NATIONAL AUDIT OFFICE

ENGLISH PARTNERSHIPS

Regeneration of the Millennium Dome and Associated Land

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 178 Session 2004-2005 | 12 January 2005

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John Bourn
Comptroller and Auditor General
National Audit Office

23 December 2004

The National Audit Office study team consisted of:

Neil Carey, Mark Halliday, Simon Johnson, Jane Squire, under the direction of Tim Banfield

This report can be found on the National Audit Office web site at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

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SUMMARY

1 In 1997 the incoming Government decided that the Millennium Experience should provide a lasting legacy for the nation. In 1998, Ministers decided that the Dome would itself remain, as part of that legacy. English Partnerships - the national regeneration agency which owned the site (and which are now sponsored by the Office of the Deputy Prime Minister[1]) and were due to receive it back after the New Millennium Experience Company's occupation - were asked to find a sustainable long term use for the structure, recognising its status as an iconic building. The Dome is located on a site of great strategic importance. The Greenwich Peninsula marks the western end of the Thames Gateway, one of the main growth areas proposed for economic regeneration and development in the South East of England. Public investment in remediation, servicing and landscaping works and in transport links has opened up the site for intensive and profitable redevelopment.

2 The initial unsuccessful competition for the Millennium Dome began in March 1999 but failed to find a buyer able to complete on acceptable terms. The first selected buyer, Dome Europe, had intended to continue operating the Dome as a visitor attraction but withdrew in September 2000 citing unacceptable commercial uncertainties over the assets and liabilities of the New Millennium Experience Company which operated the Dome. Ministers from several departments involved in the Millennium Dome project then selected a replacement bidder, Legacy plc, which proposed developing a high technology business park within the Dome. In February 2001 the Government withdrew Legacy's exclusive negotiating rights, mainly because their professional advisers and English Partnerships had grave doubts that Legacy had secured sufficient pre-lets and financial backing, and would give the taxpayer a good deal from shared profits over the lifetime of the project. In March 2001 the Government initiated a new sale process which led to a deal with Meridian Delta Ltd and the Anschutz Entertainment Group (Anschutz) for the redevelopment over 20 years of the whole northern Greenwich Peninsula, including reuse of the Dome.

3 The key question which we sought to address through our examination was whether, having learned lessons from the previous unsuccessful competition, the Government now has a good deal. Our approach is detailed in Appendix 1. Our overall conclusion is that the second sale process avoided many of the problems of the earlier Competition, and has produced a deal which looks capable of meeting government's objectives as the Peninsula is developed over the next two decades. The following paragraphs summarise the main conclusions from our examination. **Figure 1 overleaf** shows how the issues are analysed in detail in the main body of the report.

4 There were two main reasons behind the lack of success of the original Dome sale competition. The objectives for, and process of, the first competition were complex. The difficulties were exacerbated for those bidders which depended on the business records and performance of the New Millennium Experience Company. Second, it was inherently difficult to sell the Dome separately from other parts of the Greenwich Peninsula site, and within this it was difficult for the Government to derive sufficient confidence about the deliverability of innovative proposals from bidders.

5 The Government learned lessons from the original competition and applied these to the subsequent sale process. The Government followed a different approach in adopting a limited competitive process, against a background of little market enthusiasm for a rerun of open competition, widespread cynicism about the risks and costs of participation, and little specific interest in the Dome. During the second sale process the scale of the final deal expanded to include over 100 acres more land than had been explicitly offered. English Partnerships' active promotion of the opportunity to potential bidders had been focussed on the 68 acres beneath the Dome and its immediate surroundings, in line with government priorities. Some bidders realised that more land could in fact be available. English Partnerships, the Department and their advisers believe that to have made a clear, open offer of more land would have diminished interest in the Dome itself and in any case the winning Consortium has such strengths that the final choice of partner would not have been different, even had further strong consortia been attracted. The National Audit Office takes the view that it is unclear whether such an offer would have produced additional strong bids.

1 "The Department" See Appendix 2.

1 The report structure

The Regeneration of the Millennium Dome and Associated land

- **Part 1** Key lessons from the unsuccessful previous competition were identified
  - The first sale process was unsuccessful
  - Complexity
  - The inherent difficulty of selling the Dome in isolation from other parts of the Peninsula
- **Part 2** Given the lessons learned, the Government adopted a different approach
  - The decision not to mount another open competition was defensible
  - Shortlisted bidders were permitted to propose use of more land than had previously been advertised
  - English Partnerships had reasonable grounds for regarding only one bid as clearly compliant and deliverable
  - There were upwards pressures on some of the costs of the process
- **Part 3** This necessarily complex deal offers integrated regeneration of the Greenwich Peninsula, but it remains for the parties to deliver the benefits
  - The deal offers an integrated solution for the regeneration of the Greenwich Peninsula
  - The plans for the Dome have commercial attractions
  - English Partnerships' position is governed by a series of complex contracts
  - There are important risks to manage if good value for money is to be achieved
  - Why English Partnerships concluded that the proposed deal should be better than the main alternatives

6 Based on a review of the legal documentation, the main assumptions underlying the projected future revenues, and the practical constraints and commercial factors that influence the decision on whether or not the Dome should be retained for at least the next 15 years, the deal that English Partnerships have reached with Meridian Delta Ltd and Anschutz ("the Consortium"), for the development inside the Dome and on the Greenwich Peninsula provides a platform for regenerating the Peninsula as the Government desires. However, as is the case in any joint venture, there are risks which English Partnerships will have to manage over the life of the deal to achieve maximum benefit for the taxpayer.

7 The deal is with a strong consortium. Lend Lease is a large development and construction company backed by a substantial balance sheet. Both it and Quintain are experienced property developers with track records of realising successful schemes, such as the Bluewater shopping centre in Kent, developed and managed by Lend Lease. The Anschutz Entertainment Group brings resources and relevant experience as a developer and operator to the Dome. Its need for a larger arena in London coincided with the availability of the Dome. It now remains for the parties to finalise key details arising from the contracts and to convert their assessment of the scheme's potential into a reality.

CONCLUSIONS

There is unlikely to be another sale quite like that of the Millennium Dome. However there are several generic lessons which could apply to the sale of large and complex real estate assets:

1 Involvement of many stakeholders with different aims and interests greatly increases the risk of project failure. The chances of success are greater where a single organisation is given responsibility and authority to transact the deal.

2 If vendor departments decide to alter the terms of their offer to the private sector they should explicitly advise all potential bidders unless there are powerful and verifiable reasons to the contrary. This is as important before short listing of bidders as in later stages of sale processes.

3 Where public-private deals address a mix of tangible and intangible objectives, departments should communicate to bidders, at least by the time of the invitation to tender, how they will evaluate trade-offs between objectives.

4 Public bodies undertaking privatisations or sales have sometimes been unable to supply bidders with adequate records of assets and liabilities; a difficulty in this case at the New Millennium Experience Company. Vendors should commission 'dry runs' of due diligence ahead of negotiations to identify and rectify deficiencies in information that would otherwise impede reaching deals.

5 Doing the deal is only the start of the story. When entering into long term partnerships public bodies need to put in place sufficient management expertise and resources to ensure that they can be proactive and perceptive partners throughout the implementation phase.

PART ONE

Key lessons from the unsuccessful previous competition were identified

In the first part of this report we examine the reasons why the original Dome sale competition, ending in February 2001 without finding a buyer, was unsuccessful and if lessons were learned and applied to the next sale process which has produced the current deal with Meridian Delta Ltd.

Our analysis shows that the main themes behind the initial lack of success were:

- *the complexity of the first competition objectives and process, including dependence on the records and performance of the New Millennium Experience Company; and*
- *the inherent difficulty of selling the Dome in isolation from other parts of the northern Greenwich Peninsula site.*

We found that lessons were learned and applied to the subsequent sale process.

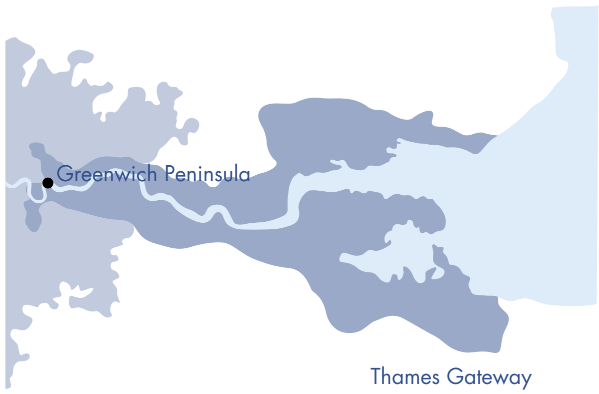
The first sale process was unsuccessful

1.1 When the Millennium Exhibition project was first conceived in the mid 1990s, the expectation had been that at the end of its year of operation the Dome would be demolished or moved, and that the cleared site would be sold for redevelopment under an existing masterplan for the Greenwich Peninsula. However, in 1997, the incoming Government decided that the Millennium Experience should continue as a 'lasting legacy' in Greenwich. In 1998, the decision was taken to retain the Dome. This resulted in changes to the specification of the Dome, such as a more durable fabric skin, to ensure that it would last at least 20 years. English Partnerships, the national regeneration agency now sponsored by the Office of the Deputy Prime Minister and owners of the site, were asked to find a sustainable long term use for the structure, recognising its status as an iconic building.

1.2 The Dome is located on a site of great planning importance. The Greenwich Peninsula is at the western end of the Thames Gateway, an area proposed for major economic regeneration and development in the South East of England over the next 20 years, **(See Figure 2)**. To the north, west and east of the site lie Canary Wharf and the London Docklands. Public investment in improved transport links, principally the Jubilee Line extension, and in remediation, servicing and landscaping works, has opened up the site for intensive and profitable redevelopment. This will mainly be commercial and residential property, to complete the work begun by English Partnerships at their new Millennium Village and associated commercial developments at the southern end of the Peninsula. Though English Partnerships own most of the land on the Peninsula, important areas are owned by London Underground Limited and by private companies **(See Figure 3)**.

2 The location of the Greenwich Peninsula

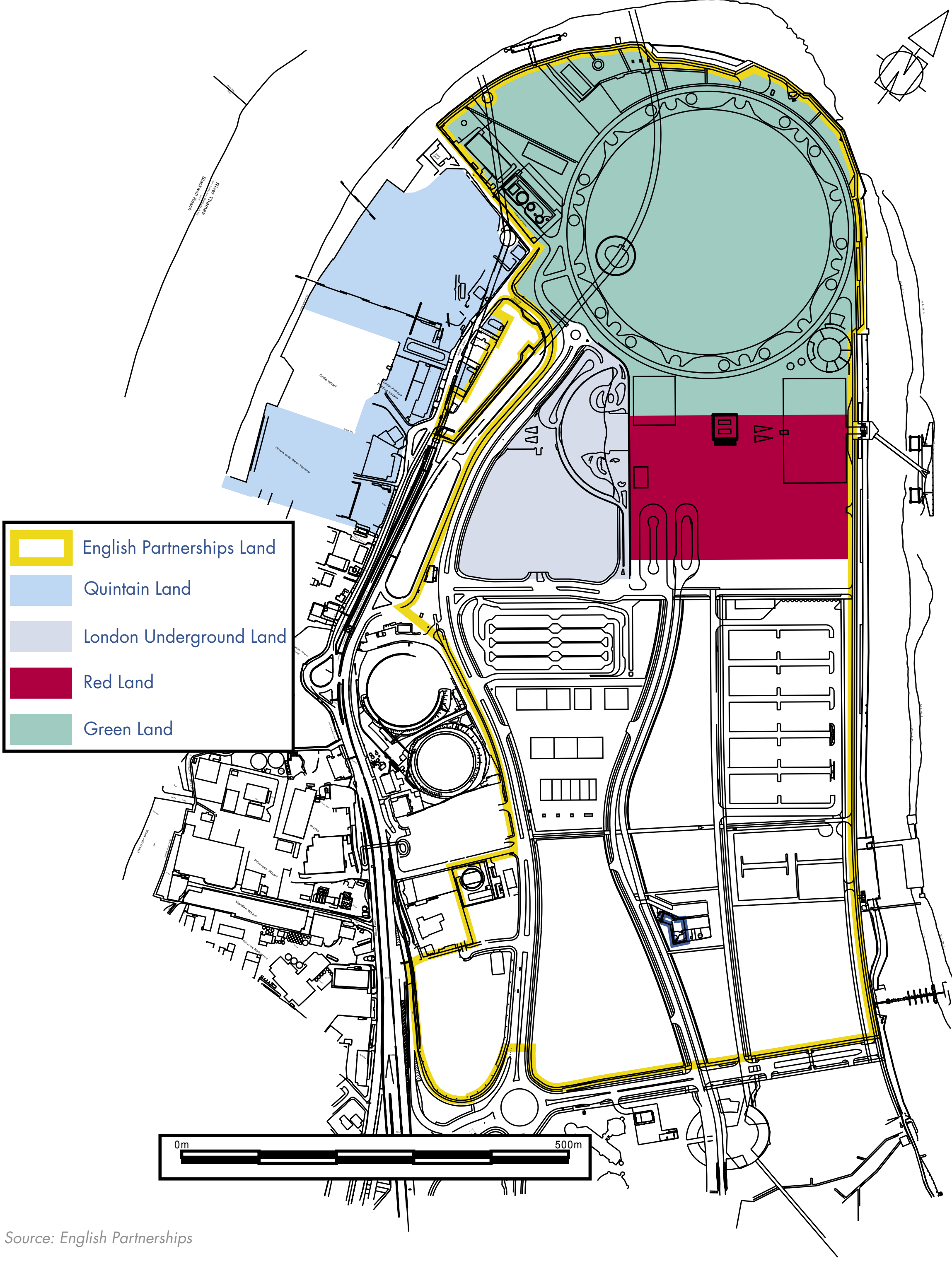
The Greenwich Peninsula is located in East London and is in a major regeneration area, the Thames Gateway.



Source: Office of the Deputy Prime Minister

3 The North Greenwich Peninsula

English Partnerships own most of the land on the Peninsula, important areas are owned by London Underground Limited and by private companies.



Source: English Partnerships

1.3 The initial competition for the Millennium Dome began in March 1999 but did not produce a deal **(See Figure 4 overleaf)**. The first selected buyer, Dome Europe, had intended to continue operating the Dome as a visitor attraction but withdrew in September 2000 citing unacceptable commercial uncertainties over the assets and liabilities of the New Millennium Experience Company which operated the Dome. Ministers from several departments involved in the Millennium Dome project[2] then selected a replacement bidder, Legacy plc, which proposed developing a high technology business park within the Dome. In February 2001 the Government withdrew Legacy's exclusive negotiating rights, mainly because their professional advisers and English Partnerships had grave doubts that Legacy had secured sufficient pre-lets and financial backing, and that their scheme would give the taxpayer a good deal from shared profits over the lifetime of the project.

1.4 The costs of running the original competition were £6.7 million, mainly in fees to professional advisers to English Partnerships, **(See Figure 5 on page 9)**. Dome Europe and Legacy also committed substantial resources to the exercise. Dome Europe, a vehicle of the Nomura Investment Bank, claimed to have spent some £10 million working up detailed proposals involving a team of up to 200 people. Legacy stated that they spent a similar amount.

1.5 In February 2001 English Partnerships and the Department considered a report, issued by English Partnerships' Competition Director, on lessons learned from the failure of the original process. These conclusions were taken into account in designing a new approach to finding a buyer.

