STATES OF JERSEY

ESPLANADE QUARTER DEVELOPMENT: SCRUTINY REVIEW AND REFERENDUM (P.44/2015) – COMMENTS

Presented to the States on 15th June 2015
by the Council of Ministers

STATES GREFFE

COMMENTS

The Council of Ministers ask the Assembly to reject this proposition. The development of high quality office space for the financial services industry is essential for the future of our Island and the health of its economy.

Background

The concept of a finance centre was established in the 2002 Island Plan and has been through a great deal of change since 2006, when it was decided to commission a Masterplan rather than allow *ad hoc* development. During this time the concept has been debated 8 times by the Assembly and we have proceeded in line with these decisions. To assist Members, a short timeline is provided as an Appendix.

Overview

This is an issue that was rightly debated in 2008, when the Minister for Planning and Environment brought a proposition asking the Assembly to support the Esplanade Quarter Masterplan. It was again debated in 2010 when the Council of Ministers proposed the establishment of the States of Jersey Development Company ("SoJDC"). This proposition contained clear rules on phasing the development and on managing risk by requiring sufficient legally binding pre-lets to cover construction costs.[1]

So, the Assembly has democratically debated and agreed the plan, and it has agreed the means of delivering the plan. In response, SoJDC has commissioned detailed plans, secured planning permissions and has entered into legally binding agreements with a tenant and a local construction company.

Ministers agree the development should be carefully monitored. We agree that each individual phase of the development should be examined to ensure demand and viability, and as we monitor its overall progress, we will continue to analyse the suitability of the Masterplan for Jersey.

However, as the Assembly has given the scheme and the SoJDC a democratic mandate, we cannot in all reasonableness, and without significant financial and reputational damage, freeze all development works while we wait for the Panel Report and a States Debate. This delay could be sizeable and would undermine the growing confidence in our steadily recovering economy.

Any delay would also result in considerable financial cost to the public as SoJDC would breach its legal terms with the tenant and contractor; and damage our reputation as an Island and the credibility of the legislature as a reliable partner. This would include the loss of prospective tenants.

We do understand the concern expressed by Islanders. We are on the side of ordinary working people who want to work and prosper without risking public money. And that is what this scheme will provide.

[1] This is the point at which the requirement for 200,000 sq.ft. of pre-lets (established in 2009 to mitigate risk when Harcourt was going to develop the entire Masterplan) fell away, as it related only to the deal with Harcourt.

We have listened to Islanders' concerns about this development and we are taking account of them. Our response is not to stop this development in its tracks: it is to use the flexible nature of the Masterplan as a demand-led scheme to ensure we respond to the changing needs of Jersey as the development progresses; it is to make more provision for open community spaces as the plan evolves; and it is to use returns from the scheme to regenerate St. Helier. This is one of the advantages of owning SoJDC.

The Importance of the Jersey International Finance Centre

This debate is not just about a cluster of buildings. It is about our economic future. We need modern, flexible, well designed office space with state of the art facilities if we want to keep existing businesses and attract new ones.

There is only 15,000 sq.ft of 'Grade A' office space available in Jersey. This limits choice for businesses that want to move to Jersey, or for established businesses that want to grow. The vacancy rate on this kind of office space is less than 1%.

Countries, cities and communities that don't recognise the fast pace of change will decline and face economic difficulties. We need to adapt intelligently to a rapidly changing global economy driven by technological and regulatory developments. That is how we will ensure that new jobs are created, and that is how we will raise revenue to fund vital public services over the next 20 years as our society ages.

As Jersey Finance said to the Corporate Services Scrutiny Panel –

> *"…wherever a jurisdiction makes a successful investment in developing dedicated financial services district, that region….acts as a significant positive attractor for company location, business, and jurisdictional substance and reputation".*

In other words, the Jersey International Finance Centre is as important in driving economic prosperity to Jersey as Canary Wharf was to London, albeit on a much smaller scale. This development uses public land to provide choice for businesses, competition in the development market, and a return for the taxpayer.

