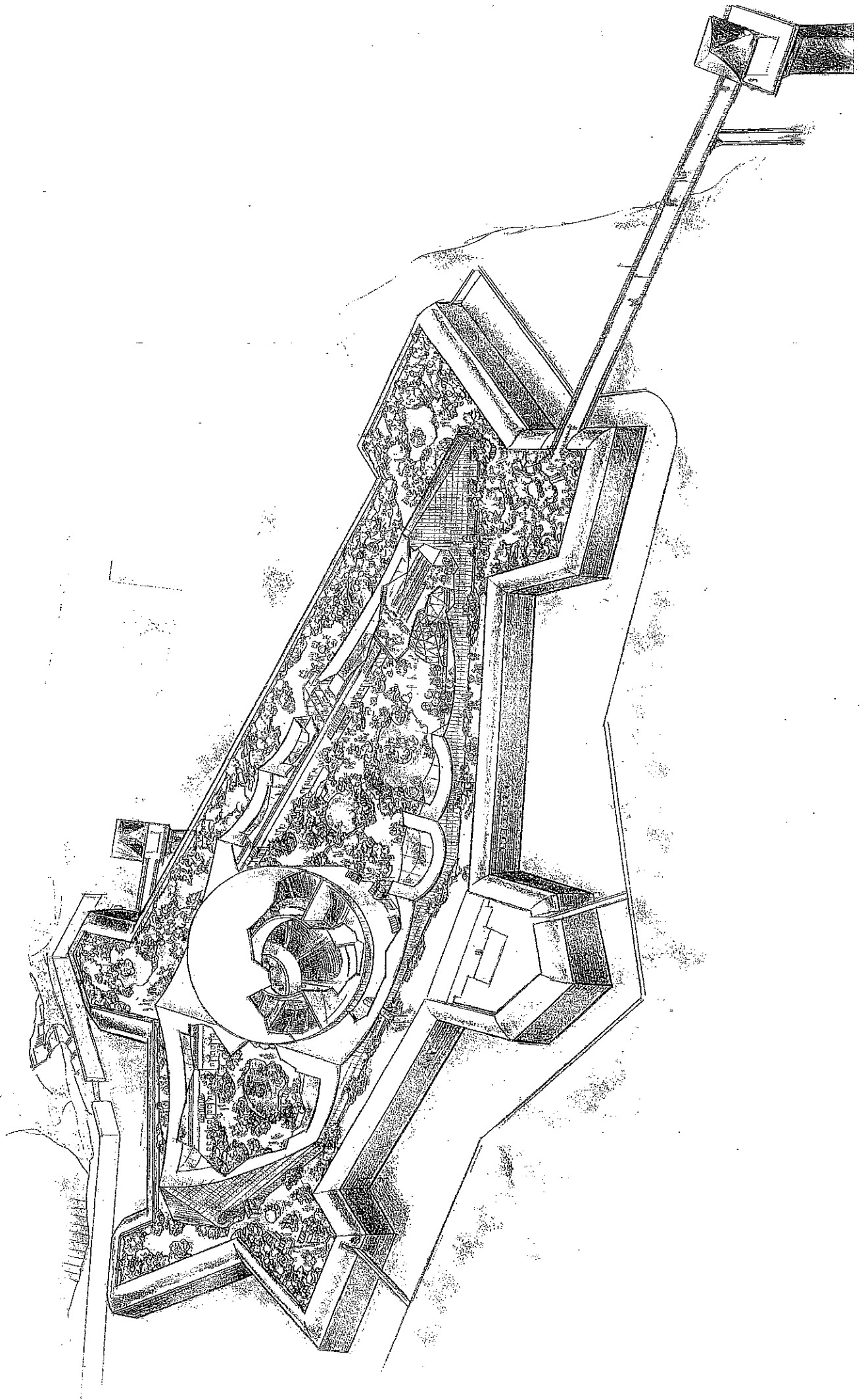
we conclude that

- the setting up of a leisure, entertainment and shopping complex within Fort Regent as described above, potentially including such extra facilities as a health hydro, a ten pin bowling alley and a Sega hall

will result in

- the current losses of Fort Regent being eliminated and Fort Regent becoming a major tourist attraction for the Island of Jersey.

