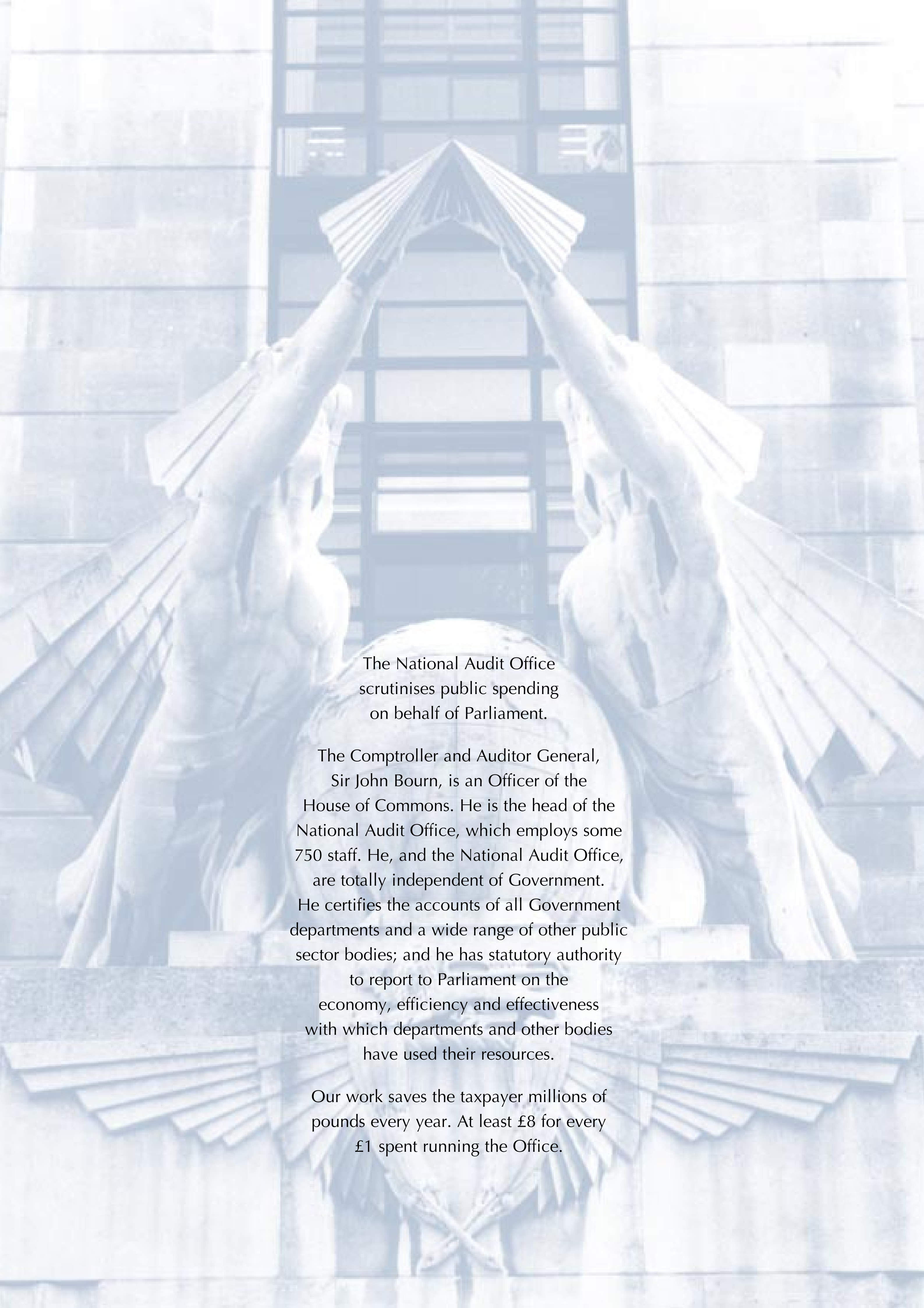
NATIONAL AUDIT OFFICE

The Millennium Dome

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 936 Session 1999-2000: 9 November 2000



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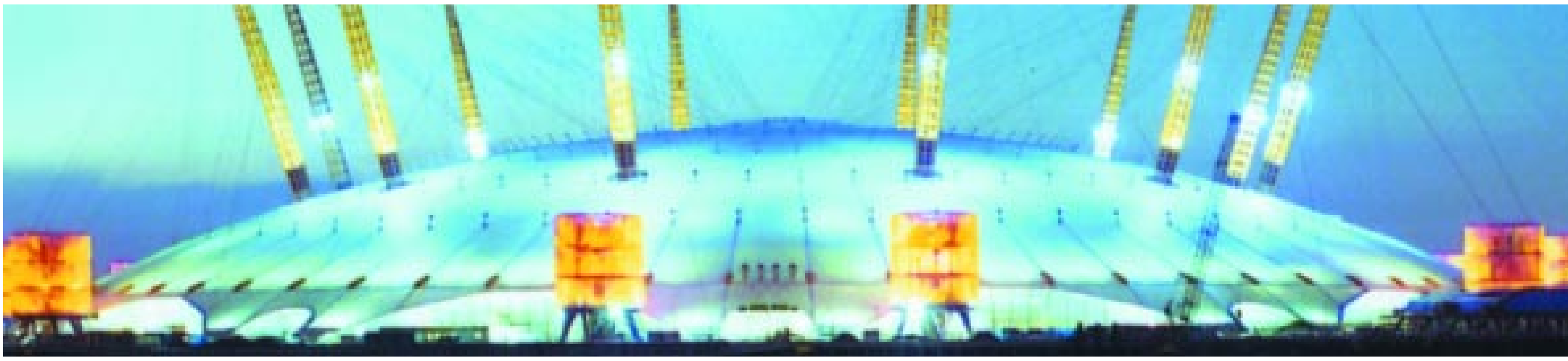
The Millennium Dome



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Contents

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John Bourn **National Audit Office**
Comptroller and Auditor General **3 November 2000**

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Part 2: The planned and actual costs and revenues 19

Part 3: Key factors influencing performance 39

Appendices

executive summary

In this section

1 The Millennium Dome is a unique project. It was conceived as a Millennium Exhibition of a scale and stature comparable with that of the Great Exhibition of 1851 and the Festival of Britain of 1951. The project was to provide the centrepiece for the nation's Millennium celebrations by opening on New Year's Eve and running through the year 2000.

2 Opening the Dome on time was a major achievement. The Dome has also attracted a very large number of paying visitors: by July their number had beaten the record for 1999 (2.65 million) for a UK 'pay-to-visit' attraction. A recent survey showed that 87 per cent of visitors were satisfied with their visit. In addition 86 per cent were satisfied with the services provided by the Dome's hosts.

3 The project has been funded from three sources:

a) the National Lottery;

b) visitors;

c) commercial sponsors.

4 Lottery funding is provided by the Millennium Commission, a non-departmental public body chaired by the Secretary of State for Culture, Media and Sport. The Millennium Commission receives its funding from the National Lottery Distribution Fund. The Comptroller and Auditor General is the external auditor of the Millennium Commission. In his Departmental capacity, the Secretary of State is responsible for issuing policy and financial directions to the Millennium Commission. The Permanent Secretary of the Department for Culture, Media and Sport is the Accounting Officer both of the Department and of the National Lottery Distribution Fund. He is also responsible for appointing the Accounting Officer of the Millennium Commission. So that sufficient funds could be made available to the Dome project without jeopardising the Millennium Commission's other programmes, in June 1997 the Government confirmed, in line with the previous Government's commitment, that it would, if necessary, bring forward an order in Parliament to extend the funding life of the Millennium Commission which is due to end on 31 December 2000.

5 The Dome has been built, fitted out and run by the New Millennium Experience Company which is a limited company governed by the Companies Acts and wholly owned by the Government. The original intention had been to have the private sector deliver the project but in 1996 it became clear that the private sector would not accept the risks. The Government therefore decided that the project should be delivered in the public sector. The shares in the New Millennium Experience Company are held in the name of a Minister of the Crown. The Company is also constituted as a non-departmental public body. As such, it is subject to the normal financial and governance arrangements which apply to such bodies, including a Financial Memorandum, in this case between the Company and the Shareholder. In accordance with that Financial Memorandum, it too has an Accounting Officer, appointed by the Accounting Officer of the Department for Culture, Media and Sport.

6 As is well known, the Company has experienced severe financial difficulties during the year of operation. Visitor numbers have been very substantially lower than the 12 million envisaged in the plan on which the Millennium Commission based its original lottery grant award of £449 million in 1997: by September 2000, the Company was planning on the basis of 4.5 million paying visitors, six million in total. Sponsorship income has also fallen short of the 1997 planned figure of £175 million for 14 zones: by September 2000, the Company had revised its budget to £115 million for 12 zones excluding two zones largely paid for directly by sponsors. As well as falling short in amount, sponsorship income has been received more slowly than the Company had expected. In addition to its budgeted sponsorship income the Company has received services and product enhancements, the value of which it puts at some £46 million. On the expenditure side, the Company forecasts that it will be five per cent over budget.

7 In response to these difficulties the Company has made a number of changes at senior levels. In February 2000 the Chief Executive and Accounting Officer left the Company and was replaced, and in May the then non-executive Chairman resigned. In September his successor stepped down, of his own accord, to the position of Vice-Chairman, and an Executive Chairman was appointed (he also became the Accounting Officer). A new Finance Director was also appointed in September.

8 In the face of the severe shortfall in the Company's revenue, during the year 2000 the Millennium Commission has approved four further grants totalling £179 million. Each time the Millennium Commission has awarded an increase in grant, it has been the duty of the Commission's Accounting Officer to consider whether the grant offers value for money. On two occasions, in May and September, he concluded that in accordance with Government Accounting he needed to seek a written Direction from the Commissioners to pay the additional grant[1]. Each such Direction instructed him to make the payments in the light of wider considerations that the Commissioners wished to take into account. (These were "the economic impact of premature closure of the Dome, including the impact on public sector funds", and "the reputation of the UK").

9 The Company's solvency has been a matter of concern throughout the year 2000. The Millennium Commission and the Company had discussed this point at the end of January. In May the Board of the Company engaged solicitors to advise them on the directors' responsibilities and courses of action given its financial situation. In June the Board sought and received from the Department an indemnity against any wrongful trading actions brought against them by creditors. And prior to appointing the Executive Chairman in September, the

1 *An Accounting Officer is required to seek a written direction if instructed, in this case by the Millennium Commission, to pursue a course of action that he would not feel able to defend to the Committee of Public Accounts as representing value for money (Government Accounting).*

Company had commissioned PricewaterhouseCoopers, accountants, to report, amongst other things, on the solvency of the Company. In their report dated 22 August, PricewaterhouseCoopers concluded that the Company was insolvent. In continuing to trade the Company has taken assurance from Parliamentary statements by Ministers, indications from the Millennium Commission that it would consider further grant applications, and its expected share of the proceeds from the sale of the Dome.

10 It was originally intended that at the end of its year of operation the Millennium Dome would close and would be sold. During 1998, Ministers agreed that formal bids should be invited for the future use of the Dome. In July 2000 Ministers selected Dome Europe plc as the preferred bidder, but in September Dome Europe withdrew. Negotiations with other parties were subsequently re-started. Given the inevitable uncertainty as to the outcome of such negotiations, it is not yet possible to predict the final financial outcome of the Millennium Dome project after it closes on 31 December. Following the decision by Dome Europe to withdraw from the competition for the future use of the Dome, the Deputy Prime Minister requested that English Partnerships produce a paper on the options for the future use of the Millennium Experience site. This exercise is being run in parallel to the current competition for the Dome and the discussions that are taking place with Legacy plc. The Government remain committed to a long-term future for the Dome.

Scope of the National Audit Office examination

11 In reporting on the accounts of the Millennium Commission in every year since 1997 I have drawn attention to the Commission's exposure to the risks inherent in the Dome project.

12 This report focuses on the financial problems experienced on the project during its year of operation. By this stage the Exhibition was in place and expenditure committed. Clearly though, events during the year 2000 will have been influenced by what happened in earlier years, and the report covers the history of the project to the extent necessary to provide the broad context. It does not cover in detail all of the factors likely to influence performance: for example, the location and content of the Dome, the management of the planning and building phases of the project, the regeneration of the Greenwich peninsula, the contracting and payment for goods and services, and the conduct of the competition for the future ownership of the Dome.

13 The National Audit Office continues to monitor developments at the Dome and will report further as necessary.

The Comptroller and Auditor General's conclusions

14 Reflecting on events at the Dome it is clear that the main cause of the financial difficulties is the failure to achieve the visitor numbers and income required. The targets were ambitious and inherently risky. This inevitably meant a significant degree of financial exposure on the project.

15 It is also clear that the task of managing the project has been complicated by the complex organisational arrangements put in place from the outset, and by the failure to put in sufficiently robust financial management.

Visitor numbers

The visitor numbers target involved significant risk

16 The Commission's decision to award a grant to the Company took account of estimates of visitor numbers from the Commission's consultants that ranged from eight million to 12 million. The Company's May 1997 business plan assumed 12 million paying visitors (although it considered that its budget would balance at around 11 million). At that stage, however, final decisions had not been made on the Dome's contents, on ticket prices, on marketing strategies, and on whether there would be access to the area by car for the purposes of dropping off and picking up. The Company's papers refer to earlier estimates by outside consultants that ranged from some eight million to over 17 million.

17 The decision to plan on the basis of 12 million visitors meant the Dome having to attract more than four times as many visitors as the next most popular UK 'pay-to-visit' attraction (Alton Towers) achieved in 1999. And with only one year of operation, that large number of visitors would have to be attained from a standing start.

18 The risks attached to the visitor numbers were recognised. For example, the Commission's staff had recommended that the Company's business plan be based, for the sake of prudence, on the figure of eight million visitors which was the 'worst case' of the estimates provided to the Commission by its consultants, Deloitte & Touche Consulting Group. The New Millennium Experience Company stood by its forecast, and this was the basis for the business plan approved by the Commissioners in July 1997.

19 Once the Dome had been constructed and much of the project cost already incurred, the room for manoeuvre in the face of low visitor numbers was very restricted. During the year 2000 efforts were made to boost visitor revenue. For example, the appointment of a new Chief Executive with visitor attraction experience, changes to improve visitor flow within the Dome, and further marketing supported by additional funding from the Commission.

20 As the financial situation deteriorated the only options, short of closing the Dome and liquidating the Company, which in the light of knowledge about the Company's commitments would not have made financial sense during the year of operation, were to rely on receipts from the planned sale of the Dome and further grant from the Commission. It is not clear, however, that when going into the year of operation the main parties had agreed in advance a clear plan of how they would respond if visitor income fell significantly below the required levels. The possible need to seek an extension to the funding life of the Commission had been recognised in 1997, but the Company had difficulty identifying its funding requirements and the Commission could not fund in advance of need.

The Company lacked sufficient operational expertise

21 Running such a major attraction called for specific operational expertise quite distinct from that required to construct the Dome. Reporting to the Commission in June 1997, consultants BDO Stoy Hayward Consulting Services Limited drew attention to the importance of having operational expertise at the Company. During the content development phases, the Company involved a number of eminent and qualified individuals with experience in the visitor attraction industry, the media, design and specific subject areas being addressed in the exhibits, to advise and assist the process. However, the Company lacked senior staff with experience of running a large visitor attraction. In view of the operational difficulties being experienced in the early days following the opening, the Company replaced the then Chief Executive with someone who had most recently worked at Euro Disney as a Vice-President.

Marketing and sales strategies were based on the Dome selling itself

22 When the Company reviewed its marketing approach in February 2000, it concluded that the marketing budget in the original business plan had been set at a low level compared with other large visitor attractions. The original reasoning for setting this level of budget had been that ticket sales would be driven by massive free media exposure, word of mouth recommendations, and a traditional fascination with Expo-style events. The Company concluded that this original strategy had carried a very high risk - the Dome was new and unproven with no direct comparators, there had been little time to build and establish a reputation, and it was operating in a very competitive visitor attraction market.

23 The Company considered that negative media coverage of the Dome during 1999 and early in the year 2000 had a significant depressing effect on visitor numbers; word of mouth had not spread the message to the extent anticipated; the Dome's content had not been sufficiently explained or promoted; and there was a perception that travel costs were high and travel times long. The Company estimates that each time the Dome received 'bad press' sales enquiries dropped by 30 per cent to 50 per cent in the following week.

24 The Company had set up arrangements for selling tickets which assumed that it would be necessary to manage demand by selling tickets in advance. Indeed the original plan, reversed soon after the Dome opened, was not to sell tickets at the door. In February 1999 the Company's Board, having considered the request from the Government through the Shareholder, agreed to allow free access to the Dome for up to one million schoolchildren. The Company estimates that this decision will give rise to revenue losses of some £7 million.

The complex organisational arrangements

25 The formal responsibilities and accountabilities for the Dome project are shown in **Figure 1**. Three distinct bodies, three Accounting Officers, and two Ministers (exercising three distinct roles) are involved. By any standards, that is a highly complex structure.

26 The way in which these parties interact in the formal accountability for the Dome is as follows:

a. The New Millennium Experience Company

The Company is responsible for the delivery and operation of the Dome. It is subject both to the Companies Acts and to the usual disciplines of a non-departmental public body. That means that the Board of the Company is accountable both to the Shareholder and to the Millennium Commission. The Financial Memorandum stipulates that nothing in it is intended to derogate from the duties of the directors under company law. The Accounting Officer of the Company is accountable to Parliament.

b. The Shareholder

The Shareholder is the owner of the Company. He has the normal responsibilities under company law to appoint directors and auditors, but in addition, reflecting the Company's status as a non-departmental public body, he has established a measure of control over the Company through the Financial Memorandum which he has put in place by agreement with the Treasury, in terms similar to those used in other non-departmental public bodies. This does not give the Shareholder responsibility for day to day management.

c. The Department for Culture, Media and Sport

The Department advises the Secretary of State for Culture, Media and Sport and carries out functions on behalf of the Secretary of State. In particular, the Department issues policy and financial directions to lottery distributing bodies, including the Millennium Commission. The Department's responsibilities include advising the Shareholder about the Dome project, including adherence to the Financial Memorandum. The Financial Memorandum provides that the Accounting Officer may issue instructions to the Chief Executive of the Company relating to his or her responsibilities as Accounting Officer. The Department must also satisfy itself that the Millennium Commission has appropriate systems for managing and controlling lottery money.

d. The Millennium Commission

The Millennium Commission's statutory function is to grant-aid projects - it has no power to run projects itself. The Commission comprises nine members - two are Ministers of the Crown, one acting as Chairman, and a further member is nominated by the Leader of the Opposition. Since the outset, the Chairman has been the Secretary of State for Culture, Media and Sport (or his predecessor). The Commission is supported by a staff headed by the Director, whom it appoints and who has been appointed Accounting Officer by the Accounting Officer of the Department for Culture, Media and Sport. The Millennium Commission holds the Company accountable for the use of the grants it has made through the mechanism of a Grant Memorandum setting out fully the terms and conditions applying to grants. The Grant Memorandum states that its provisions are in addition to, not in substitution for, guidelines issued to the Company by the Shareholder.

1 Responsibilities and accountabilities of the key players

Parliament

Department for Culture, Media and Sport

The Secretary of State for Culture, Media and Sport is responsible under the terms of the National Lottery etc Act 1993 for issuing policy and financial directions to the Millennium Commission. The Permanent Secretary of the Department is Accounting Officer for the National Lottery Distribution Fund (NLDF) and Superior Accounting Officer to the Millennium Commission and the New Millennium Experience Company. The Permanent Secretary's responsibilities include:

- satisfying himself that the Millennium Commission's systems are sufficiently sound and proper for him to allow the Commission to draw down NLDF funds granted by the Commission to the New Millennium Experience Company;
- appointing Accounting Officers for the Millennium Commission and the New Millennium Experience Company;
- dealing with Accounting Officer matters, in relation only to the bullet points above, which might arise from the scrutiny of the New Millennium Experience Company by the Public Accounts Committee.

The Permanent Secretary and other officials from the Department also advise the Shareholder in the exercise of his functions with respect to the Millennium Experience.

Shareholder

As the owner of the New Millennium Experience Company, the Shareholder is responsible for:

- appointing any additional or new members of the Company's Board of Directors;
- approving the terms and conditions of employment of the Company's Chief Executive and other executive appointments to the Board;
- laying the annual report and accounts of the Company before Parliament;
- answering in Parliament for the performance of the Company, including appearing before House Committees.

National Lottery Distribution Fund

The central fund which the proceeds from the National Lottery are paid into.

Millennium Commission

The Chairman of the Millennium Commission is a Government Minister (currently the Secretary of State for Culture, Media and Sport) appointed by The Queen on the advice of the Prime Minister. As such the Chairman answers to Parliament for the performance of the Commission. The Director (and Accounting Officer) of the Commission is responsible for ensuring:

- that lottery money allocated to the Commission is distributed with due regularity and propriety.
- the economic, efficient and effective use of the Commission's share of lottery proceeds.

The relationship between the Commission and the Company is governed by the terms and conditions of grant which were approved by the Accounting Officer for the Department for Culture, Media and Sport.

New Millennium Experience Company

The Board of the Company is responsible for ensuring that the Company delivers cost-effectively an exhibition in Greenwich in the year 2000 on time and within budget, and appointing a Chief Executive to be responsible for day-to-day operations.

The Chief Executive of the Company was appointed Accounting Officer for the Company, responsible for ensuring that all funds in the Company's charge are used with due propriety and regularity and in compliance with the Financial Memorandum between the Company and the Shareholder. (On the appointment of the new Chief Executive in February 2000, the Department appointed the Company's Finance Director as Accounting Officer due to his previous experience. On appointment on 5 September the Executive Chairman became Accounting Officer).

Accountability — Control and direction — Lottery funding — Advice

Source: *Drawn mainly from the April 2000 Memorandum of Understanding on the relationship of the New Millennium Experience Company to the Shareholder, the Department for Culture, Media and Sport and the Millennium Commission.*

27 In addition to the formal communications which follow from the accountability structure described above, there have understandably been numerous more or less informal communications, meetings and discussions involving at various times all the parties. During the examination by the National Audit Office, it has become clear that the parties are not always in agreement as to where in practice the burden of influence and authority has lain. The following paragraphs therefore give only a broad summary of how the parties worked together.

a. The New Millennium Experience Company

The operations of the Company have been conducted by the Company's staff, under the Chief Executive. In common with many non-departmental public bodies, but few large limited companies, almost all of the directors of the Company have been non-executive (and offered their services free of charge). From the early days of the project the directors of the Company took part in meetings held weekly or fortnightly which variously included the Shareholder, the Department and the Millennium Commission.

b. The Shareholder

The Shareholder has monitored the Company's progress against the five key commitments for the Dome which the Government made in July 1997. These covered cost, content, national impact, effective management, and what should happen to the Dome site after the end of the Millennium Exhibition. The Shareholder has attended 16 of the Company's 22 Board meetings since August 1999 and been represented at two of those which he did not attend personally.

c. The Department for Culture, Media and Sport

The Department has advised the two Ministers concerned with the Dome (the Secretary of State and the Shareholder) throughout. In doing so, the Department has received various information provided by the Company, by the Millennium Commission, and by consultants appointed by them. In response to the need for a public sector vehicle to deliver the project the Department established the Company, with the agreement of the Millennium Commission, as a non-departmental public body in early 1997.

d. The Millennium Commission

The main reason for establishing the Company was that the Millennium Commission lacked the legal powers needed to carry out the Dome project. The Commission has been responsible for approving the Company's business plans and budgets, making lottery grants to the Company, and monitoring the

Company's progress in building and operating the Dome. The Commission has appointed consultants to review the Company's finances, installed a 'cost monitor' at the Company and approved the Company's draw down of grant.

Financial management

28 The acute financial difficulties experienced on the project have placed a premium on strong financial management, and there have been changes of personnel at senior levels in the Company designed to achieve that. The Millennium Commissioners first conveyed their concerns about management and corporate governance to the Shareholder in February 2000. The Shareholder responded on 24 March. The previous Chairman of the Company did not accept these concerns and set out his detailed response in his letter of 30 March. Having raised corporate governance as a condition of their February grant, the Millennium Commissioners acknowledged that some changes had been made and in the light of these, the Chairman’s commitments and the Shareholder’s letter, they released the outstanding grant. This and subsequent correspondence on this matter, including responses by the Shareholder and the former Chairman of the Company, is reproduced at paragraph 3.42 of the report.

29 There have been weaknesses in financial management and control at the Company, variously identified by the Commission's and the Company's advisors through the course of the year:

- the systems in place, and the information available, have hindered the Company's ability to produce reliable financial forecasts;
- the Company has been unable to track and quantify fully the contractual commitments it has entered into. This is illustrated by the fact that unexpected liabilities totalling more than £5 million, largely in respect of work undertaken to fit out the Dome, came to light between March and July 2000;
- the Company experienced difficulty in establishing the full extent of its liabilities through to solvent liquidation and handover to a new owner.

30 The Company is addressing these weaknesses and working to identify fully its commitments and liabilities through to the sale and transfer to a new owner.

Recommendations for the future

The Dome is a unique project. The following recommendations for the future are aimed at major projects generally. They are relevant to all projects funded with public money, be it lottery money or money raised through taxation, and they are particularly relevant to projects based on assumptions about visitor numbers and income.

Management structure

- the framework of management, oversight and accountability should be clear and straightforward, with a clear focus on delivering the project;
- strong and effective corporate governance, using collective skills to probe an institution's affairs and provide oversight and control, is essential;
- organisational structure and management capacity must adapt to meet the different stages of a project - plan, build, run and close. For example, developing and running a visitor attraction requires skills in addition to mainstream project management skills normally required on major construction projects.

Project costs

- projects should proceed on the basis of a full understanding of the cradle to grave costs. For projects with a limited life these should include the costs of closure, decommissioning and, where appropriate, eventual sale;
- there should be a full understanding of, and provision for, costs which will not necessarily arise, but could.

Project income

- where the financial success of a project depends on generating income from visitors, to reflect the uncertainties inherent in estimating such income, project planning should be based on prudent assumptions;
- to make realistic judgements about likely visitor numbers, and put in place effective marketing, the timetable needs to allow for a reasonable period for the development of a clear vision of what the product is and a fully thought-through pricing strategy;
- working with financial partners, such as commercial sponsors, can involve a good deal of management time, and uncertainty over the final level of the financial contribution. These risks need to be factored into the project planning.

Contingency planning

- on any major project managers need as much flexibility as possible to respond if things do not go to plan. It is important, therefore, to set aside, and control tightly, financial provision to help deal with unforeseen events;
- on projects which depend critically on trading income, and particularly where there are significant risks attached to that income, it is important to retain as much flexibility as possible to respond if the trading position deteriorates - for example, by adjusting staffing levels and the services required from external suppliers. Clearly, though, it is important not to reduce costs to the extent of damaging the product being sold;
- managers may find it difficult to respond to major unforeseen events unless they have already developed crisis plans. This is not planning for failure. It is planning to make the best of a bad situation, should it arise.

Financial management

- all expenditure commitments entered into should be recorded on a central tracking system and invoices received matched against these commitments. Only in this way can the total level of commitments and liabilities for the project be identified fully and quickly. This is important in establishing the day to day financial position;
- the financial position should be reported clearly and accurately to those with a direct governance or other oversight role in relation to the project.

Part 1

Introduction

Background to the National Audit Office examination

1.1 In July 1997 the Millennium Commission (the Commission) approved a lottery grant of up to £449 million to the New Millennium Experience Company (the Company) for the purpose of building and operating the Millennium Dome at Greenwich and for organising a range of events nationally to celebrate the year 2000 (the National Programme). The Commission's aim was to create a Millennium Exhibition of a scale and stature comparable to that of the Great Exhibition of 1851, and the Festival of Britain of 1951. The project was approved by the Millennium Commission on the basis that it would achieve a balanced budget - costs and income of £758 million. The approval was also on the basis that the Company would plan for 12 million paying visitors. But by the end of September 2000 the Dome had attracted 3.8 million paying visitors, and 0.9 million non-paying visitors, and had experienced significant financial difficulties throughout the year.

1.2 Since the Dome opened to the public on 1 January 2000, the Commission have awarded four additional grants to the Company - £60 million in February, £29 million in May, £43 million in August, and £47 million in September - bringing the total grant funding of the project to £628 million.

1.3 The Millennium Commission's Accounting Officer sought and received a Direction from the Commissioners to pay the grant of £29 million awarded in May, because in his view it could not be justified on value for money grounds when set against the normal judgements which the Commission had sought to make over its lifetime. He considered that further funding of up to £80 million could be required to keep the Dome open through the year and that such funding would not represent value for money from the lottery's perspective, given that the momentum towards the Commission's strategic objective - regeneration of the Greenwich peninsula - was unstoppable and an on-going use would be forthcoming without further grant. However, on the basis of the wider objectives they wished to be secured the Commissioners decided that grant of up to £29 million should be offered to the Company.

The Millennium Dome has a circumference of one kilometre and is as big as 13 Royal Albert Halls or two Wembley Stadiums, and as high as Nelson's Column. It comprises a central arena, in which the live millennium show is staged, and 14 separate but interlinked zones each with a different theme. Also on site is the Skyscape auditorium, which can provide entertainment for up to 5,000 people.