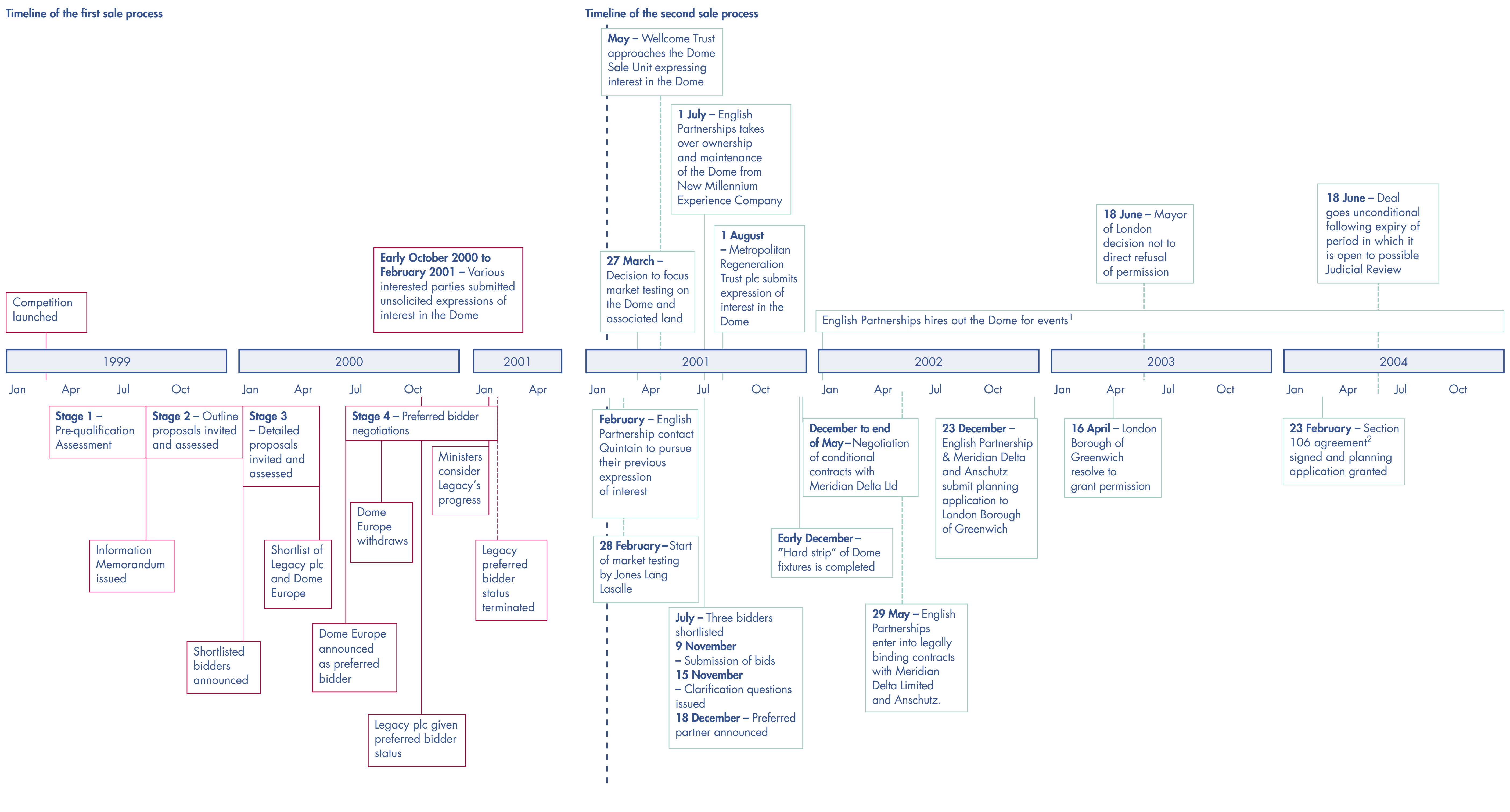
Complexity

1.6 There were many respects in which the earlier competition was over-complex:

- Its diverse range of objectives and the resulting evaluative criteria to be used to assess any bids;
- The sale process itself, including decision-making; and
- Its dependence on the records and performance of the New Millennium Experience Company.

2 Identified in the Glossary at Appendix 2.

4 Chronology of Events



Source: National Audit Office

NOTE

1 Since December 2001 English Partnerships have hired out the Dome for 12 major events including: music shows, sports competitions and other themed events. Including set up and dismantling periods, events have lasted up to three weeks at a time.

2 Section 106 of the Town and Country Planning Act 1990.

5 The total costs to English Partnerships of decommissioning, maintaining and selling the Dome

Total costs incurred by English Partnerships in the sale processes and in managing the Dome from July 2001 until the deal became unconditional in 2004 amount to £28.7 million.

Nature of expenditure	Total expenditure £m
Costs associated with the first Sale process (Part 1)[1]	6.7
Management and maintenance of the Dome[2]	7.5
Decommissioning the contents of the Dome and its site[3]	6.7
Costs associated with the second Sale process (Part 2)	7.8
Total costs	**28.7**

Source: English Partnerships

NOTES

1 Costs incurred up to February 2001.

2 Includes environmental insurance £0.59 million and Staff Costs in addition to the figures in Figure 13.

3 Excludes decommissioning costs incurred by the New Millennium Experience Company, £6.3 million.

Complex objectives and evaluative criteria

1.7 The original Dome Sale Competition was intended to achieve a diverse range of objectives. Besides yielding an acceptable level of sale proceeds, a successful bid would have to meet a range of "hard" and "soft" criteria, including: providing an innovative and distinctive use for the Dome and "cultural significance", **(See Figure 6 on page 10)**. The inclusion of cultural objectives reflected the wish of the Department for Culture Media and Sport to respond to public and parliamentary concerns that the competition should take into account the cultural significance of the Dome, while ensuring the best commercial deal. There was no clearly stated weighting between these criteria to help bidders identify the most advantageous balance between them. The Competition team informed bidders that Ministers would make their own judgement in selecting the winner. The bidders who responded to our survey (see Appendix 1) had mixed opinions about the clarity of the criteria. Learning from this experience, the Government simplified the objectives for the next process, emphasising the deliverability of proposals and increasing the range of possible uses for the Dome.

Complex decision-making

1.8 The original Dome Sale Competition was designed taking into account the needs and preferences of numerous stakeholders, each of which had to be consulted and involved in decision-making, **(See Figure 7 on page 12)**. English Partnerships recognised this difficulty from the outset, but sought to manage it as best they could. Though English Partnerships owned the freehold of the land, the New Millennium Experience Company as the occupier and operator of the Dome and as the owner of the contents had a major financial interest in the outcome of the sale process. This necessitated involvement by the Company's sponsors, the Department for Culture, Media and Sport and the Millennium Commission.

1.9 Decision-making was also complicated because some of the parties involved had divergent objectives. The most intensive phase of the initial Dome Sale Competition coincided with a deterioration in the finances of the New Millennium Experience Company, for reasons explained in our previous reports.[3] The Directors of the New Millennium Experience Company, recognising their prime responsibilities to act in the interests of the Company, influenced the sale process towards what they perceived as the New Millennium Experience Company's financial interests, aside from any consideration of the wider public interest. In December 1999 the New Millennium Experience Company lobbied successfully, against the advice of English Partnerships[4] and the Competition team, for the inclusion of Legacy plc on the shortlist of bidders. Unlike other bidders Legacy plc had offered an advance payment for the Dome, in which the New Millennium Experience Company would expect to share. In November 2000 the New Millennium Experience Company supported preferred bidder status for Legacy plc as it was the most likely option to provide a share of proceeds against its potential contractual liabilities at that time. Again, the appointment of Legacy plc as preferred bidder, for a three month period, was against the advice of English Partnerships and the Competition team.

3 The Comptroller and Auditor General's reports on the Millennium Dome (HC 936, Session 1999-2000) published in November 2000, and on Winding up the New Millennium Experience Company (HC 749, Session 2001-2002) published in April 2002.

4 Letters, dated 8 November 2000 and 15 November 2000, from Sir Idris Pearce, as acting Chairman of the English Partnerships Board, to the Deputy Prime Minister.

6 Objectives and evaluative criteria for the two sale processes

The second sale process had fewer and more easily evaluated objectives and criteria than its precursor.

First competition objectives **April 1999 to February 2001**	**Second sale process objectives** **From March 2001**
'To ensure a sustainable alternative use for the Dome which reflects its cultural significance and contributes fully to regeneration both of the Greenwich Peninsula as a whole and more widely'.	To secure a deal which provides: value for money; regeneration benefits for the area; deliverability and a proper use for the Dome.
'The Government will wish to achieve good value for money from the disposal of the Dome and related land, and will have regard to whether the proposal would generate receipts which at least match those which could have been achieved if the site were clear and disposed of for ordinary commercial development'.	*This objective was essentially continued.*
'The Government will also pay close attention to the regeneration and cultural outputs likely to be delivered by any proposed use, and its compatibility with proposals for developing the rest of the Peninsula and the wider Thames Gateway area'.	
Evaluative criteria:	Evaluative criteria:
■ Commercial and environmental sustainability	■ Providing a worthwhile and sustainable future for the Dome
■ Cultural significance, e.g. raise standards of education and training in any aspect of the creative and cultural sector	
■ Innovation, e.g. imaginative and distinctive use of new technology	
■ Regeneration, in terms of economic, physical and social benefits	■ Regeneration
■ Transport, minimise reliance on car access, maximise use of public transport	■ Deliverability, *(since obtaining planning permission would require minimised car use, this also included public transport criteria)*
■ Financial Offer.	■ Value for money.

Sources: Information Memorandum issued to potential bidders April 1999, and public consultation document April 2000. Ministerial Statement 29th May 2002 and announcements by English Partnerships

1.10 The Competition team advised Ministers in November 2000, following the withdrawal of Dome Europe, that they could not recommend giving Legacy preferred bidder status, because they were not confident that, even with further negotiation, Legacy's proposals would lead to a deliverable deal. Concerns included doubts over the construction technology and the level of demand from tenants. The Government's legal and property advisers had been asked to confirm whether Legacy's proposals were clearly deliverable, and it was impossible, given the commercial uncertainties, for them to do so with confidence. However, the advisers did provide advice that Ministers could proceed to appoint Legacy as preferred bidders without breaching competition rules, and, if they did so, which issues needed to be addressed. With no other bid on the table that looked more deliverable within the same timescale, Ministers decided to persevere with Legacy, giving them only two months, later extended to three months, in which to satisfy the Government that they had a clearly deliverable deal. In the event, Legacy was unable to do so.

1.11 The sale of the Dome is an extremely high profile transaction involving the future of a nationally important asset, and so it was clearly stated that Ministers would decide the winner on the basis of advice from the Competition team, and taking into account representations from English Partnerships and the New Millennium Experience Company. The extent of ministerial involvement led to another difficulty in the decision-making process. Both preferred bidders perceived Ministers as a court of appeal that they could resort to if they failed to reach agreement with the Competition team. Although we found no evidence that such approaches led Ministers to overturn or undermine the negotiating position of the Competition team, handling periodic appeals to Ministers created an element of distraction from the main business of negotiation for the team and bidders alike.

1.12 A joint Dome Sale Unit[5] was established in early 2001 to overcome the problems described above. It comprised officials from both English Partnerships and the Department working closely together and jointly led by senior representatives from each organisation. The aim was to enable rapid communication between the organisations, and ensure shared knowledge of both technical issues and Ministers' wishes. In July 2001, the decision-making process was greatly simplified when the New Millennium Experience Company's tenancy of the Dome came to an end and the site was handed over to English Partnerships, **(See Figure 8 on page 13)**. English Partnerships took over the Company's remaining responsibilities for decommissioning and managing the Dome as part of an overall settlement for sharing eventual sale proceeds between them.[6]

Difficulties at the New Millennium Experience Company had affected the Competition

1.13 Our previous reports on the New Millennium Experience Company noted problems of poor records of assets and liabilities at the Company. The Competition team had raised serious concerns with the New Millennium Experience Company of the likely impact of the lack of information on the sale process, and, in fact, the problems did prove to adversely affect the process for the sale of the Dome. In particular, it was not until October 2000, a month after the withdrawal of the Dome Europe bid, that the Company was able to find the resources to review its 1,350 plus contracts with suppliers to ensure that they were all logged and closed in the most beneficial way for the Company, and to reduce outstanding contractual liabilities in preparation for liquidation.

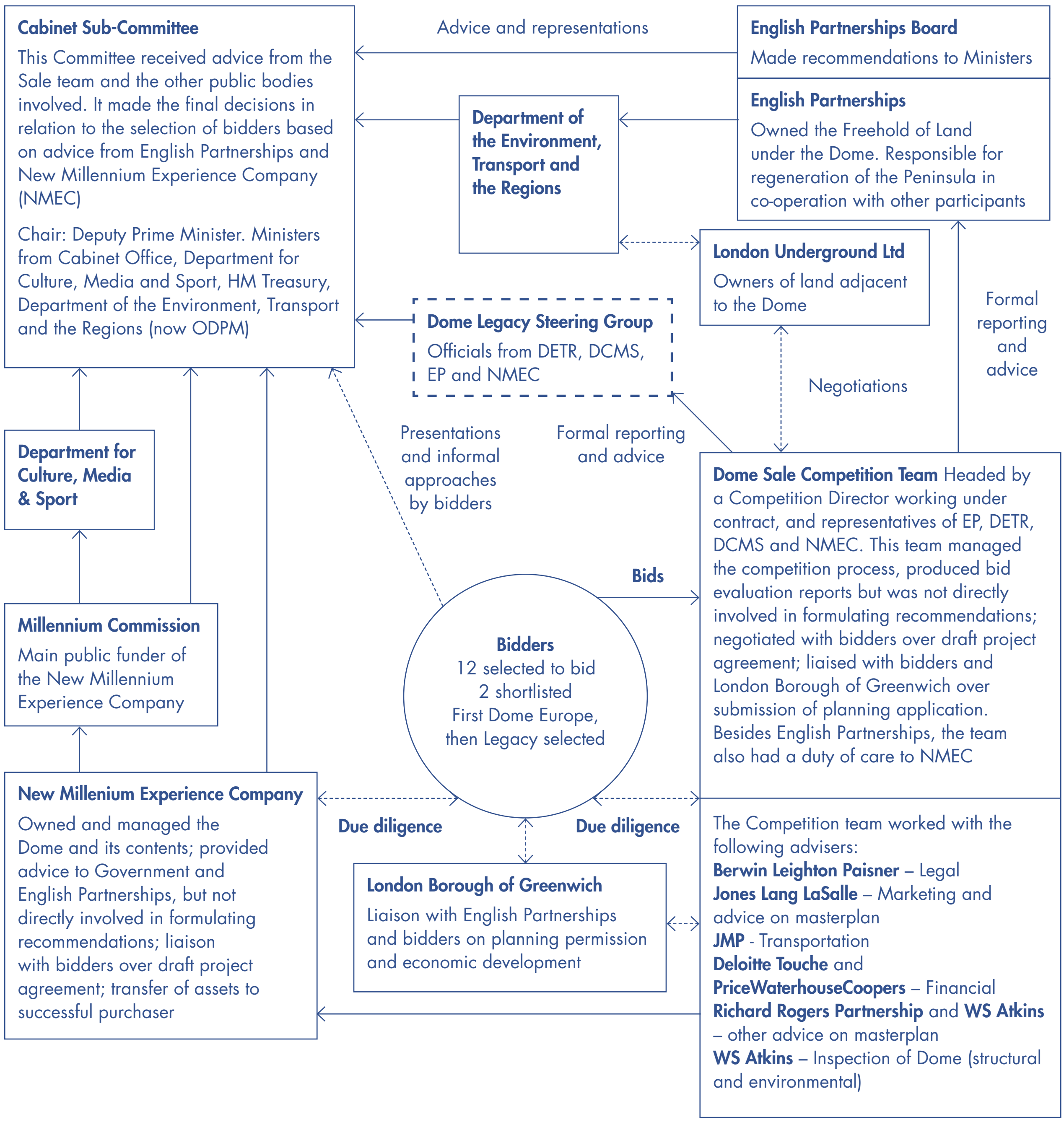
1.14 Deficiencies in such important records were a serious matter for Dome Europe, because it planned to take over the exhibition as a going concern and needed a clear picture of the business risks. This became more significant over time as it indicated that it wished to retain more of the existing exhibition than previously planned. It was established early in the process that the New Millennium Experience Company could not warrant the accuracy or completeness of its own records, and so Dome Europe committed its own resources to filling the gaps in information. In September 2000 the New Millennium Experience Company declared that it was unwilling to be contractually committed to the asset registers that Dome Europe had assembled, because it had no resource available to check them, although it offered to make a check for high value items, which was not taken up. Dome Europe cited this as a key reason for their withdrawal, though the New Millennium Experience Company contested its significance. The real disagreement appears to be over the reasons for the uncertainties and what should have been done to overcome them in the time available.