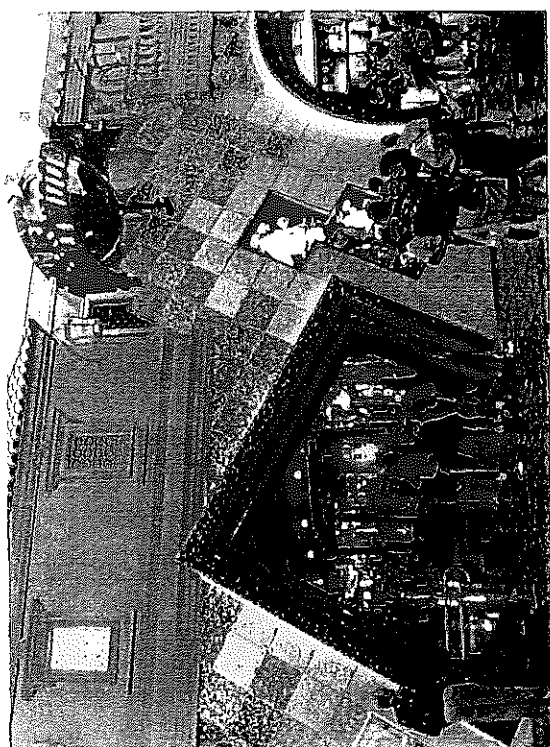
Artist impression
Fort Regent; "The town on the hill"





Artist impression
Fort Regent; "The town on the hill"

Fort Regent; "The town on the hill"



5.5. H.M.S. Fort Regent

5.5.1. Introduction

H.M.S. Fort Regent refers to the ocean, to a luxurious cruise liner on which a number of activities take place in the field of virtual reality, theatres cinemas, and aspiring modern entertainment. Also catering and shopping facilities will be provided.

Fort Regent would be re-designed as a massive ocean steamer on top of the cliff, overlooking St. Helier. The design and the atmosphere is completely orientated towards an ocean steamer.

5.5.2. Facts & Figures

As far as catering and shopping facilities are concerned, we refer back to paragraph 5.4. where the principles of the creation of catering and shopping facilities are set out. Within H.M.S. Fort Regent we may not need as many m² as in the proposal on "the town on the hill".

Theatres, shows and cinema activities are supposed to be carried out on a break-even situation. The approach to this subject is to study these activities on a project by project or event by event basis.

As far as virtual reality and various aspiring entertainment facilities are concerned, the following assumptions are made.

1. Experience in this field shows that tourists, visiting such a facility will spend about £21 per person per week. Since most staying visitors spent 5 to 7 days on Jersey, we can assume the above figure as the average spend per visitor.
2. 400 machines are to be installed using 3 m² per machine resulting in a surface of 1200 m² to be refurbished. Taking into account side decoration, entrances, etc. we take a conservative view on the investment cost and suggest to double the necessary surface to 2400 m². At a cost price of £600 per m², we arrive at a total cost of £1.4 mio.

This results in a depreciation charge of £93.000 per year.

3. Maintenance cost adds up to £40.000 per year.
4. Labour cost of £20.000 per person per year, supposing a need to employ 20 people, adds up to £400.000 per year.
5. Machines will be rented and a commission of 40% of turnover has to be paid to the owners.