The Dome is open seven days a week. A standard adult ticket costs £20, discounted to £10 after 4.00pm. A family ticket, admitting a mix of adults and children (maximum five persons) costs £57. Concessionary prices are available for children (aged five to 15), senior citizens and the registered unemployed. Special prices are available to group visitors, and the Company also runs special promotions.

Definitions

i) Throughout this report the term 'paying visitors' refers to visitors who have paid to enter the Dome. The Company refers to these as 'revenue generating' visitors.

ii) The Company uses a broader definition of the term 'paying visitors' to include all visitors to the Dome (except those on free school visits), including some visitors who do not pay an admission fee - ie children under five, the press and sponsors.

iii) Children on free school visits are not included in either of these categories.

iv) Visitors in categories ii and iii above are included in the totals for 'non-paying' visitors set out in this report.

1.4 The position when the Commission awarded additional grant of £43 million in August was different. The Government had within reach, but not yet secure, a deal with a prospective purchaser. The Government had selected Dome Europe plc as preferred bidder for the future use of the Dome. Heads of terms had been signed, but contracts had not been exchanged. As the deal with Dome Europe would have ensured early continued use of the Dome and significant private sector investment, the Commission's Accounting Officer made it clear that he could support a grant provided it was at the minimum level required to achieve the objective of facilitating the deal.

1.5 In September, with the withdrawal of Dome Europe from the sale process, the Commission was in a similar position to the one it faced in May. The Commission's Accounting Officer informed the Commissioners that on value for money terms he could not support the additional grant of £47 million to the Company. The Commissioners formally instructed the Accounting Officer to proceed with the offer of grant and the release of funds as necessary.

1.6 A chronology of key events is at Appendix 1.

The National Audit Office examination

1.7 In the light of the additional funding provided for the project we decided to prepare a report for Parliament on the events surrounding that funding. The report focuses on the financial performance of the project since the Dome opened, and looks at the changes in the overall cost and income assumptions - in particular how far visitor numbers and revenues have been lower than forecast and required. In reporting on financial performance and visitor numbers we have drawn on figures produced by the Company. Our approach is described more fully at Appendix 2.

1.8 The structure for the report is:

Part 1 - the remainder of this Part describes the Dome project in more detail, and summarises the events leading to approval of the project;

Part 2 - examines financial performance and the reasons for the additional grants;

Part 3 - examines the key factors underpinning the financial performance.

1.9 Clearly, events during the year 2000 will have been influenced by what happened in earlier years, and the report covers the history of the project to the extent necessary to provide the broad context. For the purposes of this report we have not examined in detail all of the factors likely to influence performance; for example, the decision to build the Dome at Greenwich, and the content of the Dome. Nor have we examined in detail the operational management over the four stages of the project:

- **plan** (the development of the initial concept and the design work);
- **build** (the construction and fit-out of the Dome);
- **run** (operational management of the Dome as a visitor attraction);
- **close** (the process of running down and selling the Dome, and handing over to new owners).

We have not, for example, examined the processes for contracting, the processes for paying for goods and services, and the extent of the Company's liabilities. In his work to steer the Company through to solvent liquidation, these are areas which the Company's new Executive Chairman, appointed on 5 September, is reviewing as a priority. We continue to monitor closely developments at the Dome, including alleged fraud, and will report further as necessary.

The origins of the project

1.10 The initial idea to explore whether the Millennium Commission should support a millennium festival to form the focus of celebrations in the year 2000 was announced in a speech by the then Chairman of the Commission in June 1994. In May 1995 the Commission invited applications to host the exhibition. The Greenwich peninsula was chosen by the Commission, in February 1996, partly because of its historic association with time, being situated on the prime meridian line, but also because of its potential long term legacy in the form of economic regeneration. The site had accommodated a gasworks and was derelict and contaminated. The Commission's strategic objective in selecting Greenwich was regeneration of the Greenwich peninsula as a whole, as publicly announced by the then Chairman in July 1996.

1.11 English Partnerships, the Government's urban regeneration agency, had previously considered the redevelopment of the eastern side of the peninsula with the then owners (British Gas). However, the siting of the Dome at Greenwich required a marked acceleration of this programme. The Accounting Officer of the then Department of the Environment considered that the acquisition of the land by English Partnerships so far in advance of what would otherwise be required did not represent good value for money. He sought and received a Direction from the Secretary of State for the Environment to commit the funds.[2] English Partnerships purchased the land owned by British Gas on the peninsula (including the Millennium Experience site) for £20 million in February 1997, plus a further 7.5 per cent of the proceeds from any re-sale.

1.12 English Partnerships then became responsible for clearing, decontaminating, preparing and providing services (for example, power supplies) for the east side of the peninsula (300 acres). To facilitate the Millennium Experience an overall budget of £147.5 million was set for the Experience site, with a further allowance for contingencies of up to £15 million. This encompassed not only the 160 acres under and adjacent to the proposed Dome, but also infrastructure works and environmental improvements.

1.13 In September 1997 English Partnerships granted an 'agreement to lease' to the New Millennium Experience Company which entitled them to occupy the site for the Millennium Experience up to 30 June 2001 at a peppercorn rent, with the option to extend for the purpose of the Millennium Experience at a market rent.

The creation of the New Millennium Experience Company

1.14 The Millennium Commission initially sought a private sector operator for the project. They invited applications from potential operators who would, with substantial grant from the Commission, design, build, finance, market, and run the exhibition throughout the year 2000. In February 1996 the Commission decided in principle to proceed with the project based on the outline concepts of Imagination Group Ltd.

1.15 The Commission sought commercial partners for Imagination Group Ltd, who created and owned a small company called Millennium Central Ltd, but no equity partners were forthcoming. By June 1996 it had become clear that the private sector would not accept the risks associated with mounting the exhibition and that they would therefore have to be met by the Commission or the Government. In January 1997 the then Government decided that the project should be delivered in the public sector by a Companies Act company whose sole shareholder would be a Government Minister accountable to Parliament. Millennium Central Ltd was taken into public ownership and given the job, and its name changed to the New Millennium Experience Company Ltd in June 1997.

The responsibilities of those involved

1.16 The New Millennium Experience Company is a limited liability company, with its shares owned by a Minister of the Crown, and is classified as a non-departmental public body. This dual status, coupled with the fact that the Company receives its lottery funding from another non-departmental public body - the Millennium Commission - has led to a complex hierarchy of relationships and monitoring and accountability arrangements. The principals in these arrangements, in addition to the Company itself, are the Shareholder, the Millennium Commission and the Department for Culture, Media and Sport (a full list of the key post holders over the life of the project is at Appendix 3). Their main responsibilities are summarised in Figure 1 on page 7. They are set out in full in a series of documents, most notably the Financial Memorandum between the Shareholder and the Company (Appendix 4), the Grant Memorandum between the Commission and the Company (Appendix 5), a Memorandum of Understanding between all parties involved, and the Millennium Commission's Statement of Financial Directions.

1.17 While the following paragraphs set out the formal structure of responsibilities and accountabilities in relation to the Dome project, there were numerous formal and informal contacts between the organisations and individuals involved. For example, the New Millennium Experience Co-ordinating Group, chaired by the Shareholder, met regularly from June 1997 to the opening of the Dome. The Group included representatives of the Company, the Commission, the Department and the Shareholder. In addition, throughout 1999 the Shareholder met weekly with officials from the Company and the Department, and during the year attended meetings with members of the Company's Board. Between late 1997 and mid 1999 the Strategic Creative Review Group, comprising members of the Company's Board and a wide range of eminent individuals from other walks of life, advised the Company on the Dome's contents, the quality of the entertainment to be provided and the educational potential of the exhibits.

2 *An Accounting Officer is required to seek a written direction if instructed by a Minister to pursue a course of action that he would not feel able to defend to the Committee of Public Accounts as representing value for money (Government Accounting).*

The New Millennium Experience Company

1.18 The Board of the Company is responsible for ensuring that the Company delivers cost-effectively the exhibition in Greenwich in the year 2000 on time and within budget. The Board is responsible for appointing a Chief Executive to be responsible to them for the day to day operations of the Company, and is responsible for ensuring that appropriate structures are put in place to achieve the Company's aims and objectives. In addition to building, fitting out and running the Dome as a visitor attraction, the Company is also responsible for the National Programme, a programme of events to celebrate the year 2000 nationwide.

1.19 In accordance with Treasury rules for the appointment of Accounting Officers in non-departmental public bodies, the Accounting Officer of the Company is appointed by the Accounting Officer of the Department for Culture, Media and Sport. The Company's Accounting Officer is responsible for ensuring that all funds in the Company's charge are used with due propriety and regularity in compliance with the Financial Memorandum. The Company's Accounting Officer is also responsible for making adequate arrangements to ensure that the Company is wound up in accordance with the instructions of the Shareholder and the provisions contained in the Memorandum and Articles of the Company, and that all net revenues are used to repay grant.

1.20 Under the Companies Act regime the directors of a company are accountable to its shareholders for the company's performance and have responsibilities under company law. The Financial Memorandum stipulates that nothing in it is intended to derogate from the duties of the directors under law. Under the non-departmental public body regime, the Accounting Officer is personally accountable to Parliament for the organisation's use of public resources. At the New Millennium Experience Company, apart from the Chief Executive and the Finance Director (and until February 2000 the Operations Director, and until April 2000 the Managing Director), the rest of the Board, including the Chairman, have been non-executive (in September 2000 there were nine non-executive directors). This structure, with so few executive directors, is untypical of a private sector company, and in August 2000 the Board came to the view that there was an imbalance between executive and non-executive members. This led to the Board appointing, on 5 September, an Executive Chairman - he was also appointed as Accounting Officer by the Accounting Officer of the Department for Culture, Media and Sport.

The Shareholder

1.21 The Shareholder, a Minister of the Crown, is the owner of the New Millennium Experience Company on behalf of the Government. He has the following responsibilities:

i) appointing any additional or new members of the Board of Directors, according to the procedures set out by the Commissioner for Public Appointments;

ii) approving the terms and conditions of employment of the Company's Chief Executive and other executive appointments to the Board;

iii) answering in Parliament for the performance of the New Millennium Experience Company, including appearing before House Committees;

iv) laying the annual report and accounts of the New Millennium Experience Company before Parliament.

In addition, on behalf of the Government, he is responsible for setting the strategic direction of the Company and for monitoring its progress in terms of cost, content, national impact, legacy and effective management.

1.22 In exercising these responsibilities, the Shareholder is advised by the Permanent Secretary and officials of the Department for Culture, Media and Sport. The Department issued the New Millennium Experience Company with the Financial Memorandum for and on behalf of the Shareholder. The Company's compliance with the Financial Memorandum is a condition of the grant payable by the Millennium Commission.

The Department for Culture, Media and Sport

1.23 The Secretary of State is responsible under the terms of the National Lottery etc Act 1993, as amended by the National Lottery Act 1998, for issuing policy and financial directions to lottery distributing bodies, including the Millennium Commission. The Permanent Secretary of the Department is Accounting Officer for the National Lottery Distribution Fund and Superior Accounting Officer to the Millennium Commission and the New Millennium Experience Company. Under the Memorandum of Understanding the Permanent Secretary's responsibilities include:

i) satisfying himself that the Millennium Commission's systems are sufficiently sound and proper for him to allow the Commission to draw down National Lottery Distribution Fund funds granted by the Commission to the New Millennium Experience Company;

ii) appointing Accounting Officers for the Millennium Commission and the New Millennium Experience Company;

iii) dealing with Accounting Officer matters, in relation only to i) and ii) above, which might arise from the scrutiny of the New Millennium Experience Company by the Public Accounts Committee.

The Permanent Secretary and other officials from the Department also advise the Shareholder in the exercise of his functions with respect to the Millennium Experience.

The Millennium Commission

1.24 Under the 1993 Act the Millennium Commission's function is to assist communities in marking the close of the second millennium and in celebrating the start of the third. It uses money raised by the National Lottery to grant-aid projects throughout the United Kingdom "which will be lasting monuments to the achievements and aspirations of the nation." The Commission has no legal power to run projects itself.

1.25 The Millennium Commission consists of nine members - two are Ministers of the Crown, one acting as Chairman, and a further member is nominated by the Leader of the Opposition. The current Chairman is the Secretary of State for Culture, Media and Sport, who answers to Parliament for the performance of the Commission. The Director of the Commission is appointed by the Millennium Commissioners. The Accounting Officer of the Department for Culture, Media and Sport appoints the Accounting Officer of the Commission. The Director's responsibilities include:

i) ensuring that the lottery money allocated to the Commission is distributed with due regularity and propriety and in compliance with the financial and policy directions issued by the Secretary of State for Culture, Media and Sport;

ii) ensuring the economic, efficient and effective use of the Commission's share of the lottery proceeds.

1.26 The relationship between the Millennium Commission and the New Millennium Experience Company is set out in the terms and conditions of grant approved by the Commission after consultation with the Company and the Department. The Millennium Commission have made grants of National Lottery money to the Company, and have been, and remain, responsible within the terms of the Grant Memorandum for monitoring the Company's progress in building and operating the Dome. The general aim of the Memorandum is to ensure proper and effective use of public funds, to maximise value for money and stimulate effectiveness in the Company's commercial performance. The Millennium Commission have approved the Company's business plans and budgets, and approved the Company's draw down of grant.

The decision to proceed

1.27 The Millennium Commission announced their support for the Dome in January 1997 and made a grant offer of up to £200 million to enable further development of the business case and preliminary work, including the letting of major contracts. The then Official Opposition agreed to these arrangements, but reserved the right to review every aspect of the delivery of the project if elected to Government. The new Government undertook such a review and on 19 June 1997 the Prime Minister announced that the exhibition would go ahead. Construction of the Dome began almost immediately, considerable preparatory work having already been carried out. The nature of the project meant that there could be no slippage in timescales - the Dome had to be open for business on 31 December 1999, and it was.

1.28 The basis for the Government's review of the project was a revised business plan produced by the Company and submitted to the Millennium Commission and the Government in May 1997. The business plan set out the Company's role, objectives and strategies to deliver "a world class exhibition." Their three main objectives were to:

- create a world profile for the celebration of the millennium in the UK;
- deliver the exhibition and national programme to time and budget;
- involve, engage and transform the visitor and participant.

1.29 The provisional budget in the Company's business plan evolved over time and took account of work already in train. The budgeted overall cost (including provision for inflation and contingency) was £758 million. Based on the Dome attracting 12 million visitors, revenue (comprising sponsorship, ticket sales, income from merchandising and retailing, and proceeds from the sale of the Dome) was estimated to be £404 million. But the figure included in the budget was £359 million to allow for a shortfall in income - in effect a 'revenue contingency' of £45 million.

1.30 The 'bottom line' was a net grant requirement of £399 million. However, there was a gross grant requirement of £449 million for cashflow purposes in the final quarter of 1999, reflecting the fact that the majority of the costs would be incurred before the Company began to receive income from operating the Dome during 2000. After the closure of the Dome, and the cessation of trading, any surplus would be returned to the Commission to the extent of its grant. When they approved the grant the Commission expected to receive £50 million.

1.31 The Commissioners approved a budget (**Figure 2**) for the project based on the Company's May 1997 Business Plan. Both the Company and the Commission considered this a provisional budget which would be refined as the project took shape. Over the life of the project the Company has carried out several budget reviews, the first of which was in November 1997.

2 The project budget approved by the Millennium Commission

Costs[1]	**£m**	**£m**
Dome site and structures[2]	254	
Infrastructure and transport	53	
Dome content: central arena	137	
outer exhibition	86	
National programme[3]	57	
Operations and marketing[2]	144	
Payroll and corporate services	27	
Total costs[4]		758
Income		
Sponsorship	175	
Tickets	136	
Merchandising/retailing	33	
Income from sale of the Dome[5]	15	
Total income before grant		359
Net grant requirement		399
Total income including net grant		758
Gross grant requirement[6] (fourth quarter 1999)		449

(The figures in this report exclude £12.6 million paid to consultants by the Commission for development work prior to January 1997. They also exclude the further grant of £2 million the Company received from the Millennium Commission towards the cost, which it estimates at £5 million, of the London New Year's Eve celebrations which the Company had agreed to organise at the request of the Commission).

Notes:
1. The cost side of the budget included £88 million contingency allocated to individual budget heads.
2. The budget in the Company's business plan (Appendix 6) showed total costs as £758 million, but indicated a different allocation of costs between 'Dome site and structures' and 'operations and marketing'. The Commission had wanted a cash based budget with allowances for inflation and contingency allocated to individual budget heads.
3. The National Programme is a range of events organised by the Company to celebrate the year 2000 nationwide.
4. This figure excludes the site acquisition and remediation costs (paragraphs 1.11 and 1.12) and the costs of monitoring incurred by the Commission and the Department.
5. This figure assumed that the land would be sold and the Dome pulled down.
6. This reflects the fact that the majority of costs would be incurred before the Company began to receive income from operating the Dome.

Source: The Millenium Commission

1.32 In parallel with the Government's review of the project (paragraph 1.27) the Commission reviewed and approved the Company's business plan. The business plan assumed sponsorship (net of a £20 million contingency) of £175 million, income from ticket sales, catering and merchandising (net of a £25 million contingency) of £169 million, and "in the region of 12 million" visitors. (The Company considered that the contingency meant that the budget would balance at around 11 million visitors). The process by which the Commission arrived at their decisions was as follows:

- On 4 June 1997 the staff of the Commission produced a written appraisal of the Company's business plan. They were concerned that the plan lacked detail on commercial, operational and pricing strategies and that there was no substantive information in the plan on the key driver for the Company's business - the content of the Dome.
- In preparing their 4 June appraisal the Commission's staff engaged Deloitte & Touche Consulting Group (now Deloitte Consulting) to review, amongst other things, the visitor number projections in the Company's business plan. Deloitte & Touche Consulting Group pointed out that their work had been constrained by the fact that there was little information available on the Dome's content which they saw as the main business driver. As the project was dependent on the creation of a significant 'wow' factor they had had to assume that the contents would be of such a high standard that it would satisfy the build-up of press and public expectation. They considered that the Company's aim of achieving 12 million visitors was "at the upper end of expectations." On a "worst case scenario", if various aspects of the project were not completed adequately or on time and certain risks (the content being insufficient to attract projected visitor numbers and marketing failing to attract the forecast mix of visitors) materialised, only eight million visitors might attend the exhibition. They reported that this, together with a consequent reduction in retail and catering spend and a 25 per cent reduction in the forecast average ticket price, might result in a revenue shortfall of £47 million (after allowing for the existing £25 million contingency). In their 4 June appraisal the Commission's staff concluded that it would be prudent at that stage to plan on the worst case basis and assume a £47 million shortfall in visitor revenue.
- The 4 June appraisal by the Commission's staff also reflected Deloitte & Touche Consulting Group's views that on a "worst case scenario" the shortfall in sponsorship, should for example the content be insufficient to ensure full sponsor commitment, could be up to £75 million (net of the existing £20 million contingency). The appraisal concluded that it would be prudent to plan on the worst case assumption at that stage.
- On 11 June the Commission's then Accounting Officer submitted a Memorandum to the Commissioners. This referred to the fact that the Commissioners had received the business plan appraisal. He concluded that the appraisal of the business plan had "given the Commission the assurance required to formally commit full grant to support the Dome". However, he emphasised that the project was inherently high risk. He considered that since the content of the Dome and the nature of the exhibition (and therefore its likely attractiveness to visitors) and the marketing and ticketing strategies were not yet defined, this was only a rudimentary basis against which to assess content attractiveness and cost and whether the visitors projection of 12 million was correct. He advised the Commissioners that it would be prudent to accept the appraisal of Deloitte & Touche Consulting Group and plan on the worst case for sponsorship. He also advised that until more was known about content and ticketing/pricing strategies, it would be prudent to plan on the eight million target for visitor numbers. He added that while the Commission and the Company would have systems to identify, manage and control the risks, there could not be any certainty about the final cost.
- The minutes of the Commissioners' meeting on 11 June 1997 record that they were confident that the worst case figures for visitor income and sponsorship would be exceeded.
- On 4 July the then Accounting Officer prepared a paper for Commissioners asking them to confirm that the Company's May 1997 business plan and budget represented a grant application and provided an acceptable basis on which to offer total grant of up to £449 million gross or £399 million net. The business plan stated "assuming a ticket price is established at a level that visitors believe to represent good value for money, current best judgement is that a visitor total in the region of 12 million is the achievable level for budgetary purposes". The minutes of the Commissioners' meeting on 9 July record that they agreed to the actions set out in the Accounting Officer's paper of 4 July.

1.33 In approving the grant the Commission were concerned that their funding of the Dome should not affect their other programmes. They would provide only £200 million from their original share of lottery proceeds (then projected at £1.7 billion). Any additional grant would have to be provided by extending beyond 31 December 2000 the period during which the Commission received income from the National Lottery. The Secretary of State for National Heritage stated in the House of Commons on 20 January 1997 that "an Order would be brought forward to extend the funding life of the Commission for one year." This statement was made with the support of the then Official Opposition. On 26 June 1997 the new Government confirmed that it would "bring forward an Order extending the funding life of the Commission to enable it to maintain its existing programmes and provide net grant and cashflow for the Exhibition." The Department expect that an Order specifying the period over which the Commission will continue to receive funds will be laid before the House of Commons in December 2000, so deferring the date on which the Commission's share of lottery proceeds will pass to the New Opportunities Fund.

1.34 For each of the last three years the Comptroller and Auditor General has added to the audit certificate and opinion on the accounts of the Commission a brief report drawing attention to: the uncertainty as to the overall funding of the Dome; the financial risks involved; and the Commission's monitoring of the project. The Comptroller and Auditor General's reports are reproduced at Appendix 7.

Sale of the Dome

1.35 As the Millennium Experience at the Dome has never been scheduled to run beyond the year 2000 a competition to find a purchaser for the Dome commenced in March 1999. On 27 July 2000 the Government selected Dome Europe plc as the preferred bidder. However, on 12 September, before contracts were exchanged, Dome Europe withdrew. The process of finding a purchaser was re-started.

Part 2

The planned and actual costs and revenues

Introduction

2.1 This Part of the report looks at how forecast costs and revenues have changed over the life of the project, leading to further grants being awarded by the Millennium Commission. It looks in detail at:

- the key risks to project costs and revenues;
- the increase in the Company's overall net grant;
- the emergence of financial difficulties during 1999;
- how the emerging financial difficulties were largely a result of a shortfall in income;
- the additional grant of £60 million in February 2000;
- the additional grant of £29 million in May 2000;
- what the Company did to address the question of solvency;
- the financial difficulties which the Company continued to experience;
- the additional grant of £43 million in August 2000;
- the additional grant of £47 million in September 2000;
- the arrangements being made for the New Millennium Experience Company's residual liabilities.

The financial risks were high and significant risks materialised

2.2 The project has involved many and varied risks, including concerns about the readiness of transport links, and the public response. **Figure 3** on page 20 provides a brief summary of the more directly measurable risks to the project costs and revenues, and what happened in practice.

The Company's net grant has increased from £399 million to £628 million

2.3 Based on its May 1997 budget, the Company's net grant, after the expected repayment of £50 million to the Millennium Commission, was £399 million. As income has fallen far short of what was expected, the Company has been almost totally dependent on the Commission's grant. **Figure 4** on page 21 shows that by September 2000, the Company's net grant had risen to £628 million - an increase of £229 million (57 per cent).

The first signs of financial difficulties emerged early on, with the erosion of cost and revenue contingencies

2.4 To allow for risks which might impact on the project costs, the May 1997 budget included a cost contingency of £88 million. The Company's budget also allowed for a shortfall in income - this 'revenue contingency' amounted to £45 million and was broken down between £20 million for sponsorship and £25 million for other income.

2.5 The first significant signs of budgetary pressure emerged in November 1998. The Company forecast its net grant requirement to be £441 million - an increase of some 10 per cent on the original £399 million. The Commission were concerned that the Company was increasing its net grant requirement when at that stage it was still holding significant contingency. The Commissioners considered that the Company should plan on the basis that it would make a £50 million grant repayment in 2001, and required the Company to seek the Commission's approval before using any of the last £50 million of the cost contingency.

3 The key risks to project costs and revenues

THE RISKS	WHAT HAPPENED IN PRACTICE
Construction	
The Dome might not be completed on time.	The Dome opened on schedule on 1 January 2000. The fit out of the Dome, originally to be completed by October 1999, continued up to opening day. This meant that there was limited opportunity for trial running.
Costs	
Costs might exceed the May 1997 budget.	Figure 11 shows how costs moved over the period May 1997 to September 2000. As at September 2000, the budget had increased by five per cent.
Visitor numbers	
Visitor projections might be too high.	The projected number of paying visitors has been reduced from 12 million to 4.5 million (paragraph 3.10).
Marketing	
Marketing might not successfully sell the Dome to the public, particularly if there was considerable negative publicity.	The public perception of the Dome is of a 'risky purchase' (paragraph 3.25). But the majority of people visiting the Dome enjoy it.
Ticket sales	
The methods of selling tickets might not be successful and ticket prices might be too high.	Visitor numbers fell short of the numbers expected. Aspirations for advance purchases did not work as planned (paragraph 2.13).
Sponsorship	
Delays in finalising contracts, and the unattractiveness of certain zones to sponsors, might result in a failure to secure anticipated levels of sponsorship.	The total amount of sponsorship received (cash, 'value in kind' and 'budget enhancement') is below the original budget of £175 million (paragraph 3.18).
Sale proceeds	
Buyers might not be found for the Dome, and an adequate selling price might not be achieved.	A preferred bidder for the Dome was announced in July 2000 with an offer of £105 million, but withdrew in September. The process of finding another buyer has been restarted.

Source: National Audit Office summary of risks identified by the New Millenium Experience Company

2.6 In the event the contingency continued to be used. In April 1999 the Millennium Commission approved a revised budget for the project, which included a reduced cost contingency of £41 million, and in June 1999 the Company sought the Commission's approval to use £11.9 million of this to meet costs relating to design, content, and fit-out across the exhibit zones. However, the Commission considered that by the autumn, the cost contingency could become essential for managing the Company's cashflow requirements, especially if sponsors were slow entering into contracts.

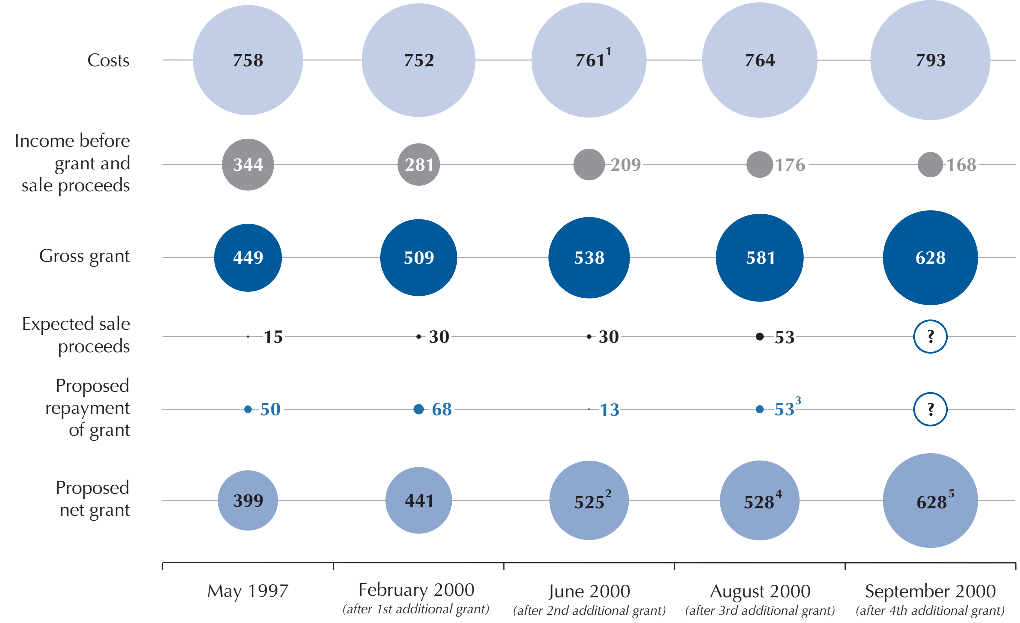
2.7 The Commission's staff therefore recommended that if the Commissioners gave approval, it should be subject to the Company revalidating its proposals to keep costs to a minimum; seeking compensatory savings on other programmes; and preparing a contingency plan for further reducing costs if the rate of contracting sponsorship income failed to accelerate. On 1 July the Commission's Accounting Officer conveyed to the Company the Commission's approval of the Company's request to use further contingency, and the Commission's view that using further contingency was "on the boundaries of prudence". The Company undertook to seek savings wherever possible, while maintaining the quality and integrity of the project, and to focus effort on completion of sponsorship contracts.

2.8 In the light of the emerging difficulties the Department advised the Shareholder on 9 August 1999 that it was possible, albeit not probable, that additional cashflow funding could become necessary to get the Company through the period November 1999 to February 2000. Since then, and up to 12 September 2000, the Shareholder attended 16 of the Company's 22 Board meetings.