1.15 Besides having an unclear picture of the New Millennium Experience Company's business, Dome Europe expressed increasing concern about the commercial information that it was receiving. The Dome Competition proceeded in parallel with the operation of the Dome exhibition throughout 2000. During this time it became increasingly clear that the project would not be as great a commercial success as had been expected. Matters came to a head by early September when Dome Europe expressed concern over low visitor numbers and the New Millennium Experience Company's discounting of admission prices, causing Dome Europe to reconsider its own business plan, and to lower its own estimates of paying visitors from 3.5 million a year to less than 3 million.

5 See Glossary.
6 In June 2004 Ministers announced that in recognition of the leading role played by the Millennium Commission in helping to regenerate the Greenwich Peninsula, sale proceeds would be shared with the Lottery. English Partnerships will retain the first £30 million of development receipts, reflecting the costs that it will have incurred in decommissioning, managing and maintaining and disposing of the Dome since 2001 until its costs cease when the Arena is completed. Thereafter, English Partnerships will retain 87 per cent of receipts, and the remaining 13 per cent will be passed to the Lottery, through a legal agreement being agreed between English Partnerships and the liquidators of the New Millennium Experience Company. This will bind the parties to the respective shares of proceeds over the period covered by English Partnerships's contracts with Meridian Delta and Anschutz.

7 The decision making process in the first competition

The decision making process in the first sale competition was complex.



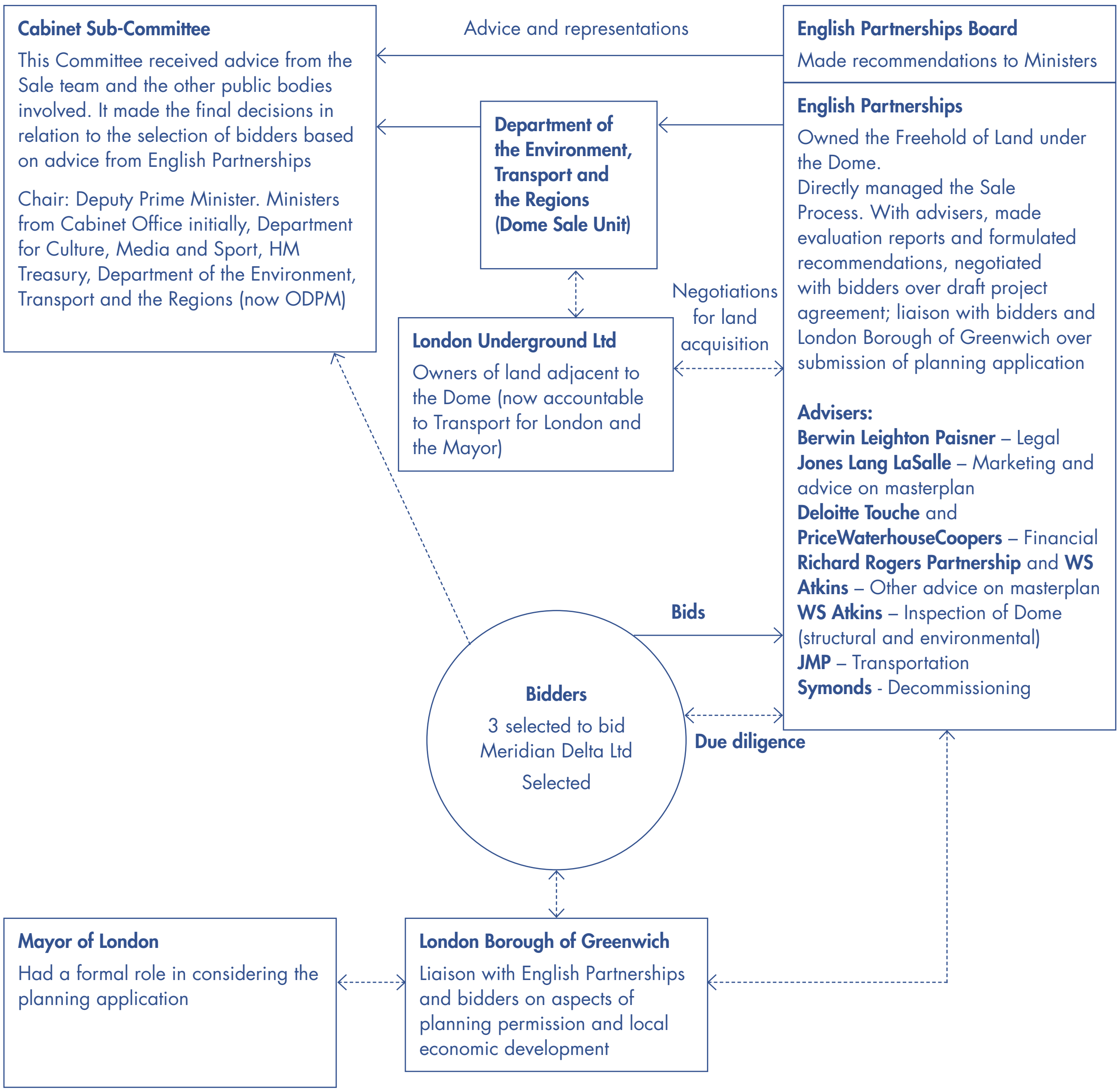
Source: National Audit Office

NOTES

Solid Lines = Lines of Responsibility
Broken Lines = Discussions

8 Simplified decision making for the new Dome sale process

English Partnerships took over the site in July 2001.



Source: National Audit Office

NOTES

Solid Lines = Lines of Responsibility
Broken Lines = Discussions

1.16 Dome Europe's proposal was dependent on re-opening the Dome to the public in February 2001, and required an exchange of contracts by September 2000 at the latest in order to undertake the necessary preparatory work. Dome Europe decided in September that the continuing major uncertainties were too great and withdrew. In the second Dome sale process, these issues did not arise because by then the New Millennium Experience Company had relinquished the Dome to English Partnerships and was being wound up.

The inherent difficulty of selling the Dome in isolation from other parts of the Greenwich Peninsula

1.17 The Dome sale competition had started in early 1999 amidst widespread optimism that the Millennium Exhibition would be a success and that a wide choice of innovative and deliverable proposals for the future use of the Dome would come forward, yielding significant sale proceeds to Government. However, as proposals came forward the practical implications of development inside the Dome became increasingly clear. Complications included:

- the constrained height of buildings compared to open sites - limited to six to eight storeys at the centre of the Dome and two storeys at the perimeter;
- the severe consequences of building within the Dome in stages, because construction noise and pollution would seriously affect and deter early occupiers; and
- the implications of lower levels of natural light within the Dome than outdoors.

Such difficulties were not necessarily insuperable, but collectively they limited the ability of bidders to make viable and financially attractive offers based solely on retention of the Dome.

1.18 Bidders in the first competition (See Figure 6) were requested to produce proposals that were innovative and distinctive, as well as financially and commercially robust. In practice, the requirement to be innovative led bidders to make proposals that English Partnerships and the Competition team found difficult to evaluate and to place confidence in, because of unusual conceptual, technical, financial, or commercial elements. This was compounded by the proposals not being as comprehensive and detailed as the Competition team had hoped. Because most proposals envisaged English Partnerships taking part, or all, of the sale proceeds in the form of a share of estimated profits, the team had to gauge likely market demand for the proposed uses. To illustrate the challenges facing the team, the most attractive and innovative selling point in Legacy's proposal was to bring together biotechnology, e-commerce, telecommunications, and wireless tenants in a 'Knowledge City', a very large, high technology, industrial campus. However, most firms in these fast-moving sectors have relatively small space requirements and are unlikely to sign up for accommodation in developments yet to be built.

1.19 In November 2000 the Ministers appointed Legacy as preferred bidder on the understanding that it would demonstrate demand, for example by agreeing indicative heads of terms with potential tenants. The Competition team considered there was a risk that Legacy could only make the scheme profitable by opening it up to non-technology tenants and so detracting from its distinctive nature to become a "standard business park". In the following three months Legacy found it impossible to get sufficient technology tenants to commit to taking space. Legacy cited severe, adverse media publicity as the main cause of difficulty and predicted that tenants would come forward once the site was secured. In January 2001, as Legacy's preferred bidder status neared its end, the company offered Government a covenant that they would let at least a sixth of the office space to "technology companies". Such a low proportion was not acceptable to the Government. In the next sale process the Government's criteria for selection emphasised deliverability of bidders' proposals to a much greater extent than in the first competition, but still also sought distinctive uses for the Dome.

1.20 When the initial Dome Sale competition began in 1999 the 48 acres of land beneath and immediately around the Dome was offered for sale, but with an indication that further land could be available provided that bidders could show that the land was essential for their proposed use of the Dome and an integral part of their proposals. Such integral uses might include car parking or visitor reception facilities. To enable this Ministers agreed that up to a further 20 acres of land adjoining the Dome, known as the "Red Land"[7], could be included. The Competition team stressed to bidders that inclusion of the land purely as a cross-subsidy for development of the Dome would be unacceptable.

1.21 As bidders developed their proposals and identified risks to the viability of developing the Dome itself, they increasingly proposed intensive property development on the Red Land (See Figure 3). Negotiations between the two successive preferred bidders and English Partnerships over profit sharing and the extent to which English Partnerships should exercise control over development on the Red Land were difficult and complex. In the case of Dome Europe, though the principles for profit sharing and development control had been agreed at the time that they withdrew, the Company stated that their advisers and those of English Partnerships had not been able to turn these into a legal agreement. On 10 September 2000, the day before Dome Europe withdrew, English Partnerships' legal advisers stated that, given the complexity of such issues, "it remains difficult, to the point of near impossibility, to give a realistic assessment of the timing to an exchange of contracts with Dome Europe".

1.22 In the case of Legacy, the firm's initial proposals did not envisage a requirement for the Red Land, but this changed when they became preferred bidder in November 2000. Their proposals developed from a low density campus to an extremely dense city-centre style scheme. The change would produce an enormous increase in the value being created and in which Government would expect to share. Negotiations between Legacy and the Competition team over profit sharing were difficult and an acceptable deal on the use of the Red Land had not been achieved by the time the Government withdrew Legacy's preferred bidder status in February 2001.

1.23 As the initial competition came to a close in early 2001 several participants on the public sector side came to recognise that the Dome itself may not be viable for sale on its own:

- The Competition team considered that ongoing use of the Dome would be likely to attract proposals for some form of cross-subsidy from land receipts and that any constraints on such cross-subsidy should be made clear at the outset.
- The bankers Lazards, advising Ministers, also concluded that a number of constraints imposed in the competition might stimulate greater interest if they could be relaxed. One of these was the requirement that there should be no cross-subsidy from unrelated use on land outside the Dome. The others related to possible relaxation of limitations of planning conditions imposed by the local planning authority on car parking and retail provision in any scheme.
- The Board of English Partnerships concluded in November 2000 that it would be wrong to consider the Dome in isolation from the land on the Greenwich Peninsula. If the new process repeated this mistake a similar outcome was likely to occur.

1.24 These views were consistent with those we received from our survey of bidders. Few developers had any real idea of what to do with the Dome itself, and one told us that the market was only really interested in the land bank and that it may have been better to use that desire as a marketing tool with which to encourage greater interest and establish the future use of the Dome as a condition of sale. Nevertheless, the next sale process began on the same formal basis as before, allowing for additional land to be made available only where it was an essential part of bidders' proposals for the Dome.

7 Known as the 'Red Land' due to its colour on early development plans. Lies to the south of the Dome.

1.25 The Millennium Dome is bordered to the south by a key plot of land occupied by the London Underground station, (See Figure 3). This land was acquired by London Underground Limited in the mid-1990s in order to establish a Jubilee Line station, bus terminal and commuter car park on the Peninsula. The land acquired particular significance in the sale competition in 2000 when English Partnerships, mindful of arguments on planning grounds against putting a new car park on the Red Land, encouraged bidders to develop proposals to use the station car park instead. Dome Europe stated that an agreement would be essential before they could exchange contracts and submit an application for planning permission. The Department had hoped that they could enable English Partnerships to quickly acquire the car park site, but legal advice then showed that it was unlikely that London Underground Limited could be formally directed to sell the site, partly because the legal status of London Underground Limited did not permit ministers to direct them, and partly because there were constraints upon the ability of London Underground to dispose of operational land. Negotiations with London Underground Limited to acquire the site proved difficult. Negotiations effectively began again when the next sale process began in early 2001.

1.26 English Partnerships and London Underground Limited resolved their difficulties in the second sale process, through a deal which initially shares the car park and provides for both parties to participate in any later gains from redeveloping it. Factors contributing to this successful outcome were:

- A more considered and consultative approach to working out car parking needs than was achieved under pressure of time in the previous competition; and
- The added confidence in forecasting future demand for station facilities that London Underground Limited derives from the new scheme's comprehensive approach to developing the Greenwich Peninsula estate, as opposed to the Dome-only schemes that preceded it.

The extent to which these issues were addressed is covered later in parts two and three of this report.

PART TWO
Given the lessons learned, the Government adopted a different approach





In this part of the report we examine how the Government applied lessons learned from the abortive first competition in developing its approach to the new sale.

We show that:

- *The Government took a new approach in adopting a limited competitive process, against a background of little market enthusiasm for a rerun of open competition, widespread cynicism about the risks and costs of participation, and little specific interest in the Dome; and*
- *The scale of the final deal expanded during the process to include over 100 acres more land than originally envisaged. English Partnerships and their advisers did not actively market the availability of this additional land to potential bidders, considering that to do so would dilute potential interest in the Dome itself, and detract from future commercial negotiations. Inviting wider proposals may not have produced any additional strong bids.*

The decision not to mount another open competition was defensible

2.1 English Partnerships recognised that the outcome of the first competition had generated a degree of negative publicity, which was likely to deter some potential interest in the Dome. They decided, with Ministers' agreement, that they would not move straight into another open competition, and instead took time to better understand the extent and nature of market interest in the opportunity.