Break-even position		notes
# visitors at £21	± 42.000	
spent per visitor	21	1
break-even turnover	£888.000	
machine letting cost	£ 355.000	5
Payroll cost	£ 400.000	4
other cost	£ 40.000	3
depreciation cost	£ 93.000	2
Profit/(loss)	£ 0	

If we would assume that, based upon past experience, about one third of the tourists would visit H.M.S. Fort Regent, then the number of visitors to H.M.S. Fort Regent would ad up to about 277.000 visitors. This is not taking account of any day visitors. nor any local residents. Based upon this assumption, a potential profit and loss account would look as follows:

potential profit & loss	
# visitors at £21	277.000
spent per visitor	21
break-even turnover	£5.817.000
machine letting cost	£2.327.000
Payroll cost	£ 400.000
other cost	£ 40.000
depreciation cost	£ 93.000
profit/(closs)	£2.957.000

5.5.3. Summary of results

Optimistic version	shops & catering	aspiring entertainm	cinema & theatre	general areas	Total £
Income					
- letting income	1.250.000	5.817.000	p.m.	0	7.067.000
Costs					
- letting cost	0	2.327.000		0	2.327.000
- payroll	0	400.000	p.m.	120.000	520.000
- maintenance	0	40.000	p.m.	790.000	830.000
- depreciation	142.000	93.000	p.m.	408.000	643.000
Total costs	142.000	2.860.000	p.m.	1.318.000	4.320.000
Profit/(loss)	1.108.000	2.957.000	p.m.	(1.318.000)	2.747.000

In above version we assume that 50% of the shopping & catering results as set out in the recapitulation, optimistic version, in paragraph 5.4. will be reached. In respect of virtual reality, 277.000 visitors or 1/3 of the tourists will visit H.M.S. Fort Regent.

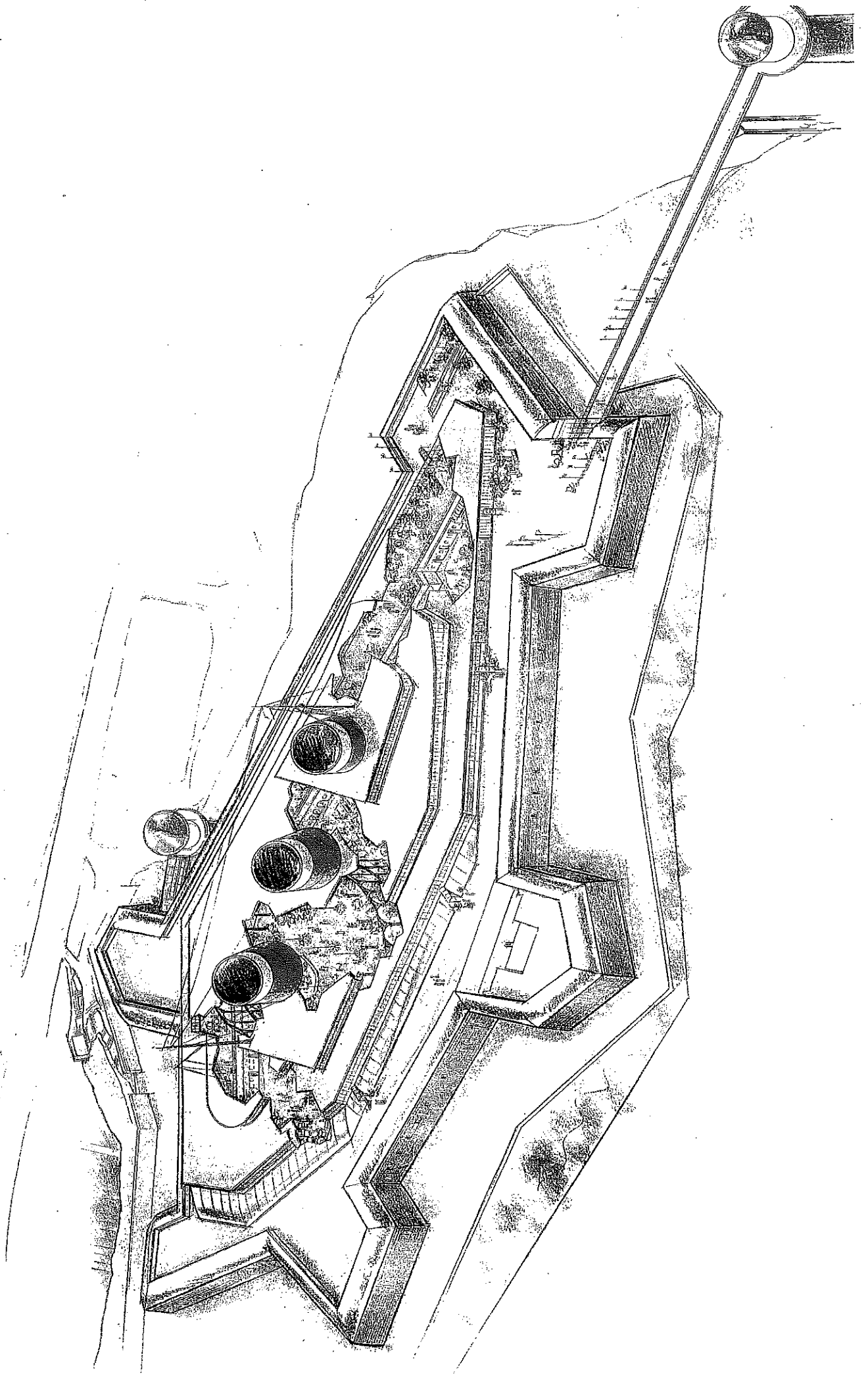
Pessimistic version	shops & catering	aspiring entertainm	cinema & theatre	general areas	Total £
- letting income	600.000	2.908.000	p.m.	0	3.508.000
Costs					
- letting cost	0	1.163.000			1.163.000
- payroll	0	400.000	p.m.	120.000	520.000
- maintenance	0	40.000	p.m.	790.000	830.000
- depreciation	142.000	93.000	p.m.	408.000	643.000
Total costs	142.000	1.696.999	p.m.	1.318.000	3.156.000
Profit/(loss)	458.000	1.212.000	p.m.	(1.318.000)	352.000