2.9 By November 1999 the Company had drawn down all but £7 million of the Commission's £449 million grant and had used up all but £5.7 million of its cost contingency. The Company was therefore heavily dependent upon the timely receipt of its forecast income. Ticket income was still expected to exceed the budget, but only by £14.5 million, and the Company estimated that income of £7 million would be foregone as a result of providing one million free visits for school children. By January 2000 it was clear that there would be no surplus income from ticket sales. It was also clear that there would be no surplus sponsorship income. The 'revenue contingency' had been exhausted.

4 Comparative movement of overall costs, income and grant for the Millennium Dome

Income before grant and sale proceeds has fallen by 51 per cent and the proportion of total income made up by grant has increased from 53 per cent to 79 per cent.



The circles in this figure are proportionate by area. The numbers in the columns are not intended to cast.

Notes:
1. The budgeted costs as at June 2000 include £3 million for marketing which was previously unbudgeted. £3 million of the £29 million additional grant approved in May 2000 was to meet this cost.
2. The costs and income do not balance because the costs (£5 million) and grant (£2 million) for the London New Year's Eve 1999 celebrations are excluded. This means that £3 million of the income shown above was used on the London New Year's Eve celebrations.
3. As a condition of grant, the Company's expected share of the proceeds from the sale of the Dome to Dome Europe plc would be paid directly to the Millennium Commission. This was unlike previous repayments which were estimates of the Company's surplus. The sale subsequently fell through.
4. The costs and income do not balance because of the exclusion of figures relating to London New Year's Eve (note 2) and because the costs and income figures indicated a grant requirement £10 million higher than the grant offered and accepted.
5. Costs and grant include provision for liabilities which could arise in the period to 31 March 2001. If these liabilities do not arise the net grant will be lower. Proceeds from any future sale could further reduce the net grant.

Source: Based on New Millennium Experience Company data

2.10 With its contingencies virtually exhausted the only ways the Company could ease its financial position in response to lower than expected visitor numbers were through additional grants from the Millennium Commission or by seeking ways of reducing its costs. In working to have the Dome completed and open on time, by December 1999 the Company had spent £586 million of its £758 million budget and was committed to further expenditure, so reducing the opportunity for generating cost savings.

2.11 The Company had previously considered the need for a detailed contingency plan, but had preferred instead to rely on the broad contingency strategy contained in their Corporate Plan, which the Commission had approved in April 1999. As part of the Corporate Plan the Company had considered whether savings could be found - options identified included cancelling aspects of the Experience at the Dome, reducing maintenance costs, reducing operational staff and reducing the administrative costs of the National Programme. However, the Company considered that the options to achieve reductions in uncommitted spend were limited if the adverse impact of savings on the visitor experience, and health and safety and contractual arrangements was to be minimised. In essence, therefore, the strategy had been to draw on the cost contingency and to plan on the expectation of receiving proceeds from the sale of the Dome.

2.12 The Company's cash flow statements show that in every month of the year of operation up to September 2000, the Company's expenditure exceeded its commercial income (**Figure 5**).

The financial difficulties were largely the result of the shortfall in income

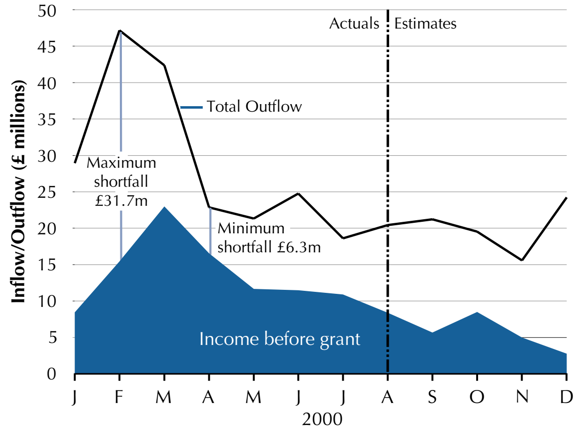
2.13 It is clear from our analysis of the Company's cashflow statements that there were strong indications by mid-1999 that there was likely to be a shortfall in income (**Figures 6 and 7**):

(a) Figure 6 shows that in the period up to the opening of the Dome, the amount of sponsorship income received each month was consistently below that forecast. By the end of December 1999 the Company had received £74.1 million of the £125.5 million which it had expected to receive by then - a shortfall of 41 per cent. On realising there would be a shortfall the Company gradually reduced its forecast (paragraph 3.17).

(b) Figure 7 shows that in the period up to the opening of the Dome, the Company received £3.9 million of the £18.9 million ticket income it expected to receive by then - a shortfall of 79 per cent. Tickets had been available to the travel trade from April 1999 and they went on sale to the general public in September. The Company told us that although advance sales were down, they remained confident of a high level of visitor interest.

2.14 On 11 November 1999 the Company's then Accounting Officer advised the Board and the Shareholder that there was a potential need for additional working capital in the first four months of 2000. The Board considered the outcome of a reforecasting exercise for the project, which forecast expenditure of £136 million in the period December 1999 to February 2000. Against this the Company had identified £121 million in potential income. However, there were significant risks attached to this - of the 26 sponsorship deals previously forecast to be contracted by the end of November 1999, only six had been finalised. And despite disappointing advance ticket sales, the Company was forecasting ticket income of £59.7 million for the first quarter of 2000 - an increase of £31million (over 100 per cent) on its previous forecast. The Company was assuming it would receive 43 per cent of the year's ticket sales in the first three months.

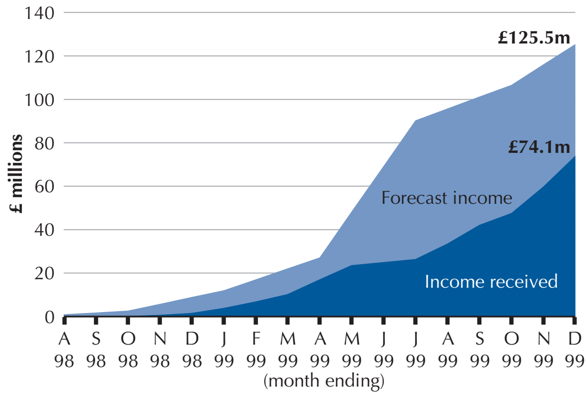
5 **Cashflow position showing monthly cash outflow for the operating year against income before grant**



Source: *Based on New Millennium Experience Company data (for 4.5 million paying visitors)*

6 **Sponsorship income, compared with the Company's forecast, for the period from August 1998 up to the opening of the Dome**

The cumulative shortfall in sponsorship income received reached a peak of £64 million in July 1999, but reduced to £51.4 million by December 1999.

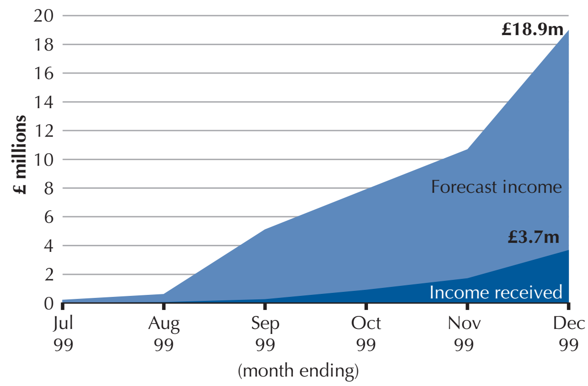


Note: *The figure is based on the Company's July 1998 forecast which was around the time that sponsorship income first started to be received.*

Source: *Based on New Millennium Experience Company data*

7 **Ticket sales income, compared with the Company's forecast, for the period from July 1999 up to the opening of the Dome**

The cumulative shortfall in income received from ticket sales increased significantly each month from September 1999 and had reached £15.2 million by the end of December 1999.



Note: *The figure is based on the Company's June 1999 forecast which was around the time that ticket income first started to be received.*

Source: *Based on New Millennium Experience Company data*

2.15 The Board did not approve the budget and cashflow analysis provided, and instead established a sub-committee comprising the Chairman, Deputy Chairman and Chairman of the Audit Committee to consider the budget in detail and to report back to the Board. From November 1999 to January 2000 the Accounting Officers and other staff of the Company and the Commission discussed on a number of occasions the possibility that additional grant would be needed for cashflow purposes in the first quarter of 2000, although the timing of any application for grant had not at that stage been decided by the Board. During this period the Company provided the Commission with two further cashflow forecasts based on more conservative views of income and expenditure. These forecasts indicated the need for additional cashflow funding of £30 million to £50 million.

2.16 The Commission's Accounting Officer wrote to the Department's Accounting Officer about the Company's worsening financial position on 30 November 1999 and they met to discuss the situation on 7 December. The Commission's Accounting Officer informed the Commissioners of these developments on 8 December. He noted that cashflow difficulties were probable but not absolutely certain - if the Company traded successfully in the run up to New Year the position would be greatly improved. He considered it prudent, however, to plan for such a problem developing and concluded that the Commission's past studies had already identified the principal risks. The Commissioners agreed with this assessment and concluded that staff should continue to closely track the Company's cashflow position throughout December and carry out a detailed study in late January 2000 when there would be hard evidence of the Company's operational performance.

2.17 On 21 December the Department's Accounting Officer advised the Shareholder of the probability that the Commission would need to provide further cashflow funding to the Company. The Shareholder asked to see the figures in the Company's budget and asked what alternatives there were (eg expenses that could be deferred and the scope for raising further sponsorship). On 7 January 2000 the Department informed the Shareholder that other than returning to the Millennium Commission there were two possible alternative sources of funding. One was to borrow money commercially. With a change to the Company's Financial Memorandum this was possible, but they advised that this would not provide value for money due to the level of interest that would be charged. They advised that the only other option was to raise further sponsorship, but it was unlikely that funds would be provided quickly enough or in large enough amounts to alleviate the problems. The Department concluded that in effect there was no alternative but to return to the Commission (the Shareholder met the Commission's Chairman on 17 January 2000 to discuss the position) and advised the Shareholder to make his concerns known to the Company's Chairman.

2.18 The Company provided the Commission with a copy of its draft revised budget on 28 January 2000. The Company's Board approved the revised budget on 31 January.

In February 2000 the Millennium Commission made an additional grant of £60 million

2.19 **Figure 8** (overleaf) shows the revised budget approved by the Company's Board at the end of January, and how it compares with the original May 1997 budget approved by the Millennium Commission. In the intervening period the Company and the Commission had kept the project budget under review, with a number of budget reviews and reforecasts each time.

2.20 As Figure 8 shows, the Company was anticipating a cashflow shortage of £60 million and its revised budget assumed additional grant of this amount. This would bring the total grant to £509 million, and as the Company was predicting repayment of £68 million this meant a net grant of £441 million (Figure 4 on page 21).

2.21 Although the overall projected cost was £6 million lower, there were offsetting increases and decreases within the total. The income side of the revised budget was based on a revised target of 10 million paying visitors and there was no longer any 'contingency' to cover a further shortfall. However, as the competition process was now underway the Company estimated that the proceeds from the sale of the Dome would be between £50 million and £100 million and revised its estimated share from £15 million net to £30 million net.

2.22 The Millennium Commissioners considered the Company's deteriorating financial position on 28 January 2000. At this stage the Commission had not received an application for additional grant, but the Company had provided the Commission with a draft of its revised budget. The Commissioners were advised by the Commission's staff that there was a serious concern about the Company's solvency and ability to continue to trade and agreed in principle to provide further funds, subject to a proper appraisal of the Company's application and demonstration of need. The Company's Accounting Officer and two further representatives of the Board met the Commission's Finance Committee on 31 January 2000. The Board met later that day and agreed that the Company would submit a grant application to the Commission.

8 **The Company's revised budget as at January 2000**

	May 1997	January 2000	Change since May 1997
Costs	**£m**	**£m**	**£m**
Dome site and structures	254	301	+47[1]
Infrastructure and transport	53	31	-22
Dome content:			
Central arena	137	38	-99[1]
Outer exhibition	86	141	+55
National programme	57	48	-9
Operations and marketing	144	138	-6
Payroll and corporate services	27	55	+28
Total costs	**758**	**752**	**-6**
Income (net)			
Sponsorship	175	122	-53[2]
Tickets	136	128	-8
Merchandising and catering	33	31	-2
Income from sale of the Dome	15	30	+15
Total income before grant	**359**	**311**	**-48**
Grant requirement (gross)	449	509	+60
Total income	**808**	**820**	**+12**
Repayment to the Millennium Commission	50	68	
Total income after repayment	**758**	**752**	**-6**

Notes: 1. £55 million was transferred from the 'Dome content' budget head to 'Dome site and structures' to reflect the transfer of responsibility for building the central arena and some of the exhibition zones.

2. The revised budget excluded contributions from sponsors in the form of 'budget enhancement' rather than cash or 'value in kind' (paragraph 3.17).

Source: *New Millennium Experience Company*

The Company's February 2000 application for additional grant

2.23 On 1 February 2000 the Company formally applied to the Millennium Commission for a grant of up to £60 million. The Company would continue to implement cost and efficiency savings where these would not detract from the visitor experience, and look for means of increasing commercial income. However, it needed to draw down £32 million almost immediately, mainly to pay outstanding invoices.

2.24 The Commission's Accounting Officer drew the following main points to the attention of the Commissioners:

- the Company had a real and immediate requirement for £32 million;
- the Company's representations that any additional grant would be a temporary cashflow one could not be relied upon - it was probable that at least some of the grant would not be repaid;
- the Company's revised forecast of 10 million paying visitors was optimistic. Eight million was more probable and would be more prudent - and would cause a structural deficit of around £30 million to £35 million unless offset by cost cuts. On a worst case basis visitor numbers could fall to six million, creating a deficit of about £70 million.

He considered that providing an additional £70 million would represent a significant deterioration in value for money and that it was essential to require the Company to plan more prudently, manage more tightly, be more commercially driven, and to develop contingency plans for responding quickly to emerging circumstances.

The conditions of grant

2.25 The Commission informed the Company on 4 February that they had that day agreed to award additional grant of up to £60 million. The Commission made it clear that the precise amount would depend on the Company demonstrating the need and included in the conditions of grant specific requirements for the Company:

- provide an operational, commercial and financial plan which minimised the demand on Commission funds and was based on eight million visits, but with the maximum flexibility achievable to respond to higher numbers;
- provide by 21 February 2000 a summary of the Company's latest proposals for further improving the quality of the visitor experience and of customer care and details of its complaints handling procedures;
- confirm that the Board will provide clear and coherent strategic direction on the Company's finances and operations and ensure that the Company is managed efficiently and cost-effectively, in a customer-oriented and commercially-driven way;
- provide evidence that the necessary organisational structures, management arrangements, operational and commercial expertise, strategies, plans and budgets are in place;
- provide by 28 February 2000 a ticket pricing strategy for the remainder of the year 2000, together with outline marketing plans;
- provide by 28 February 2000 a fully costed feasibility plan for closing the Experience at the end of September 2000, for potential implementation if trading patterns were sufficiently unsatisfactory in summer 2000.

The Commission's staff concluded on 3 March 2000 that the Company had substantively met all but one of the conditions attached to the offer of grant (paragraph 2.27).

2.26 The Company told the Commission on 29 February 2000 that the Company's Board had endorsed a new strategy, priorities and organisational changes recommended by the Company's new Chief Executive, appointed on 7 February 2000. The Company would focus sharply on its commercial business objectives, and was still aiming for 10 million paying visitors. The Company's three priorities for the remainder of the year would be:

cost efficiency - each budget holder was being asked to deliver cost savings against specific targets;

optimising revenue - the ticket pricing structure would remain the same, but the visitor would receive enhanced value through several initiatives, such as special offer 'taster' tickets. Changes to the management, configuration and range of merchandise were underway and were producing better results;

accountability - managers at all levels across the Company would have ownership of, and be accountable for, the Company's new strategies, plans and budgets.

2.27 The Commission's staff concluded on 3 March 2000 that the Company had substantively met all but one (the one relating to strategic direction and oversight by the Board) of the conditions attached to the offer of grant. They pointed out that one other condition, that relating to the production of a fully costed feasibility plan for closing the Experience at the end of September, had not been met but the Commission's staff had agreed with the Company that this plan could be developed once other operational, commercial and contractual issues had been quantified more accurately. The Commissioners endorsed this position at their meeting on 7 March and by 17 March £50 million of the additional grant had been paid. The remaining £10 million was being withheld until the Commission were satisfied that their concerns about corporate governance had been sufficiently addressed.

2.28 On 3 April 2000 the Commission's Accounting Officer advised the Commissioners that undertakings provided by the Shareholder on 24 March and the Company's Chairman on 30 March (paragraphs 3.41 to 3.42) reflected the Commission's concern that the Company's Board should be more active, act as a whole, provide leadership and test the management team when it needed to be tested. He told the Commissioners that although they might not consider that the Company's Board had done all it could to improve corporate governance, he thought they should acknowledge the changes that had been made and the Chairman's commitments. The Commissioners endorsed this position and agreed on 12 April to pay over the remaining £10 million. The Company had drawn this down by 5 May.

In May 2000 the Company was awarded further grant of £29 million

2.29 **Figure 9** shows how in the first four months of 2000 the Company's trading did not go as well as planned. In particular, the Company's revised target of 10 million paying visitors over the course of the year had been over-optimistic. By 30 April trading income was £10.1 million (28 per cent) below budget. The shortfall in ticket income accounted for £7.1 million of this reduction and catering and merchandising accounted for the rest.

2.30 On 30 April 2000 the Company's Chief Executive briefed the Shareholder on the Company's finances prior to the Board's meeting with the Commissioners on 2 May:

- on the revenue side the Company predicted further difficulty - a reduction from 10 million to 6.7 million paying visitors and revenue, including sponsorship, of £248.1 million. This represented a reduction of about £111 million (31 per cent) on the Company's original May 1997 budget of £359 million, or £62.9 million (20 per cent) on its January 2000 budget;
- on the cost side the Company had identified a potential overspend of £19.7 million (2.6 per cent) compared with its May 1997 budget of £758 million, or £26.1 million compared with its January 2000 forecast. However, it had identified savings of £9.5 million, leaving a net potential overspend of £10.2 million compared with the January budget.

2.31 The potential overspend came to light during a management re-organisation and budget review exercise initiated by the Company's new Chief Executive. In light of this, the Accounting Officers of the Department, the Commission and the Company met on 2 May to discuss the position regarding visitor numbers, income and expenditure. The Department and the Commission were concerned about the late emergence of the cost overrun. The Company confirmed that the expenditure was legitimate and necessary for the completion of the Dome. After the emergence of the cost overrun the Company's Chief Executive reduced the number of people within the Company with delegated authority to make expenditure commitments. As shown in paragraph 3.34, the Company has not been able to identify all its expenditure commitments.

2.32 On 10 May the Commission appointed consultants, Capita, to carry out an independent review of the Company's finances. The Commission wanted assurance that all existing financial commitments and liabilities were accurately reflected in the Company's budget and, specifically, that there were no further unrecorded and unbudgeted items. Capita's review did not identify any evidence that significant items had been omitted from the Company's financial reports (although they could not give firm assurances to the Commission on the accuracy and completeness of the Company's data as they had not been able to carry out detailed testing in the time available).

The Company's May 2000 application for additional grant

2.33 On 18 May 2000 representatives of the Company's Board informed the Millennium Commission that the Company would not be able to continue trading beyond 22 May, and on 19 May the Company applied for additional grant of £38.6 million. The application was based on the Dome attracting six million paying visitors. Total income before grant would be £238.6 million, a shortfall of £72.4 million (23 per cent) compared with the January 2000 forecast. Estimated ticket income was down from £128 million in January to £69 million, and income from merchandising and catering was down from £29 million to £16 million. While the Company was concerned that aggressive cost-cutting would damage the project and therefore its revenue, it confirmed that it was in the process of identifying further savings.

9 The Dome's trading performance for January to April 2000

	Year 2000	1 January - 30 April		
	Budgeted[1]	Budgeted[1]	Actual	Variance
Total paying visitors	10m	2.2m	1.7m	-23%
Total ticket income (net)	£131m	£28.9m	£21.8m	-25%
Total retail income (net)	£25m	£5.5m	£2.7m	-51%
Total catering income (net)	£6m	£1.3m	£1.1m	-15%
Total trading income (net)	**£162m**	**£35.7m**	**£25.6m**	**-28%**

Note: 1. Revised budget as at January 2000

Source: New Millenium Experience Company weekly monitoring report

2.34 In its application for additional grant the Company provided an estimate of the cost of closing the Dome early, in September 2000, as the Commission had requested following its grant of £60 million in February. The Company then put the figure at over £50 million, but advised that this option had two serious drawbacks. First, the bulk of the additional grant sought was to cover expenditure in the period before then. Second, any announcement that the project was to close in September would result in staff leaving early, leaving the project vulnerable in the summer months, unless enhanced retention payments were offered. Also, it could not be assumed that visitors would flock to the Dome during the summer in the light of a shortened operating period. The Company therefore believed that the only realistic options were to close straight away (at an estimated cost of up to £200 million) or for the Commission to back the new management team to run through to 31 December. The £200 million closure cost was based on broad estimates of repayments of sponsorship; outstanding payments to suppliers; possible legal action by sponsors, suppliers and contractors; salaries and retention payments; and refunds on tickets sold.

2.35 Based on advice from the Commission's staff, at their meeting on 22 May 2000 the Commissioners considered the following main points about the Company's grant application:

- the Company had a funding gap, was about to become insolvent, and needed an immediate infusion of funds if it was to continue trading;
- the Company's request for £38.6 million grant could be at the bottom end of what would ultimately be required to keep the Company trading over the rest of 2000;
- the Company was probably under-bidding by £8 million because it was over-estimating the commercial income from six million visitors by £5 million and there was a clearly justifiable case to spend an additional £3 million on marketing;
- a worst-case scenario would indicate a need for up to £80 million additional grant in due course, resulting from lower visitor numbers (4.9 million), lower commercial income per visitor, and failure to achieve the £30 million Dome sale receipt currently budgeted;
- a further grant of £80 million would not represent value for money from the lottery's perspective given that the momentum towards the Commission's strategic purposes of grant - ie regeneration (paragraph 1.10) - was unstoppable and on a worst case scenario only 2.5 million to 3 million additional visitors were forecast by 31 December 2000;
- the costs of the Company becoming insolvent and ceasing to trade could exceed £200 million. The Commission would not be liable for those costs if it refused to make a grant, although the Exchequer would be one way or another;
- while there was probably scope for the Company to find significant further cost savings, the Board and management team would not be incentivised to seek them out if grant was awarded at the level sought or higher.

The Commissioners decided to award the Company up to £26 million of additional grant to fund existing programmes and commitments and a further grant of up to £3 million to support additional marketing and advertising initiatives not provided for in the original budget.

The Millennium Commission Accounting Officer's May 2000 request for a Direction

2.36 The Commission's Accounting Officer advised Commissioners in writing on 20 May that a further grant could not in his view be justified on value for money grounds when set against the normal judgements which the Commission had sought to make over its lifetime. However, at the Commission's meeting on 22 May he stated that there were wider considerations ("the economic impact of closure, including the potential impact on public sector funds" and "the reputation of the UK") which Commissioners may wish to consider and which might lead them to judge, on balance, that they wished to make a grant. He advised Commissioners that should they decide to make a grant in these circumstances, he would require a written Direction before he took action.

The Direction given by the Millennium Commission

2.37 The Chairman of the Commission wrote to the Commission's Accounting Officer on 22 May saying that the Commissioners had taken careful notice of his objections but had nonetheless, on the basis of wider objectives they wished to be secured, determined that grant of up to £29 million should be offered to the Company. He said that the decision had been taken subject to a number of clear and tough conditions. The Chairman, on behalf of the Commissioners, therefore formally instructed the Accounting Officer to proceed with the offer of grant and the release of funds as necessary. On the same day (22 May) the Commission's Accounting Officer duly informed the Accounting Officer at the Department and the Comptroller and Auditor General that he had sought and received such a Direction.

The position of the Department's Accounting Officer

2.38 The Department's Accounting Officer considered his own position, particularly in relation to the fact that the transfer to the New Opportunities Fund of the Commission's lottery income stream might be slightly delayed as a result of the additional grant for the Dome. The Commission's share of lottery proceeds was due to pass to the New Opportunities Fund at the end of 2000 (although it had been clear since January 1997 that funding of the Millennium Commission might need to be extended - paragraph 1.33).

2.39 The Department's Accounting Officer was able to take account of the impact of refusing grant on the public sector more widely, and considered whether a potential injection of (on the worst case scenario) up to £100 million[3] of lottery money represented poor value for money against the likely losses incurred by closing the Dome. He made clear that he had no reason to doubt the Company's estimate that closure at this point could lead to claims of up to £200 million. In straight financial terms, therefore, a potential investment of up to £100 million so as to avoid a possible bill for the public sector of £200 million did not look unreasonable. On that basis, as Accounting Officer he released funds from the lottery to the Commission to fund the Company provided that the amounts released and the conditions under which this was done were constantly assessed in relation to the same value for money tests. However, he stressed that his position could change over time, if for example the cost of closure were to be less than the need for additional grant, and noted that the Commission had made the production of an 'early exit' strategy a condition of grant. He wrote to the Comptroller and Auditor General notifying him of his position on 26 May 2000.

The conditions of grant

2.40 The Commission's decision to award an additional £29 million, rather than the £38.6 million the Company requested, reflected the Commission's concerns that the Company had not fully examined options for cost-cutting. The Commission were also concerned that the Company's finance team was under-resourced, and wanted assurance that the Company was being operated in a cost efficient way. The conditions attached to the grant, and the action taken by the Company, are set out opposite.

The revised net grant

2.41 On the basis of expected savings and the Commission's additional grant of £29 million, the Company developed a revised (June 2000) budget. Expenditure was forecast to be £761 million (the original budget of £758 million plus £3 million for specific marketing initiatives approved by the Commission). The income forecast was unchanged at £239 million. The net grant position was £525 million, which would enable the Company to repay £13 million of the £538 million grant they had received (Figure 4 on page 21).

The Company considered the question of its solvency

2.42 Throughout the discussions in May 2000 about the additional grant the Company's Board was concerned that without any guarantees of income sufficient to meet forecast needs over the lifetime of the project, they were having to make some difficult judgements about both their personal responsibilities as Directors and the issue of the Company continuing to trade. The Company recognised that the proposed cost savings would not be sufficient to ensure that the on-going financial requirements of the Company would be met. And the Company could not be certain as to the amount and timing of the proceeds from the sale of the Dome.

2.43 The Company's Board met on 23 May 2000 and accepted the Commission's offer of £29 million and the conditions attached to that offer, but only on the following assumptions:

- the offer of £29 million against the application for £38.6 million did not mean that the Commission would not give serious consideration to a request by the Company for additional grant after July 2000. (However, the Chairman of the Commission stated in Parliament on 12 June "We have made it extremely clear to the New Millennium Experience Company that it must operate within the budget set for it. I was delighted that … the Chief Executive [of the New Millennium Experience Company] confirmed last week that he would not return to the Millennium Commission for extra funds");[4]
- the Company's share of the Dome sale proceeds would accord with the Board's views that there was a strong justification for the Company to receive the majority share;
- that, in any event, the Company's share of the sale proceeds would be sufficient to enable it to meet actual and prospective liabilities.

3 The Commission's staff advised Commissioners on 22 May that in the worst case scenario the Company would require an additional £80 million (paragraph 2.35), although they indicated that on any 'meltdown' or disaster scenario, the additional grant requirement could be even higher. When discussing with the Department how high the grant requirement might be in a meltdown or disaster scenario, the Commission's staff gave their best estimate at the time which indicated that it could be as high as £100 million.

4 Hansard Column 624, 12 June 2000

Condition	Action
Appoint a new Chairman within seven days.	A new Chairman was appointed by the Board on 23 May 2000.
Further develop its business plan and submit a revised version to the Commission for its approval by 6 June.	Revised business plan approved by the Commission on 14 June.
Set out measures, in that business plan, to achieve significant cost reductions over and above those already indicated, with special targets and timetables for action set for each budget sub-heading, and include a marketing and promotional strategy aiming to maximise the number of visits, especially in the peak summer months.	On 7 June the Company undertook to find the further savings necessary to reduce the net cost increase to zero. The revised business plan included a new marketing strategy.
Designate one Board member to have special responsibility for overseeing cost reductions and efficiency savings, and to guide the development of the cost reduction programme at senior level.	This was done as of 1 June. He resigned on 11 September due to other commitments.
Strengthen its finance team with a senior officer with responsibility for managing the cost reduction programme.	The Commission's former Finance Director joined the Company from 12 June to 31 August. He was given responsibility for heading up cost reduction in IT and retail.
Allow a monitoring officer appointed by the Commission to be located at the Company's offices and to have access to all relevant persons and information in relation to the cost reduction programme.	A representative of the Commission's consultants, Capita, filled the position of 'cost monitor' with effect from 5 June.
Submit an abbreviated corporate plan and revised budget to the Commission by 31 July, including alternative exit strategies, taking into account the Government's decision on the winner of the Dome Legacy competition.	The Company agreed to respond by the stipulated date. However, the condition was superseded by the Commission's request for a contingency plan (paragraph 2.49) and then the Company's third application for additional grant.
Provide a listing of creditors with each grant claim so that the Commission can scrutinise outstanding invoices and other supporting information as requested so as to appraise and confirm the need for grant.	A creditor listing has been provided with each grant claim for scrutiny by the Commission.
Introduce changes which aim to strengthen financial systems (to be specified following consultation with the Company).	On-going.