Limited marketing rather than open competition is an accepted practice

2.2 Following termination of Legacy's preferred bidder status, English Partnerships decided to test the appetite of the market through contacts with potential bidders, rather than immediately start another open competition. Such limited marketing, as in private treaty sales, was permitted by Treasury guidance[8] when advisers recommended that it would be more advantageous than open competition. Jones Lang LaSalle, English Partnerships' property advisers, made such a recommendation on this occasion on the basis that another open competition may not have been productive, and may have deterred major players.

8 HM Treasury DAO letter (Gen) 11/96, which was subsumed into Government Accounting rules extant at the time.

Open competition might have attracted little bidder interest

2.3 Jones Lang LaSalle tested the market between March and July 2001. Jones Lang LaSalle met some 150 groups or individuals, including a wide range of major leisure operators and property developers that had not been involved in the previous competitive process **(See Figure 9)**. At that time only about six serious and credible operators were believed to be willing to proceed further. The results confirmed that there would be very little market enthusiasm for a rerun of the previous competition. In particular, the long running process left a belief in the minds of many private sector companies that involvement with the Dome would be a high-risk venture. Our discussions with the three bidders that emerged from market testing confirmed this. The bidders expressed doubts that they would have taken part in an open competition, citing high costs, political and media influences as generating risk to their reputations. Our advisers, Chesterton, agreed that the advice given by Jones Lang LaSalle to English Partnerships was reasonable.

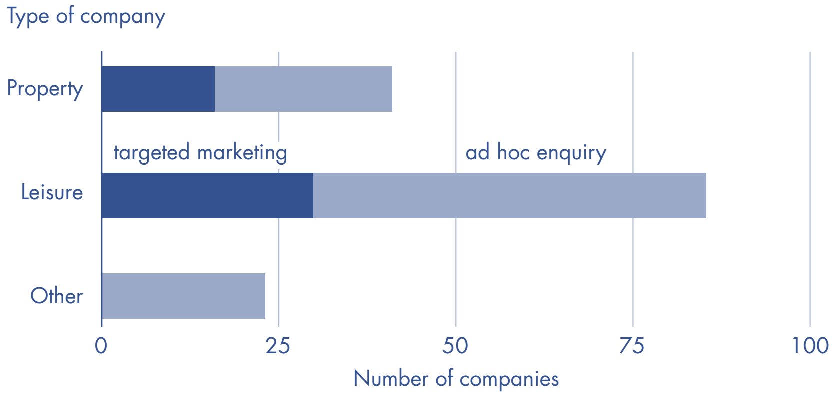
Shortlisted bidders were permitted to propose use of more land than had previously been advertised

2.4 English Partnerships[9] were unwilling to attract property developers who were not genuinely committed to providing a sustainable use for the Dome. Initially they explicitly offered only 68 acres, under the Dome and immediately adjacent land. Subsequently during negotiations with the three short-listed bidders in 2001 English Partnerships permitted bids that involved some 170 acres of their land, without having advertised more widely that the scope of the deal could be greater.

9 Market Testing

English Partnerships and their advisers Jones Lang LaSalle contacted some 150 organisations and individuals to encourage interest in the opportunity.

Companies approached during market testing



Source: English Partnerships

NOTES

1 Advisers specifically approached target groups of companies they considered might have the capacity and experience to put forward feasible proposals for a sustainable use for the Dome. The target groups included those with known leisure, sports and entertainment-related interests, and those whose prime interest was in property development.

2 English Partnerships and their advisers also followed up unsolicited expressions of interest in the Dome from a diverse range of organisations and individuals not specifically targeted and these are categorised as 'other' in the figure.

9 English Partnerships is the vendor of the Dome and manager of the sale process. In this it was assisted by the Dome Sale Unit. This ensured more direct communication between Ministers and the professional advisers and closer cohesion between English Partnerships' and the Department's requirements.

A Dome operation mixed with property development appeared most attractive in the market

2.5 Most respondents to the market testing focused on the land available around the Dome rather than the Dome itself. Of the 16 property companies specifically targeted, only those who later formed the winning Consortium[10] put forward a specific proposal for using the Dome, while three expressed an interest in the land alone. Some companies suggested they might link with possible Dome operators if given enough land for the scheme to look viable. But most of the companies contacted were either not interested in pursuing the opportunity or did not put forward any specific, credible ideas.

2.6 To stimulate interest in the Dome and reduce costs to bidders making proposals, English Partnerships commissioned a report from Economic Research Associates, which suggested that the Dome could support a theme park or an urban entertainment centre. However the authors thought such proposals would require a capital injection of £100 million to ensure success, adding that a sports or events arena was unlikely to be viable. The Wellcome Trust, one of the three bidders that emerged from the market testing process, told us that they regarded cross-subsidy from the land development to the Dome's capital costs as inevitable; they did not see a way of making a commercial return on the Dome in isolation. Another of the last three bidders, Tops Estates, considered that a mix of leisure facilities and specialist retail within the Dome could be viable.[11]

To deter pure property deals only limited land was initially offered

2.7 Although English Partnerships were in practice open to proposals for the majority of their land on the Peninsula, they believed that to advertise that fact would attract bids from property developers who were only interested in the land itself. So English Partnerships and the Dome Sale Unit agreed to invite market interest on the basis that the Dome and immediately adjacent land was available - some 48 acres of land under the Dome itself and 20 acres used during the Millennium Exhibition for visitor reception and administration. Interest in further land owned by English Partnerships on the Peninsula was not ruled out but nor was it explicitly advertised. Records of discussions with companies approached during market testing indicate that companies had been unclear about how much land was on offer. Some said that given clarity they may have tried to find a use and operator for the Dome, but such companies did not then have a specific use in mind, or express interest in the Dome itself.

2.8 The Department and English Partnerships considered that, in the light of the particularly sensitive political and commercial context of the market testing process, flexibility of response to individual proposals was essential to meet the twin objectives of securing a future use for the Dome and of achieving value for money from the associated land. This process was based on ongoing professional advice that this would be a commercially prudent approach, as the market testing evolved.

Proposals to take more land were later entertained in discussion with individual bidders

2.9 Market testing finished in July 2001 when English Partnerships short listed three bidders. These bidders were the only ones that English Partnerships and their advisory team had considered were likely to produce credible proposals for the Dome. They were Meridian Delta Limited, Tops Estates and the Wellcome Trust **(See Figure 10)**.

2.10 At the time of short listing it was not clear how much land each of the three bidders would require. Each had much more work to do on their detailed proposals. English Partnerships' stance in the period up to the receipt of formal bids in November 2001 remained neither to rule out, nor to invite, bids for land in excess of the 68 acres initially offered. In the event, two of the three ultimate bidders, including the eventual winning Consortium **(See Figure 11)**, submitted proposals for more land than English Partnerships initially indicated as available. English Partnerships responded to these proposals accordingly; but they did not actively promote the inclusion of more land than the bidders considered necessary for the delivery of the individual proposals, since their objective was to focus bidders' attention on providing a viable use for the Dome and its immediate surroundings. Meridian Delta Limited themselves appear not to have reached a final conclusion as to their wider land needs until nearly the end of November 2001, after their proposals were submitted. The amount of development land included in the deal (See Figure 3) increased from 68 acres to some 170 acres.

10 Meridian Delta Limited is a joint venture company between Lend Lease, an Australian listed real estate company, and Quintain Estates and Development plc. Lend Lease holds a 51 per cent stake in Meridian Delta with Quintain the remaining 49 per cent (See Figure 11).

11 In the eventual deal, Meridian Delta has budgeted to make a number of payments to Anschutz out of their return from the rest of the scheme, as a contribution to the development and maintenance of the Dome. These are estimated at £34 million at present values, less any share of profits from the Dome. The Department regards this not as a cross-subsidy, but as recognition of the benefits to the development of the Peninsula of retaining an iconic facility to help attract tenants and homebuyers.

10 Short listed bidders

Only three bidders made formal submissions during the second sale process.

Bidder	Nature of initial outline proposals
Meridian Delta Limited	Bid to use the Dome and develop large areas of the Greenwich Peninsula: ■ a self–contained multi-purpose arena built within the Dome to accommodate up to 20,000 seats for major sporting events or concerts; ■ an urban entertainment complex (for broadcasting facilities, sports facilities, catering and leisure etc), in the remaining area of the Dome and immediately adjacent land; and ■ a joint venture with English Partnerships, and other landowners, to drawdown and develop over time some 190 acres of land, owned largely by English Partnerships, Quintain and London Underground Limited, for mixed use (primarily residential and offices).
Tops Estates, bidding as the Metropolitan Regeneration Trust plc	Bid to use the Dome and land necessary to support its use: ■ public participation sports areas (tennis training and playing, ski slope, scuba diving and other sports) covering 46 per cent of total floor area; ■ 'lifestyle' retail area (with a sports theme) covering 27 per cent of total gross floor area. Free public entry to the Dome; ■ entertainment area (five-screen multiplex cinema, bowling, internet centre, bars, restaurants) covering 19 per cent of total gross floor area; ■ a monorail transit system to link with the national rail network; and ■ all the above would, in Tops' view, help to 'kickstart' development of the wider Peninsula by English Partnerships.
The Wellcome Trust (the Trust)	Initially the proposal included a 'public engagement' facility based on science research within the Dome; however it was later restricted to developing land on the Peninsula excluding the Dome: ■ a 'core research facility' to provide accommodation for international centre of excellence in Bio-technology covering some 4 million square feet; ■ land and property joint venture company to develop land for mixed use (commercial, residential and a school); and ■ in its eventual bid the Trust indicated readiness to work with government to find an acceptable use for the Dome itself.

Source: National Audit Office

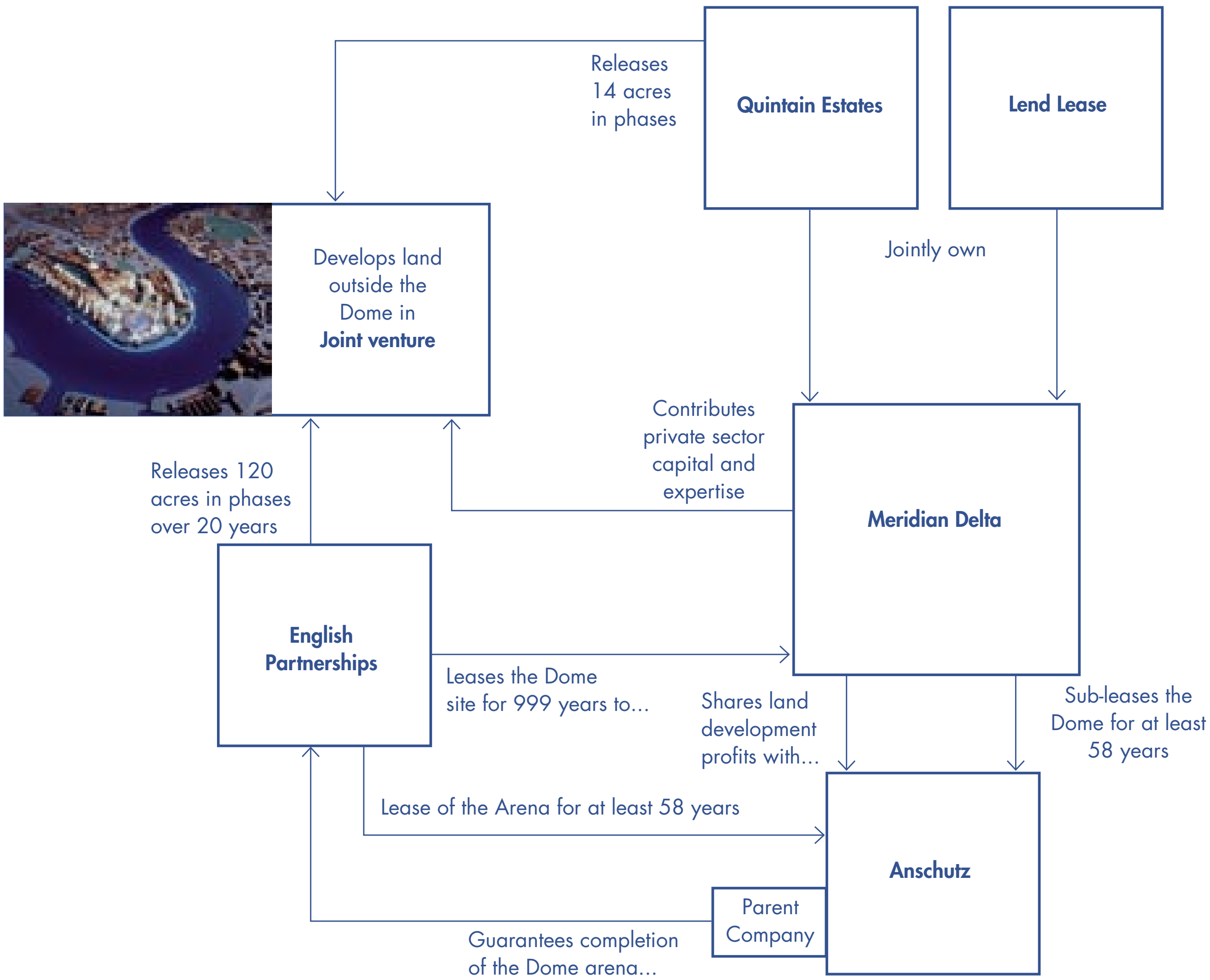
Inviting wider proposals may not have produced a better outcome

2.11 In our view, public sector vendors are normally most likely to maximise the value they receive if they inform all potential bidders of the exact parameters of what is on offer. If the market is not clear about what is available, then there must be some doubt whether the resulting deal really is the best available in the market.

2.12 Some bidders realised that more land could in fact be available. English Partnerships, the Department and their advisers believe that to have made a clear open offer of more land would have diminished interest in the Dome itself and, in any case, the winning Consortium has such strengths that the final choice of partner would not have been different, even had further strong consortia been attracted. The National Audit Office takes the view that it is unclear whether such an offer would have produced additional strong bids. And, as stated in paragraph 2.8, the Department and English Partnerships perceived the need for ongoing flexibility and decision-making in order to achieve the Government's objectives, including long term use of the Dome.

11 Parties to the Meridian Delta Scheme

Several parties are involved in the Meridian Delta Scheme.



Source: National Audit Office

NOTE

For further detail on the leases for the Dome Waterfront and Dome Arena, please see Figure 18.

English Partnerships had reasonable grounds for regarding only one bid as clearly compliant and deliverable

2.13 English Partnerships began working with the three potential bidders on the shortlist. Of these three, the Wellcome Trust did not submit a formal bid for the Dome itself; and English Partnerships considered that the Tops Estates bid carried high risks to delivery, with only one bid, from Meridian Delta Ltd, remaining clearly compliant and deliverable. The following paragraphs explore these issues in more detail.

The Wellcome Trust did not submit a formal bid for the Dome itself

2.14 The Wellcome Trust first expressed interest in April 2001, outside the market testing process, proposing a business and science park for the Dome. After being short listed they concluded that incorporating the biomedical facilities into the Dome would not be viable and instead proposed a science park outside the Dome, subsidised by residential development and excluding any solution for the Dome itself. The Trust also attached conditions to their proposal which were not acceptable to the Government or English Partnerships. The Trust told us that they did not submit specific proposals for the Dome as they considered that they did not have sufficient information about the site, and, although they felt that the Dome could be retained, they had not been able to confirm a suitable operator and use for it within the timetable set.