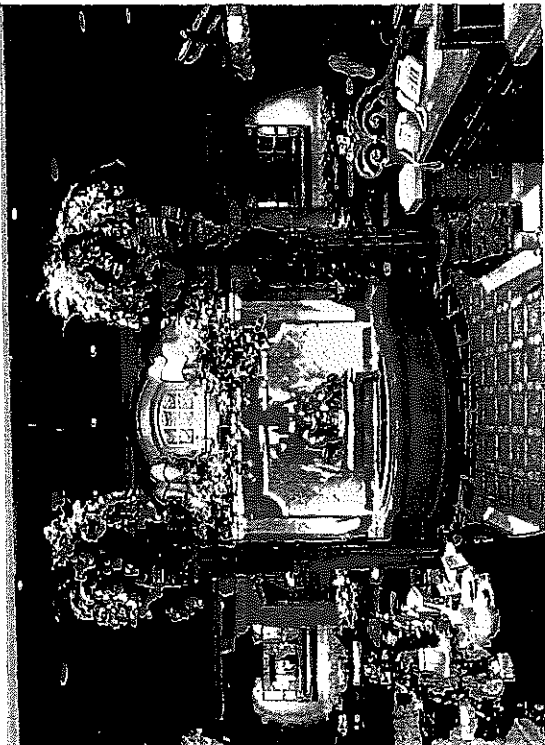
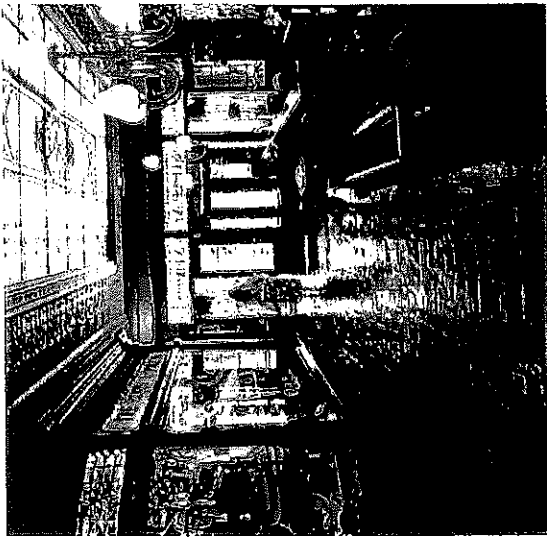
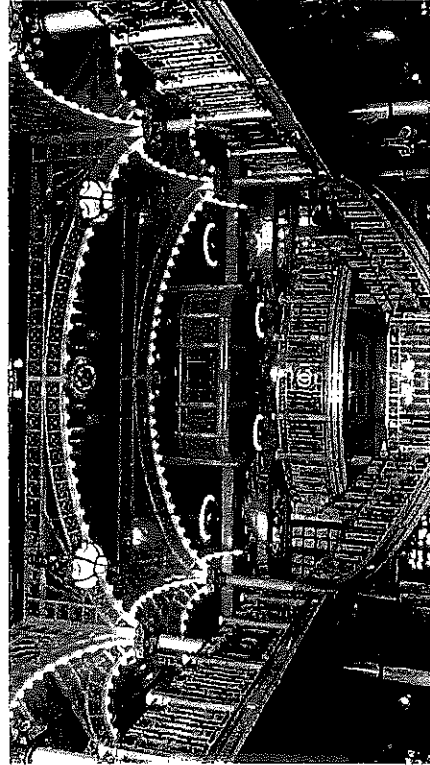
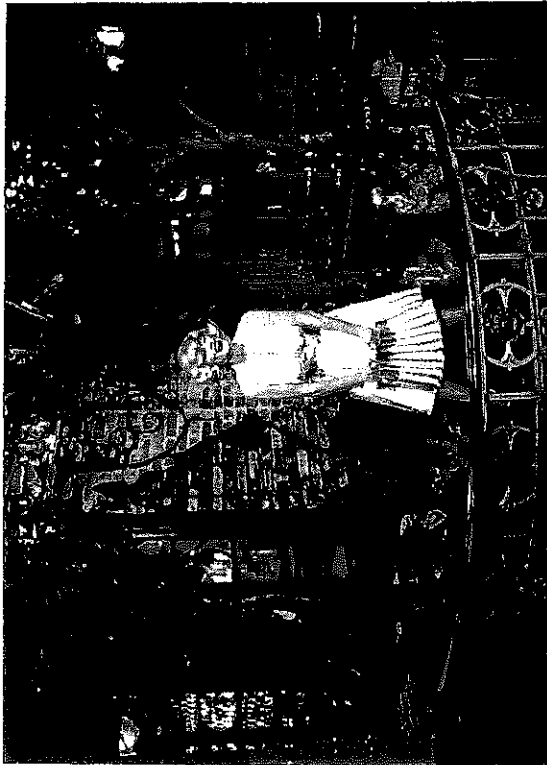
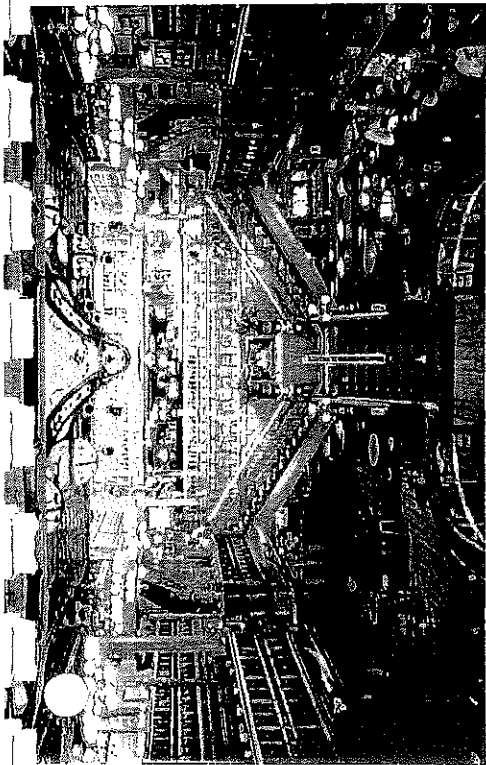
In above version we assume that 50% of the shopping & catering results as set out in the recapitulation, pessimistic version, in paragraph 5.4. will be reached. In respect of virtual reality, 138.000 visitors or 1/6 of the tourists will visit H.M.S. Fort Regent.