The Board informed the Commission that the assumptions regarding additional grant and the Company's share of the sale proceeds were fundamental to the Board's decision to continue to trade for the time being. The Board engaged a firm of solicitors in mid-May to advise them on what the consequences would be if the Company was trading whilst insolvent, and the solicitors have attended every Board meeting since 18 May.

The indemnity given to the Company's Directors

2.44 In the light of the advice received from the Company's solicitors, the Company's Chairman notified the Shareholder on 25 May that the Board members would have to "consider their personal positions" if the Government did not provide indemnity against any wrongful trading actions brought against them by creditors. On 21 June the Department's Accounting Officer informed the Chairman that the Government would indemnify each of the Directors of the Company in respect of any personal civil liability (including without limitation wrongful trading or similar misfeasance actions by reason of the Company's insolvency) which was incurred in the execution or purported execution of his Board functions, save where the person had acted dishonestly, in bad faith or recklessly (including without limitation being guilty of fraudulent trading within the meaning of section 213 of the Insolvency Act 1986). This was on the basis that the Directors may have recourse to the Government indemnity only if, and to the extent that, their personal liabilities could not be met by the Company's Directors and Officers insurance policy. This was also on the basis that the Directors did all that was reasonably required in accordance with the terms of this policy to recover their losses from that source and that, if appropriate and feasible, they would extend, increase, or vary the policy if required by the Government. Recognising the difficulty of their circumstances, the Directors were receiving legal advice at this time on their risks and exposures.

Statement made by the Shareholder

2.45 The Company has drawn comfort about the Company's solvency from the Shareholder's evidence on 12 July 2000 to the Select Committee on Culture, Media and Sport: "If the Dome became insolvent it would be a matter, ultimately, for Government to bail it out in some way or another. However, the position would not be reached where the Dome was insolvent. It has always been monitored extremely closely and we have only proceeded on the basis that the Dome can continue successfully to the end of the year 2000. It would not be right that creditors who dealt with the Dome would not be sure that they would get paid at the end of the day."[5]

5 *Statement made by the Shareholder in evidence to the Culture, Media and Sport Select Committee on 12 July 2000 (HC578-iii, Session 1999-2000)*

The Company's financial statements

2.46 The Company's Financial Statements for the period ended 31 December 1999 were signed by the Company's Chairman and the Company's Accounting Officer on 5 July and presented to Parliament on 21 July. The accounts were prepared on a 'going concern' basis. In Note 1 to the Financial Statements on its accounting policies and the basis of preparation of the accounts, the Company stated that to meet its liabilities within the additional grant approved by the Millennium Commission, the Company would have to:

- achieve the planned cost savings;
- achieve ticket sales not less than projected;
- utilise by November 2000 a proportion of the total proceeds it expected to receive in respect of the sale of the Dome and the land.

The Company stated that there remained significant uncertainty as to whether the additional grant of £29 million (made in May 2000) would be sufficient. If the Company did not achieve the above three needs and the additional grant proved to be insufficient for the Company to meet its liabilities, the Company would either need to seek additional funding or, if that was not forthcoming, cease operations.

2.47 The Company stated that in preparing the accounts on a 'going concern' basis, the Board was aware of the risk that the additional funding of £29 million agreed by the Commission may prove to be insufficient for the Company's needs. They had, however, "relied on the assurance provided in Parliamentary Statements by the Secretary of State for Culture, Media and Sport and by the former Minister without Portfolio (the company's previous Shareholder) with respect to meeting the projects commitments, should they unavoidably exceed the original estimates".

2.48 The Company's auditors (Ernst & Young) in their report to the Minister of State at the Cabinet Office (the Shareholder) stated: "In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the accounts under the heading Basis of Preparation concerning the fundamental uncertainty as to the ability of the Company to be able to continue its operations within the currently agreed funding. In view of the significance of this matter, we consider it should be drawn to your attention, but our opinion is not qualified in this respect." This form of report is in accordance with Auditing Standard SAS 130 on the going concern basis in financial statements. SAS 130 requires that where the auditors consider that there is a significant level of concern, but the auditors consider that the financial statements, including note disclosures about the matters giving rise to concern, give a true and fair view they should give an unqualified opinion with an explanatory paragraph.

The Company continued to experience financial difficulties

2.49 The Company's trading and financial position continued to be difficult, with risks attached to the revenue side of the budget. On 14 June the Commissioners endorsed the Company's objective of operating through to 31 December, but considered that the success in achieving this would be critically dependent on the Company securing continuing cost efficiencies. The Commission continued to make payments against the grants already awarded on condition that the Company:

- developed more detailed and accurate modelling of its costs, liabilities, and income over the remainder of 2000 on a week by week basis, assuming different levels of paying visitors;
- pressed forward with its programme of cost reductions and sent to the Commission a contingency plan, by 30 June, setting out options for ameliorating the effect of the cashflow shortfall which was forecast to emerge in the last quarter of 2000. This was to include a menu of radical cost efficiencies, for example, five or six day operation, a reduced number of shows, early closure or accelerated handover to the new owner of the Dome.

2.50 The Commission was not satisfied that the contingency plan put forward by the Company represented a credible plan to mitigate its losses. The Company submitted revised proposals on 12 July and while on 18 July the Commission judged that sufficient progress was being made to justify the next payment of grant, they considered that the Company's response fell short of being a detailed plan. The Commission asked for a more fully developed and detailed contingency plan, together with an exit plan, by 31 July. In addition the Department's Accounting Officer wrote to the Company seeking to establish a basis on which the financial costs of closure options could be regularly re-assessed.

2.51 Meanwhile, the Company re-affirmed its commitment to delivery of the cost savings needed to offset the overrun identified in April (paragraph 2.30). It was also trying to remove barriers to attendance - it was undertaking market research on sensitivity to ticket pricing and had introduced limited and controlled parking on site at £10 a car.

2.52 The Company's Chairman wrote to the Shareholder, on 14 July, and the Commission's Chairman, on 19 July, to advise them of a further deterioration in the Company's finances. The Commission's analysis of cashflow projections provided by the Company, based on 5.5 million paying visitors, was that the Company would need additional grant of £27 million between August and December. However, the Commission's own assessment, based on 4.4 million paying visitors, was that the Company might run out of money within two weeks and might require an additional £45 million.

In early August 2000 the Company was awarded an additional grant of £43 million

2.53 On 2 August the Company submitted an application for funding of up to £53 million on the strength of its expected £53 million share of the proceeds from the sale of the Dome. The Board's objective was to achieve full year operation of the Dome at the minimum cost to the Commission and to ensure a solvent and smooth handover to the Dome's new owners. The Board considered that trading through to the end of the year represented better value for money than any of the options it had identified for closing the Dome early. The Company's application assumed 4.75 million paying visitors. The Company confirmed that it had still to achieve £3.5 million of the cost savings and recognised that there was a risk that these would not be achieved. The Company also pointed out that its application did not include any contingency to reflect the following key risks:

- as this was the first year of operation, unforeseen costs may arise;
- litigation claims, if awarded, would push costs above the forecast;
- ticket revenue may fall further behind forecast because of seasonality, the impact of the announcement of the proposed sale of the Dome, and discounting to attract visitors in the final quarter of the year;
- stock losses may be higher than forecast (this related to lower sales than expected, theft and unsaleable items);
- bad debts might be experienced in respect of travel ticket sales and corporate hospitality.

The Commission noted that the application did not include an exit plan for the Company (paragraph 2.50).

2.54 The Company's application addressed the issue of management organisation and structure in the Company. The Board was under no illusions about the pressure on the existing management team and the rising demands on them over the next few months. For this reason the Board had, on 1 August, agreed to substantially strengthen the finance organisation within the Company with the immediate recruitment of a senior financial analyst and a Finance Director, so enabling the Accounting Officer to concentrate on the sale and hand-over of the Dome to the new operator and on strategic business planning. In addition, the then Chairman of the Board set about identifying someone with industrial experience and track record in advising or leading companies facing major challenges, with the possibility of joining the Board as Executive Vice-Chairman.

2.55 The Company also proposed setting up a 'Dome Review Group', comprising senior representatives of the Company, the Shareholder or his representative and the Millennium Commission, to maximise understanding of the Company's on-going performance and the nature and timing of decisions that had to be made. The Company's Board considered that this would help to address the Commission's concerns about visitor numbers, ticket pricing, and the scope for radical and substantial cost reductions, and would allow the Company to share the genuine uncertainties that surrounded these matters. The Group met in August, with staff from the Commission attending as observers. The Group has since been replaced by the Dome Monitoring Group. This Group comprises the Accounting Officers and staff of the Company and the Commission, with staff of the Department attending as observers. The purpose of the Group is "to assist dialogue and the sharing of information between the Commission and the Company on matters arising from the terms and conditions of lottery grant awarded to the Company, and progress in operating the Millennium Experience, achieving a legacy use from the site and winding down the Company."

2.56 The Commission's Accounting Officer advised the Commissioners on 2 August that on the basis of 4.5 million paying visitors (as distinct from the 4.75 million in the Company's application), the level of subsidy necessary to keep the Dome open to the end of the year would not constitute value for money. Any further grant to the Company could only be justified on the basis that it would contribute to the achievement of the Commission's regeneration objectives, rather than on the basis that it might be returned. He could therefore only support a grant at the minimum level required to achieve the objective of facilitating the sale of the Dome. Although at the time of the previous grant application in May he had advised that the momentum towards regeneration of the Greenwich peninsula was unstoppable, and that an on-going use for the Dome would be forthcoming without further grant, the situation was now different. The Government had within reach, but had not secured, a deal to sell the Dome and ensure its continued use. The Government had selected Dome Europe plc as preferred bidder for the future use of the Dome. Heads of terms had been agreed but contracts had not been exchanged. The deal with Dome Europe would have ensured early continued use of the Dome and significant private sector investment. The Accounting Officer therefore considered that the Commission would be justified in making a grant to facilitate the sale.

2.57 He concluded that the Commission should make a grant of between £36 million and £43 million (not the £53 million applied for) on the condition that the Company produced an exit strategy within the amount of grant made. The grant range was based on closure during October. According to the Commission's forecasts, the cost of keeping the Dome open from the beginning of October to the end of December 2000 could require a further £24 million. The Commission's Accounting Officer considered that this amount of lottery money was difficult to justify and that giving the Company further grant of £53 million would not put sufficient pressure on them to cut costs or to look at closing early.

The grant conditions

2.58 On 4 August 2000 the Commissioners agreed to award the Company an additional grant of £43 million. The conditions they attached to their grant offer, and the Company's responses, are set out opposite:

The revised net grant position

2.59 The additional grant of £43 million took the total awarded to the Company to £581 million. Passing sale proceeds of £53 million to the Commission would effectively result in a revised net grant of £528 million (Figure 4 on page 21).

In August 2000 the Company was advised that it was insolvent. It was awarded further grant of up to £47 million in early September

2.60 On 4 August 2000 the Company's Chairman met with Mr David James CBE, an expert in Company rescue situations, with a view to his taking on the position of Executive Vice Chairman. Mr James was prepared to accept an assignment with the Company, but to establish the degree of executive control he considered the Company needed, he advised that he should work in the capacity of Chairman and Accounting Officer. Mr James advised the Chairman that it would only be appropriate for him to assume responsibility for the Company if the solvency problem had been adequately addressed. He considered it paramount that the Company's Board establish precisely the extent of its present funding deficiency and secure the necessary resources to ensure an eventual orderly resolution of the Company's affairs before his appointment was confirmed.

2.61 On 10 August the Company commissioned consultants, PricewaterhouseCoopers, to assist the Company in identifying its funding requirement to secure a solvent liquidation. In particular, PricewaterhouseCoopers were asked to consider and report on the solvency of the Company and to look at the possible impact of an early closure for the Dome. They presented their report to the Company's Board and the Shareholder on 22 August. Copies of their report have been placed in the Libraries of the House.

2.62 In summary, PricewaterhouseCoopers concluded that the Company was insolvent and that it needed additional funding over and above the £43 million recently approved. There appeared to be limited opportunity for generating cost savings because of the high level of fixed costs and the extent to which commitments had already been made. And early closure might increase the additional funding needed by between £31.8 million and £65.2 million, before taking account of the substantial downside risks associated with contractual claims from, for example, caterers and other suppliers. Accordingly the Company should seek to bridge the identified funding gap urgently, recognising that due to the uncertainties it was not possible to seek a "last and final" amount now.

2.63 In more detail, the PricewaterhouseCoopers report included the following points:

- PricewaterhouseCoopers identified two tests of solvency - the ability to pay liabilities as they fall due and total assets exceeding total liabilities (including contingent liabilities and anticipated losses). The Financial Memorandum requires the Company to meet its debts as they fall due. PricewaterhouseCoopers reported that the Company had been unable to pay liabilities as they had fallen due for an extended period - as at 31 July 2000 some 60 per cent of outstanding invoices, reflecting debts of £10.8 million, had been due for payment since before 31 March. There had been substantial pressure from creditors for payment, including statutory demands and legal action. Also, PricewaterhouseCoopers forecast a net liability, before further adjustment, of £6.2 million as at 31 December 2000. PricewaterhouseCoopers concluded that the working assumption had to be that the Company was insolvent.

continued overleaf

The grant conditions

- The proceeds from the sale of the Dome must be made direct to the Commission. At the same time, the Commission did not wish to give any undertaking as to the solvency of the Company's liquidation and would perform no role as an "informal liquidator". The only liability the Commission would accept was to pay additional grant of up to £43 million to the Company, subject to conditions. The onus was on the Company to remove or accommodate any legal risks it perceived and bring forward a practical solution acceptable to the Commissioners. No additional grant would be released until this was done;

  The principle of this was agreed by the Company. However, the Board expressed grave concerns about giving up £10 million to the Commission particularly in circumstances where the Company's commitments could ultimately lead to an additional requirement. In the circumstances the Company insisted on the ability to have further discussions with the Commission regarding the £10 million. On 8 August the Commission's Accounting Officer informed the Company that if it needed more than £43 million of external finance to achieve solvent liquidation it could submit another grant application, which the Commission would determine in all the circumstances. The Commission's Accounting Officer stated that he could not prejudge all the factors to which the Commission would attach weight, but he believed the need to ensure the Company's solvent liquidation would be one of them. The Commission would consult the Board and the Shareholder before coming to a final view. In continuing to trade the Company took comfort from this.

- The Company must plan and operate on the assumption that the total additional funding available from the Commission was a maximum of £43 million. Furthermore the Company must plan and operate on the assumption of 4.5 million paying visitors and must submit a new and more detailed financial report to the Commission on a fortnightly cycle, starting on 25 August, providing updated information on the Company's commitments and on its expenditure and income forecasts, with commentary on risks, and confirmation by the Executive Vice Chairman and the Accounting Officer that in their view the Company would be capable of solvent liquidation;

  The Company indicated its acceptance of the condition that it must plan and operate on the assumption that the total additional funding available from the Commission was £43 million and on the assumption of 4.5 million paying visitors, but subject to its response to the condition above. The Company agreed to submit a new detailed financial report on a fortnightly basis starting on 30 August.

- The Company shall not modify its pricing structure for tickets without the Commission's prior written consent or introduce any discounting offers which would be speculative in their effect and potentially jeopardise the Company's ability to achieve solvent liquidation;

  The Company accepted this condition.

- The Company must appoint a new Executive Vice Chairman and a new Finance Director by 14 August, or should that not be possible, make interim appointments;

  This condition was accepted. It reflected the Company's intentions (paragraph 2.54). A new Executive Chairman was appointed on 5 September, and following the resignation of the Finance Director on 21 September, a new Finance Director was appointed.

- The Company must finalise the details of the current restructuring in such a way that there is maximum separation between those responsible for its finances and for its stewardship of lottery grant and those responsible for operating the Dome.

  This condition was accepted. The new Executive Chairman made organisational changes on his appointment that have this effect.

In addition, after the Commission's Accounting Officer had considered his position following the Commission meeting, a further condition was agreed with the Commissioners on 5 August:

- The Company must act by 31 August to demonstrate precisely how it would manage within its available budget through a serious examination of and, if necessary, preparation for the option of an early transfer to Nomura (the preferred bidder for the purchase of the Dome), or alternatively identify major savings to enable the Dome to remain open until December.

  This condition was accepted. The PricewaterhouseCoopers report was commissioned but Nomura withdrew its bid.

The Company has commented that the majority of the £10.8 million of creditors pre 31 March related to creditors where payments on account had been made and with whom there were on-going discussions. The Company attributed the £6.2 million liability at 31 December 2000 to the Millennium Commission's decision to award £43 million grant against the application by the Company on 2 August for £53 million.

- PricewaterhouseCoopers considered that the Company's Directors needed to take urgent action to address the position.

  At its meeting on 22 August, the Company's Board recognised its insolvency and concluded that there was a reasonable prospect of securing extra funding to remove the insolvency, such that the Company could lawfully continue to trade until the Commission had considered the Company's situation (scheduled for 31 August).

- PricewaterhouseCoopers considered that the analysis of early closure options had previously been carried out at a high level, and that certain costs (for example the impact of the statutory notice period for redundancies) had been omitted. They calculated the extra cost to the Company of early closure at between £32 million and £65 million (the largest element being claims from sponsors, but also including compensation to staff) depending on the date of closure. This was before taking account of the substantial downside risks associated with contractual claims and of the impact on the arrangements for the sale of the Dome.

  This supported the Company's view that early closure was not a financially attractive option.

- PricewaterhouseCoopers identified a number of adjustments, including provisions, which put the Company's funding requirement (including the £43 million awarded by the Commission on 4 August) at £73.4 million. They also identified cost and revenue sensitivities that might increase the funding requirement by a further £5.6 million.

  In the Company's view, the Millennium Commission had made it clear that they did not wish the Company to include in its grant applications provisions for unquantified or contingent liabilities. Accordingly, although the Company had identified risks in its grant applications, it had not quantified these. The Commission told us that it had not wished the Company to include provision for longer term contingent liabilities, and that during 2000 the Commission had not been in favour of grant-aiding a general contingency because of their doubts about the quality of general management, financial control and organisational culture within the Company.

  However, the Commission had encouraged the Company to quantify and make provision for risks it identified in advance of its August application for additional grant (paragraph 2.53). The Commission considered that there was a high degree of probability that they would materialise and that, as there was no contingency, the Company's budget should prudently make provision. The Company increased its budget by £2.75 million.

2.64 On 30 August Mr James wrote to the Chairman of the Millennium Commission. At the time of writing this letter Mr James was acting as an adviser to the Chairman of the Company. He did not carry any executive authority and had not reviewed the Company's operation in any detail. His comments were based on the PricewaterhouseCoopers report, high level discussions with the Chairman of the Company and some other Board members, and attendance at the 22 August Board meeting where the PricewaterhouseCoopers report was presented. In that letter he advised that:

- The Company was insolvent, and in his opinion had been since at least early February 2000. The Company was only justified in continuing to trade "by invoking Section 214 of the 1986 Insolvency Act which requires directors to continue to trade in the widest interest of creditors for any period during which they believe that there is still a reasonable prospect of sufficient new funds being introduced." (*Section 214 of the Act relates to the potential personal liability for wrongful trading, following an insolvent liquidation and an application by the liquidator, subject to exemptions from liability where the individual took all possible steps*).

- The alternative strategies covering various early closure options generated no meaningful financial advantage but created significant contingent liabilities, which might seriously worsen the funding deficiency. None of these strategies had the effect of resolving the present solvency problem.

- No accurate estimate had ever been previously provided to the Commission as to the sum required for eventual solvent liquidation. The total deficiency which now had to be addressed to achieve solvent liquidation (assuming trading continued to 31 December 2000) was £82 million (subsequently adjusted to £81 million). This included the £43 million already granted, and assumed 4.5 million paying visitors.

The Company's August application for further grant

2.65 On 29 August the Company's Chairman informed the Commission's Accounting Officer that the Board was of the view that the Company was insolvent. He requested additional funding of £38 million, over and above the £43 million awarded by the Commission on 3 August, to allow it to continue trading and to achieve a solvent liquidation of the Company in 2001. The Board considered this was a prudent and conservative assessment. The Company's Chairman stated that if sufficient funding was not forthcoming the Company's Directors would have no option but immediately to take steps to place the Company into administration. Further, the Company could not irrevocably commit that this level of funding would ultimately be sufficient (as visitor numbers and yields remained uncertain); nor could there be a guarantee that possible contingent liabilities would not crystallise. The Company's Chairman confirmed that the Board was determined to make substantial enhancements to the top and senior executive management capacity of the Company, and that Mr David James would be prepared to serve as Executive Chairman (providing he was satisfied that a solvent solution to the Company's future had been identified and agreed).

2.66 In assessing the Company's grant application the Commission's staff concluded that the objective in awarding additional grant of £43 million on 3 August - facilitating the smooth handover of the Dome to its prospective purchaser - could not now be achieved within this level of grant because:

- the Company had previously underestimated the funding implications of its existing risks and liabilities, the costs of strengthening its management capacity, and the potential cost of achieving the orderly run-down of the Company and its solvent liquidation. Up to £27.5 million of the additional funding now applied for was in the form of provisions and contingencies;
- there was no scope for radical cost reduction;
- there was no scope for accelerating handover to Dome Europe.

In addition, in the light of the quantification provided by PricewaterhouseCoopers, at the Commission’s request the Company informed the Commission on 4 September that an additional £9 million grant would be needed for liabilities likely to crystallise immediately before or after the planned completion of the sale of the Dome in the first three months of 2001. The Commission's Accounting Officer noted that there was no underwriting for contingent liabilities after 31 March 2001.

2.67 The Commission's staff considered that the early closure costs were probably not as high as indicated by PricewaterhouseCoopers and the Company, but that they would be significant and in excess of running until the end of the year. Moreover, there were categories of legal risk not quantified by PricewaterhouseCoopers and the Company potentially arising from large numbers of contracts which had not been appraised. Overall, PricewaterhouseCoopers' conclusion that early closure would deliver no financial advantage had to be endorsed.

The grant conditions

2.68 At their meeting on 5 September the Commissioners agreed to award additional grant of up to £47 million, consisting of £38 million in respect of items covered by the Company's application and £9 million as a reserve for liabilities which might emerge between 1 January and 31 March 2001. The purpose of the grant was to facilitate the sale of the Dome and was subject to the following conditions. As at 30 September the offer of grant had not been formally issued to the Company as the Commission had not received the Government's formal agreement to cap the Commission's commitment at £47 million - see second condition below.

- arrangements being introduced to ensure that contingencies and provisions in the budget are used only as essential and only with the Commission's prior consent;
- the Government's formal written agreement to cap the Commission's commitment at £47 million (ie £38 million plus £9 million) by either establishing a residuary body to which the Company's liabilities would be transferred or by taking these liabilities to itself;
- significant strengthening of the Company's management capacity, to include a new Executive Chairman who should have clear overriding authority within the Company, a new Accounting Officer, a new Finance Director, a new Director to take charge of the sale of the Dome and wind-up of the Company, a reinforced Finance Directorate and other staff changes the Commission's Accounting Officer may specify prior to any further payments of grant. (This condition reflected the Company's intentions. The measures proposed to enhance the Company's management capacity would cost some £3 million. The Commission had judged that it would not be prudent or proper to release further grant until progress could be demonstrated towards significant improvements in management capacity and financial control);
- the Company attending regular monitoring meetings with Commission staff, weekly in the first instance.

2.69 On 5 September Mr James was appointed Executive Chairman by the Board. Mr James refused a fee for this work, regarding his contribution as public service. The Department appointed him Accounting Officer of the Company, informing him of his roles and responsibilities as the Accounting Officer of a non-departmental public body. The Joint Chair of the Commission's Finance Committee wrote to the Shareholder on 6 September emphasising the importance of strengthening the Company's Board to assist Mr James (paragraph 3.42). Since his appointment Mr James has been supported in his work at the Company by Mr John Darlington, who became Executive Director on 5 September and Finance Director on 21 September. Immediately on appointment the new executive team engaged the services of PricewaterhouseCoopers to assist them in a series of analytical exercises.

Dome Europe's withdrawal from the sale negotiations

2.70 On 12 September discussions with Dome Europe regarding the sale of the Dome were terminated. As the previous grant award of up to £47 million to the Company was to enable the Company to progress a transaction with Dome Europe, that offer of grant lapsed. Consequently the Company was no longer able to demonstrate solvency as defined in the 1986 Insolvency Act, and was only justified in continuing to trade if it considered that it had a reasonable prospect of securing additional funds at a sufficient level to discharge its known foreseeable commitments. The Company immediately made an application, on 12 September, to the Commission for a grant equivalent to the £47 million previously offered.

2.71 The Company estimated that immediate insolvency would create the following liabilities:

	£m
Trade creditors who would remain unpaid	35
Employees wages and bonuses which would be unpaid (excluding statutory redundancy payments)	18
Refunds of advance ticket sales	2
Other contractual claims which would not be met	10
Immediate loss to third party creditors	**65**
Provision for claims from sponsors	48
Demolition obligation (to English Partnerships)	30
Total loss in insolvency	**143**

(i) Assumes no funding available for administration, therefore immediate closure of the Dome and liquidation.

(ii) Net proceeds from asset realisations after costs are estimated at £nil (includes fixed assets, debtors and stock).

(iii) Any recovery by the liquidator of approved grants not yet drawn down would increase the assets to pay creditors.

(iv) The demolition obligation had not been evaluated in detail, but was expected to lie in the range £15m-£30m depending upon the extent of work required.

Source: The Company's grant application of 12 September 2000

2.72 The Company stated that a grant of £47 million would allow it to pursue an alternative exit strategy. This would involve working closely with English Partnerships to maximise the residual value in the site while securing regeneration benefits for the Greenwich Peninsula and allowing the Dome to operate until 31 December 2000. However, the strategy to proceed to solvent resolution for the Company without the Dome Europe deal had given rise to additional costs of £7.5 million which it was satisfied would be contained within the £47 million being applied for:

	£m
Redundancy	0.4
Additional loyalty bonuses for hosts and performers (required to ensure adequate staffing is maintained once the prospect of continuity is removed)	2.0
Decommissioning of the Dome contents (removing exhibits which would have remained under the Dome Europe deal)	5.0
Outplacements (the management would intend to replicate outplacement arrangements used very successfully in previous projects. These arrangements are relatively low cost but would help to reduce the impact of large-scale redundancies in a problem area during the particularly sensitive Christmas period).	0.1
	7.5

Source: The Company's grant application of 12 September 2000

2.73 The Commissioners agreed on 13 September to award £47 million to the Company to enable the Company to operate until the end of the year, assist the orderly rundown of the Company in 2001 and safeguard the opportunities for high quality regeneration of the Greenwich Peninsula, with the possibility of a future receipt for the Commission. The grant was subject to the same conditions as before. Both elements of the grant (the £38 million and the £9 million as a contingency for items likely to accrue in the first three months of 2001) were fixed upper limits and no underspend on one side of the offer would be available to increase the limit on the other.

The Millennium Commission's Accounting Officer's September 2000 request for a Direction

2.74 The Commission's Accounting Officer informed the Commissioners on 13 September that he had supported a grant of £43 million in August on the basis of facilitating the sale of the Dome to Dome Europe. However, with Dome Europe's withdrawal from the sale, he stated that the Commission was at a similar point to its position on 22 May. He stated that from the perspective of value for money in the use of National Lottery funds, he could not recommend making an additional grant. He told Commissioners that if they decided to award additional grant to the Company he would require a written Direction from them recording their decision to proceed.

The Direction given by the Commissioners

2.75 In their letter of 13 September the Commissioners formally instructed the Accounting Officer to proceed with the offer of grant and the release of funds as necessary. They had taken careful note of his objections but had nonetheless, on the basis of wider objectives which they wished to secure, and in the light of representations received from the Government, determined that grant of up to £47 million should be offered to the Company.

The position of the Department's Accounting Officer

2.76 As in May (paragraph 2.39) the Department's Accounting Officer took account of the impact of refusing grant on the public sector more widely and concluded that the additional £47 million grant represented value for money for the public sector as a whole. He based his decision on two key factors:

- the Company's analysis of the likely exposure to claims in the event of insolvent liquidation was on the high side, but any significant reduction in the quantum would only increase the risk;
- the Government would be forced or feel obliged to meet the majority of claims arising from the Company's insolvent liquidation.

The revised net grant position

2.77 The additional grant of up to £47 million takes the total to £628 million (Figure 4 on page 21). It is not clear how much if any will be repaid to the Commission now that the sale to Dome Europe is not proceeding.

The Company's revised budget as at September 2000

2.78 The Company's overall budget position in September, taking account of the additional grant of £47 million, is shown in **Figure 10**. The budget makes provision for some decommissioning costs but not the costs of demolishing the Dome structure should that prove necessary. Those costs would vary according to the proposed after use, but the Company and English Partnerships estimate that the cost of removal, including decommissioning of the contents, would be in excess of £40 million. Following the decision by Dome Europe to withdraw from the competition for the future use of the Dome, the Deputy Prime Minister requested that English Partnership produce a paper on the options for the future use of the Millennium Experience site. This exercise is being run in parallel to the current competition for the Dome and the discussions that are taking place with Legacy plc. The Government remain committed to a long-term future for the Dome.