The Tops Estates' bid carried high risks to delivery

2.15 Tops Estates is a specialist developer of town and city centre leisure and retail centres. Their proposal included a small arena and sporting activities, cross-subsidised by retail outlets covering 26 per cent of the Dome. This proposal raised issues for the London Borough of Greenwich, which was reluctant to grant permission for any major retail development that would compete with existing local shopping centres. The Borough had made its concerns over retail developments clear to bidders that had taken part in the previous competitive process, and it is clear from our discussions with the London Borough of Greenwich that English Partnerships were right to perceive this as an area of particular risk. Tops Estates told us that in response to these concerns they had commissioned a specialist report which showed that their specialist sports and leisure retail operation would not damage local shopping centres. They had shared this with English Partnerships and the Borough, and had not been subsequently told that any major concerns remained. Tops did not consider that this risk to delivery of their scheme had been high.

The bid from Meridian Delta Limited was rated highest

2.16 Following from the lessons learned from the first sale process, English Partnerships and the Department decided to limit the criteria used to evaluate bids to three equally weighted, simplified objectives: a worthwhile and sustainable use for the Dome; value for money; and deliverability of the deal. When Ministers announced the deal with Meridian Delta Limited and Anschutz in May 2002, the list of criteria also explicitly included regeneration benefits, reflecting the inclusion of the additional land, consistency with the first competition and the fact that regeneration benefits would always form part of the evaluation through inclusion in the other criteria.

2.17 Given that the Wellcome Trust did not submit a bid, and the issues outlined above that they had identified with the Tops Estates' bid, the Department and English Partnerships considered that they had only one compliant and clearly deliverable bid on the table. Though further work from English Partnerships and their advisers may have elicited more proposals from the market, they believed that they had thoroughly tested the appetite of the major players for deliverable proposals centred on the Dome. This view was supported by their property and legal advisers who stated that the transaction with Meridian Delta Limited and the Anschutz Entertainment Group, involving a clearly defined grouping of substantial and well known companies in their field, would enhance the prospects of deliverability of the deal.

There were upward pressures on some of the costs of the process

English Partnerships' ability to hold sale costs to its original budget was constrained

2.18 English Partnerships assembled an appropriate advisory team, reappointing key advisers used during the first competition who had gained an understanding of the issues. It was difficult to establish a meaningful budget, since there were a number of unknown factors involved. They set a baseline estimate before the commencement of the sale, which was subsequently exceeded.

English Partnerships' transaction costs increased

2.19 The total cost of the second sale process was just over £7.87 million, mainly on specialist advisers **(See Figure 12)**, compared to a baseline estimate set in March 2001 of some £5 million, prior to the commencement of the sale. English Partnerships found it difficult to establish an accurate budget because there were many unknown factors, such as the number of bidders that would take part, and the nature and scope of the bids, as well as the length of time that it would take to complete the process. However, the budget was kept under continuous review and subsequently increased as necessary.

English Partnerships assembled an appropriate advisory team

2.20 The sale process required a substantial professional team to assess the potential for the Dome's development, to test the market, to evaluate proposals from bidders and negotiate a robust deal with the selected partner. English Partnerships chose to reappoint the key advisers they had used during the first competition, recognising the importance of continuity. The legal and property advisers had gained an understanding of the issues to do with the site, and of the commercial potential of the property, a particularly difficult aspect to assess. It would also have been difficult in any new competition for advisory services to attract major firms who were not conflicted by previous involvement with past or future bidders, and were willing to be associated with the continuing efforts to sell the Dome. Because of the length of time that they had originally been appointed, the terms of appointment for both Jones Lang LaSalle and Berwin Leighton Paisner were reviewed. The terms of appointment for Jones Lang LaSalle related specifically to their continuing role in the sale process, and were linked to performance. The terms of appointment for Berwin Leighton Paisner were revised as part of their wider re-appointment to English Partnerships' legal panel, and involved larger increases of from 20 per cent for senior staff and 50 per cent for juniors compared to the rates which had previously been set for their appointment to the panel three years previously. English Partnerships set these new rates in line with rates they were paying to other firms. English Partnerships consider that neither firm exploited their incumbent position. It is difficult for us to assess the reasonableness of the revised rates given the constraints on alternative advisers.

12 Costs to English Partnerships of the second sale process

The principal costs of the second process were in employing specialist legal and property advisers to market the site and to support negotiations with bidders.

Contract	Outturn £000
Technical advice on condition of the Dome and development of the site:	
WS Atkins[2]	971
Advice on decommissioning the Dome:	
Symonds *(competitive tender)*	288
Legal advice and negotiations:	
Berwin Leighton Paisner[3] *(continuation from first competition)*	3,083
Linklaters *(single tender)*	91
Financial advice:	
Deloitte & Touche *(sub-consultants)*	984
PriceWaterhouseCoopers	27
Property advice and market testing:	
Jones Lang LaSalle	1,793
Other Advisers[4]	639
Total Costs of Advisers[1]	7,876

Source: English Partnerships

NOTES

1 English Partnerships' Board agreed in March 2001 to set an initial budget for the second process in the region of £5 million.

2 WS Atkins were appointed in May 1998 to provide technical services and advice to English Partnerships on updating the masterplan for the Dome and immediate vicinity, undertaking remediation and site reclamation work, and providing other project management and survey input to support the site's future successful development. Sub-contractors employed by Atkins to help them with this work included Jones Lang LaSalle, Richard Rogers Partnership, JMP and Gardiner & Theobald.

3 Berwin Leighton Paisner has acted as adviser to English Partnerships on the whole of Greenwich Peninsula, including the first competition, since 1996. Revised fee rates were agreed in March 2001 as part of their wider reappointment.

4 Other consultants included Kroll Associates, who examined the standing of bidders, and Economic Research Associates, who advised on possible leisure uses for the Dome.

English Partnerships have reduced the monthly net running costs of the Dome

2.21 Responsibility for managing and maintaining the Dome passed to English Partnerships from the New Millennium Experience Company in July 2001. Costs to English Partnerships reached some £7.5 million, (Figure 5), by mid 2004. English Partnerships have had to maintain the Dome for longer than expected, because of the duration of the sale process, and total operating costs have therefore risen.

2.22 English Partnerships investigated the potential for running temporary events within the Dome, to minimise their net costs while a permanent solution was found. They found that the Dome could generate a net contribution to running costs from 'one-off' events. English Partnerships have acted as landlord only, rather than bear the risks of managing its own events. Those held have included New Year's Eve parties, and sporting events in June 2002. Total net revenue generated from events by English Partnerships is some £1.4 million. Such events have assisted in English Partnerships reducing the net monthly running costs of the Dome since they took over from a monthly average of £317,000 under the New Millennium Experience Company in February to June 2001, to some £168,000 per month, **(See Figure 13)**.

13 The Dome continued to incur costs after the exhibition closed

The New Millennium Experience Company ran the Dome until the end of June 2001. Since taking over, English Partnerships have reduced net monthly running costs.

	New Millennium Experience Company Average monthly spend Feb-June 2001 £000[1]	English Partnerships Average monthly expenditure £000	Total English Partnerships expenditure July 2001-June 2004 £000
Maintenance	-	-	2247
Security	-	-	1747
Utilities, Insurance & Rates	-	-	2158
Other	-	-	1219
Total running costs	317	207[2]	7371
(Less Income from events)	0	(39)	(1401)
Net Cost	317	168	5970

Source: National Audit Office

NOTE

1 No breakdown is available.

2 The initial running cost budget of £250,000 per month has been reduced to £165,000 since April 2004.

The short listed bidders saw their costs of bidding as high, but not unreasonable

2.23 In pursuing its market testing process English Partnerships were able to avoid imposing significant costs on potential bidders who did not make the shortlist. Only the three firms short listed were requested to submit more fully developed proposals. Costs to bidders in the second process were high, but not unreasonably so. Meridian Delta Limited, the successful bidder, told us that although high, at some £850,000 prior to being appointed preferred bidder, they thought such costs were reasonable. Anschutz Entertainment found their participation cost twice the cost of those associated with the Staples Center in Los Angeles, reflecting the greater number of parties involved in the Dome scheme. Both the unsuccessful shortlisted bidders told us that their costs were substantial, but not unreasonable.

English Partnerships avoided deal drift during exclusive negotiations with the preferred bidder

2.24 When Ministers appointed Meridian Delta Ltd as preferred bidder in December 2001 they recognised that the proposal was less mature and with less supporting documentation than was preferable, which added to the risk of not being able to agree an acceptable deal. Such situations are not uncommon in commercial deals when bidders are reluctant to invest substantial sums in working up detailed proposals before they are confident that they will win the competition and recover their costs. Recognising the risks the Dome Sale Unit and English Partnerships set themselves a prime negotiating objective to preserve the £230 million net present value of the deal to the taxpayer. This objective was achieved and the conditional deal was signed in May 2002. The negotiations between English Partnerships and Meridian Delta Ltd for such a large and multi-faceted development programme were inevitably highly complex. Our examination of the records of these negotiations revealed a relatively even process of "give and take" on deal terms and values, without evident net drift against the public sector.

PART THREE

This necessarily complex deal offers integrated regeneration of the Greenwich Peninsula, but it remains for the parties to deliver the benefits





In this part of our report we assess whether the deal that English Partnerships have reached with the Consortium for the development of the Dome and the Greenwich Peninsula is a sensible one.

Our conclusions are:

- *the main assumptions underlying the projected future revenues, the practical constraints and commercial factors that influence the decision on whether or not the Dome should be retained for at least the next 15 years have all been clearly stated and taken into account; and*
- *there are obligations and risks which English Partnerships will have to manage over the life of the deal to achieve maximum benefit for the taxpayer.*

The deal offers an integrated solution for the regeneration of the Greenwich Peninsula

3.1 The Greenwich Peninsula is a challenging site to develop, bounded by the Thames to the West, North and East and with limited road access from the South, much of which is dedicated to serving the Blackwall tunnel river crossing. Though the Jubilee Line station has greatly boosted the capacity of transport links, current transport capacity is still a limiting factor for developing the Peninsula. Equally, the approach flight paths to London City Airport limit the height of buildings which can be constructed on the Northern part of the Peninsula. As a result, any development proposals from English Partnerships or any other landowner would have to take into account the capacity of the Peninsula as a whole to cope with the additional economic, physical and environmental pressures, particularly in terms of additional traffic movements.

3.2 The London Borough of Greenwich, which on 23rd February 2004 granted planning permission for the Meridian Delta scheme, considers that the scheme (described in Appendix 3) has given the Borough, for the first time, a comprehensive proposal for a larger part of the Peninsula as a whole, showing how the land owned by English Partnerships, Quintain Estates[11] and London Underground Limited should be developed, coherently rather than in potential conflict. In Greenwich's view, this represents a major advance on the previous Competition's proposals for just the Dome and the adjacent 20 acres, the 'Red Land', where it had been unclear to the planning authority whether such partial proposals might complicate or prejudice later development on other parts of the Peninsula. Having this full picture was a key factor in enabling the planning authority to consent to a larger, denser and so more valuable scheme than previously envisaged **(See Figure 14)**.

14 The Meridian Delta Scheme

The Masterplan proposals envisage a new urban quarter based on the principles of sustainable mixed use, high density and high environmental quality.

The main elements proposed are:

1. Change of use and retention of the Millennium Dome, with some external alterations;
2. Erection inside the Dome of a 20,000 seat Dome Arena;
3. Creation of the Dome Waterfront, a sports, leisure, entertainment and retail complex within the Dome;
4. Construction of Millennium Square; a large plaza between the Dome and the London Underground station serving it, and designed to accommodate large crowds and special events;
5. Car Parking to serve the Dome Arena and Waterfront;
6. Up to 10,010 residential dwellings, student and special needs housing;
7. Up to 325,000 square metres of office, research and development floorspace;
8. Up to 18,600 square metres of light industrial, business park floorspace;
9. Community uses including schools and health care provision;
10. 48 acres of Public Open Space;
11. A new Hotel; and
12. Up to 22,800 square metres of retail space and up to 11,000 square metres for food and drink.

Source: Meridian Delta Limited

11 A member of the Meridian Delta consortium.

3.3 By the second sale process, in April 2001, English Partnerships' overall plan, called the Flexible Framework, had evolved, reflecting the higher densities likely to be achievable. This led to the evolution of Meridian Delta's own masterplan, including the Quintain land, which now has planning permission and is based on the higher densities being promoted by current national policies, and with increased amounts of affordable housing, across the whole Peninsula.

The plans for the Dome have commercial attractions

3.4 Although the returns English Partnerships stand to receive from the deal are largely independent of the commercial success of the use of the Dome itself, some assurance as to the deal's robustness can be taken from the apparent commercial attractiveness of the plans for the Dome. There are several attractive features:

Existing good public transport connections

3.5 The Millennium Dome is served by an adjacent, purpose-built interchange, incorporating buses and a modern underground link, making it possible to reach the Dome from Westminster in 20 minutes. The use of the Dome is not dependent on London Underground's plans to increase the capacity of the Jubilee Line from 2005, because most visitors for major events will tend to arrive and leave at different times to commuters and Peninsula residents. Further transport improvements are planned for the Peninsula over the lifetime of the partnership.

The proposed Dome arena is intended to be a state of the art venue for a variety of sporting and other events.

Source: Anschutz Entertainment Group.

A distinctive new product

3.6 The Arena proposed by the Anschutz Entertainment Group will be a distinctive new product for the entertainment industry in this country. Innovative features will include luxury suites and the provision of extensive leisure and dining facilities around the Arena under the cover of the Dome. It will be exceptionally large by UK standards, and more modern than existing venues in the country, **(See Figure 15)**.

Reduced competition

3.7 When the original Dome Sale competition failed, English Partnerships obtained in May 2001 from Economics Research Associates Ltd a report on possible leisure uses of the Dome. This report, though positive about various leisure options, doubted the capacity of the London market to support another large sports and concerts arena. However, as shown in Figure 16, members of the Meridian Delta and Anschutz Consortium already own the main potential competitors to the Dome. Though Quintain Estates has said that it intends to continue operating Wembley, that arena is very old and is planned to be incorporated in a 44 acre land clearance and redevelopment project. Anschutz had agreed to close the London Arena, prior to property redevelopment on that site, and will move its London operations from there to the Dome. It has bought the Manchester Arena, and is building an arena in Berlin, to operate in tandem with the Dome Arena.

An experienced operator

3.8 The Anschutz Entertainment Group is the largest owner of sports teams across the world, including four in Europe and major soccer, ice hockey and basketball franchises in the USA. It has a track record of designing, building and operating major indoor arenas, notably the Staples Center in Los Angeles, which besides sports events also hosts very large conventions and concerts. The Group's access to a roster of top international artists is a key factor in its business model. Another crucial business advantage enjoyed by Anschutz Entertainment lies in its links with other parts of the wider Anschutz Company, which owns several thousand cinema screens as well as movie production companies. In principle, these outlets could be used to distribute events in the Dome Arena to pay-per-view audiences around the world.

15 Sports and entertainment arenas in the United Kingdom

The Dome Arena will be the largest and most modern in the Country.