The Jersey International Finance Centre is critical for the regeneration of St. Helier and the consequent protection of our countryside. Businesses are already migrating to the south of town, leaving vacated premises for smaller companies or for conversion into homes. The Jersey International Finance Centre is a perfect fit with this – creating a dedicated new district, attracting business on public land, creating space elsewhere in town for people to live and enjoy, and thereby limiting pressure on our countryside.

The plans for the Jersey International Finance Centre also set aside half the car park site as public spaces – a new park, a new square and tree-lined boulevards. This demonstrates the benefit of the SoJDC developing this site: we can ensure the provision of quality community open space.

The development will secure a financial return to the public – estimated at around £50 million on completion of the Jersey International Finance Centre element of the Esplanade Quarter. As the Masterplan progresses, we will make sure we can use this money for the much need regeneration of our town.

This is genuine strategic thinking, wholly in line with the States Strategic Plan, that responds to the challenges we face as an Island.

The Importance of Protecting Public Assets

No public money is being spent on construction costs.

Just like any other developer, SoJDC has to borrow money commercially. In doing this, the lender has obtained an independent "red book" valuation (prepared by a RICS qualified valuer to an international standard) that has confirmed that the value of the completed building with just the UBS pre-let significantly exceeds the loans to be put in place for the construction.

SoJDC was established by the States Assembly with clear instructions in P.73/2010 as to how this would work –

> *"**Sales** – If it is proposed that a specific development is undertaken directly by SoJDC, before committing to construction costs SoJDC will have to secure a sufficient level of legally binding pre-sales or pre-lets to fund the costs of constructing the first phase of a scheme. This will remove part of the sales risk of a particular development project and will ensure that there will be no financial liabilities relative to a particular development's construction costs".*

This test has been met through the agreement reached with UBS for the letting of 16,350 sq.ft, with an option for a further 7,000 sq.ft, on Building 4.

This test was explained by SoJDC to the Scrutiny Panel in a written submission to their review dated 27th February 2015 as follows:

> *"A sufficient level of legally binding pre-let will need to be:*
>
> *a. Sufficient to secure third party (private) finance for the construction of the building (using only the pre-let, the land for that building and expended pre-development costs as SoJDC equity);*
>
> *b. Cover the interest costs of the third party financing on Practical Completion and expiry of rent-free period; and*
>
> *c. Be sufficient so that if the building needed to be sold on Practical Completion with only the initial pre-let(s) in place, that the consideration (disposal value) would exceed the debt (construction loan)."*

The building has been fully designed and the plans have been fully specified and co-ordinated, and SoJDC has also entered into a fixed price construction contract so costs will not increase.

As to viability of the completed Jersey International Finance Centre, constructing one building at a time with the necessary pre-lets limits exposure, and allows plans to evolve to suit the Island's needs within the parameters of a flexible Masterplan. The financial viability of each building is independently assessed prior to any borrowing being entered into, and each building that is progressed will produce its own profit. This is how P.73/2010 was designed.

It is instructive to note that the previous Corporate Services Panel, having received a closed briefing from SoJDC, confirmed in March 2014 that –

> *"…the Panel considered that they had received sufficient information to satisfy themselves as to the viability of the project and would not raise any further questions".*

This is not to question the importance of the current Scrutiny review. However, the risks of Building 4 have been properly managed and its viability properly assessed, the risks of the remainder of the project will be managed in the same way and future phases will only progress if financially viable. In assessing this, we also should recognise that SoJDC is operating in a commercial and competitive environment and its agreements with tenants are commercially sensitive with strict non-disclosure agreements embedded within those agreements, and that the company has clear governance structures, an expert board, and clear lines of accountability to the shareholder representative.

The consequences of approving this Proposition

If we stop the development now, as the proposition asks, SoJDC will suffer significant financial losses. In line with States decisions, they have entered into legally binding agreements to let premises, to borrow money, and to construct Building 4.