10 The Company's revised budget as at September 2000

	September 2000 £m
Costs	
Site and structures	334
Maintenance	30
Show and live events	54
Visitor services	21
Support services	33
Zone content and opening ceremony	109
Operational fit-out and pre-operation	16
Zone improvements after 31 December 1999	2
Human resources, catering and retail	29
Marketing and sales	39
Public relations	4
Sponsor support	4
Finance/Chief Executive Office	30
IT	24
National Programme	47
Provision for holiday pay	1
Decommissioning and sale	10
Contingency – foreseen liabilities	6[1]
Total costs	**793**[2]
Income (net)	
Sponsorship	115
Tickets	47
Commercial (net of stock purchases)	6
Income from sale of the Dome	0
Total income before grant	**168**[2]
Grant requirement (gross)	628
Total income	**796**[2]
Repayment to the Millennium Commission	**0**
Total income after repayment	**796**[2]

Notes:
1. The original cost contingency (£88 million) included within the figures shown in Figure 2 has been fully utilised. The contingency shown here is a newly established provision.
2. The costs and income do not balance because the costs (£5 million) and grant (£2 million) for the London New Year's Eve 1999 celebrations are excluded. This means that £3 million of the Company's income shown above was used on the London New Year's Eve celebrations.

Source: New Millenium Experience Company

2.79 Figure 10 does not provide a comparison with the original May 1997 budget (Figure 2) because the Company's budget structure has changed since then. We therefore prepared the comparative analysis in **Figure 11** based on information provided by the Company.

11 **Summary of the budget position in September 2000, compared with the original May 1997 budget**

	May 1997 £m	September 2000 £m
Costs		
Dome site and structures	254	304[1]
Infrastructure and transport	53	30
Dome contents:		
Central arena	137	173[1]
Outer exhibition	86	
Operations and marketing	144	169
Payroll and corporate services	27	54
National programme	57	47
Decommissioning	-	10
Contingency	-	6[2]
Total costs	**758**	**793**[0]
Income		
Sponsorship	175	115[3]
Tickets	136	47
Retailing/catering	33	6
Income from sale of the Dome	15	-[4]
Grant (net)	399	628
Total income	**758**	**796**[5]

Notes:
1. £55 million was transferred from the 'Dome content' budget head to 'Dome site and structures' to reflect the transfer of responsibility for building the central arena and some of the exhibition zones.
2. The original cost contingency (£88 million) included within the figures shown in Figure 2 has been fully utilised. The contingency shown here is a newly established provision.
3. The revised budget excluded contributions from sponsors in the form of 'budget enhancement' rather than cash or 'value in kind' (paragraph 3.17).
4. The sale process has been restarted but the likely proceeds are unknown.
5. Total costs and income for the Company balance at £798 million. Figure 11 excludes £5 million costs and £2 million income in respect of the London New Year's Eve event.

Source: National Audit Office and New Millennium Experience Company

Arrangements are being made for the Company's residual liabilities

2.80 The Commission's Chairman had given a verbal assurance at their meeting on 5 September that, on the basis that the Commission made provision for the Company's foreseeable liabilities, the Government would be willing to deal with residual liabilities. On 6 September the Commission's Accounting Officer wrote to the Department's Accounting Officer seeking written confirmation of this assurance. The potential liabilities the Commission considered fell outside its funding commitment to the Company were:

- requirements above £38 million arising from the items in the Company's grant application;
- all other liabilities accruing before 31 March 2001 over and above the £9 million cap;
- all liabilities accruing after 31 March 2001 until the Company's liquidation and all contingent liabilities remaining after that date.

2.81 By the end of September the Department had asked the Company to assess its liabilities and assets, and the Company expected to produce firm estimates by the end of November. The Department told us that this would allow the Government to establish an appropriate mechanism for handling any actual or potential costs falling beyond the existing budget.

Part 3

Key factors influencing performance

Introduction

3.1 This Part of the report looks at key factors which have had a bearing on the financial position reported in Part 2. Specifically it looks at:

- Visitor numbers;
- Sponsorship;
- Marketing and sales;
- Operational expertise;
- Financial management and control;
- Corporate governance.

The target of 12 million visitors was a broad brush estimate, and was not based on a clear vision of the Dome's content

3.2 The Millennium Commission's May 1995 guidelines to potential operators for a national millennnium exhibition expressed the aspiration that operators should plan for up to 100,000 visitors a day, that "as a minimum it is envisaged that the exhibition will attract 15 million people" and that "a figure in excess of 30 million is unlikely to be achievable". This was before the site or operator had been selected.

3.3 In January 1997 the Commission adopted a plan with a visitor target of 10 million and this remained the plan until the Company submitted its business plan in May 1997. The Millennium Commissioners approved the project in July 1997 on the basis of the 12 million paying visitors in the Company's May 1997 business plan, although the Company considered that the revenue contingency meant that the budget would balance with around 11 million visitors (paragraph 1.32).

3.4 The Company's business plan estimated that the maximum annual capacity of the Dome would be 17.7 million visitors, but that 12 million, representing 68 per cent of capacity, could be accommodated comfortably and would be used for planning purposes. In coming to the view that the Dome could attract 12 million visitors the Company considered that there was a high level of interest in the forthcoming millennium celebrations, and that short-lived, 'once in a lifetime', attractions stimulate exceptional interest. Although the Company had not carried out detailed opinion polls, the Company's papers refer to earlier estimates by outside consultants that ranged from eight million to over 17 million visitors. However, at this stage the final decision had not been taken on the content of the Dome, ticket prices, and whether there would be access by car for the purpose of dropping off and picking up visitors. The Company saw risks that the Dome would:

- face high competition both from other leisure pursuits and from within the leisure attraction market, especially in the light of other millennium-related projects;
- by its nature, attract few repeat visitors;
- not be a priority for many overseas visitors, who would be more likely to visit the Tower of London, Buckingham Palace, etc.

The Company recognised that to achieve the total number of visits, the Dome would need to have a positive reputation and public appeal. In short, the Dome would have to be a 'must-see' attraction, with the necessary 'wow' factor.

3.5 In May 1997 the Commission engaged Deloitte & Touche Consulting Group to review the Company's visitor numbers forecast. The consultants pointed out that their work had been constrained by the fact that there was little information available on the Dome's content, which they saw as the main business driver. As the project was dependent on the creation of a significant 'wow' factor they had had to assume that the content would be of such a high standard that it would satisfy the build-up of press and public expectation. They believed 12 million visitors was at the upper end of expectations, and that taking account of risk factors such as the content being insufficient to attract the projected visitor numbers, and marketing failing to attract the forecast mix of visitors, a 'worst case' scenario would be eight million visitors (paragraph 1.32).

3.6 The Company stood by its forecast of 12 million visitors and this was the basis for the business plan and budget approved by the Commissioners. The Commission's staff had concluded that there were no benchmarks against which to make any detailed assessment of the reasonable expectation for visitor numbers. If the Company could deliver a world class attraction which, through skillful marketing and word of mouth, became popularly regarded as a 'must see' event, 12 million visitors should be achievable. The Commission's staff considered, however, that it would be prudent to plan on the 'worst case' basis of eight million visitors. The Commissioners expressed confidence that the worst case figures for visitor income would be exceeded, and on 9 July 1997 agreed the target of 12 million (paragraph 1.32).

3.7 In the run up to the opening of the Dome, the Company attempted to validate its visitor numbers projection using the results of surveys by its consultants. These surveys covered England, Scotland and Wales and consistently indicated that between 27 per cent and 33 per cent of the general public were likely to visit the Dome. A further 11 to 18 per cent were potentially 'persuadable'. The Company used this data in November 1998 to estimate that some 8.74 million people were 'likely' to visit the Dome and that a further 3.65 million 'could be persuaded'. As these surveys excluded education groups and potential overseas visitors the Company considered that this provided comfort for the overall projection of 12 million. However, after ticket prices were announced in March 1999 surveys up to the time the Dome opened showed the proportion of people likely to visit falling back to between 17 and 22 per cent. In January 2000, after the Dome opened, the survey figure rose to 26 per cent.

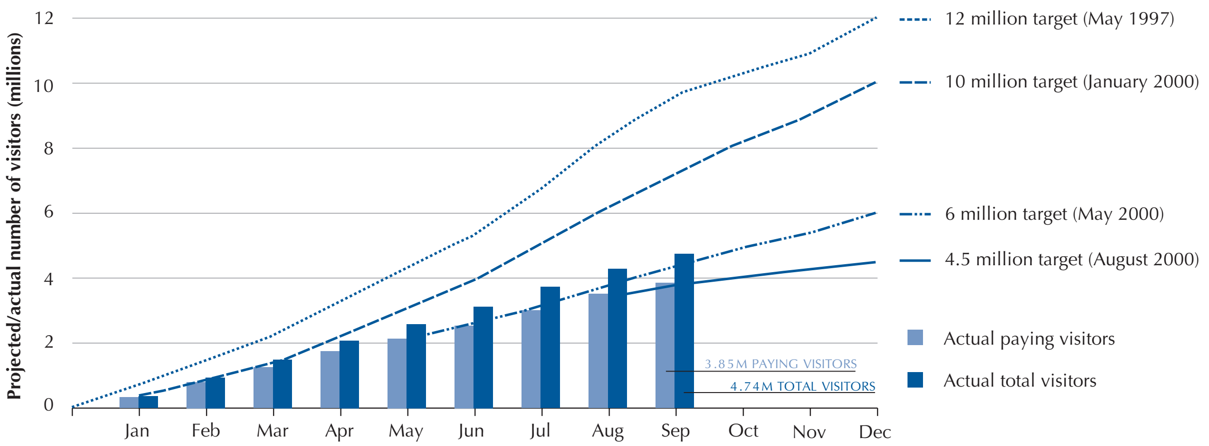
The target of 12 million visitors proved to be unachievable

3.8 On opening, the Dome failed to attract the forecast number of visitors. Based on the target of 12 million, the Company estimated that the Dome needed to attract 732,500 paying visitors in January 2000, but achieved only 328,821. The Company's January 2000 revised budget was based on 10 million paying visitors, but this too proved to be over-optimistic.

3.9 In February 2000 the Company announced that they were introducing a range of initiatives aimed at increasing visitor numbers:

- discounted tickets for repeat visits (provided the tickets were bought on site);
- reduced admission price for visitors arriving after 4pm;
- improved travel packages for UK and overseas visitors;
- linked deals with other London attractions.

12 **Actual total and paying visitors compared with the Company's successive targets**



Source: New Millennium Experience Company

3.10 The Easter period (late April) was seen as pivotal, but the figures were disappointing and dropped to a weekly low of 73,331 in mid-May. By the end of May 2.14 million people had paid to visit the Dome - well short of the numbers needed by then to be on track to achieve the Company's revised target of 10 million paying visitors for the year. In May the Company revised its target to six million, but this still required significant increases in visitors to the Dome - an extra 40 per cent in July, compared with June, and a further 16 per cent in August. These increases were not achieved and the Company revised its projection to 4.75 million in early August and 4.5 million in late August. The Company told us that the volatility of visitor numbers, with week by week fluctuations, made it difficult to discern any real pattern before at least seven months of operation, and the effects of the summer school holidays and summer tourist trade, had been properly felt.

3.11 On 3 July 2000 the Company announced that visitor numbers at the Dome (by then 3.1 million, paying and non-paying) had exceeded the 1999 record of 2.65 million for a UK 'pay-to-visit' attraction. By the end of September there had been 3.8 million paying visitors to the Dome. **Figure 12** shows how the actual number of paying visitors by then compares with the Company's successive targets. The Figure also shows total, including non-paying, visitors which stood at 4.7 million.

3.12 The Company estimate that the decision to allow free visits for school children has resulted in a knock-on loss of other visitors. When the Company was setting prices for admission to the Dome, in early 1999, the Company's Board, having considered the request from Government, through the shareholder, agreed to allow free access to the Dome for up to one million school children. Although it recognised that this would result in a loss of income, which it accommodated from within its revenue contingency for the project, the Company continued to plan on the basis of 12 million paying visitors.

3.13 Although the Company had advised the Government that the free visits would directly cost some £7 million in lost revenue, the Company had considered there might be a further loss of up to one million visitors, as a proportion of children who came free with their schools might otherwise have come with their families. Not only did this mean that prospective potential paying visitors would be lost, but also that the children would spend a relatively modest amount of money once they were there. This was because they were without their parents, and the rest of the family, and would only spend 'pocket money'. By September 2000 the Company had recorded 465,000 free visits by schoolchildren. They estimated that there would be around 700,000 by the end of the year, and that at that level the loss of revenue would still be some £7 million.

3.14 The Company considers that other important factors in the shortfall in visitor numbers are:

- negative media coverage. They estimate that each time the Dome received 'bad press' sales enquiries dropped by between 30 per cent and 50 per cent in the following week;
- the decision not to allow car parking, or even dropping off and picking up by car at the Dome;
- the inherent difficulty of predicting visitor numbers, and the unique nature of the exhibition;
- the strength of the pound holding back overseas visitors, although they considered at the outset that the Dome would not be a priority for many overseas visitors (paragraph 3.4);
- the strength of the pound encouraging additional foreign travel by British people - especially for short breaks - at the expense of travel within the UK;
- competition from other new attractions, in London in particular, such as the London Eye and Tate Modern.

3.15 Exit polls show that in April 84 per cent of visitors were satisfied with their visit and that by August the figure had risen to 87 per cent (**Figure 13** overleaf). In addition, 86 per cent were satisfied with the services provided by the Dome's hosts.

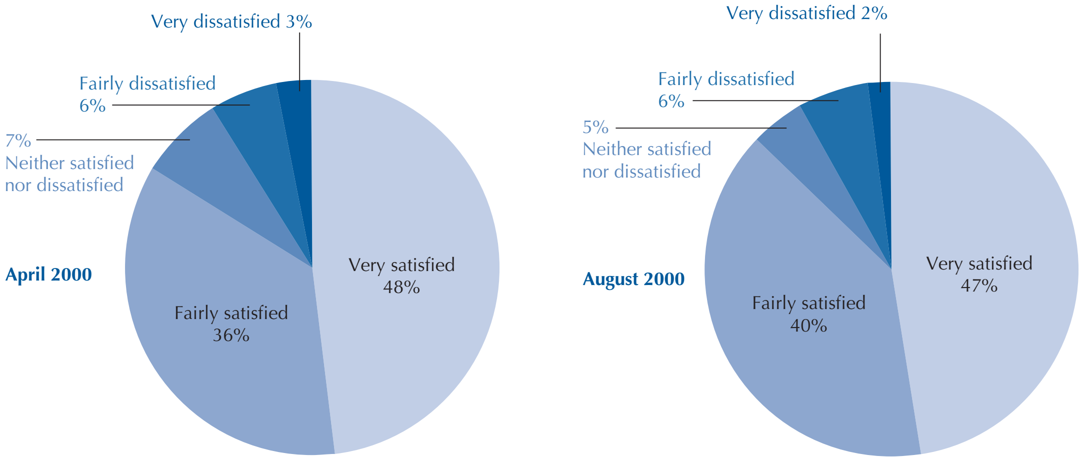
Sponsorship income was lower and slower than expected

3.16 As at May 1997 the Company expected to attract £195 million in sponsorship from the private sector. To provide a £20 million contingency against a potential shortfall, the Company's budget included sponsorship income of £175 million in direct financial contributions and 'value in kind' (for example the Company's ticketing system and uniforms for operational staff). The Company's approach was to try to find a sponsor for each of the exhibition zones and the central show. The search for sponsors, and subsequent discussions with them about how their contributions were to be presented, required a good deal of attention from the Company's senior management and non-executive Directors.

13 **Visitors' overall satisfaction as at April and August 2000**

As at April, 84 per cent of visitors to the Dome were satisfied with their visit, and as at August, 87 per cent of visitors were satisfied.

Question asked to visitors' by MORI: *Overall, how satisfied were you with your visit here today?*



Source: *MORI survey of visitors to the Dome at as April and August 2000*

3.17 Over the period May 1997 to January 2000 the Company revised its forecast downwards to £122 million. There were several reasons:

- two companies (BT and Ford) designed, built and largely financed the zones ('Talk' and 'Journey') they had agreed to sponsor. Several other companies provided services or product enhancements in similar fashion. The Company treated this form of sponsorship as 'budget enhancement' as the value of the sponsorship, and the associated costs, were excluded from its budget;
- throughout 1998 many companies had been reluctant to commit the large sums of money required;
- sponsors needed to show a commercial and economic return for their financial contribution to the Dome;
- the Company had struggled to achieve its timetable for converting sponsorship commitments into contracts and, more importantly, cash and 'value in kind' - getting a signature on the contract had proved difficult;
- some zones were not attractive to sponsors.

3.18 By the end of September 2000 the Company had reduced its budget to £115 million (cash and 'value in kind') to reflect the value of contracts signed (£119 million) and to allow for the risk of non-payment. The Company put the value of the 'budget enhancement' at £46.5 million. A list of the sponsors is at Appendix 8.

Despite the Company's marketing efforts, there are negative perceptions about the Dome, and a lack of awareness of its content

3.19 The Company's May 1997 business plan included a lifetime budget of £27 million for marketing, advertising and communications (3.6 per cent of the overall budget for the project), which was subsequently increased in stages to £40 million (**Figure 14**). Of this increase, £3 million was provided by additional grant from the Millennium Commission - the rest came from transfers within the overall budget for the project.

14 **The marketing budget**

May 1997	Lifetime budget of £27 million, as in the business plan.*
July 1998	Budget increased to £32 million by transferring £5 million from the budget for marketing the National Programme.
March 1999	Budget increased to £37 million to cover the costs of staff moving from the Commercial Department to Marketing.
May 2000	Further grant of £3 million from the Commission, taking the budget to £40 million.

* additional to the original marketing budget there was provision for £1.7 million in the Company's contingency to allow for additional marketing activity early in the year 2000 if, as turned out to be the case, ticket sales were not as buoyant as anticipated. This contingency was transferred to the Marketing budget and was intact as at the end of 1999.

3.20 Another source of promotion for the Dome has been the advertising campaigns run by the sponsors. The Company's agreement with three of the sponsors included a specified amount of advertising that primarily promoted the Dome and was provided as 'value in kind' towards the full amount of their sponsorship. The Company put the value of this exposure at £2.25 million. In addition, sponsors ran advertising campaigns which were related primarily to their own businesses but also included reference to the Dome. The Company have estimated the value of this indirect marketing at some £33 million.

3.21 By mid-1998 the Company had developed an initial framework for marketing, and in September 1998 the Company brought in a Marketing Director. He devised a marketing plan which was approved by the Company's Board in November 1998, but at that stage the content of the Dome had not been finalised. The Plan was designed to be achievable within the marketing resources available (the budget by then was £32 million) and had three phases - the first two phases were to raise awareness of the millennium celebrations in general, and the third was specific to the Dome:

Phase 1 (late 1998): Selling the millennium - was designed to fuel the nation's expectations about the new millennium and excite people in general terms about what was on the horizon. The campaign was a short, sharp burst of television and poster advertising which ran during the Christmas / New Year period;

Phase 2 (first half of 1999): Promoting the National Programme - involved a number of marketing initiatives to raise the profile of the National Programme and to showcase sponsors' involvement with the Millennium Experience; and

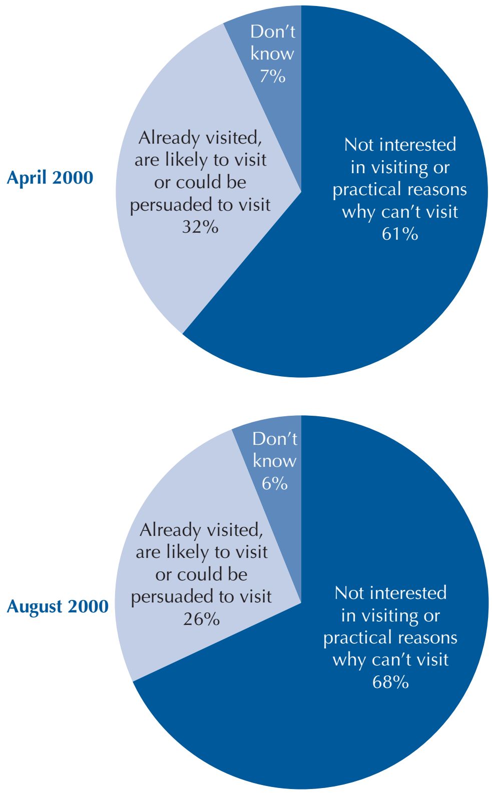
Phase 3 (autumn 1999): Promoting the Dome - was planned as an advertising campaign to build up to the launch of ticket sales on 22 September 1999 and to continue during the autumn. It focused on the content of the Dome and on information about how and where to buy tickets.

Marketing the Dome through the broadcast and print media has continued during the year of operation.

3.22 To keep abreast of how the public perceived the Dome, the Company commissioned consultants to carry out an on-going programme of market research. The survey results showed that nearly all the respondents were aware of the Dome. However, **Figures 15 and 16** show that there has been a lack of interest in visiting the Dome, and that there has been a lack of clear understanding about its contents, and that tickets do not need to be bought in advance.

15 Views on visiting the Dome

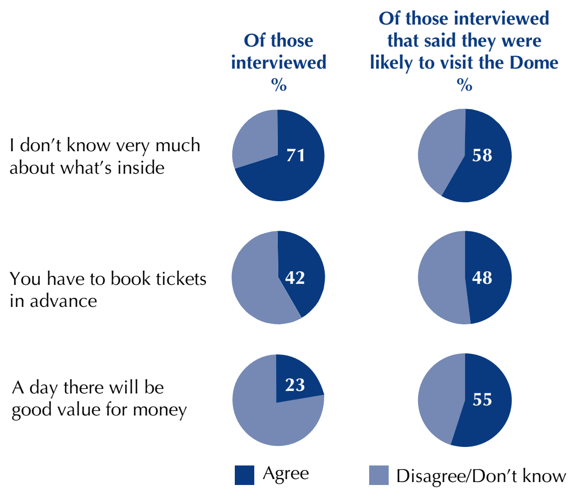
More than half of those asked stated that they were not interested in visiting the Dome, or that there were practical reasons why they would not visit.



Note: These results are from surveys as at April and August 2000 of people aged 15 and over

Source: NOP fieldwork

16 Perceptions of visiting the Dome



Note: These results are from a survey in August 2000 of people aged 15 and over.

Source: NOP fieldwork

3.23 In February 2000 the Company reviewed its marketing approach and concluded that the marketing budget in the original business plan had been set at a low level compared with other large visitor attractions. The original reasoning for setting this level of budget was that ticket sales would be driven by:

- massive free media exposure;
- word of mouth recommendation;
- a traditional fascination with 'Expo'- style events.

3.24 In the light of actual visitor numbers, the Company concluded that these assumptions had carried a very high risk. The Dome was a totally new and unproven attraction with no direct comparators. There had been little time to build and establish a reputation and brand. And it was operating in a very competitive visitor attraction market.

3.25 The Company considered that several factors had contributed to the perception, supported by findings from research amongst the potential visitor market, that the Dome was a 'risky purchase':

- negative media coverage which undermined people's confidence in the product;
- word of mouth had not spread the message to the extent anticipated;
- the Dome's content had not been explained or promoted effectively to potential visitors. Even people who had visited the Dome had difficulty describing the experience to others;
- there was a perception that travel costs were high and travel times long.

3.26 One of the conditions of the additional grant of up to £60 million awarded to the Company in February 2000 required the Company to provide an outline of the marketing strategy for the rest of the year. And £3 million of the further grant of £29 million in May 2000 was to help fund a new marketing and sales drive in the period June to August 2000 when a constant media presence would be required. Following the summer advertising campaign the Company decided that the most effective and efficient means of increasing visitor numbers in the autumn would be to sell discounted tickets via sponsors. This strategy reduced the requirement for direct marketing support with a saving of £1.5 million.

Sales channels and ticketing arrangements were based on an expectation of high demand

3.27 The Company set up arrangements for selling tickets through various sales channels:

- direct to the public, via a call centre and the Company's own website;
- through intermediaries, such as the network of 25,000 National Lottery sales outlets and travel operators.

3.28 The Company intended to manage demand throughout the year by selling tickets in advance - visitors would only be sold a ticket for a day if there was capacity available. From April 1999 the travel trade, groups organisers and schools were able to reserve Dome tickets for any day in the year 2000. Tickets went on sale to the general public on 22 September 1999 and were available for visits up until the end of March 2000.

3.29 In January 2000 the Company confirmed that tickets would be released on a rolling quarterly basis through the year - ie people would be able to buy tickets up to three months in advance. However, the Company subsequently concluded that this was confusing to the market and prevented prospective visitors from making longer-term plans. The policy was abandoned in April 2000, from which date the public were able to book tickets through to September. Tickets for the remainder of the year were released on 1 July.

3.30 Given the plan to manage attendance through advance sales, the Company originally decided not to sell tickets at the 'door' and emphasised the need for advance booking in its promotional material and advertising. The Company reversed this decision shortly after the Dome opened, when it found that prospective visitors were turning up without tickets. By September 2000 'door sales' represented 20 per cent of all sales.

The Company needed additional operational expertise

3.31 Building and running visitor attractions require different skills, though clearly it is important to have input from operational experts during the design and build phase. As early as 3 June 1997 the Commission's consultants, BDO Stoy Hayward Public Sector Consulting Services Limited (now vantagepoint management consultants), drew attention to the importance of having operational expertise at the Company:

"There are two key areas where there appears to be a lack of expertise. The first is in relation to the procurement and operation of the technical content.

Although a Creative Director will be appointed in the near future there is no equivalent in terms of a Technical Director. The second is in relation to the day to day operation of the whole site during the ... operational period. The management team does contain an individual with experience of running a small visitor attraction and providing consulting advice to a wide range of other leisure based developments. However, in our opinion, the team needs further additional senior staff with experience of running a complex site with significant visitor numbers and if possible from a start up situation."

"Without additional high level expertise in these two areas [there is] a risk of both technical failure, ie it does not work reliably and/or operational failure, ie the site is not managed and controlled correctly. Failures in both of these areas would be highly visible, lead to public criticism, low throughput, loss of revenue, and potential loss of sponsorship. Such a failure would not be marginal, it would prejudice the whole operation and the delivery of the business plan."

"Management must rapidly move to managing concurrently the complete range of construction, development and operational issues to ensure that there is as much focus on operations and logistics as there has been on construction and development. If this shift in emphasis is not achieved in the very near future, the organisation will run the risk of being focused on developing the site rather than running the Exhibition."

3.32 During the content development phases the Company involved, as advisors, a number of eminent individuals with experience in the visitor attraction industry, the media, design and specific subject areas. However, the Company lacked senior staff with experience of running a large visitor attraction. In the light of the problems experienced on opening the Dome, on 28 January 2000 the Company's Chairman interviewed M Pierre-Yves Gerbeau. M Gerbeau had most recently worked at Euro Disney as a Vice-President. He replaced the former Chief Executive on 7 February 2000 and brought in further expertise to assist him.

3.33 The Company re-organised some of its key functions to reflect the need for the Dome to be a business-driven operation focused on the customers. A team based approach to running the Dome was introduced, with the establishment of a business management team responsible for Company policy and targets, and a business operating team responsible for implementation and day to day visitor experience. At the operational level early improvements were:

- the creation of a single team responsible for all maintenance, with targets for the time taken to attend to problems. When the Dome opened there had been a high incidence of exhibits and attractions broken and awaiting repair;
- introduction of a timed ticket system for the Body Zone which reduced the average waiting time, which had been up to two hours, to 15-20 minutes on busy days and less than 10 minutes on other days. There had been long queues for the Body Zone, despite there being considerably fewer visitors than forecast;
- development of a new signage system aimed at improving visitor flow and a new system indicating approximate waiting times at different zones;
- changes in visitor flow patterns and the introduction of merchandise barrows throughout the Dome.

There have been weaknesses in financial management and control at the Company

3.34 During the course of the year 2000 the Company's internal and external auditors, and consultants appointed by the Company and the Millennium Commission, have identified concerns about the quality of financial control and forecasting at the Company:

a) In their Annual Report for 1999, presented to the Company's Audit Committee in February 2000, Arthur Andersen, who provide the internal audit service under contract - reporting to the Company's Head of Internal Audit - commented that whereas effective management information procedures had been established for the construction phase, specific information requirements and performance measures for the on-going operational activities of the Company still required formalising. In addition, Arthur Andersen confirmed that the Company's budgetary control processes and procedures were adequate to ensure that the frequent budget review and revision required was adequately supported by appropriate information, but recommended a more frequent and formal Company-wide review of significant budget variances and adjustments. In June 2000 Arthur Andersen expressed concern that cashflow forecasts were based on the approved budget for the project rather than a realistic assessment of actual income and expenditure through to completion. PricewaterhouseCoopers expressed the same concern in August 2000.