Arena	Capacity[1]	Year Built	Ownership
Manchester[2]	16,000-21,000	1995	Anschutz Entertainment Group
National Indoor Athletics, Birmingham	8,000-13,000	1991	National Exhibition Centre Ltd
The Odyssey, Belfast	10,000	2001[3]	Odyssey Trust Company
Earls Court, London	14,000	1937	Candover Investments and the Morris Family
Wembley Indoor Arena, London	12,500	1934	Bought by Quintain in August 2002
The London Arena, Docklands[4]	12,500	1989	50 per cent owned by Anschutz, from 1998
Proposed Dome Arena	16,000-26,000	2007	Anschutz

Source: Meridian Delta limited

NOTES

1 Arena capacities are approximate and vary according to the type of event and the layout of seating.

2 Claims to be the largest multipurpose indoor arena in Europe. Purchased by Anschutz in 2004 after they sold their London Arena (note 4), and after their conditional deal for the Dome.

3 The Odyssey Arena is part of a £90 million complex which also includes a science discovery centre, cinemas and leisure facilities, completed in 2001.

4 In May 2002 it was announced that this Arena would be demolished to make way for a housing, retail and leisure redevelopment by the developer Ballymore.

THE STAPLES CENTER

This modern centre in Los Angeles is owned and operated by Anschutz and represents a tested model for the Dome.

3.9 Such additional Dome-related income streams from Anschutz's businesses away from the Dome were essential to enable them to justify their investment in building the Arena. Before concluding their agreement English Partnerships asked their financial advisers Deloitte and Touche to review the viability of Anschutz Entertainment's business plan for the Dome. The advisers concluded that income earned from within the Arena alone would not generate a fully commercial return. The rate of return on investment would be unlikely to be more than four per cent, and could be negative if assumptions over income from sponsorship and corporate hospitality proved to be overly optimistic in the UK market.

English Partnerships' position is governed by a series of complex contracts

The agreement provides a contractual basis for achieving the Government's objectives

3.10 English Partnerships' main objectives in negotiating an agreement with the Consortium were:

- To maximise long term receipts to the taxpayer, chiefly from the development of land outside the Dome, but also capturing profits from the Dome itself if and when these arise;
- To ensure that the development of the Peninsula proceeds without undue delay and along lines acceptable to English Partnerships in terms of achieving sustainable communities; and
- To ensure that the development in the Dome by the Anschutz Entertainment Group itself proceeds as quickly as possible, securing its sustainable future within set timetables linked to Meridian Delta Ltd's development of the rest of English Partnerships' land.

3.11 Achieving these objectives has necessitated a complex suite of interdependent legal documents, **(See Figure 16)** involving numerous parties. We took advice on the deal from property consultants Chesterton, and from lawyers Wragge and Co, who concluded that it provides a practical, contractual basis for achieving the Government's objectives. They noted, however that in an agreement of such size it is not possible to certify that all elements are totally secure against all future eventualities.

3.12 One area of inherent risk to manage in implementing the deal is the form of the legal linkage between the obligation on Meridian Delta Ltd and Anschutz to reuse the Dome on one hand and their rights to develop the rest of the Peninsula on the other. In practice English Partnerships have the right of approval to Meridian Delta Ltd's Business Plans and the development proposals on the land outside the Dome, and in the event of Anschutz not proceeding to develop the Arena the Government has reserved to itself the sole right to decide what happens to the Dome. Also, English Partnerships and Meridian Delta Ltd have step-in rights if Anschutz start but do not complete the Arena. English Partnerships' position on this risk is protected by the following key features of the deal, explained opposite.

English Partnerships release land in stages related to Meridian Delta Ltd's performance

3.13 The agreement between English Partnerships and Meridian Delta Limited is structured, not as an outright sale, but as a profit sharing deal lasting over 20 years. English Partnerships will release their land for development in various plots over 20 years and also maintain rights to dispose of land to third parties if Meridian Delta Ltd is insolvent or is in a material or persistent breach of its legal obligations.

Guarantees are planned to secure the required investment in the Arena

3.14 A key objective of the sale process was to secure the future of the Dome. The Government would not want to see the development of the rest of the Peninsula proceeding without the required investment in the Dome. Conversely, the Dome Arena is not scheduled to be completed until June 2007, at the latest, and it would not be sensible to halt the start of development on the rest of the Peninsula until then. So it is desirable that both these elements of the deal should proceed in parallel.

3.15 Anschutz is obligated to develop the Arena under the terms of the various contracts which are backed by an Anschutz Corporation Guarantee. Works have to start by 17 June 2005 and be completed in two years. In the event that Anschutz fails to start it would forfeit its Lease of the Arena site in the Dome and Meridian Delta would have the right to step in to assume the obligations of Anschutz. If Anschutz start but do not complete the Arena, Meridian Delta Limited and English Partnerships have step in rights and, if these rights are not exercised there are rights of termination of the Lease of the Arena and all of Anschutz's other rights in the Peninsula. The contract requires Anschutz Entertainment Group to provide a performance bond or equivalent assurance guaranteeing completion of the Arena, which can be called on if the work is not completed. This assurance is to be in place prior to the work starting, which in turn is required within twelve months of the Unconditional Date i.e. by 17th June 2005. At the time of writing the terms of the assurance are still being negotiated. When agreed it will afford additional protection to the guarantee from the Anschutz Corporation which already exists, and to the contractual and commercial pressures that will be on Anschutz because of other terms in the Legal Agreement.

3.16 English Partnerships take assurance from other sources that the required investment in the Arena will be secured before development land is released to Meridian Delta Ltd. Aside from the legal position, Anschutz have already made an investment in planning and preparing for the Arena business, which indicates their commitment to proceed as soon as possible. The Group is disposing of its existing London Arena and is gearing up to market the new facilities at the Dome.

16 The agreement for the redevelopment of the Dome and the Peninsula

The Transaction structure is very complex due to the split ownership of the Peninsula and the sheer scale and diversity of the redevelopment plan.

Agreement for Leases

Contains the requirements for Anschutz to construct the Arena, and the provisions for the grant of the various leases of the Arena and the Dome Waterfront.

Master Implementation Agreement

Dealt with the establishment and approval of the Masterplan for the development of the Dome and Peninsula, including gaining planning permission. All other documents are conditional upon the grant of planning permission and other conditions under this document. Terminated in September 2004 (extendable in certain circumstances) if conditions not satisfied.

London Underground Ltd Agreement

Contains provisions for parcels of land owned or controlled by LUL to be brought into the overall development. Enables the creation of a plaza on land around the transport interchange by Anschutz and the provision of parking facilities to support the use of the Arena. Also enables EP to draw down phases of land to be developed through the Land Disposal Agreement.

999 Year Head Lease

Landlord – English Partnerships (EP). Tenant – Meridian Delta Dome Ltd. Covers the Dome (including the Arena) and the Dome Waterfront.

Hotel Option

Enables Anschutz to develop (but not manage) a hotel as part of its overall development of the Dome and surrounding area, and to draw down a lease of the relevant site.

Land Assembly Agreement

Contains provisions for parcels of land owned or controlled by Quintain, and EP's profit share, to be brought into the overall development.

Arena Sub-Lease

Landlord (ultimately) – Meridian Delta Dome Limited. Tenant – AEG London Arena Limited. Guarantor – Anschutz Company. Covers Arena inside Dome, and service areas, and is for a term of 58 years.[1] Use of Arena as a sports and 20,000 seat entertainment arena.

Environmental Agreement

Sets out the environmental protections which are to apply for all development on the Peninsula, and allocates responsibility for environmental liability.

Land Disposal Agreement

Sets out the basis for overall development of the Peninsula (including LUL Land and Quintain Land, but excluding Dome, Waterfront and hotel) by Meridian Delta Ltd on a phased basis over 25 years. Contains the financial provisions for EP and Meridian Delta Ltd to share in profits from development.

Dome Waterfront Lease

Landlord – Meridian Delta Dome Limited. Tenant – The Dome Limited Partnership. Covers Dome Waterfront, the structure of the Dome and the area inside the Dome excluding the Dome, and is for a term of 58 years[1]. Contains maintenance requirements for Dome structure.

Phase Developer Documents

Template documents which will regulate the actual development of phases by third party developers or by Meridian Delta companies as appropriate.

- Principal transaction documents
- The Anschutz side of the transaction
- The Meridian Delta Ltd side of the transaction
- The non-EP landowners' side of the transaction
- The environmental agreement which affects all parts of the transaction

Source: Berwin Leighton Paisner

NOTE

1 Anschutz may extend the leases beyond their original terms.

Progressive profit sharing aims to manage risks to English Partnerships' objectives

3.17 The profit sharing approach recognises the commercial principle that generally speaking, a greater financial return can be received if land is only released immediately before it is to be developed, when as much uncertainty as possible has been removed from the development proposals. Not to do so would lead to a purchaser heavily discounting the amount of money paid, giving a lower return to the vendor. This is particularly the case in long term regeneration schemes where evidence has shown that the best financial results are to be made through real growth in the long term, and not in the short term. With a project on the scale of the Greenwich Peninsula redevelopment, the exposure to risk of any private sector company or consortium, however large, would be likely to lead to a very heavily discounted price for a one-off land sale. Another factor in favour of profit sharing is that a lasting partnership with English Partnerships, and hence the Government, gives Meridian Delta Ltd further confidence that the public sector will actively support the project in the long term, for example by enabling improvements in transport.

Over half of English Partnerships' expected proceeds are not dependent on profits

3.18 Just over half of expected total proceeds to English Partnerships will come in the form of guaranteed minimum payments per square foot of development, to be paid by Meridian Delta Ltd when English Partnerships release to them or third parties individual plots of land.

There are important risks to manage if good value for money from the deal is to be achieved

The deal is inevitably exposed to market uncertainties

3.19 In any deal that is dependent on profit sharing it is important that the public sector and its advisers form their own view on the business projections supplied by private sector partners. Before entering into the agreement English Partnerships took advice on Meridian Delta Ltd's proposals for developing the Peninsula from their own property advisers Jones Lang Lasalle. The advisers found it difficult to accurately predict capital and rental values for such an emerging location and without detailed information on the project specification. But overall they considered the key assumptions to be appropriate. Our own property advisers, Chesterton, broadly agreed. They had no doubt that Meridian Delta Ltd, which comprises two highly capable developers in Lend Lease and Quintain, has the skills and track record to be an appropriate choice of partner for English Partnerships in achieving these values. Chesterton were comfortable with the projected values and rate of take-up from residential development, which represents 61 per cent of the total development by sale value. In comparison, the estimated prices for office development depend on establishing the Peninsula as an entirely new commercial location with rentals mid-way between the high levels being achieved north of the River in Canary Wharf, and the lower levels achieved in south east London. It is difficult to establish in advance how the market will react to prices set at this level.

There are other uncertainties to manage

3.20 In any property scheme of such size, duration and complexity, development partners are inevitably exposed to major uncertainties, some of which would tend to reduce their projected returns while others may offer unexpected upsides. In this scheme the main upsides for English Partnerships are:

- A payment for the hotel site next to the Dome which will be at least £3.5 million (index linked to retail price indices from September 2004), together with other payments should a casino be opened. There is no specific planning permission for a casino on the site, and any proposal would be subject to changes in legislation and also to the usual licensing and other approvals that may be required.
- A share in future profits from both the Dome Arena and Waterfront. The legal agreement for the profit sharing arrangement for the Waterfront is still being finalised, though English Partnerships told us that the commercial terms have now been agreed with the Consortium. The extent to which these will generate additional returns to the taxpayer is uncertain, so English Partnerships did not assume these returns in evaluating the deal.
- Increased profits from real growth in sale prices, particularly on residential units. At present the financial model assumes real annual price growth of three per cent, but if London house prices rise more quickly than this, or if the Greenwich Peninsula "takes off" as a fashionable new location, the partners will earn higher profits.

3.21 But there are also downside risks that English Partnerships must manage, two of which have the potential to be fundamental:

- The agreement allows Meridian Delta Ltd to defer development, using a force majeure clause which includes unfavourable market conditions. Deferment to avoid a slump in the property market might be useful to English Partnerships in financial terms, but it may not accord with Government's objectives to develop the Greenwich Peninsula without undue delay. In circumstances of persistent failure to deliver development, English Partnerships could seek to trigger their rights in the agreement to bring in a new development partner, but would have to consider that this may result in receiving lower financial returns due to a potential surplus of accommodation being built but remaining empty.
- The second area of risk is that English Partnerships derive most of their profits later in the life of the agreement than does Meridian Delta Ltd, as opposed to minimum land value which they receive first. Meridian Delta Ltd takes 60 per cent of the joint venture's profits in the first 5 years, tapering down to 25 per cent after 11 years. Although there are arguments for deferment of English Partnerships' profits, **(See Figure 17)**, it will be essential for English Partnerships to continue to devote sufficient resources and expertise to actively monitoring and managing their interest in the joint venture over the next 20 years.

17 Arguments for deferring or advancing English Partnerships' share of profits

The arguments for and against English Partnerships taking their profits later than Meridian Delta are finely balanced.

Factors which suggest that English Partnerships should take their profits later in the agreement than MDL

If property values increase in real terms then English Partnerships' returns from later sales will be higher.

Meridian Delta Ltd draw added confidence that the Government will be incentivised to provide essential public infrastructure to support the new community on the Peninsula.

Meridian Delta Ltd bears most of the costs and risks of setting up the project, whereas English Partnerships (and Quintain) have the protection of guaranteed proceeds through minimum land value.

Factors in favour of an even split in profits between English Partnerships and MDL over the life of the agreement

Property values may not increase consistently faster in real terms than the public sector's 3.5 per cent annual discount rate.

Government also require confidence that Meridian Delta will continue to invest in infrastructure, and keep up the pace of development in later years.

Source: National Audit Office

Why English Partnerships concluded that the proposed deal should be better than the main alternatives

The deal could be better than developing the Peninsula without this partner

3.22 Despite exhaustive marketing, English Partnerships and their advisers had found that there was a limited pool of parties with the skill, experience and resources to credibly develop the Dome. No other viable option or party had come forward. And English Partnerships' advisers recommended that continuing to search for further options would be highly destabilising to the existing bidders.

3.23 To provide a benchmark against which to compare the value for money of bids, English Partnerships' advisers produced a financial model based on English Partnerships' alternative development plan for the Greenwich Peninsula prepared by the Richard Rogers Partnership. In May 2002 the advisers produced a value for money assessment which compared this model against the Meridian Delta Ltd bid in a range of scenarios including different development costs, sale prices and quantities of development. Except for a scenario in which much less development took place than expected, the comparison showed a higher return from the Meridian Delta Ltd scheme than from the benchmark.

3.24 Such comparisons are inherently difficult, particularly in ensuring consistency. In this case there were areas in which the assumptions underlying the Meridian Delta Ltd model and the benchmark could have been more closely aligned. Some assumptions in the benchmark, for example that profits would be paid to English Partnerships in a single year rather than phased over a longer period, might have understated the value to the taxpayer of the benchmark scheme. Conversely, increasing the benchmark's burden of low-margin affordable housing (22 per cent) to that provided in Meridian Delta Ltd's scheme (30 per cent), would restore Meridian Delta Ltd's advantage. The adjusted figures suggest that the decision taken in July 2002 to proceed with Meridian Delta Ltd was reasonable on the basis of a comparison with the benchmark scheme, **(See Figure 18)**. Furthermore the Meridian Delta Ltd scheme, by marrying English Partnerships' land and the adjacent Quintain land, allows denser and more profitable development through an integrated scheme, rather than disjointed and possibly conflicting developments.