5.5.4. Conclusion

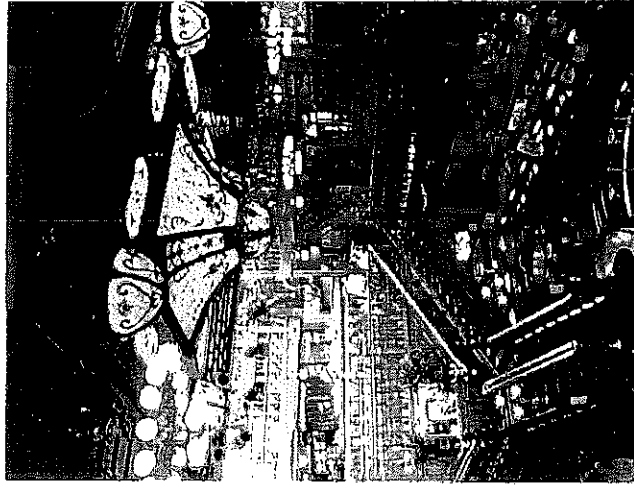
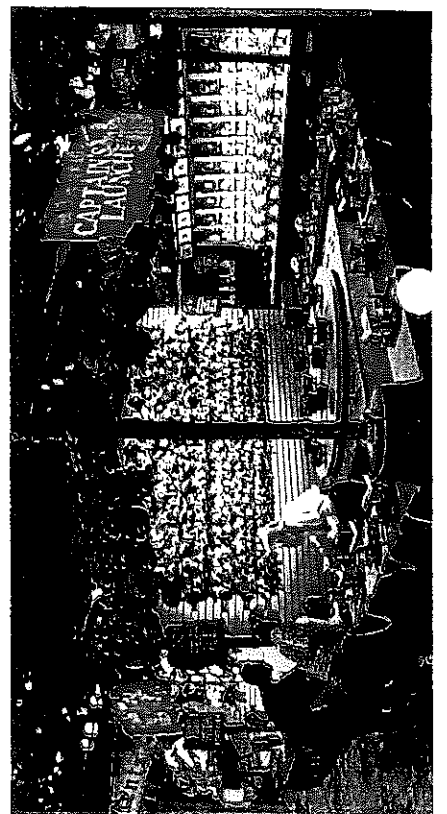
Above analysis shows that the creation of H.M.S. Fort Regent, will result in the most profitable results out of all proposals made in this study.