The Company's response to the Arthur Andersen June 2000 findings was that "cashflow forecasts have been based on the project outturn not changing as this has been the official line of the business. A note to point this out was included in the Board papers. The Company expected this practice to change in the near future." The Company also told us that the internal audit report was completed just prior to the Company's application for additional grant in May 2000, when "the Company was in the midst of a major re-forecasting exercise."

b) In May 2000 the Company's external auditors (Ernst & Young) raised concerns about the tracking of costs and forecasting. They found it difficult to obtain assurance over the completeness of the accruals for zone construction and operational fit-out. One of the main reasons for this difficulty was the lack of detailed reporting of the 'expenditure to date' and 'costs to complete' by area. They considered that this led to some of the difficulties the Company experienced in producing cashflow forecasts in the early part of 2000.

The Company stated in response that "analysis of invoices processed during the first four months of 2000 had shown that the control process previously in place was not as effective as it had been designed to be. This was mainly due to ...work being committed without fully observing the established procurement process." The Company added that it had introduced tighter controls over purchasing and restructured financial reports to reflect the new organisational structure.

c) In May 2000 Ernst & Young (while recognising that in the cash-constrained environment the Company's focus was on income and expenditure and cash flow) also highlighted the need for the Company to produce robust balance sheet forecasts. They noted that the Board and senior management should be aware of the effects their forecasting assumptions have on working capital and they should have available a complete picture of the Company's total commitments. In order to produce such forecasts, the Company should prepare month end accurate summaries of all debtors and creditors, including accruals. The Company should also implement a new set of management information reports to provide up to date actual costs and expected period forecasts against budgets and present commitments.

The Company's response was that the current format of the monthly finance report had been discussed and agreed by the Board. The Board and senior management were fully aware of the creditor position and this had been discussed in detail at every Board meeting since November 1999.

More detailed financial reports would be made available to budget holders and closer attention would be paid to the expected outturn at the end of the project. Balance sheet reporting would be introduced as part of the strengthening of reporting routines.

d) In May 2000 Capita, appointed by the Millennium Commission, concluded that in support of the figures presented in the Company's financial statements:

- the financial reports provided to the Company's Board and used internally were consistent with the information held on the financial systems;
- their review did not identify any evidence that significant items had been omitted from the financial reports (although they had not been able to give firm assurances to the Commission about the accuracy and completeness of the Company's data as they had not been able to carry out detailed testing in the time available);
- finance managers working in operational areas and central finance staff appeared to be sufficiently informed within their areas of responsibility and control.

However, Capita identified significant potential weaknesses in internal control over the level of creditors and other liabilities. For example, there was an inconsistent approach to determining manual accruals with limited formal management review - Capita were concerned that the accuracy of creditor liabilities, stated at £53 million as at 30 April 2000, appeared to be largely left to individual finance managers. As part of their on-going work for the Commission in reviewing the Company's claims for the draw down of grant, Capita confirmed that, on the basis of their testing of a sample of accruals, the level of accruals shown in the Company's accounts was true and fair. However, they identified four invoices (out of 55 examined) which had already been paid and therefore should not have been included in the accruals. They also concluded that the Company's invoice authorisation procedures appeared to be operating effectively.

The Company's response on 22 June was that it had formalised its review process and introduced more structured procedures to ensure consistent and rigorous inspection of the actual debtors and creditors figures each month. In a follow-up review, Capita reported to the Commission on 27 July that they were confident that there was an improved approach to the review of accruals, but they were not certain that the review process would pick up all existing accruals.

e) Capita also found, in May 2000, that the purchase order system, which showed outstanding purchase orders amounting to £77 million, had not been kept up to date and appeared to contain obsolete and duplicate entries.

The Company asked all budget holders to review outstanding purchase orders for which they were responsible and to confirm by 6 July 2000 whether they were still extant. Capita concluded on 27 July that appropriate action was being taken to bring the purchase order system up to date.

f) PricewaterhouseCoopers, appointed by the Company in August, pointed to the absence of an integrated financial model for generating cashflow forecasts and balance sheets. This significantly increased the risk of mis-statements arising. In particular, there could be no assurance that the Company's cashflow forecast took full account of the creditors and debtors figures in the existing balance sheet along with further income and expenditure forecast for the period.

The Company confirmed that an integrated financial model would have been of assistance, and that, following the PricewaterhouseCoopers report, they had subsequently carried out a summary analysis and confirmed that there were no significant errors.

g) In addition PricewaterhouseCoopers found that many departments within the Company were unable to quantify the level of firm spending commitments they had entered into. (Liabilities totalling £5.4 million, largely in respect of work undertaken to fit out the Dome, had appeared between March and July). PricewaterhouseCoopers also commented on the lack of control over incoming invoices which were distributed across various cost centres within the Company. As a result, there was no central register of received invoices.

The Company confirmed to us that it maintains a 'stand alone' register of invoices, which records invoices received by the Finance Department. These invoices are then despatched to individual departments within the Company for approval. (However, it is acknowledged by the Company that some invoices continue to be sent by suppliers direct to departments whose staff are unable to access the database. Details of these invoices are not therefore recorded until they are forwarded to the Finance Department for payment. Therefore the database does not provide for the tracking of invoices).

3.35 PricewaterhouseCoopers also reported that the Company's finance function was under acute stress. This resulted from the crisis situation in which it found itself, but there was also a great burden being placed on the resources available. They highlighted the fact that the Company was entering a phase which required it to negotiate and execute a major and complex transaction, develop a contingency plan and implement a closure plan. They considered that, given the stress on the finance function, this might prove difficult to accommodate, and in any event the skills required for such an exercise differed from those available. They concluded that this represented a risk for the Company.

3.36 The Company recognised these risks:

- in early August a senior qualified accountant had been appointed to supplement the Finance Department resources;
- on 5 September an Executive Chairman was appointed;
- on 21 September a new Finance Director was appointed, enabling the previous Finance Director to devote time to fully developing and implementing a closure plan, and deal with the disposal of the Dome.

The Company is working to a code of corporate governance

3.37 Under a Code of Practice approved by the Department, the Company's Board is responsible for establishing "the overall strategic direction of the Company within the policy and resources framework agreed with the Shareholder" and for overseeing "the delivery of planned results by monitoring performance against agreed strategic objectives and targets." In establishing these responsibilities, the Company drew upon private sector guidance from the London Stock Exchange Combined Code on Corporate Governance (1998) and guidance on corporate governance contained within the Turnbull Report (1999).

3.38 Corporate governance is "the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. ...The specifically financial aspects of corporate governance are the way in which a company's board sets financial policy and oversees its implementation - including the use of financial controls and the process whereby the board reports on the activities and progress of the company to its shareholders."[6]

3.39 In its last two Annual Reports and Financial Statements (the latest for the period ending 31 December 1999) the Company confirmed its compliance with corporate governance requirements. The Company had made these statements on the recommendation of its Audit Committee.

6 *UK GAAP (Generally Accepted Accounting Practice in the United Kingdom), Ernst and Young, 5th edition, 1997, page 178*

3.40 In his paper for the Audit Committee meeting on 2 February 2000 the Head of Internal Audit advised that the directors may wish to rely on a number of sources of evidence, including the existence of a Code of Practice, the directors' own knowledge of the business and reports received from executive management, and reports by the internal and external auditors. The Head of Internal Audit advised the Committee that "Independent reviews have been carried out by internal and external review bodies which have found a limited number of problems. Where problems have been reported, management have advised that they will be addressed and the experience has been that they do address them. The Committee is therefore requested to consider the effectiveness of the system of internal financial control in the light of this evidence". The minutes of the Audit Committee meeting on 2 February 2000 state "The Chairman sought the Head of Internal Audit's assurance that the statement that the Committee had reviewed the effectiveness of the systems of internal control could be made, which he gave." The Minutes also stated "The Committee agreed that the Board should be recommended to state that the effectiveness of the system of internal financial control had been reviewed be made in the Annual Report and Accounts."

3.41 In February the Millennium Commissioners wrote to the Shareholder to convey their concerns about management and governance at the Company. The Shareholder responded on 24 March. The previous Chairman of the Company did not accept these concerns and set out his detailed response in his letter of 30 March. The Commissioners raised the issue most recently in September following the latest additional lottery grant to the Company, and the Shareholder responded in September. Also, following a meeting of the Commissioners on 10 May, the Commission's Accounting Officer wrote the next day to the Chairman of the Commission about the Commissioners' continuing concerns over corporate governance. One of the points which concerned the Commission was the apparent lack of scrutiny of key financial issues (in particular the potential cost increase referred to in paragraph 2.30). The Accounting Officer prepared a letter for the Chairman to send to the Shareholder. In the event, rather than send the letter, the Chairman conveyed the Commission's concerns direct to the Shareholder in discussion.

3.42 Correspondence between the Millennium Commissioners, the Shareholder and the then Chairman of the Company is reproduced below. Regarding the reference to the work of PricewaterhouseCoopers in the letter of 6 September to the Shareholder, PricewaterhouseCoopers were not engaged to undertake a review of the areas referred to, but during the course of their work they had a number of observations relating to the quality of information, financial systems and controls which they believed may be of interest to the Company. PricewaterhouseCoopers consider that the comments in the letter constitute the author's own conclusions, which he may have formed from their comments, rather than a recitation of any opinions of their own as presented to the Company's Board.

February 2000

Lord Falconer of Thoroton QC
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

Dear Charlie,

NMEC: BOARD STRUCTURE AND CORPORATE GOVERNANCE

I am writing to you in my capacity as Chairman of the Millennium Commission to record the Commissioners' view that the quality of corporate governance at NMEC will have to improve if all the other positive measures which you and the company are taking are to have maximum effect.

At its meetings on 28 January and 9 February the Commission discussed important issues relating to NMEC's budget and cashflow, events surrounding Opening Night, the operational teething problems, the circumstances surrounding the departure of Jennie Page and the unrelenting bad publicity. Clearly, the company has faced quite exceptionally difficult challenges over a period of months but the NMEC Board does not appear to us to have played the role we would have expected in confronting the problems and providing leadership. This is disquieting on issues relating to commercial and operational strategy and media handling, and extremely serious when it comes to solvency and financial management. Either the Board did not see or it chose to discount the warning signs of the cashflow difficulties. As a result it seems possible that it failed to take decisive action until after a date when the company became technically insolvent.

Given the severe pressures the company has faced and will face, it seems inevitable that the main focus of the management team will be on immediate issues. The danger therefore is that strategic planning on 'tomorrow's problems' or cross-cutting issues might not be as effective as it might be. It is of course the role of the Board to provide strategic direction on such matters and to test the robustness of implementation plans. A good example of this not happening was on planning for double-session days - a critical issue of first order importance cutting across the responsibilities of all the executive directors. I have to say that the Commission has never been able to get a coherent and convincing explanation from different parts of NMEC as to how double session days will actually work in practice.

Clearly it is for you and the Chairman to decide what needs to be done to improve corporate governance and it is not the Commission's role to prescribe. In general terms however it seems to us that if the Board is to be effective it could be smaller (13 is large for a relatively small single-purpose company) and could include new members with experience relevant to the company's current challenges (i.e. operations, customer care, commercial performance and legacy considerations). Most importantly, the Board must be encouraged to take responsibility for overall stewardship of the company and provide the clarity of direction any good management team needs.

In our view the Board may not pick up the reins in this way so long as an Executive Committee exists on the current model.

Be assured that the Commission remains absolutely committed to the Experience and to using its role as the project's banker to help sharpen up NMEC's performance. Before we will release any further grant to NMEC therefore we have asked to see evidence of the company's main strategies, action plans and budgets for the period ahead. We also want to be convinced that the Board will perform its functions more effectively in future. We believe that this is consistent with the approach you are taking as shareholder to ensure that the Experience moves forward to success.

Yours ever Chris

The Rt Hon Chris Smith MP
Chairman

part three

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Lord Falconer of Thoroton QC
Minister of State

The Rt Hon Chris Smith MP
Chairman
The Millennium Commission
Portland House
Stag Place
London
SW1E 5EZ

24 March 2000

Dear Chris

NEW MILLENNIUM EXPERIENCE COMPANY

I found our recent meeting with the Millennium Commission's Finance Committee extremely useful. We clearly share the determination to ensure that NMEC is as best-positioned as possible to see through this crucial operating year. I am sorry that I have slightly overshot the two week deadline I set for getting back to you and your fellow Commissioners on this important issue. A combination of myself being ill and the change in Bob Ayling's own circumstances has meant it has taken longer than originally planned.

I have now had the opportunity to discuss this matter at length with Bob. He and I believe that it would be sensible to underpin the changes that the Board has made at Executive level by re-examining the roles of the non-executive Board members to ensure that they are appropriate to this new phase of operation. We also agree that it would not be sensible to ask any of the current NMEC Board members to stand down at this point in time. Stability amongst the non-Executive directors is particularly important when there have been changes at Executive director level.

Having said that, we feel that there would be value in bringing in some fresh input and skills. Bob is considering how best this might be achieved and will be putting proposals to me shortly on clarifying the roles of the non-Executive directors and perhaps expanding the Board in this new phase of the company's operation. I will keep you informed of my plans. Bob will write to you separately on these issues in the next few days. He will also be taking up your suggestion of an early meeting between the Commission and NMEC's Board.

When we met, the Finance Committee raised concerns about the amount of time Board members were able to commit to NMEC. The change in Bob's own position means that he now has greater flexibility. He will be able to spend more time on NMEC business for the remainder of the project, though we both agree that it would be a mistake for him to interfere too much with the day-to-day executive management. I believe that his continued input together with a refocusing of the Board will meet your concerns. Having said that, I should like to record that the NMEC Board has already given most generously of its time over the last couple of years - without the input of the likes of Michael Grade and David Quarmby we would not have had a Millennium Experience.

Finally, we discussed the importance of improved information flows. I know that your officials have been working hard with NMEC on this issue, and I was grateful to receive the first of the weekly management reports yesterday.

I am copying this letter to Bob Ayling and Robin Young.

Yours ever
Charlie

CHARLES FALCONER

NMEC Gate 1. Drawdock Road. Greenwich, London SE10 0AX Telephone 020 8293 8600 Facsimilie 020 8293 8700

From the Chairman

The Rt Hon Chris Smith MP
Chairman
Millennium Commission
2-4 Cockspur Street
London
SW1

30 March 2000

CORPORATE GOVERNANCE

I am writing following you recent letter to Lord Falconer and his reply to you this week. In the context of the Commission's consideration of the company's application for additional cash-flow grant made on 1 February. Before approving the availability of the final tranche of that grant, the Commissioners sought confirmation of the Board's ongoing commitment to effective corporate governance. I am happy to provide that confirmation and to add my thanks, to those of the Chief Executive and the Finance Director, to the Commission for its positive and constructive response to the additional grant application.

First, it may help if I briefly cover the Board's performance for the period from February 1997 to February 2000. It almost goes without saying that the uniqueness of the Millennium Experience project and of the Directors' responsibilities for it, has not and does not lend itself conveniently to normal listed company or non-departmental public body corporate governance rules and requirements. That said, in the two Annual Reports and Financial Statements published by the company so far, we have confirmed in the *Corporate Governance - Report on Compliance* section that the Board wishes to demonstrate high standards of corporate governance by voluntarily applying the principles of the Combined Code (published by the London Stock Exchange). We have also reported that, taking into account the company's NDPB status and the differences between NMEC and listed companies, we have complied with the provisions of the Combined Code in the course of the two financial years to which the Annual Reports have applied.

In November 1999 the Audit Committee of the Board considered the report of The Institute of Chartered Accountants "Internal Control : Guidance for Directors on the Combined Code" - "The Turnbull Report". The Committee also considered the Institute's paper "Implementing Turnbull - A Boardroom Briefing", the Foreword to which was written by Sir Brian Jenkins, Chairman of the Institute's Corporate Governance Group and Chairman of the Audit Committee of the NMEC Board. The Audit Committee noted that NMEC was not required to comply with Turnbull but that the company was already compliant with many of its recommendations and would aim to implement the remainder as they represented good corporate governance practice. The Audit Committee's conclusions were endorsed by the full Board at its meeting in November.

The commitment of the non-executive Directors to good corporate governance through strategic oversight of the company's internal controls and overall operation to deliver the company's remit from the Government and the Millennium Commission in my view has not been, and is not, in any doubt. Between February 1997 and March 2000, we have held 43 full Board meetings (spanning about 110 hours), 54 Executive Committee meetings (about 107 hours), 11 Audit Committee meetings (about 24 hours), 12 Health and Safety Committee meetings (about 20 hours), 10 Remuneration Committee meetings (about 12 hours), and 2 Legacy Committee meetings. In total - 132 meetings over about 275 hours. The professionalism of the non-executives in the performance of their duties and responsibilities throughout this series of meetings has been consistently high. As the Commissioners know, of course, none of the non-executive Directors receives remuneration and each of them has taken on this commitment at the request of the Government.

In addition, the complex nature of the project (political as well as the sheer logistics and scale of it), the severe time and budget pressures, and the very challenging targets we have faced have led to Board members taking, on occasion, a more executive role (sometimes on a day to day basis) than is the norm in listed companies and NDPBs to support and help an extremely committed, professional and effective but stretched Executive. On top of that, individual non-executive Directors have put considerable time and effort into supporting the Executive on specific issues - particularly development of the content of the Dome through membership of the "Litmus Group" and otherwise.

It is true that from about November 1999 to early 2000 the financial pressures, especially in terms of cash-flow, grew considerably as we fought against the odds to open on time, as negotiations with a few sponsors did not reach positive conclusion and payment to forecast, and as forecast visitor behaviour in terms of pre-booking three-four months in advance proved over-optimistic - influenced greatly by the unremittingly negative media coverage of the project through its life in 1997-1999. When the Board was able to consider the financial implications of lower visitor numbers and hostile sponsor relationships, they authorised the additional cash-flow grant application to be made on 1 February and they made management changes.

Second, in terms of the future, the Board considered, at its meeting earlier this month whether it, and the individual non-executive Directors, should adopt a different approach to corporate governance now that the company has moved completely from development and construction to operational mode. I have already written separately to you about the action I and the Board, with your endorsement, reluctantly considered was entirely appropriate viz a viz the Chief Executive post. The very difficult decisions we took are, in themselves, evidence of the seriousness we attach to our corporate governance responsibilities. Whilst we do not believe that there are any material changes we should make, or recommend to you should be made, in the Board's membership or operation, or in the membership or operation of its Committees, or in the terms of its Code of Practice, we do believe that we must remain ready and available to help and directly support the Executive where we or they feel that it is necessary. This may mean, that on particular issues and for a limited time - such as delivering sponsor payments and marketing and sales - individual non-executive directors using their particular expertise and experience become involved in the day to day business as well as providing the strategic oversight required under normal corporate governance requirements. On the latter, Board meetings are keeping the business as a whole under review and taking a more detailed and focused approach to the key issues - achieving the volume, achieving the commercial income and visitor services - through presentations, by P Y Gerbeau, concentrating on progress over the previous month, project budget and cash-flow implications, and future strategies for addressing particular problem areas.

In addition, following the issue by the Commission on 31 January 2000 of the revised Grant Memorandum, following the understandable conditions attaching to the further cash-flow grant, and following PY's presentation to the Commission's Finance Committee on 2 March, we have a much closer and even more constructive working relationship with them. This will, I am sure be of benefit to both parties and the project.

Finally, I know that the Commission have been impressed by the significant progress PY has made in the few weeks since his appointment on 7 February and by his very strong commitment to cost efficiency, to driving up revenue and to meeting the expectations and needs of our visitors. Relations with sponsors have improved greatly and the experience of visitors is excellent. Press comment is also more favourable. There is, though, absolutely no doubt that the target of delivering 10 million visitors and a break-even budget is extremely challenging and cannot be guaranteed. PY and his staff will remain under considerable pressure over the coming weeks and months. Their commitment to the project and to delivering the targets is commendable and, as PY so clearly said at the Board meeting on 21 March we are all part of the team - from Board Director to the most junior host - and we all have a role and responsibility to help deliver the targets. The Board has every confidence in PY and fully supports the changes he has made and is making to turn the Dome into a project of which we can all be proud. For its part the Board, through effective corporate governance and through day to day involvement of individual non-executive directors where that is necessary, will play its full part in seeing the project through, given a fair wind, to a successful conclusion.

In summary I can confirm that the Board acts as a whole providing leadership and strategic direction for the excellent management team now in place and, through the more focused approach adopted by the Board at its meetings (which I have described above), it will ensure that new strategies and policies proposed by the team are tested in discussion.

I hope this provides you and the Commissioners with the confirmation and reassurance you sought and that, on the basis of this letter, the Commission can decide on the availability of the final tranche of the additional cash-flow grant.

ROBERT AYLING

Time to make a difference The Millennium Experience Company Limited Registered in England No. 3113928 Registered Office: Gate 1. Drawdock Road. Greenwich, London SE10 0AX

Lord Falconer of Thoroton QC
Minister of State
Cabinet Office
70 Whitehall
LONDON SW1A 2AS

6 September 2000

Dear Charlie,

NMEC: CORPORATE GOVERNANCE

The discussion in the Millennium Commission yesterday on NMEC's latest grant application inevitably focussed on the company's management and governance. We have, as you know, attached significant grant conditions in respect of management, to reinforce the changes already underway. Commissioners also agreed unanimously that our views on corporate governance should be conveyed to you, and I am writing with Chris Smith's agreement, on behalf of the Commission as a whole.

Our earlier concerns on corporate governance were set out in our Chairman's letter to you of 7 February. For a long time now we have raised questions with NMEC on issues across the company's business including, for example, the quality and capacity of its management capacity, the accuracy of forecasting, the need for scenario modelling and contingency planning, exit strategies and so on. Whilst we have pursued these points as a grant funder, the focus of our probing has been no different from that which we would expect from any company's Board. I have to say that we have been frustrated by the company's responses, many of which we have perceived as reflecting unchecked resistance by the executive.

The PWC Report makes salutary reading, concluding as it does that there were serious financial weaknesses in NMEC, that budgeting was inadequate, that an exit plan had not been properly thought about, costed or resourced, and that any further funds given to NMEC would be at risk without "substantially enhancing the skill and resources of the company". David Quarmby is to be congratulated on appointing PWC to carry out a thorough analysis and for delivering David James as a successor capable of redressing the problems urgently. Having said that, from our perspective a very long road has had to be travelled to reach this present point.

As grant funder, our concern now is that David James should have the clear mandate to discharge his remit and a Board capable of providing the necessary check and balance, albeit with a lightness of touch. David James will have to act quickly and with great determination and it is important that he has around him a Board with whom he can work effectively. For our part we remain of the view that the Board is too large to discharge this function. Whilst we accept that it is your responsibility, not ours, to ensure that NMEC performs in this area, we suggest that it will be important for you to review urgently the performance and procedures of the Board in the circumstances in which NMEC now finds itself.

Yours ever
Richard

THE EARL OF DALKEITH KBE DL
Millennium Commissioner

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Lord Falconer of Thoroton QC
Minister of State

The Earl of Dalkeith KBE DL
The Millennium Commission
Portland House
Stag Place
London
SW1E 5EZ

21 September 2000

Dear Richard

NMEC: CORPORATE GOVERNANCE

Thank you for your letter of 6 September reporting the Commission's views on NMEC's corporate governance. Like you, I was shocked by what the PWC report implied about NMEC's financial management and corporate governance. I also share your view that David James and his team have the skills and experience to manage the endgame and that David Quarmby is to be commended for gripping the situation and delivering the new management team.

I have asked David James to report to me when he has had time to consider how best he might strengthen NMEC's corporate governance at this critical point in the project's history, whilst maintaining a degree of continuity and a sense of responsibility for the past performance of NMEC. This might involve reducing the size of the Board, but I think that, having appointed David, I need to take into account his views in this matter before taking decisions on Board membership. I will write to you again once David and I have considered the matter properly.

Yours
Charlie

CHARLES FALCONER

Appendix 1 Chronology of key events

February 1996	The Millennium Commission decides in principle to proceed with a Millennium Exhibition.
March 1996	The site at Greenwich is selected from four short-listed options.
January 1997	The Commission announce their 'in principle' support for the Dome.
	The Government decided that the project should be delivered in the public sector.
February 1997	Millennium Central Ltd (later renamed the New Millennium Experience Company Ltd) became operational.
May 1997	The New Millennium Experience Company finalises its business plan which sets an overall cash cost of £758 million.
June 1997	The new Government confirms its commitment to the Dome.
	Construction of the Dome and associated infrastructure begins.
July 1997	The Millennium Commission awards a lottery grant of £449 million to the Company.
August 1997	The Grant Memorandum between the Commission and the Company is finalised.
April 1998	The Company issues its first Corporate Plan.
November 1998	Budget review by the Company and the Commission.
February 1999	Budget review by the Company and the Commission.
	The Dome's structure is completed.
	The announcement of 1 million free school visits to the Dome.
March 1999	Competition to select a user for the Dome after the Millennium Exhibition begins.
April 1999	Tickets go on sale to the travel trade.
September 1999	Tickets go on sale to the public on 22 September.
January 2000	The Dome opens to the public on 1 January.
	The Company revises its forecast number of visitors from 12 million to 10 million on 28 January.
	The Company reverses its decision not to sell tickets at the gate.
February 2000	The Commission awards an additional grant of £60 million to the Company on 4 February.
	The Company's Chief Executive Ms Jennifer Page CBE is replaced by M. P Y Gerbeau.
March 2000	During March the number of people who have paid to visit the Dome since its opening reaches the one million mark.
May 2000	The Company revises its forecast number of paying visitors to 6 million in its application for an additional grant of £38.6 million submitted on 19 May.

	The Millennium Commissioners make an additional grant of £29 million to the Company on 22 May and the Commission's Chairman issues a Direction to the Commission's Accounting Officer to proceed with the offer of grant and the release of funds as necessary.
	The Chairman of the Company (Mr Robert Ayling) resigns and is replaced by Mr David Quarmby.
	During May the number of people who have paid to visit the Dome since its opening reaches the two million mark.
July 2000	The number of paying visitors reaches the three million mark.
August 2000	The Commission awards an additional grant of £43 million to the Company on 4 August.
	The Company revises its forecast number of paying visitors to 4.5 million.
September 2000	The Commission awards an additional grant of £47 million to the Company on 5 September.
	Mr David James CBE is appointed Executive Chairman and Accounting Officer of the Company on 5 September. Mr Quarmby steps down and becomes Vice Chairman.

Appendix 2

The National Audit Office's methodology

Why did we do this work?

1 The initial aim of our work was to provide an early report to Parliament on the events surrounding the additional grants provided to the New Millennium Experience Company in February and May 2000. Further grants were made to the Company as our work progressed. Essentially the report is about who did what, why and when.

Scope of this study

2 The report focuses on the financial performance of the project since the Dome opened, and provides context by looking at the changes in the overall cost and income assumptions - in particular how far visitor numbers and revenues have been lower than forecast and required. In reporting on performance we have drawn on figures produced by the Company.

3 For the purposes of this report we have not examined the decision to build the Dome at Greenwich, nor have we examined in detail the operational management over the four stages of the project:

- **plan** (the development of the initial concept and the design work);
- **build** (the construction and fit-out of the Dome);
- **run** (operational management of the Dome as a visitor attraction);
- **close** (the process of running down and selling the Dome, and handing over to new owners).

We have not, for example, examined the processes for contracting, the processes for paying for goods and services, and the extent of the Company's liabilities. We continue to monitor developments, including alleged fraud, and will report further as necessary.

Main aspects of the methodology

4 Our methodology was largely conditioned by the unique nature of the work. Essentially this was a real time examination of the events surrounding the additional grants provided to the New Millennium Experience Company. Our approach enabled us to take account of events as they unfolded (for example as our work progressed two further grants were made by the Millennium Commission to the Company in August and September 2000).

The questions we addressed

5 The key questions we examined were:

What happened? This was necessarily largely a description and chronology of the events during the operational year of the Dome. We have gone into the history of the project only to the extent necessary to provide context for the events in the year 2000.

Why additional funding was provided? This was largely about setting out the emerging financial difficulties on the project, and why the Millennium Commission decided to award additional lottery grants.

What caused the financial difficulties? This was about identifying key factors which have influenced the Dome's financial performance, including analysis of financial and visitor number projections and actual performance.

How was the project organised? This addressed the roles and responsibilities of the main organisations and individuals involved in the project .

What wider lessons can be drawn? While the Dome was a unique project, we looked to see if there were lessons for the management of other projects involving large sums of public money.

Collection of information

6 We undertook a detailed examination of the key papers, which we did through our access to the files of the Department for Culture, Media and Sport, the Millennium Commission and the New Millennium Experience Company. Our examination covered the Minutes of the Millennium Commission's meetings, including those where the Company's grant applications were considered, and the Minutes of the Company's Board meetings.

7 In addition to reviewing the files we interviewed senior staff in the Company, the Commission and the Department to ensure that we had a proper appreciation of events, and we discussed our findings in detail with them.

Appendix 3 The key players

We have set out below the postholders throughout the life of the project

New Millennium Experience Company[1]

Under the Companies Act all the Directors of the Company, were responsible, during their time in Office, for the decisions reached by the Board during the course of the project.