The estimated value of the deal has changed since it was signed

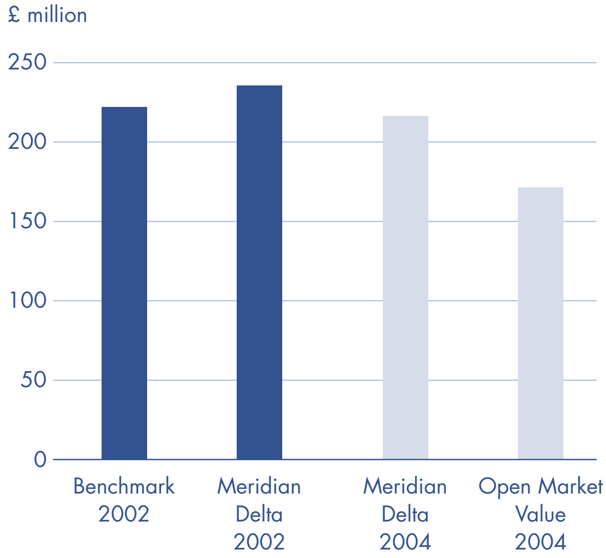
3.25 Since May 2002 the estimated net present value of the deal's returns to English Partnerships has reduced by £19.1 million (8 per cent) for the following reasons:

- A £10.8 million contribution towards the cost of an increase in the amount of affordable housing incorporated in the deal during the planning process;
- By £3.4 million due to changes in estimated market property values, and therefore the Government's share in future profits; and
- The remaining £4.9 million is accounted for by factors such as the changes in the phasing of the development.

These changes, which result from normal planning discussions and market fluctuations, will also have affected the value of any benchmark comparators to a greater or lesser extent.

18 Comparison between the Meridian Delta scheme and the benchmark

On a like for like basis the Meridian Delta scheme has higher returns to English Partnerships than the benchmark.



Source: Jones Lang LaSalle

NOTES

1 All benchmarks show the net present values of cash flows to English Partnerships. Future values are discounted at 6 per cent real in line with then-extant Treasury guidance.[13]

2 The Open Market Value at April 2004 is the estimated current value of the land English Partnerships is contributing to the Meridian Delta Limited scheme.

3 The Benchmark represents the option English Partnerships had in 2002 to undertake a phased programme of site sales over 15-20 years. In 2004 it was sensible to ensure that the scheme returns still exceeded the open market value of the land.

3.26 A key part of the planning permission is the Section 106[14] Agreement. In the case of the Peninsula development, the conditions are extensive, ranging from improved transport and local employment policies, to contributions to schools, healthcare facilities and amenity spaces. The total cost of Section 106 Agreement

13 The current edition of the Green Book, Appraisal and Evaluation in Central Government came into effect in full on 1 April 2003. It introduced a revised discount rate. Project appraisals, such as this project, that had reached the Invitation to Tender (ITT), or Invitation to Negotiate (ITN), stages by 1 April 2003 are allowed to continue using the original rate.

14 Section 106 of The Town and Country Planning Act 1990. Section 106 Agreements prescribe improvements to the area's social and physical infrastructure that must be carried out as part of the wider development.

contributions, to the parties, over the life of the scheme is a minimum of £86.9 million.[15] In addition, an important component of this Section 106 Agreement relates to social housing, where 38 per cent of dwellings are to be constructed as Affordable Housing units, together with Intermediate Housing that must be sold at discounted prices. English Partnerships also have certain covenant obligations in connection with the Section 106 Agreement, largely if MDL is in default. Under certain circumstances[16] English Partnerships' exposure is covered by indemnities provided by Bovis Lend Lease Holdings and Quintain Estates under a Collateral Agreement and Guarantee. Berwin Leighton Paisner, English Partnerships' adviser, examined the Section 106 Agreement and found that the level of indemnity[17] provided exceeds English Partnerships' likely exposure during the development.

English Partnerships concluded that demolishing the Dome immediately would be less attractive

3.27 Ministers have consistently instructed English Partnerships and the Office of the Deputy Prime Minister, and its predecessors, to find a sustainable use for the Dome if one exists, and this basic requirement was communicated to bidders in both sale processes. But aside from this edict, there are other practical factors which would in practice make it difficult for English Partnerships and Meridian Delta Ltd to profit immediately from removing the Dome.

3.28 As part of the value for money appraisal conducted in May 2002, English Partnerships and their advisers compared the Meridian Delta Ltd scheme against a range of alternative benchmarks, with the Dome retained or with it removed. The main reason why the "Dome removed" scenarios did not offer higher returns than the Meridian proposal was that the exercise concluded that the 48 acres that would be freed by removing the Dome could not be used to increase the total volume of development on the Peninsula. Based on transport consultants' reports, the advisers concluded that removing the Dome and building office or residential development would run up against the transport capacity limits of the Peninsula in a way that the planned leisure use of the Dome would not. This is because the flow of visitors to and from the Dome would be broadly counter-cyclical with peak office and residential traffic, rather than adding to it.

3.29 Establishing the maximum transport capacity of the Peninsula, and therefore the ceiling that should be placed on the quantum of development, is difficult. The traffic that would be generated by particular types of property development can never be precisely predicted. The timing and effectiveness of future improvements to public transport have to be estimated, and ultimately a subjective view has to be taken of how much traffic congestion is acceptable. For these reasons, advice by transport consultants to English Partnerships on this subject could only suggest a range of capacity figures arising from different scenarios. The Meridian Delta Ltd proposal, with its denser development than English Partnerships' previous plans, has pushed much closer to the limit of acceptability to planning authorities, given current and planned transport provision for the Peninsula. Ultimately the local planning authority, in this case the London Borough of Greenwich, gave consent based on these criteria.

3.30 The current agreement with the Consortium members requires them to retain the Dome until at least 2018. The end of this retention period may coincide with a major enhancement of road transport links in the form of the projected Third Thames Crossing, from Silvertown on the north bank of the Thames to the eastern side of the Peninsula just south of the Dome. Further enhancements to the capacity of the Jubilee Line should also have been delivered by then. Therefore, decisions at the end of the Dome retention period should benefit from greater clarity over the capacity of the Peninsula for further development than is possible now. At that time, contractually[18], the decision to retain or replace the Dome would be taken by Meridian Delta Ltd and the Anschutz Group as owners of the Dome and of the commercial businesses housed within it.

3.31 The London Borough of Greenwich, as planning authority for the Peninsula, has consistently expressed its wish to see the Dome preserved, as a catalyst for local regeneration and as an internationally recognised icon for the area. Though Council officials told us that they would have been pragmatic if no future viable use could have been found for the Dome, the Council's stance is that they would explore all protective powers at their disposal, including creating a conservation area, in order to preserve it. Nor did Greenwich officials rule out a future for the Dome beyond the 15 to 20 year life of its fabric skin.

15 A further £12.2 million of highway related improvements is covered by a Section 278 Agreement which operates in a similar manner to Section 106.
16 Where these covenants are not Grampians (a type of negative covenant) or Bonded in respect of transportation improvements.
17 The guarantee under the Covenant Guarantee is £20 million per each 5-year period.
18 Separately, there will be external considerations, such as the attitude of the planning authorities and the listing status of the Dome at that time.

3.32 It is also doubtful that additional land vacated by the Dome would be fully developed within fifteen years in any revised development programme for the Peninsula. Under the current programme **(See Figure 19)**, development will still be continuing on parts of the site after the Dome retention period ends in 2018. Sites on this massive scale are invariably developed in phases over a period of years. English Partnerships and Meridian Delta Ltd expect to be continuing development of the rest of the Peninsula for the next 20 years, without adding extra housing and commercial development on the land currently occupied by the Dome.

3.33 Recognising that the Dome's long term future is subject to uncertainty, English Partnerships have taken steps to protect the taxpayers' position against the possibility that the Dome might be demolished after 2018. Under the agreement with Meridian Delta Ltd they have rights to a 50 per cent share of profits on subsequent redevelopment.

Retaining the Dome is planned to have wider benefits

3.34 Throughout the period of evaluating bids, the Department has helped English Partnerships to evaluate the effects of retaining the Dome on employment and economic activity. Their analysis in May 2002 showed that the base bid should give 800 more jobs than clearing the site and developing it (for housing), and 700 more jobs compared with continuing to use the Dome as an empty space for ad hoc events, without developing the Arena and associated retail facilities. The Arena and its environs will provide the earliest 4,000 of the estimated 23,600 full time equivalent jobs to be provided across the completed Peninsula, helping to kick-start later development.

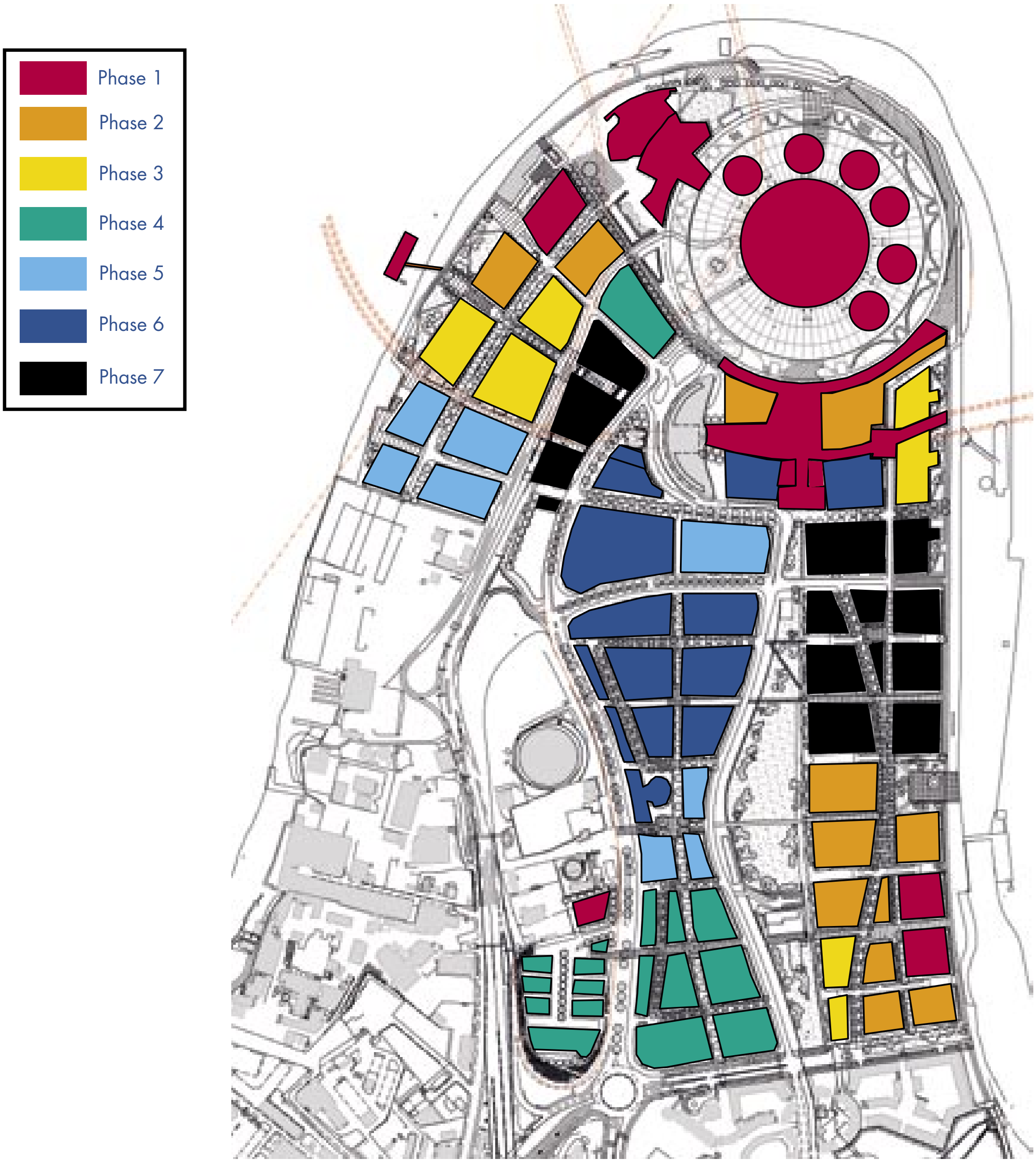
3.35 The Department have also sought to justify the retention of the Dome in terms of the likely "iconic building effect". This effect refers to the way in which landmark new buildings should over time draw in commercial tenants and residents by establishing the location and its advantages in the marketplace, thereby simplifying marketing, boosting property values and stimulating further property development and local regeneration. Examples that are often quoted include the Guggenheim Museum in Bilbao, Spain, which is viewed as a catalyst to regeneration in a previously run-down part of that City. In practice, the reasons why localities revive are complex and it is difficult to isolate within these the effects of the presence of a landmark building. For example, in Bilbao, many other factors have been at work including infrastructure improvements. It is therefore almost impossible to derive reliable, quantified "uplift" factors from examples of iconic buildings, and to apply them with confidence to different contexts like that of the Dome. As a result, English Partnerships and their advisers used no such explicit "iconic building" calculations to help them justify the retention of the Dome, though the key property values they had used in their appraisal (paragraph 3.19 above), were based on the best judgements of Meridian Delta Ltd, English Partnerships, Anschutz and their respective advisers on the prices that locations near the Dome should sustain. Our own advisers have found these valuations to be credible.

The partners that English Partnerships have selected have sound commercial records

3.36 Anschutz's need for a larger Arena in London coincided with the availability of the Dome. Lend Lease is a large development and construction company backed by a substantial balance sheet. Both it and Quintain are experienced property developers with track records of realising successful schemes, such as the Bluewater shopping centre in Kent, developed and managed by Lend Lease. The Anschutz Entertainment Group brings resources and relevant experience as a developer and operator to the Dome. It now remains for the parties to finalise key details arising from the Agreement and to convert their assessment of the scheme's potential into a reality.

19 Phasing of development on the Peninsula

Completion of the project is scheduled to take at least 18 years with the last phase of residential development on the central part of the Peninsula not starting until 2018.



Source: Meridian Delta Ltd Environmental Impact Statement accompanying the Greenwich Peninsula Planning Application December 2002

NOTE

The timing of each development phase will depend on satisfactory completion of previous phases.

APPENDIX 1

The National Audit Office's approach to the examination

Scope

Our examination covered the lessons learned from the outcome of the first competition to sell the Dome (March 1999 to February 2001), the selection of a preferred bidder during the subsequent competition (March to December 2001), and the subsequent negotiation of detailed terms with the selected partner, Meridian Delta Limited. It also evaluated whether English Partnerships have now obtained a good deal. In particular we aimed to evaluate the extent to which the sale achieved the Government's key objectives, namely a worthwhile and sustainable concept for the Dome, value for money, and deliverability of the deal.

We approached our subject by formulating the Situation, Complication and Key Question.

- **Situation**: The Government required English Partnerships to find a sustainable use for the Millennium Dome.
- **Complication**: After the unsuccessful attempt to sell the Dome involving two successive preferred bidders, English Partnerships achieved a different type of deal, to preserve the Dome as part of a wider scheme for developing the Greenwich Peninsula.

The key question which we sought to address through our examination was whether, having learned lessons from the previous unsuccessful attempt, English Partnerships and the Department now have a good deal.

Main aspects

In undertaking this examination we:

- Designed and conducted the examination using experience we have acquired on earlier studies of privatisations and disposals of public assets;
- Obtained relevant external expertise to assist us in our work; and
- Obtained the views of parties participating in both sale competitions.