**Artist impression
"The HMS Fort Regent"**

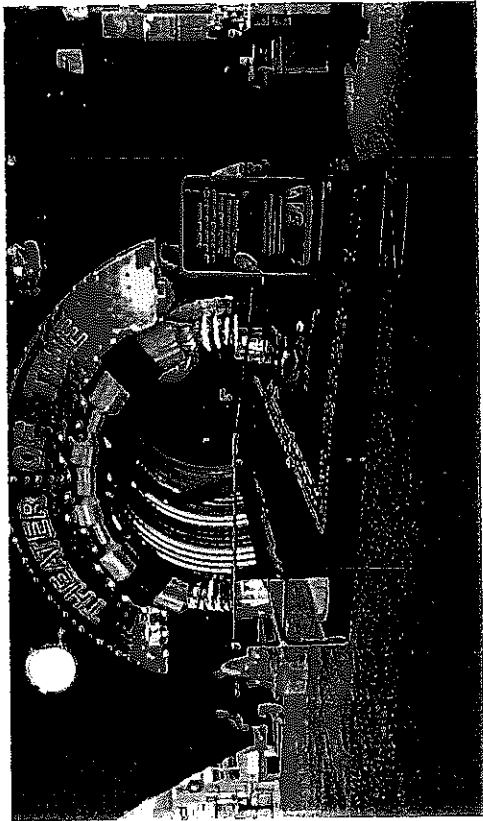




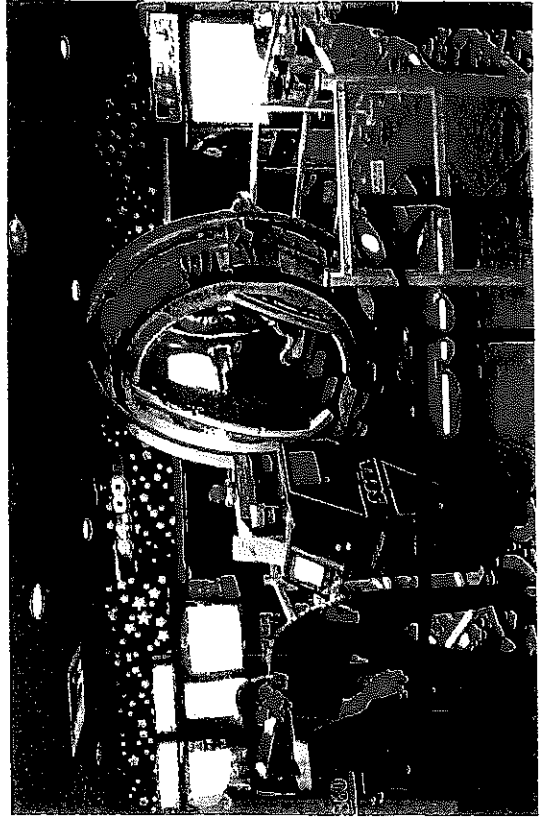
Artist impression
"The HMS Fort Regent"



Artist impression
"The HMS Fort Regent"



Artist impression
"The HMS Fort Regent"



6. EPILOQUE

Preparing this study was challenging. As the study progressed, it was also made clear that:

- * Fort Regent's future is depending on tourism
- * Tourism could become a more important and beneficial sector for the Island
- * Tourism needs a strategic view towards future and support by the States of Jersey in various ways (grants, subsidies, etc.)

It is therefore obvious that, in order to create a successful Fort Regent, it is necessary that the general tourism standards and conditions for the total Island are in line with the scope and quality of the future Fort Regent.

As stated in the preface, the tone of this study is direct and explicit. We tried to formulate single-minded conclusions and potential alternatives which have been studied with great care.

However, it should be noted that this study does not provide tailored and clear-cut solutions. It merely shows in which framework potential applications should be directed to. Before any implementation is made, it is necessary to carry out a more specific and in depth study on the related subject.

We would like to thank the Chief advisor of the States; Mr. Collin Powell, management and staff of Fort Regent, management and staff of the Tourism office and States officials for the assistance provided by way of written documentation and verbal information.

Edinburgh/Rotterdam May 1995

T. J. Hemmings (chairman)
D. Camilleri E. Philipsen
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M. van Nunen

7. APPENDIX

This study also revealed that:

- * A leisure pool is favoured by the Community with a positive impact on tourism, on its own financially not feasible,
- * The location of Fort Regent is not suited for a leisure pool,
- * Sport facilities are important for the Community, but financially not feasible,
- * The sport facilities should be relocated out of Fort Regent,
- * The States of Jersey could be prepared to make certain financial contributions towards the realisation and operation of such facilities.

Based upon above suppositions, we could conclude that beyond the strict scope of the study on Fort Regent, the implementation of a combined complex covering sport facilities, a swimming pool area and to a certain extent catering & retail facilities could be considered on a potential different location in Jersey.

For reference we produced an artists impression of such a project. This project is in line with the strategic guidelines and will have a positive on tourism. It will however need financial contribution from the States.

Such an alternative would obviously influence the alternatives for Fort Regent as set out in Chapter 5. Also, such an alternative would be subject to an in depth study.

**Artist impression
"combined complex"**