The Board

Mr David James CBE – Executive Chairman
(from September 2000)

Executive Directors

Ms Jennifer Page CBE, Chief Executive
(from February 1997 until February 2000)

M. Pierre-Yves Gerbeau, Chief Executive
(from February 2000)

Mr Steve Brown, Finance and Corporate Services Director
(from September 1997 until March 1999)

Mr Neil Spence, Finance and Corporate Services Director
(from October 1998 until September 2000)

Mr Liam Kane, Managing Director
(from April 1998 until April 2000)

Mr Ken Robinson CBE, Operations Director
(from July 1999 to February 2000)

Mr Malcolm Hutchinson
(from May 2000 to September 2000)

Mr John Darlington
(from September 2000)

Non-executive Directors

Mr Robert Ayling, Chairman
(February 1997 until May 2000)

Mr David Quarmby, Chairman
(from May 2000 until September 2000);
Deputy Chairman
(from February 1997 until August 1997, and from September 2000)

Mr Sam Chisholm
(Deputy Chairman from August 1997 until October 2000)

Mr Ian Ash
(from February 1997)

The Hon Mrs Sara Morrison
(from February 1997)

Sir Brian Jenkins GBE
(from February 1997)

Councillor Len Duvall OBE
(from February 1997)

Sir Alan Cockshaw
(from July 1997 to November 2000)

Mr Michael Grade CBE
(from July 1997)

Ms Ruth MacKenzie OBE
(from July 1997 until November 1999)

Ms Sue Whitaker
(from June 2000)

1 The Company was incorporated as a limited liability company under the Companies Act 1985 on 16 October 1995, and was previously called Millennium Central Limited. The Company became operational on 12 February 1997 after being taken into public ownership by the transfer of the issued shares to a Minister of the Crown on behalf of the Government. On 2 July 1997 the Company changed its name from Millennium Central Limited to the New Millennium Experience Company Limited.

Accounting Officer

Ms Jennifer Page CBE
(from February 1997 until February 2000)

Mr Neil Spence
(from February 2000 until September 2000)

Mr David James CBE
(from September 2000)

The Shareholder

Rt Hon Roger Freeman MP
The Chancellor of the Duchy of Lancaster
(February 1997 until May 1997)

Rt Hon Chris Smith MP
The Secretary of State for National Heritage
(May 1997)

Rt Hon Peter Mandelson MP
The Minister without Portfolio
(June 1997 until December 1998)

Rt Hon Chris Smith MP
The Secretary of State for Culture, Media and Sport
(December 1998 until January 1999)

Lord Falconer of Thoroton QC
Minister of State, Cabinet Office
(from January 1999)

Accounting Officer of the Department for Culture, Media and Sport

Sir Hayden Phillips KCB
(until March 1998)

Mr Robin Young
(from April 1998)

The Millennium Commissioners

All of the Commissioners, during their time in office, were responsible for the decisions made by the Commission during the course of the project

Rt Hon Virginia Bottomley MP
(Chair from July 1995 until May 1997)

Rt Hon Chris Smith MP
(Chair from May 1997)

Dr Heather Couper
(from February 1994)

The Earl of Dalkeith KBE
(from February 1994)

Lord Glentoran CBE
(from February 1994)

Rt Hon Michael Heseltine CH MP
(from February 1994)

Mr Simon Jenkins
(from February 1994)

Rt Hon Dr Marjorie Mowlam MP
(from November 1999)

Ms Floella Benjamin
(from January 2000)

Ms Judith Donovan CBE
(from January 2000)

Mr Michael Montague CBE
(from February 1994 until May 1997)

The Baroness Scotland of Asthal QC
(from February 1994 until July 1999)

Sir John Hall
(from February 1994 until January 2000)

Rt Hon Dr David Clark MP
(May 1997 until November 1998)

Rt Hon Dr Jack Cunningham MP
(November 1998 to October 1999)

Accounting Officer of the Millennium Commission

Ms Jennifer Page CBE
(from 1996 until January 1997)

Mr Mike O'Connor CBE
(acting during February 1997)

Mr Eric Sorensen
(from March 1997 until February 1998)

Mr Mike O'Connor CBE
(from March 1998)

Appendix 4 The Financial Memorandum between the Shareholder and the Company

Introduction

1 The Company is a limited company and is owned by the Shareholder. The Company has been classified by the Treasury as falling within the public sector.

2 The Company has been established to develop and operate the Millennium Exhibition and related activities in accordance with the terms and conditions of grant agreed with the Millennium Commission as amended from time to time ("the terms of grant").

3 This Memorandum sets out the requirements and conditions under which the Shareholder expects the Company to operate and use funds made available by the Millennium Commission from the National Lottery Distribution Fund and from private sector contributions. The Company will not be in receipt of grant-in-aid.

4 Nothing in this Memorandum is intended to derogate from the duties of the Directors of the Company under the law.

5 This Memorandum shall remain in force for as long as the Company remains in existence, unless the Memorandum is amended in accordance with paragraph 31 or there are agreed different funding arrangements. The approval of the Shareholder and HM Treasury shall be required before the Memorandum is amended.

Accountability

6 The Company shall use lottery grant and other funds only in accordance with this Memorandum and the terms of grant. It shall at all times observe prudence and propriety in the handling of its funds.

7 The Accounting Officer advising the Shareholder of the Company (the Accounting Officer of the Department for Culture, Media and Sport) will appoint … the Company's Accounting Officer. The Company's Accounting Officer shall comply with the terms of this Memorandum and of the letter that designates him/her as Accounting Officer. In particular, the Accounting Officer shall be responsible for:

(i) advising the Board on the discharge of the Company's responsibilities under this Memorandum, under the terms of grant, and under the law more generally;

(ii) controlling the resources available to the Company for developing and operating the Millennium Exhibition and to meet running costs, and so as to ensure that the Company uses those resources economically, efficiently and effectively. The resources include funds, capital assets, equipment and manpower;

(iii) ensuring that the Company has appropriate policies for managing staff and that it carries out those policies;

(iv) ensuring that the Company maintains proper internal controls over its expenditure;

(v) ensuring that the Company complies at all times with the terms of any agreements between the Shareholder and the Company under this Memorandum;

(vi) seeking to ensure that the Board takes financial considerations fully into account at all stages in framing and reaching decisions, and in instructing the Chief Executive to implement those decisions;

(vii) informing the Board in writing if it contemplates a course of action involving a transaction that the Accounting Officer considers would infringe the requirements of propriety or regularity, or efficiency or effectiveness, or does not represent prudent or economical administration; and inform the Accounting Officer advising the Shareholder in his role as sole shareholder of the Company immediately if the Board nevertheless confirms that course of action; and

(viii) signing the accounts of the Company.

8 The Chief Executive shall also:

(i) have regard to any general guidance which the Shareholder, the Accounting Officer advising the Shareholder, or the Treasury may issue;

(ii) be responsible for ensuring that the Company complies with any recommendations which the Public Accounts Committee or other Parliamentary authorities make and which the Shareholder notifies to the Company as having been accepted by the Government.

9 The Chief Executive shall advise the Accounting Officer advising the Shareholder on all matters related to the Company's use of public funds which arise before the Public Accounts Committee or other Parliamentary committees. The Chief Executive, together with the Accounting Officers of the Department for Culture,

Media and Sport and the Millennium Commission, are liable to be summoned before the Public Accounts Committee. Only the Accounting Officer advising the Shareholder shall issue instructions to the Chief Executive relating to his/her responsibilities as Accounting Officer.

Authority for appointment of Board members and Company staff

Board Members

10 The Shareholder shall appoint members to the Board of the Company. He shall approve the remuneration of all executive and non-executive Board members, including the Chief Executive.

Company staff

11 The Company shall recruit staff after fair and open competition (unless there are compelling reasons to the contrary).

12 In the following areas, the Company shall act only with the agreement of, or in accordance with agreements made with, the Shareholder, and in the light of any general advice or instructions issued by the Treasury:

(i) the overall amount which the Company may allocate in any year to pay awards for the staff collectively; in both first and full year terms, whether expressed in cash terms, percentage terms or both;

(ii) the arrangements for determining the pay and other benefits of staff other than the Chief Executive;

(iii) pension arrangements;

(iv) compensation terms for severance or early retirement;

(v) collective staff benefits;

(vi) compensation terms for expenses incurred on Company business; and

(vii) the acceptance of gifts or other considerations from persons or bodies outside the Company.

13 The Company shall include in any contract for the employment of a person for a fixed term of one year or more a clause under which the employee agrees that he shall have no claim against the Company for unfair dismissal or redundancy when the contract expires.

14 Subject to paragraphs 11-13 the Company shall decide within its total approved grant and other funds how many staff to employ, what level they should be, what pay and non-pay benefits they should receive and which staff to promote.

Authority for other financial decisions

Running costs

15 The Company may enter into such commitments and contracts as it judges appropriate for the development and operation of the Millennium Exhibition and related activities, subject to the terms of grant from the Millennium Commission, and the provision of paragraphs 16-20 below.

Fees and charges

16 The Company shall have regard to the Treasury's Fees and Charges Guide where it is applicable to the Company's activities.

Purchasing procedures

17 The Company shall seek to obtain the best value for money (taking into account quality, fitness for purpose, and delivery against price and timescale) whenever it contracts for works, equipment, goods or services. The Company shall award all contracts on a competitive basis, unless it can show in a particular case that it will achieve better value for money by not doing so, or there are other compelling reasons for not doing so. Where contracts are awarded on a non-competitive basis, the Company shall provide the Shareholder with a report, detailing the names of the contractors, the value of the contract, and the reasons why it was decided not to award the contract by open competition. The Company shall comply with any European Community Directives governing tendering and contractual procedures and with any additional guidance that the Shareholder issues, and with the terms of grant.

Insurance

18 The Company may take out insurance in order to comply with its statutory obligations. The Company may take out other types of insurance in accordance with the terms of grant. The Company shall review its insurance arrangements from time to time.

Contingent liabilities

19 The Company shall obtain the agreement of the Shareholder before incurring any contingent liabilities (obligations to make future payments of an unspecified or unlimited amount in certain circumstances), outside the ordinary course of the development of the Project (as defined in the terms of grant).

Borrowing and letters of comfort

20 The Company shall obtain the agreement of the Shareholder before entering into any overdraft or borrowing arrangements, or charging any assets or security, or issuing any guarantees or letters of comfort. The Company shall also seek the agreement of the Shareholder before issuing any indemnities, outside the ordinary course of the development of the Project (as defined in the terms of grant).

Financial management of the Company

Internal financial controls

21 The Company shall ensure that it uses prudently and economically the funds which are available to it. In particular, it shall:

(i) maintain appropriate internal systems of financial management and control, including safeguards against fraud and theft;

(ii) keep a record of all losses of cash, equipment and stores and record all such losses with a value exceeding £10,000 for losses at the Exhibition Site (as defined in the terms of grant), or £1,000 for losses elsewhere, in its books of account, and show the total of those losses in its annual accounts;

(iii) conduct appropriate internal audits in accordance with the procedures set out in the Government Internal Audit Manual;

(iv) follow any guidance which the Shareholder sends to the Company on the avoidance of fraud and irregularity; and

(v) if it becomes aware of any frauds or suspected frauds within the Company, give the details of those frauds or suspected frauds to the Shareholder at the earliest opportunity.

Banking arrangements

22 The Accounting Officer advising the Shareholder is responsible for ensuring that the Company's banking arrangements safeguard public funds. The Accounting Officer of the Company is responsible for ensuring that the Company's banking arrangements are in accordance with the requirements of Government Accounting and are carried out efficiently, economically and effectively. The Company should therefore ensure that these arrangements are suitably structured, represent value for money and are reviewed at least every two years. The Accounting Officer of the Company is responsible for providing such information as is required to enable the Accounting Officer advising the Shareholder to satisfy his responsibilities.

Monitoring of the Company's business

Annual accounts and annual report

23 The Company shall prepare in accordance with the Accounts Direction issued by the Shareholder:

(i) accounts for the period from 12 February 1997 to 31 March 1998; and annual accounts for each subsequent financial year thereafter; and

(ii) a report on its activities for the period from 12 February 1997 to 31 March 1998, and for each subsequent financial year thereafter.

24 The Company shall submit to the Shareholder by 30 September the audited accounts and the report referred to in paragraph 23 for the previous financial year.

25 The accounts shall be audited by an independent accountant who is qualified under the Companies Act for appointment as Company Auditor (being a person eligible for appointment as a company auditor under S.25 of the Companies Act 1989), whose appointment shall be made following a tendering exercise in accordance with public procurement practices. The Company will be required to comply with the accounting and disclosure provisions of the Companies Act and to observe the recommendations of applicable accounting standards issued or adopted by the Accounting Standards Board.

Provision of information

26 The Company shall give the Shareholder such information about the organisation, operation and financial control of its affairs as he requires. The Shareholder may inspect all books, documents and papers of the Company.

Scrutiny of the Company

27 The Comptroller and Auditor General may:

(i) inspect all books, documents and papers of the Company; and

(ii) carry out examinations, under Section 6 of the National Audit Act 1983, into the economy, efficiency and effectiveness with which the Company has used its resources in discharging its functions.

Reporting arrangements

28 The Company will provide to the Shareholder the reports which it provides monthly to the Millennium Commission on its performance in accordance with the terms of grant.

Solvency

29 The Company shall conduct its affairs so that it meets its debts as they fall due.

Diversification

30 The Company shall obtain the agreement of the Shareholder before:

(i) undertaking any business other than the development and operation of the Exhibition and the related activities as specified in the terms of grant;

(ii) establishing any subsidiary company: or

(iii) participating in any joint venture, other than a joint venture solely for the purpose of fulfilling any part of the Project (as defined in the terms of grant).

Revision

31 After consultation with the Company, and subject to the agreement of HM Treasury, the Shareholder may from time to time revise, revoke or add to any of the conditions in this Memorandum. The Company may themselves make representations to the Shareholder for revision, revocation or addition.

Effective date

32 This Memorandum shall take effect from 14 February 1997.

Appendix 5

The Grant Memorandum between the Millennium Commission and the New Millennium Experience Company (revised January 2000)

Introduction and summary of main points

1 This Memorandum sets out the terms and conditions under which the Millennium Commission has paid and will pay any further grant to the New Millennium Experience Company Limited. It replaces and supercedes the previous version, dated 21 August 1997.

2 The Company is a private limited company and is wholly owned by a Minister of the Crown ('the Shareholder'). It is classified by HM Treasury as falling within the public sector and is a non-departmental public body.

3 The financial control framework set out in this Memorandum reflects the Company's status as a non-departmental public body, its dependence on public funding solely through the Commission and its unique role in delivering the national Millennium Exhibition. It governs the operation of the Company and its use of funding obtained from all sources, public and private. The general aim of the Memorandum is to ensure proper and effective use of public funds, to maximise value for money and stimulate effectiveness in the Company's commercial performance.

Relationship to the Shareholder's Financial Memorandum

4 The provisions of this Memorandum are in addition to, not in substitution for, any guidelines or directions issued to the Company by the Shareholder. Aspects of the operation, staffing and financial management of the Company are subject to the provisions of a Financial Memorandum issued by the Shareholder on 14 February 1997 [enclosed at Appendix 4]. The Company's compliance with that Financial Memorandum is a condition of grant payable by the Commission and, subject to paragraph 5 below, the provisions of the Financial Memorandum, now and as may be amended in the future, are deemed to be part of this Grant Memorandum.

5 The Company shall inform the Commission within 3 days of any amendments made to the Financial Memorandum and of any other directions issued to it by the Shareholder. The Company Secretary shall inform the Commission immediately in writing of any Extraordinary General Meeting called, copying to the Commission the agenda and relevant documents circulated to shareholders. The provisions in the 14 February 1997 Financial Memorandum in relation to borrowing and letters of comfort, contingent liabilities, diversification and the payment of dividends by the Company shall continue to be deemed part of this Grant Memorandum until such time as the Commission may agree otherwise, following consultation with the Shareholder.

Objects of the New Millennium Experience Company

6 The objects of the Company are contained in the Company's Memorandum of Association. In summary, they are to carry on the business of a general commercial company and to procure, finance and operate the Millennium Exhibition and carry forward other related activities nationally. These objects reflect Government policy for the Millennium Exhibition and the associated National Programme, and the Company was established expressly for those purposes. The Company shall inform the Commission within 3 days should its objects be changed or amended.

Decision to pay grant to the New Millennium Experience Company

7 The Commission decided at its meeting on 9 July 1997 to pay grant of up to £449m to the Company.

Purpose of grant

8 The Commission will pay grant to the Company, in exercise of its powers under section 41 of the National Lottery Act 1993, from monies available to it from the National Lottery Distribution Fund. The general purpose of the grant will be to assist the company to achieve its objects, operate its business and meet its obligations, properly incurred. Specifically, the Company shall seek to achieve its objects within the following remit:-

a) to create for the United Kingdom in a dome structure on the Greenwich Peninsula an exhibition which meets the highest expectations for creativity, entertainment and technology, which will attract, entertain, educate, involve and inspire visitors and off-site participants and provide an unforgettable experience. The general aim should be to give visitors and those participating off-site an experience of different aspects of the future;

b) to structure the visitor's experience by providing a communal multi-media 'show' in a central arena and a variety of other displays and attractions for the visitor to choose from in the surrounding area;

c) to create a world profile for the celebration of the Millennium in the UK;

d) to plan to achieve 12 million visits to the Exhibition, whilst maintaining high quality in comparison to similar events in terms of safety, security, queue times, crowding levels, toilet provision, cleanliness, environmental conditions, catering facilities, information and customer care;

e) to plan on the basis that the Exhibition will operate for 1 year; that the design and construction of the Dome should provide for at least 25 years' life; and that the Dome structure should be readily capable of being dismantled and re-erected elsewhere;

f) to introduce a pricing structure to encourage family access, spread visitor demand generally throughout the year and to optimise ticket revenue;

g) to organise and run a national programme across the United Kingdom, to support local events and provide a link to the Millennium Experience at Greenwich. The objective of the National Programme will be to involve large numbers of people across the whole nation in celebrating the Millennium;

h) to maximise cost-efficiency and optimise revenue, thereby minimising reliance on grant from the Commission, ensuring that work is done only as necessary to achieve the Company's objects and deliver the programmes set out in the Company's business and corporate plans, operating the Company on a sound and economic basis and ensuring that staffing levels are adequate but not excessive to achieve the Company's objectives;

i) to raise funds from private sponsors in line with targets set in the Company's plans and budgets and to work with potential sponsors to ensure that their commercial objectives can be achieved, balanced appropriately against the Company's other objectives.

Amount of grant

9 The Commission will pay grant to the Company up to a maximum of £449 million (in cash terms) over the period 1997/98 - 2000/01. This upper limit on grant will be inclusive of all payments that were made by the Commission to the Company within the terms of the interim grant which was agreed between the two parties on 27 March 1997. Subject to receiving a written application from the Company, the Commission may at its sole discretion decide to increase the grant maximum, subject to need being demonstrated by the Company and to any additional grant being paid within the terms and conditions set out in this Memorandum (now or as amended). The Commission will notify the Company in writing of any decision to increase the grant maximum and that notification shall be deemed to be part of this Memorandum.

Repayment of grant

10 Any surplus achieved by the Company from operating revenues or from asset disposals, from the date of the Exhibition's opening to the public up until the currently planned closing date of 31 December 2000, or subsequently after that if the Exhibition remains operational for longer, shall be repaid to the Commission on such a timetable as the Commission may determine, subject to the Company being able to meet its liabilities and remain solvent. The purpose of any repayment will be to offset grant paid by the Commission. For the time being, the Company shall plan on the basis that any operating surplus achieved in any month following the drawdown of maximum grant will be repayable to the Commission within the first 7 days of the following month.

11 Should the Company continue to operate after 31 December 2000, the Commission or its successors require continuing repayment of any operating surpluses up until such time as all the grant has been repaid in cash terms. Alternatively, at its discretion, the Commission may require the cash sum to be repaid to be the present value of the grant, that is both the nominal amount of grant paid and the interest the Commission would have earned had those monies remained to the credit of the Commission in the National Lottery Distribution Fund and not paid as grant to the Company. Any net surplus left after the repayment of grant shall be retained by the Company.

12 Any grant claimed for any period by the Company in error, in advance of need or as a result of any misleading or incorrect information shall either be repaid by the Company within that period or deducted from the next grant claim, at the Commission's discretion.

Effective period

13 The Commission's commitment to pay grant of up to £449 million to the Company came into effect on 21 August 1997. The terms and conditions of this revised Memorandum will come into effect on such date as the Director of the Commission shall issue signed copies of it to the Chief Executive and to the Company Secretary and shall stay in force for as long as the Company remains in existence or until such other time as the Commission may determine after consultation with the Shareholder.

Termination of grant

14 The Commission relies exclusively on funds derived from the National Lottery and accordingly its ability to provide grant under this Memorandum is dependent on the continued operation of the National Lottery and on allocations to the Commission from the National Lottery Distribution Fund. Should that source of funding cease or be reduced to such a level as to prevent the Commission from discharging its obligations under this Memorandum, the Commission may terminate or defer its commitment to pay further grant to the Company. The Commission may also terminate its commitment to make further grant payments to the Company if in its view the Company's business is or is likely to become financially unviable within the maximum grant payable by the Commission, as notified to the Company. In all other circumstances, the Commission will continue to pay grant, subject to the Company's compliance with the terms and conditions of this Memorandum.

15 Before coming to any decision on whether or not to terminate further payments of grant, the Commission shall first consult the Company and the Shareholder. Any termination shall be notified to the Chief Executive and to the Company Secretary in writing. In the event of such termination, the Commission will ensure that the Company has sufficient resources to meet all its obligations, properly incurred, up to the date of termination, including all liabilities arising out of termination and all reasonable costs of any winding up, so that the Company shall remain solvent during the process. On ceasing to trade or winding-up in such circumstances, the Company shall liquidate its assets wherever possible, transfer its net cash assets to the Commission, and dispose of other assets only with the prior written consent of the Commission.

16 The Company shall establish full and effective systems of financial control and maintain a fully and properly resourced Finance Directorate, with suitably qualified staff. It shall also produce and from time to time update a document ('The Financial Regulations') for distribution to all of its staff and consultants with financial management or procurement responsibilities, detailing the internal rules and procedures by which the Company will operate its financial systems and specifying internal financial delegations.

Grant Memorandum: Revision of terms

17 After consultation with the Company, the Commission may from time to time revise, revoke or add to the terms and conditions set out in this Memorandum. The Company may make representations to the Commission for such revisions, revocations or additions. Should the Commission at any time judge that a change or changes in these terms and conditions would be essential to safeguard the Lottery funds granted to the Company or to implement material recommendations of auditors then the Commission shall have the discretion to do so urgently, without prior consultation, subject to it doing so in such a way as not to cause avoidable or unnecessary damage to the Company's business.

The Directors of the Company

18 Nothing in this Memorandum is intended to derogate from the duties of the Directors of the Company under the law or to prevent the Company from incurring expenditure on insurance to indemnify the Directors, should the Company and the Shareholder consider that necessary or appropriate.

Accounting Officer arrangements

19 The responsibilities of the Chief Executive of the Company as an Accounting Officer, and the associated responsibilities of the Accounting Officers of the Department for Culture, Media and Sport and the Commission, are set out in paragraphs 7-9 of the Financial Memorandum. Any revision to those arrangements will be determined by the Accounting Officer for the Department for Culture, Media and Sport.

Corporate plan for 2000 and beyond

20 The Company shall by 30 June 2000 submit to the Commission for its approval a corporate plan for the year 2000 and beyond, to include an updated lifetime budget for the Company and an updated one for 2000. For the Commission's purposes, this should set out briefly and succinctly the Company's operational and financial plans for the remainder of the period during which the Exhibition will be open to the public and set out the Company's exit strategy. The Commission will inform the Company of the required format of the 2000 corporate plan by 31 March 2000. The Commission may show any draft plan to the Shareholder and the Department for Culture, Media and Sport, and discuss its contents with them.

21 The Commission will notify the Company by 31 December 2000 whether it will require any updated strategy statement or corporate plan to be prepared by the Company for its approval during the year 2001, and for what period and in what format any financial or budgetary information should be provided.

Financial delegations

22 The consent of the Commission is required for all expenditure incurred by the Company.This Memorandum records that the Commission has given its consent for the Company to incur expenditure on items within the categories described below:

- This financial delegation comes into effect on 28 January 2000. It replaces all previous ones.
- Subject to the terms and conditions set out in the Grant Memorandum, the Board of the Company has the delegated approval of the Millennium Commission to commit expenditure as set out below. The provisions of the Grant Memorandum, including financial delegations, govern the use of funding obtained by the Company from all sources, public and private.
- Expenditure proposals which fall outside the delegations to the Company's Board must receive approval by the Millennium Commission before any binding financial commitment is entered into.
- The Board of the Company may commit any expenditure within the scope of its budget as approved by the Millennium Commission if that expenditure:

  i) will not cause aggregate expenditure on either Corporate Services or on Production to exceed the amounts allocated under each of those headings in the latest approved budget; or

  ii) will not cause aggregate expenditure on all other types of expenditure ie other than Corporate Services or Production, taken together, to exceed the aggregate amounts allocated for those types of expenditure in the latest approved budget.
- The Company's Board may commit expenditure up to the following thresholds in relation to losses, special payments and gifts:

i)	the cessation of steps to recover losses:	up to £25,000
ii)	the making of special payments:	up to £10,000
iii)	the provision of a single gift:	up to a value of £50
	or gifts in any one calendar year:	up to a total value of £1000; and
iv)	the provision of gifts to staff:	up to £10 value

- Any expenditure which is novel or contentious requires the Commission's prior approval.

These delegations may be altered at any time if in the Commission's view, following consultation with the Company, such changes are desirable.

23 Any expenditure proposal which is novel or contentious, regardless of its total value, requires the prior consent of the Commission. The Chief Executive, as the Company's Accounting Officer, shall decide what is novel or contentious for these purposes.

24 Expenditure proposals requiring the Commission's consent shall be submitted to it in a format to be agreed by the Company and the Commission. The Commission will issue a decision or a holding reply within 5 working days. Failure by the Commission to meet this target may be taken by the Company as implicit approval to proceed. For urgent cases, the Commission will aim to give a decision one way or the other within 24 hours.

Prior condition for grant: An approved budget

25 The Commission will not make grant payments to the Company in any year unless it has first approved the Company's budget for that year, within the provisions of this Memorandum.

2000: Updated budget

26 The Company shall submit to the Commission by 31 January 2000 for its approval a revised and updated budget for the year 2000. This shall be supported by a brief strategy statement summarising the key financial, commercial and operational assumptions underlying that budget and a summary lifetime budget.

27 Budgets prepared by the Company shall distinguish between grant funding requested and other sources of forecast income and should set out expenditure forecasts under the headings set out. Budgets shall be expressed in cash terms, shall balance income and expenditure and shall include a grant requirement which, when added to the grant payments already made, is within the maximum aggregated level of grant.

28 During the course of any year, the Company may vire between expenditure headings within its budget without the prior consent of the Commission so long as both the total amount budgeted and the total grant requirement remain unchanged. As exceptions to this general power to vire, however, the Company may not during the course of any year increase expenditure in excess of its approved budgets for corporate services and for production (including expenditure to upgrade, enhance or otherwise materially change the content of exhibition zones or the central show or to provide films, music, or entertainment) without the prior written consent of the Commission.

29 The Company shall not use any budgeted cost contingency without the Commission's prior approval.

Grant claims and payment

30 In the normal course of business, the Company shall submit grant claims to the Commission monthly, although more frequent payments will be considered where urgent needs arise. Grant claims shall be submitted by the Company in the format specified, together with monitoring information on financial and operational performance as also specified. In any months when the Company is either not drawing down any grant or has already drawn down maximum grant or is repaying grant, it shall provide certification that the terms and conditions of grant have been and will be complied with and provide the standard material required in support of grant claims.

31 Each grant claim shall record actual and forecast expenditure and the current levels of cash in hand and banked. The Company shall keep bank balances at a minimum level consistent with efficient administration. **Grant should not be claimed in advance of need and surpluses should be repaid to the Commission on a monthly basis once the maximum grant has been drawn down.**

32 All grant claims must be signed by the Company's Chief Executive, its Director of Finance or, exceptionally, by another employee whose name has been notified to the Commission in advance and who has authority delegated by the Board of the Company.

33 The Commission's target will be to make payments within 4-8 working days of receiving a compliant claim.

Revenue, receipts and sponsorship income

34 The Company shall develop and keep under review written strategies and action plans for optimising income from ticket sales and from other sources of revenue, including sponsorship in cash and kind, retail and merchandising activities, media sales, corporate hospitality, and so on, and provide copies of these documents to the Commission at its request. The Company shall maintain sufficient capacity and expertise on an employment or consultancy basis to carry out its commercial functions effectively.

35 The Company shall obtain the Commission's prior approval for any ticket price tariffs, changed or unchanged, it proposes to introduce for any period after the first quarter of the year 2000 and for its marketing and media plans for communicating such tariffs to the public.

Acquisition, management and disposal of assets

36 The Company's procedures for acquiring operational and administrative assets shall comply with best practice and aim to achieve good value for money. The Company shall obtain the Commission's prior consent before acquiring any asset for more than its fair market price, except where the cost is de minimis. The Company shall maintain an up to date register of all assets.