Collection of Information

We gathered relevant information from various sources, mainly:

- English Partnerships' and departmental papers recording the process followed for the two sale competitions and the legal agreements underpinning the deal;
- English Partnerships' and their advisers' papers on market testing and negotiations;
- Financial models prepared for English Partnerships to test the value for money of Meridian Delta Ltd's proposals against other options; and
- Interviews with officials from English Partnerships, Office of the Deputy Prime Minister, and Department for Culture, Media and Sport about their role in the development of the sale; and a survey of bidders in the two competitions.

Use of external expertise

We commissioned two consultancy firms:

- Property development advisers, Chesterton, to advise us on the reasonableness of key assumptions in the proposal from Meridian Delta Ltd, particularly the expected property values on the redeveloped land, and to comment on the sale process.
- Legal advisers, Wragge and Co, to advise on the robustness of the agreement between English Partnerships and Meridian Delta Ltd, and on profit sharing in particular.

Survey of bidders for the Dome

We surveyed the ten bidders from the first stage of the competition (March 1999 to February 2001) and the three bidders in the second phase (March 2001 to December 2001). The survey was supplemented with follow-up interviews. The survey sought the views of bidders from the first competition on how the Competition team marketed the opportunity to potential bidders in the first competition, and invited, selected and evaluated bids. It sought the views of bidders from the second competition on the market testing carried out from March to July 2001; and the selection of a Partner, from July to December 2001.

Seeking the views of interested parties

Besides bidders we consulted with:

- Officials of the London Borough of Greenwich;
- The Director of the first sale competition;
- Advisers to English Partnerships and the Office of the Deputy Prime Minister;
- The New Millennium Experience Company; and
- Key stakeholders in the redevelopment of the Greenwich Peninsula, such as London Underground Limited and British Gas plc.

APPENDIX 2

Glossary of key stakeholders in the sale process

Organisation	First Competition	Second Sale Process
British Gas Owned the Greenwich Peninsula site until 1997 when it was acquired by English Partnerships.	The Company is entitled to a 7.5 per cent share of subsequent sale proceeds.	The Company is entitled to a 7.5 per cent share of subsequent sale proceeds.
Cabinet Sub-Committee Cross departmental group (Chair: Deputy Prime Minister; Minister for the Dome from Cabinet Office, Ministers from: DCMS, DETR, HM Treasury) set up for the Sale of the Dome.	Received advice from the Sale team, and other bodies involved. It made the final decisions in relation to the selection of bidders based on advice from English Partnerships and New Millennium Experience Company.	Received advice from the Sale team, and other bodies involved. It made the final decisions in relation to the selection of bidders based on advice from English Partnerships.
Department of Culture Media and Sport (DCMS)	Gave advice to the Cabinet Sub-Committee. Sponsor of the Millennium Commission and New Millennium Experience Company within Government.	Not directly involved in second process.
Department of the Environment, Transport and the Regions. Succeeded by Department of Transport, Local Government and the Regions, then the Office of the Deputy Prime Minister. For brevity, referred to in this Report as "The Department".	Gave advice to the Cabinet Sub-Committee and liaised with English Partnerships, London Underground and the Dome Sale Competition Team.	Gave advice to the Cabinet Sub-Committee and the Minister for the Dome in DTLR and ODPM, liaised with English Partnerships and London Underground.
Dome Sale Competition Team Convened specifically for Sale of the Dome; group of staff based at English Partnerships.	An external appointee managed the competition process as Project Director. The team formally reported and gave advice to English Partnerships; it was involved in formulating recommendations, negotiated with bidders over draft project agreement; negotiated with London Underground over sale of land; liaised with bidders and London Borough of Greenwich over submission of planning application. The team also had a duty of care to the New Millennium Experience Company. Team received advice from a group of external specialist advisers: Berwin Leighton Paisner (legal); Jones Lang LaSalle (marketing and advice on masterplan); Deloitte Touche and PriceWaterhouseCoopers (financial); and Richard Rogers Partnerships and WS Atkins (provision of other advice on masterplan).	English Partnerships directly managed the Sale Process. Evaluated reports and formulated recommendations, negotiated with bidders over draft project agreement; negotiated with London Underground for acquisition of their land; liaised with bidders and London Borough of Greenwich over submission of planning application. Team received advice from a group of external specialist advisers: Berwin Leighton Paisner (legal); Jones Lang LaSalle (marketing and advice on masterplan); Deloitte Touche and PriceWaterhouseCoopers (financial); Richard Rogers Partnerships (other advice on masterplan); and WS Atkins (structural and environmental inspection of the Dome and underlying site).

Organisation	First Competition	Second Sale Process
Dome Sale Unit		Group of officials from English Partnerships and the Department, jointly led and convened at the point when Legacy's preferred bidder status was coming to an end, to work closely together to advise Ministers on options going forward. English Partnerships remained managers of the sale process. The Unit ensured more direct communication between Ministers and the professional advisers and closer cohesion between English Partnerships' and the Department's requirements and processes. Over time, the Dome Sale Unit became identified with just the Department officials working in it, since English Partnerships, as vendor, had to negotiate under its own name.
English Partnerships English Partnerships is the national regeneration agency, supporting high quality sustainable growth across the country. It is a key delivery agency for the urban renaissance and the Government's new Sustainable Communities agenda	Managed the Sale Process in conjunction with NMEC and through liaison with other government interests.	Owned the Freehold of Land under the Dome and were responsible for management of the sale competition, and primary liaison with bidders. Board of English Partnerships made recommendations to Ministers.
London Borough of Greenwich	Local authority responsible for considering economic basis for planning and agreeing planning proposals. Undertook to provide information to bidders and to hear their initial ideas. Gave planning advice to English Partnerships and bidders.	Local authority responsible for considering economic basis for planning and agreeing planning proposals. Undertook to provide information to bidders and to hear their initial ideas. Gave planning advice to English Partnerships and bidders.
London Underground Limited	Owners of land adjacent to the Dome.	Owners of Land adjacent to the Dome. Became responsibility of the Mayor of London in 2003.
Mayor of London Right of veto over proposals for future development of Dome and Greenwich Peninsula.		Liaised with bidders and the Department. Reviewed formal proposals after London Borough of Greenwich had given their conditional permission to proceed.
Millennium Commission Main public funder of the New Millennium Experience Company.	Gave advice to the Cabinet Sub-Committee.	Not directly involved in second process.
New Millennium Experience Company (NMEC) Owned and managed the Dome and its contents until July 2001.	Provided advice to Government and English Partnerships; liaison with bidders over draft project agreement (e.g. provided information for due diligence process); transfer of assets to successful purchaser.	In July 2001 ownership and management of the Dome passed to English Partnerships. Company placed in solvent voluntary liquidation. Not directly involved in sale process.

APPENDIX 3

The Meridian Delta Scheme

Source: Meridian Delta Ltd.

This document provides a summary in non-technical language of the main findings contained in the Environmental Statement that accompanied the planning application submitted for the proposed development.

The full findings of these studies and the overall Environmental Statement are presented in a comprehensive set of documents which can be purchased directly from:

Meridian Delta Ltd
Meridian Delta Business Centre
Gate 1, Drawdock Road
Greenwich
London SE10 0AX

Further details of the Masterplan can be viewed on Meridian Delta Ltd's website at www.meridiandeltaltd.com

The Aim

The regeneration proposals for the Greenwich Peninsula aim to create:

- A sustainable new community in which people can live, work and relax
- A world-class venue for entertainment and sport within the Dome
- A range of homes that will attract a vibrant mix of people from different backgrounds
- A network of safe and welcoming public places and green spaces
- An emphasis on walking, cycling and the use of public transport over the car.

The Site & Masterplan

The site occupies an area of 80.69 hectares (approximately 199.39 acres) and is located within the boundary of the London Borough of Greenwich.

A Masterplan for the development has been developed comprising the creation of a new mixed-use district, primarily residential in character, with commercial uses and the retention of the Dome as a 26,000 maximum capacity multi-events Arena with entertainment, sports, events and assemblies. The Masterplan aims to create a distinctive urban district that will make a major contribution to London. It establishes a series of integrated, yet distinctive neighbourhoods built around an interconnected network of streets, squares, gardens, open areas and the existing riverside walk.

The site is effectively flat and level, and it is set in a sharp meander of the Thames with a river frontage of approximately 2.5km that includes a Thames riverside walk and cycle routes. It was occupied by one of the principal gasworks in Europe and other industrial processes until the mid 1970s. In the late 1980s, work began on the comprehensive land clearance, remediation and redevelopment of the Peninsula.

The Peninsula is currently dominated by the Dome, its associated structures and hard standing which were built for the Millennium Exhibition. However, many of the buildings and much of the site now lie vacant. The Peninsula has also seen substantial investment in its public transport infrastructure with the opening of the North Greenwich Transport Interchange which encompasses North Greenwich Station and a bus station. The Peninsula is bisected by the A102 and the approaches to the Blackwall Tunnel. To the west of these the site includes the land occupied by the Tunnel Avenue Trading Estate, Blackwall Wharf and the northern part of the Victoria Deep Water Terminal. At the heart of the Peninsula lies Central Park, which was established at the time of the construction of the Dome. Within this park stand eight listed Georgian cottages and the Pilot Inn public house.

The Regeneration Opportunity

Regional Planning Guidance for London makes clear that there are large areas of the Thames Gateway that require a major and sustained process of regeneration. The Greenwich Peninsula represents one of the largest and most prominent regeneration opportunities in this region and Greater London. The Mayor's Draft London Plan and the Greenwich Peninsula Development Framework also recognise the Peninsula as an opportunity for the delivery of new business activities and the Unitary Development Plan (UDP) of the London Borough of Greenwich (LBG) has designated the Peninsula as a mixed-use site.

Planning Consent

Use of Millennium Dome and redevelopment of adjacent land at Greenwich Peninsula

Greenwich Council has approved a planning application relating to the future use of the Millennium Dome and adjacent land at Greenwich Peninsula. The consent consists of the following:

(a) Mixed use district including up to 10,010 dwellings; offices, research and development and light industry (343,600 sq.m.); retail facilities; food and drink facilities, hotel (60,000 sq.m.); student accommodation; residential and non-residential institutions; education; community facilities; landscape and open space; transport and highway infrastructure (including parking, riverside pier, walks and cycleways, helipad for health and safety use);

(b) Retention and change of use of Dome (127,000 sq.m.) for mixed use, including 26,000 capacity Arena with related uses and creation of Dome Waterfront (62,000 sq.m.) comprising various uses, including entertainment, sports, further retail, food and drink, exhibition, assembly, leisure, conference centre; and

(c) Associated works, (including to river wall, rebuilding of Greenwich Pavilion, greywater treatment plant and electricity sub-station and other utilities).

The Proposed Development

Millennium Square

Millennium Square forms the major open space adjacent to the Dome and the pedestrian link to North Greenwich Station. All buildings at ground level fronting the Square and the route to the station will have retail, restaurant, leisure or entrance functions to assist the creation of a lively environment. The Square will generally be free from permanent features which might compromise the movement of large numbers of people; however, it will be designed to be attractive and have a civic role as a venue for occasional managed events.

The space will be modulated close to the building frontages by the use of landscaping elements, canopies, awnings, colonnades and changes in paving to create a sense of protection and shelter in order to support the retail, restaurants and leisure uses described below.

Retail (Class A1 and/or A2)

Dispersed throughout the remainder of the Masterplan there will be up to 22,800 sq.m. of retail floor space, in addition to that shown for the Arena and Dome Waterfront. This will be located in four areas, namely Millennium Square, Meridian Gardens, Bugsby's Reach and Parkside.

Food and Drink – Class A3

Provision of the Food and Drink offer outside the Dome will be provided in two areas, Millennium Square and Meridian Gardens, totalling 10,950 sq.m.

Business – Class B1(a), (b) and (c)

The total B1(a) and B1(b) office accommodation to be provided on the Peninsula will be 325,000 sq.m. This will be provided within two districts: Dome Central and Millennium Square. The Gateway site will provide Class B1(c) use totalling 18,600 sq.m.

Hotel – Class C1

A hotel will be located in the northwest corner of the site on the land known as the Dome Waterfront. This will be up to 60,000 sq.m. providing up to 630 keys together with associated conferencing, banqueting and support facilities, including 400 car parking spaces.

Residential

Class C2 and C3

The residential units will be located in the four neighbourhood districts, namely: Meridian Gardens, East Riverside, Parkside and Bugsby's Reach.The total built area of the residential dwellings will be up to 820,550 sq.m. for the dwellings which will comprise a range of apartments (1, 2 or 3 bedroom) and 4 bedroom homes. In addition up to 3,650 sq.m. of student accommodation and up to 29,900 sq.m. of special needs accommodation. Included within this will be a proportion of affordable homes. There will be up to 10,010 residential dwellings, student accommodation for up to 120 students and up to 540 bed spaces providing accommodation for the following:

- Close care
- Sheltered
- Nursing Homes
- Residential Care Homes; and
- Other Special Needs/Learning Difficulties/ Disabled.

Within each of the districts, the residential accommodation will be focused around a neighbourhood central place or square, linked to primary social facilities such as shops and a community centre. The units will include a range of housing and tenures in close proximity to each other and will generally have the density of urban blocks, although there will also be high residential blocks to mitigate the effects of strong prevailing winds. Residential areas will be designed to allow for the integration of a range of sizes and tenures. For example, some flats may be designed to anticipate a combination of dwellings. In particular, affordable households will be co-located with private tenures and externally it will not be possible to tell the difference between the tenure types.

Other Uses

Class D1 - Education

A site for a secondary school building of up to 13,310 sq.m. will be provided in close proximity to two of the residential districts (Parkside and Bugsby's Reach), both of which are likely to have a higher proportion of families given the anticipated mix of dwellings. The school will also be adjacent to the bus and transit stops and so it will be within easy reach from other parts of Greenwich and Woolwich.

Community Facilities

A range of community facilities will be provided as part of the proposals including varied commercial uses that include retail and leisure components, as well as provision of delivery facilities in the residential design and other community amenities.

Rebuilding of the Greenwich Pavilion

The existing 250 sq.m. Greenwich Pavilion will be relocated from the northwest of the site to a site behind the existing listed cottages in Central Park.

Open Space Provision

Space for leisure and amenity will be provided throughout the site, in the following areas.

Riverside Walkway and Cycleway

The existing riverside walk and cycleway will be extended and enhanced along its length with the addition of adjacent open spaces.

Meridian Gardens

A new riverside area will be created in the Meridian Gardens District on the northwest of the Peninsula. This area will afford views across the Thames to the towers of Canary Wharf and will be the location of a new pier, known as Meridian Pier.

Dome Waterfront

The existing landscaped ecological area of the Dome Waterfront District to the north of the Dome, which includes areas of reed beds, will be extended.

The Dome Waterfront area around the Arena, but still within the Dome canopy, will comprise a mixed use leisure, sports, entertainment, retail, restaurant and exhibition space together with complementary and ancillary uses. Within the Dome Waterfront, planning permission is sought for a maximum of 62,000 sq.m. comprising the following uses:

- Retail up to 8,195 sq.m
- Food and drink up to 10,080 sq.m.
- Exhibition space up to 11,760 sq.m.
- Assembly, leisure, entertainment and sports space (including other D2 uses) 33,220 sq.m.
- Conference centre, shows and complementary uses up to 7,380 sq.m.

Link between Dome Central & Meridian Gardens

A new pedestrian link will be created providing a linkage through the site above the A102 Blackwall Tunnel approach ramps.

Central Park

The existing park will be retained and extended along its eastern edge where the existing road will become a pedestrian broadwalk. Routes will be formed from the park, through the adjoining residential areas, to the riverside walk creating accessible links between the areas of open space.