Perhaps even more importantly, our reputation as a reliable partner for business would be fundamentally compromised. We should not place ourselves in a position where the democratically elected Assembly makes decisions, contracts are entered into, and then we have to break those contracts because the Legislature changes its mind. The Assembly has primacy, it can do this if it wishes, but there will be consequences. We should ask ourselves: What confidence can the finance industry have in us if this is how we operate? How does this look to international investors, who greatly value stability and certainty?

Conclusion

The future phases of the Masterplan – the sinking of the road and the development over the road – do require careful thought and ongoing monitoring.

The Masterplan remains the document to which we work, but Ministers accept that the later phases of it will need further consideration, perhaps even a States debate. The Assembly should, and will, have a role in this, but now is not the time when there is a shortage of available 'Grade A' office accommodation which limits choice for businesses. This is not a good position for the Island to be in when office based businesses are so crucial.

Ministers understand Islanders are concerned, whether about using public money, losing the car park, or developing this area of town. Some areas of the Waterfront have not lived up to people's expectations. Some, however, are living, breathing examples of high quality community spaces. Weighbridge Square, Les Jardins de la Mer, and Marina Gardens all demonstrate what can and will be provided for Jersey.

Change is often controversial but Ministers would not be serving the long term interests of Islanders if they did not supply the space businesses need in order to remain, grow and move here.

St. Helier has always adapted and changed. The sea used to lap against the walls of St. Helier Parish church, and Commercial Buildings was the Waterfront of the 19th Century. Previous generations have made bold decisions about the future. If anything, we are being less bold. We are building on a car park, we have secured tenants before doing so, we are taking each building one at a time to ensure viability. This means we can protect public money, and we can deliver the economic and regenerative benefits of the project.

For all these reasons, the Council of Ministers ask the Assembly to reject this proposition.

APPENDIX

Short Time Line on the Esplanade Quarter Development

2002	Island Plan establishes concept of a finance centre.
2006 – 2008	A Masterplan is commissioned and subject to public consultation.
June 2008	**P.60/2008**: Proposition to "endorse the intention" of the Minister for Planning and Environment to adopt the Masterplan….as an agreed development framework". **Approved.**
July 2008	**P.97/2008**: Proposition to rescind the Masterplan. **Rejected.**
October 2008	**P.111/2008**: Proposition to not sign any Development Agreement until States Assembly has approved it. **Approved.**
March 2009	Public Inquiry recommends for the scheme to proceed.
July 2009	**P.77/2009**: Proposition asking for "development works by Harcourt Developments Limited" to be deferred until "significant improvement in the economic situation". **Approved.** (Minister for Treasury and Resources Assembly statement outlines 200,000 sq.ft. condition on the development agreement by Harcourt, and direction provided to Waterfront Enterprise Board accordingly).
August 2010	Outline planning permission granted for Entire Esplanade Quarter (application made in July 2008).
October 2010	**P.73/2010**: Proposition to create SoJDC – including clear reference to risk management measures, including sufficient level of legally binding pre-lets to fund the costs of construction. **Approved.**
March 2011	Revisions to Masterplan commissioned by SoJDC and approved by Minister for Planning and Environment – rescheduling of work, putting office construction (JIFC) first, before road sinking.
May 2011	**P.24/2011**: Proposition to phase works and to require States debate before alterations to road. **Rejected.**
December 2011	**P.175/2011**: Proposition to defer works until new Assembly in place. **Rejected.**
2012 – 2014	Detailed planning applications process
March 2014	**P.15/2014**: Proposition that no new developments should be progressed until the details of the proposed developments have been endorsed by the Assembly. **Rejected.**
28 October 2014	Exclusivity Agreement signed with UBS.
28 November 2014	Heads of Terms signed (with tenant other than UBS) on Building 4.
7 December 2014	Announcement of new Scrutiny Review of the Esplanade Quarter.
18 March 2015	Heads of Terms signed with UBS on Building 4.
28 April 2015	Amendment to the Strategic Plan to insert words "subject to viability" to the development. **Approved.**
28 Apr 2015	**P.44/2015**: Lodged.
22 May 2015	Legally binding pre-lets signed.
29 May 2015	Contract signed with construction contractor.