37 The Company may not dispose of any asset, tangible or intangible, without the prior written consent of the Commission except where such assets have a de minimis value. All disposals shall be made on arm's length terms and for the best price reasonably obtainable and at a proper market value, except where a specific prior consent to do otherwise is obtained from the Commission in writing. Disposals shall take account of guidance from HM Treasury, including 'Dear Accounting Officer' Letters where that guidance is relevant to the transaction proposed.

38 The Company shall not transfer any asset into any subsidiary company, trust or other legal entity controlled by the Company without the prior written consent of the Commission.

39 The Commission's approval is required for any proposal to transfer the majority of shares in the Company to a person other than a Minister of the Crown. Sixty days prior to any such proposed transfer of shares the Company Secretary shall provide detailed information to the Commission on the Board's and the Company's Accounting Officer's understanding of the purpose and objectives of the proposed transaction, the implications for the future use of the Dome and the financial and legal terms and conditions of the proposed transfer. Any receipt or other consideration resulting from any transfer of shares will be passed to the Commission to offset the grant it has paid to the Company.

Organisational arrangements and administrative expenditure

40 The Company shall whenever requested by the Commission submit a document summarising its existing and planned organisational structure, the functions of key posts and the Company's strategies for achieving efficiency. The Company will keep its organisational structure and management arrangements under continuous review to ensure that they are appropriate and effective in the light of changing circumstances and will take into account any views the Commission might offer to its Board or Shareholder on such matters.

41 The Company shall maintain the necessary organisational and staffing arrangements to ensure effective and timely compliance with these terms and conditions of grant and to ensure effective co-ordination with the Millennium Commission.

42 The Company's expenditure on corporate services, including administrative expenditure, shall be subject to an annual cash limit at the amount included in the budget approved by the Commission. The cash limit must not be exceeded without the prior written consent of the Commission.

Internal financial systems

43 The Company shall follow the rules and principles set out in the Treasury guide "Government Accounting" and establish a system of internal financial delegations, rules and procedures in accordance with the provisions of this Memorandum. These internal financial systems and controls shall be set out fully in a document ("The Financial Regulations"), which shall also specify the duties and responsibilities of delegation holders for ensuring propriety and achieving value for money. The Financial Regulations shall be circulated to all staff and consultants with financial management or procurement responsibilities, employed by the Company.

44 All expenditure proposals by the Company shall be subject to rigorous appraisal. In essence this means that the need for any item of expenditure shall be demonstrated as being necessary to achieve the aims and priorities set out in the agreed corporate plan and that the options for achieving the stated objective shall be appraised systematically and consistently. The appraisal requirements and procedures shall be included in the Financial Regulations.

45 All contracts and purchases, including those for administrative purposes and consultancies, except for de minimis ones, shall be let on a competitive basis unless there are exceptional circumstances in terms of urgency or where there is no pool of suppliers or of relevant expertise in the market.

46 All procurements by single tender action shall be notified to the Board of the Company.

47 All expenditure proposals requiring approval by the Commission shall be authorised by the Company's Chief Executive or Finance Director and be subject to declarations by both the budget holder and either the Finance Director or Chief Executive, as follows:-

"I certify that the contents of this submission are based on the best information available to the Company and on the best estimates of costs, revenues and risks. In my judgement the submission describes as accurately as possible the characteristics of the project and the proposals represent good value for money."

48 The Company shall establish management and financial information systems which aim to ensure that the Board and Accounting Officer can discharge their functions fully and effectively. The Commission may from time to time review or audit those systems and provide a written assessment to the Company's Chief Executive.

49 The Company shall conform with all general requirements under United Kingdom and European Community law concerning the procurement of works, supplies, services, and utilities, where applicable.

Accounting arrangements

50 The Company shall comply with any Accounting Direction issued to it by the Shareholder; and any such Direction shall be deemed to be part of this Memorandum.

51 The Company shall provide the Commission with copies of the annual accounts and annual reports it submits to the Shareholder, on the same timetable as it makes those submissions. Similarly, the Company shall provide to the Commission copies of any Management Letter or special report prepared by its external auditors.

Audit arrangements

52 The Company shall comply with the audit requirements contained in the Financial Memorandum and with any other direction relating to audit matters issued by the Shareholder. Such directions shall be deemed to be part of this Memorandum. The Company will also when required permit the Commission's internal auditors and any representative of the Commission's Accounting Officer full and free access to the Company's files, records and data systems.

Access by the Comptroller and Auditor General

53 For the purpose of:

(a) the examination and certification of the Commission's accounts; or

(b) any examination pursuant to section 6(1) of the National Audit Act 1983 or any re-enactment thereof of the economy, efficiency and effectiveness with which the Commission has used its resources;

the Comptroller and Auditor General, his staff at the National Audit Office and agents and advisers may examine such documents as he may reasonably require which are owned, held or otherwise within the control of the Company and may require the Company to produce such oral or written explanations as he considers necessary and the Company shall procure that its employees, agents and contractors shall produce such explanations as the Comptroller and Auditor General considers necessary.

Reporting and monitoring arrangements

54 The Company shall submit monthly progress reports to the Commission in a format to be agreed between the two parties, to include a summary of operational and financial performance. The Company shall also copy to the Commission each Monday a summary trading report for the previous week, in a format to be agreed, covering visitor numbers, ticket sales, different types of cash income and such other information as the Commission shall specify. The Company shall also submit any further information of report on aspects of its progress or performance as the Commission or its Accounting Officer may from time to time require.

55 Staff of the Commission and the Company will hold a progress meeting each month. The Company will be represented by at least one member (Director level) of its senior management team and by such other staff as the Commission may request.

56 The Commission has appointed specialist consultants on a standby basis to advise it on aspects of the Company's performance, should the Company not achieve key milestones to deadline, and to advise on aspects of the Company's corporate plans, operational and commercial plans and budgets. The Company shall provide information to those consultants and co-operate with them, should the Commission require it. The Commission will seek to establish and operate the reporting and monitoring arrangements in such a way as to avoid duplication and minimise the burden and disruption for the Company's staff.

Customer feedback and complaints procedures

57 The Company shall establish systems for gaining continuous feedback from its customers and visitors to the Dome on the quality of service offered by the Company and on the quality of experience generally at the Dome, and shall ensure that such feedback is used to help achieve continuing improvements in such quality wherever that is practicable and affordable. The Company shall also establish complaints handling procedures which comply with best practice in customer care in equivalent organisations in the private sector.

Monitoring access to the Greenwich site

58 In order to assist the administration of these terms and conditions of grant, the Company shall provide the necessary tickets or documentation, free of charge, to allow Commissioners and the Commission's monitoring staff and consultants to visit the public areas of the Greenwich site during operational hours, without prior appointment, on any day. The Commission will provide the Company with up to date lists of the names of the people to be included within this arrangement and shall inform the Chief Executive's office whenever such visits are being made.

Branding/Recognition for Lottery etc

59 The Company shall ensure that the role of the National Lottery in supporting the Company, through the Millennium Commission, is given high profile in marketing, publicity and promotional material and will endeavour to give the Commission reasonable opportunity to comment on non-time critical published material. The Company will also ensure that it's staff give recognition of the Millennium Commission's funding for the Experience and National Programme in press interviews and public presentations, wherever possible. The Company shall ensure that its staff at locations throughout the United Kingdom understand these requirements.

60 The Company shall ensure that high profile recognition of the Millennium Commission Lottery grant appears on the Experience site at Greenwich, at locations to be agreed with the Commission.

61 The Company shall assist the Millennium Commission in seeking to maximise the public interaction with the Millennium Commission exhibit located at the entrance to the Dome. The Company shall brief hosts to encourage the public to interact with the map and put the map exhibit in as many publications as is practicable.

Dome Ceremonies: Tickets

62 The Company will allocate to the Millennium Commission whichever is the greater of 1,000 tickets or 10 per cent of total tickets for any event or ceremony to be held at the Dome on New Year's Eve 2000 and for any subsequent Dome Closing Ceremony which may be held during the year 2001. The Commission will inform the Company whether it will use any or all of the allocations it is entitled to and will distribute the rights to the tickets at its sole discretion, subject to the security and administrative requirements of the Company and the proper authorities. The Commission's invitees shall be treated by the Company on directly comparable basis to all other guests, including those of commercial sponsors. If any event or ceremony within the terms of this paragraph is to be funded by the Company primarily through financial contributions from sponsors and guests, then the Commission will contribute to costs pro-rata to the proportion of tickets it decides to take.

(This version of the Grant Memorandum, issued on 31 January 2000, is an updated version of the original one issued on 21 August 1997).

Appendix 6 The project budget in the Company's May 1997 business plan

May's business plan in current prices plus contingency and inflation

Expenditure	£m	£m
Sites and structures	232	
Infrastructure (EP Contract)	29	
Transport	23	
Content and live events	223	
Buildings and content sub-total		507
National Programme		57
Operations and on-site staffing	106	
Marketing, branding and PR	31	
Corporate services	27	
Costs for Q1 and Q2 1997	12	
Extra exposure since January	5	
Operations sub-total		181
Programme contingency		25
Risk correlation		(27)
Total expenditure		743
Legacy expenditure		15
Total expenditure including legacy		**758**
Revenue		
Sponsorship	175	
Commercial revenue	169	
Primary grant (£200m)	200	
Total revenue		544
Legacy income		15
Total income including legacy		**559**
Shortfall		199

Source: New Millennium Experience Company May 1997 business plan

Appendix 7

The Comptroller and Auditor General's Reports on the Millennium Commission's Accounts

Millennium Commission Account 1996-97 (HC 300, Session 1997-98)

The Report of the Comptroller and Auditor General to the Houses of Parliament

Financial Control of Expenditure relating to the Millennium Exhibition

1 The Foreword to the account summarises the key events and the Millennium Commission decision points relating to the development of the Millennium Exhibition.

2 Recognising the special circumstances of the development of plans for the Millennium Exhibition, the National Audit Office sought to satisfy themselves as to the proper functioning of basic financial controls over Exhibition-related expenditure in 1996-97. This work was part of the financial audit of the Millennium Commission's expenditure. It was not an investigation of the economy, efficiency or effectiveness of arrangements and did not extend to a review of the financial basis of the project. Such investigations will be carried out in due course. I draw attention to the following matters.

Accountability for National Lottery funds and financial underwriting for the Millennium Exhibition

3 Until the end of 1996, the Government and the Commission anticipated that the Exhibition project would be brought to fruition by a private sector operating company which would manage the risks and uncertainties of the construction and operation of the Exhibition. During this time, both the National Audit Office and the Accounting Officer of the Department of National Heritage were kept fully informed of progress and major issues on the Exhibition by Miss Jennifer Page, the Chief Executive and Accounting Officer at the Commission at the time. The operating company were to have received a capped National Lottery grant from the Commission, subject to terms and conditions including the need for a credible budget and business plan, and adequate protection of the Commission's interests. The Accounting Officer of the Commission would have been accountable for the grant.

4 At a meeting on 11 December 1996, by which time maximum expenditure of up to £15 million had been agreed by the Commission in relation to the Exhibition project, the Commissioners considered plans coming forward from Mr Hartop the leader of the team charged with developing a credible and workable business plan and budget for the Exhibition and prospective Chief Executive of the operating company. At that meeting the Commissioners also received advice from Miss Page, including a memorandum setting out her reservations, principally concerning the business plan and budget, the strength and credibility of the operating company and public sector underwriting of the project, specifically government support through an extension of the Commission's funding life. The Commissioners decided that they were not content that an acceptable budget and business plan in support of the formal application for grant, or binding agreements for the delivery of the site, were in place. They also recognised that there was not yet agreement on terms and conditions of grant which needed to reflect the Financial Directions given by the Department of National Heritage to the Commission and adequately to protect the Commission's interests.

5 In January 1997, the Government agreed that the Exhibition operating company should be in the public sector and Miss Page was appointed in late January as Chief Executive and Accounting Officer designate of Millennium Central Ltd. Mr Mike O'Connor became the acting Accounting Officer at the Commission until Mr Eric Sorensen was appointed to that position in March 1997. The shares in Millennium Central Ltd, a private limited company, were transferred to the Chancellor of the Duchy of Lancaster in February 1997 and it was classified as a non-departmental public body. At the time of the General Election the shares were transferred to the Secretary of State for National Heritage to be held by him until another Minister was identified as shareholder. In June 1997 they were transferred to the Minister without Portfolio. The Company was then renamed The New Millennium Experience Company Limited. I have been granted access to the accounts and records of the Company but I am not the external auditor of the Company.

6 In May and June 1997, the Government undertook a review of progress on the Exhibition and decided to proceed. Five Government commitments underpinned this approval, that:

- there should be a durable legacy from the Exhibition;

appendix seven

- no additional public expenditure should be involved beyond that committed to English Partnerships for site acquisitions, remediation and infrastructure;
- the content of the Exhibition should be developed in more detail and made more exciting;
- there should be a truly national flavour to the Exhibition, both through electronic access and a national programme of events;
- new management structures should be established at the Company, bringing in people from business and the arts.

7 The Government put in hand an examination of options for the future use of the Greenwich buildings and site after the Exhibition closes, and consideration of options for strengthening river transport links from central London to Greenwich. They also announced that there would be a new non-executive Co-ordinating Group to be chaired by the Minister Without Portfolio to include members and Accounting Officers of the Millennium Commission and the Company, and the then renamed Department for Culture, Media and Sport. A Memorandum of Understanding was produced setting out the roles and responsibilities of each party.

8 On 9 July 1997 the Accounting Officer of the Millennium Commission put to the Commission a paper asking them to consider again their position on the six specific issues that had remained central to the project throughout 1996-97 namely, adequacy of the business plan and budget; sufficient security of sponsorship funding; progress on site clearance and infrastructure; credibility of the Company and their management; satisfactory terms and conditions of grant; and Government underwriting of the Exhibition, by introducing an Order to extend the funding life of the Commission to ensure that they had the resources necessary to pay the full grant from Lottery proceeds. The Accounting Officer highlighted particularly the issue of financial underwriting by the Government, as defined, and recommended that the Commission obtain a written statement from the Department for Culture, Media and Sport, agreeing that they would review the Company's funding needs with the Commission and the Minister Without Portfolio if the Commission's capped grant proved insufficient at any time in the future.

9 The Accounting Officer asked that the Commission agree on 9 July 1997 that:

- the Company should be offered grant of up to £449 million by December 1999;
- as a condition precedent for this offer, written confirmation should be obtained from the Secretary of State that he would introduce in the House of Commons an Order to extend the Commission's life by at least a year;
- grant should be made subject to certain terms and conditions and should be entered into as soon as possible;
- the Commission should contribute positively to the examination by the Government of options for greater legacy value and improved river transport links, subject to this incurring no liability by the Commission or the Company to fund such items unless additional resources were made available from the National Lottery;
- the Commission should be represented on the Co-ordinating Group, on the understanding that the Group would not have powers to override the Commission in relation to the Company, as its funder.

10 The Commission agreed to these recommendations on 9 July, subject to it being made explicitly clear to the Government that the grant offer to the Company was capped at £449m. On 21 August 1997 the Commission formally entered into a grant memorandum with the Company for an amount of up to £449 million.

Procurement processes prior to the establishment of the Company

11 Interim grant approvals of £28.4 million were made by 31 March 1997 in respect of preparation for the Exhibition including £12 million set aside for the costs arising from terminating the project should the Commission decide to abandon it before full grant terms were agreed. Interim grant approvals to the end of July 1997 totalled £40.4 million.

12 The main elements of expenditure of £11.5 million by the Commission in 1996-97 included £11.3 million for professional fees, the major components of which were £6.3 million to Imagination for design work, £1.6 million to W S Atkins (consultant engineers), £0.4 million to Buro Happold (design engineers) and £0.8 million to Richard Rogers Partnerships (architects). The payments to Imagination were agreed frequently by the Millennium Commission's Accounting Officer on the basis of time charged, daily rates and costs incurred, and were endorsed by the Commission's Finance Committee. Imagination's records of time and expenses incurred were audited independently for the Commission.

13 In November 1996, the Accounting Officer at the Commission, Miss Page, and the Director of Finance, asked KPMG, their Internal Audit providers, to review procurement processes and controls operated by Mr Hartop's team from October to December 1996. They evaluated the procedures used when awarding contracts to the main 15 organisations and individuals engaged for the first time in that period. Assignments were individually for £120,000 or less, and payments on

them totalled some £500,000 in 1996-97. Contractors' work included advising on Exhibition business planning, marketing and sponsorship, public relations, legal matters and corporate structure for the operating company. In summary, KPMG's main conclusions were that of the 15 cases examined, in only three was there evidence that the procurement route agreed with the Commission had been followed. In other cases evidence was variously not available to demonstrate that contractors had been selected on a competitive basis or with clear specifications as to the work required. In several cases legally binding contracts were not in place before work started. The Commission took more direct control over procurement activities of the Exhibition team from mid-December 1996, improving compliance with procedures.

14 As part of their audit of the 1996-97 accounts the National Audit Office tested expenditure in respect of the Exhibition and identified a number of payments relating to commitments made prior to December 1996 where underlying documentation did not fully support the expenditure. In all cases payments had been authorised at a suitable level, often by the Accounting Officer. The deficiencies in documentation reflected the findings of the KPMG exercise mentioned above. None of the matters identified by the National Audit Office was of a nature or materiality to justify any restriction on my audit opinion.

15 Miss Page told the National Audit Office that the Commission was aware that the resources of the team developing the business plan and planning application prior to December 1996 were limited, and that therefore full recording of all transactions was not possible. Miss Page had discussed with Mr Hartop the need to minimise non-standard procurement notwithstanding the Commission's requirement that the project should press ahead at a pace which secured the planning timetable and delivered a business plan to the Commission's deadline of December 1996. She was of the view that no material exposure was incurred in the procurement processes of which she was aware.

Accounting Officer Direction on site works

16 An Accounting Officer Direction is a mechanism whereby a Secretary of State instructs the Accounting Officer to commit expenditure which he considers would not represent value for money or may be irregular, judged against the requirements of public sector accountability implicit in an Accounting Officer's appointment. This mechanism represents an important exception to the personal responsibility and accountability of an Accounting Officer. Accounting Officer Directions are communicated to the Comptroller and Auditor General at the time.

17 Although not resulting in a charge on the Millennium Commission accounts, the ground works and clean up at the site at Greenwich represent important background to decisions taken. Works started in February 1997 under arrangements agreed between British Gas, former owners of the site, and English Partnership who funded the works. Ministers collectively decided in October 1996 that the dual objectives of the Millennium Exhibition and regeneration of the Greenwich peninsula justified expenditure from public funds up to £150 million on the site. Much of that expenditure is channelled through the Department for the Environment's grant-in-aid to English Partnerships. The Accounting Officer of the Department of the Environment advised his Secretary of State that in his view such expenditure would not be value for money judged purely against the normal regeneration criteria applying to English Partnerships' investment. He informed his Secretary of State that, if in view of the wider value they attached to the Millennium Exhibition, Ministers wished him to commit significant expenditure from monies voted by Parliament on the Greenwich peninsula, he would require written instructions authorising the necessary expenditure.

18 The Accounting Officer's concerns were firstly that expenditure would need to be committed earlier and at greater risk than if there were no Exhibition, infringing the normal conditions governing English Partnerships' grant-in-aid. And secondly that there was some risk that a small element of the expenditure might be nugatory if the Exhibition did not go ahead although a significant element in the early expenditure is the purchase of the site, which can be turned to beneficial use with or without an Exhibition. The Secretary of State directed the Accounting Officer to commit the funds for the purchase of the site and for the works necessary to deliver a serviced exhibition site, since he wished to maintain the critical path for the Exhibition. Some £44 million was spent or committed on the site by the Department of the Environment and English Partnerships by the end of May 1997, including £20 million for the purchase of the site from British Gas.

Conclusions

19 The Millennium Exhibition at Greenwich is an exciting prospect. A project of this size and nature and with a tight time-table and no possibility of slipping the completion date, represents a major management challenge, which the Commission have been addressing throughout 1996-97. This report does not in any way question the judgements and decisions made about the project or comment on value for money issues. Rather, I draw conclusions on matters relating to the expenditure incurred so far and financial commitments of the Commission, having regard to the responsibilities of those involved:

- I note the reservations set out in December 1996 by the then Accounting Officer in her memorandum to the Commission as outlined in paragraph 4 above, the careful and appropriate reiteration of issues by the Accounting Officer in July 1997 and the Commission's agreement to their Accounting Officer's submission on the way forward (paragraphs 9 and 10 above).
- Responsibility as "banker of last resort" for underwriting unbudgeted deficits, cost over-runs and shortfalls in income on the Exhibition remained key considerations for the Commission from the point of view of their own financial viability and that of their other grant funded projects. Given the Government's statements that no new public funds will be made available for the Exhibition, the Accounting Officer's submission to the Commission in July properly emphasised this issue, and that offer of grant to the Company was to be dependent upon the promised extension of the life of the Commission by Order in the House.
- The conditions of grant agreed between the Commission and the Company in August 1997 are fundamental to the proper control of the use of Lottery grants and generated assets and income. It is important that the Commission's arrangements to ensure compliance are demonstrably effective.
- It is unsatisfactory that procurement processes operated in October to December 1996 did not conform to those agreed with the Commission.

John Bourn
Comptroller and Auditor General

10 October 1997

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Millennium Commission Account 1997-98 (HC 1128, Session 1997-98)

Comptroller and Auditor General's Report on the Account of the Millennium Commission for 1997-98: Financial Control of Expenditure relating to the Millennium Experience

1 In the report I made on the Millennium Commission account for 1996-97, I drew attention to a number of matters, including where responsibility resided for acting as "banker of last resort" for underwriting unbudgeted deficits, cost over-runs and shortfalls in income on the Millennium Experience. This was a key consideration for the Commission during 1996-97 from the point of view of their own financial viability and that of their other grant funded projects. The Government's position is that no new public funds will be made available for the Experience. The Commission's offer of grant to the New Millennium Experience Company Limited (the Company) was dependent upon the promised extension of the life of the Commission by Order in the House. Such an order has not yet been made.

2 In the accounting policies note to their financial Accounts for the period ended 31 March 1998, which were laid by the Minister without Portfolio before the House on 30 July 1998, the company states that:

"The New Millennium Experience Company Limited (NMEC) was formed to create, build and operate the national focus for the country's millennium celebrations - the Millennium Experience. The Millennium Experience will run on the Greenwich Peninsula site over the 12 month period ended 31 December 2000. In addition the Millennium Experience's UK-wide National Programme of activities, events and celebrations will run prior to and during 2000 (the UK Challenge and Learning Experience) and during 2000 (the Millennium Festival in partnership with the eleven lottery distributors). NMEC's lease arrangements on the Greenwich site expire on 30 June 2001 although there is an option to renew the lease for a further year. Subject to any decision to pursue the lease renewal option, possession of the site and its infrastructure reverts to English Partnerships on expiry of the lease.

The accounts have been prepared taking account of the short term nature of this project and the implications of this are reflected in the accounting policies described below.

As a consequence of the unique and challenging nature of the Millennium Experience project, there are a number of inherent uncertainties, including areas over which the company has no control, that could impact on the ability of the company to achieve the project within current agreed financial projections.

The directors have carried out a careful assessment of the supporting revenue and cost projections given the inevitable risks that apply at this stage to such a project. These projections are based on reasonable assumptions and a prudent assessment of risks in the light of the best available information at the current time.

The total funding requirements for the project is forecast to be £758 million. The directors expect this to be achieved through a grant from the Millennium Commission together with funding from corporate sponsorship, and from operational and other revenues.

In this context, the Board considers the project is adequately financed, on the basis of the director's current assessment of the company's future budgetary requirements and known risks together with assurances provided in Parliamentary statements made by the Secretary of State for Culture, Media and Sport and by the Minister without Portfolio with respect to the Millennium Commission meeting the project's commitments, should they unavoidably increase in the future.

The company will continue to work closely with both the Government and the Millennium Commission to ensure they are kept fully apprised of the project's progress on a regular basis.

In these circumstances the directors believe it is appropriate to prepare the accounts on a going concern basis."

3 The report of the company's auditors drew attention to the inherent uncertainty as to the ability of the company to achieve the project within current financial projections, but the audit opinion was not qualified.

4 The Commission's position remains as stated in the Foreword to the 1996-97 account, reiterated in the 1997-98 Foreword, that having reviewed the Company's forecasts in July, August and September 1998, the Commission's August 1997 grant offer of £449 million is the limit of the Commission's financial exposure to the Experience. This remains dependant upon extension of the life of the Commission for at least one year, assurance upon which was received by the Commission from the Secretary of State on 26 June 1997, albeit that the necessary Order in the House had not been laid and would not be laid until such a time as it is clearer as to the period of the necessary extension.

5 Following their review of the Company's revised budget, the Commission reiterated their commitment to the grant awarded to the Experience. A further budget review has been scheduled for November 1998, in the regular cycle of reviews.

Conclusion

6 I note that risks are inherent in the unique Experience project and both the Company and the Commission have stated that they are taking prudent steps to monitor, manage and control these risks. I have also noted the Commission's clear statement of the upper limit of their financial commitment and the promised but not yet executed Order in the House extending the life of the Commission to enable them to make grant available at that level. Having regard to the nature of the assurances referred in paragraph 2 above, it is clear that there remains significant uncertainty as to the ultimate source and quantum of supplementary finance that may be necessary should income levels in particular not measure up to budget and forecast. I observe from the Commission's monitoring of the Company's financial position that cash flow phasing might give rise to problems for the Company and the Commission in 1999. In order for the Millennium Experience to be completed it may therefore be necessary for the Commission or Government to identify ways of assisting the Company on this matter.

7 Nothing in this report should be read as implying irregularity or impropriety in the conduct of public business in respect of the Millennium Experience.

John Bourn
Comptroller and Auditor General

27 October 1998

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The Millennium Commission Annual Report and Accounts 1998-99 (HC 796, Session 1998-99)

Comptroller and Auditor General's Report on the Account of the Millennium Commission for 1998-99: Financial Control of Expenditure relating to the Millennium Experience

1 I reported on the Millennium Commission (the Commission) accounts for 1996-97 and for 1997-98 drawing attention to the issue of where responsibility resided for underwriting unbudgeted deficits, costs over-runs and shortfalls in income on the Millennium Experience.

2 The New Millennium Experience Company (the Company) accounts for 1998-99 were laid by the Minister of State for the Cabinet Office before the House on 23 July 1999. In them the Company state, in similar terms to last year, that:

"As a consequence of the unique and challenging nature of the Millennium Experience project, some significant risks exist, including areas over which the company has no control, which could impact on the ability of the company to achieve the project within current agreed financing projections."

"The directors regularly review the supporting revenue and cost projections. These projections are based on reasonable assumptions and a prudent assessment of risks, in the light of the best available information at the current time."

".... The Board considers the project is adequately financed, on the basis of the directors' current assessment of the company's future budgetary requirements and known risks. In addition, the Board is aware of assurances provided in Parliamentary statements by the Secretary of State for Culture, Media and Sport and by the former Minister without Portfolio (the company's previous Shareholder) with respect to meeting the project's commitments, should they unavoidably increase in the future."

"In these circumstances the directors believe it is appropriate to prepare the accounts on a going concern basis."

3 The report of the Company's external auditors drew attention to the significant risks as to the ability of the Company to achieve the project within current financing projections, but the audit opinion was not qualified.

4 The Commission, having reviewed the Company's forecasts in November 1998 and February 1999, endorsed the Company's conclusion that the project will be delivered within the total grant of £449 million awarded by the Commission in August 1997, and within the total project cost of £758 million. Both the Commission and the Company recognise that risks and uncertainties are inherent in this unique project and, as part of their regular cycle of reviews, they are keeping budget forecasts under continuous scrutiny.

5 The Secretary of State for Culture, Media and Sport during 1998-99 formally guaranteed the Commission Lottery proceeds totalling £2.017 billion. In addition, there also remains the option, reported in 1997 and in 1998, of the Secretary of State extending the life of the Commission by laying an Order in the House.

Conclusion

6 I note that the Millennium Experience project, with the development and construction phases largely completed, still inevitably faces financial risk as it moves into the operational phase. Both the Company and the Commission are continuing carefully to monitor, anticipate, manage and control those risks. Whilst supplementary finance might be necessary should cost or income forecasts prove optimistic, I note the assurances referred to in paragraph two above about meeting the project's commitments should they unavoidably increase. At present, neither the Company nor the Commission have identified any need for supplementary finance.

John Bourn
Comptroller and Auditor General

29 October 1998

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Appendix 8 Sponsors of the Millennium Dome

Official Sponsors

Boots (with support from Roche and L'Oreal)

British Telecommunications Plc

BSkyB

The City of London

Ford

McDonald's

Manpower

Marks & Spencer

Tesco

Official Partners

BAA Airports

BAE SYSTEMS

British Airways

Camelot

Marconi

Donors

Hinduja Foundation

Jerusalem Trust

Laing Family Trusts

Source: Based on the New Millennium Experience Company Annual Report and Financial Statements for the period ending 31 December 1999