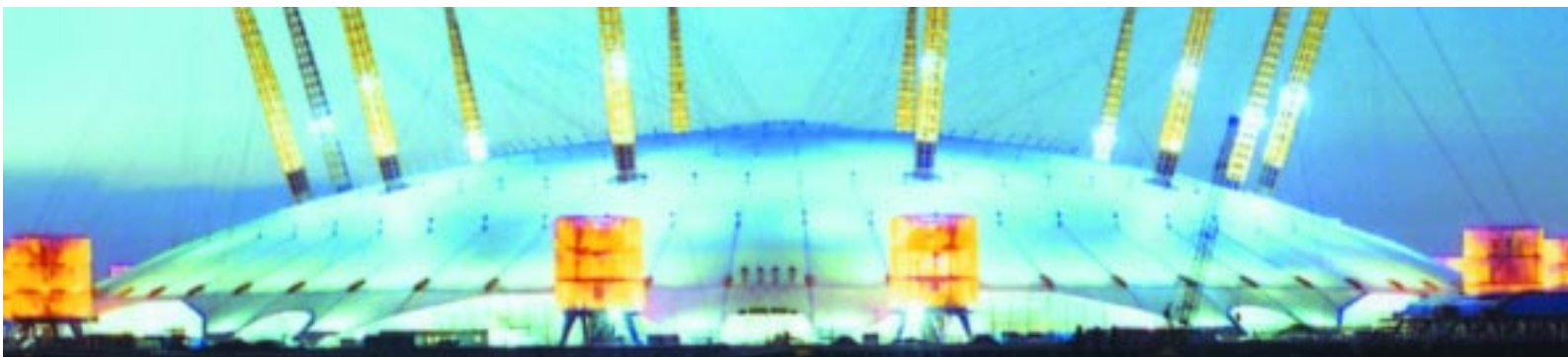


The Millennium Dome



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

executive summary

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- 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 grant¹. 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.

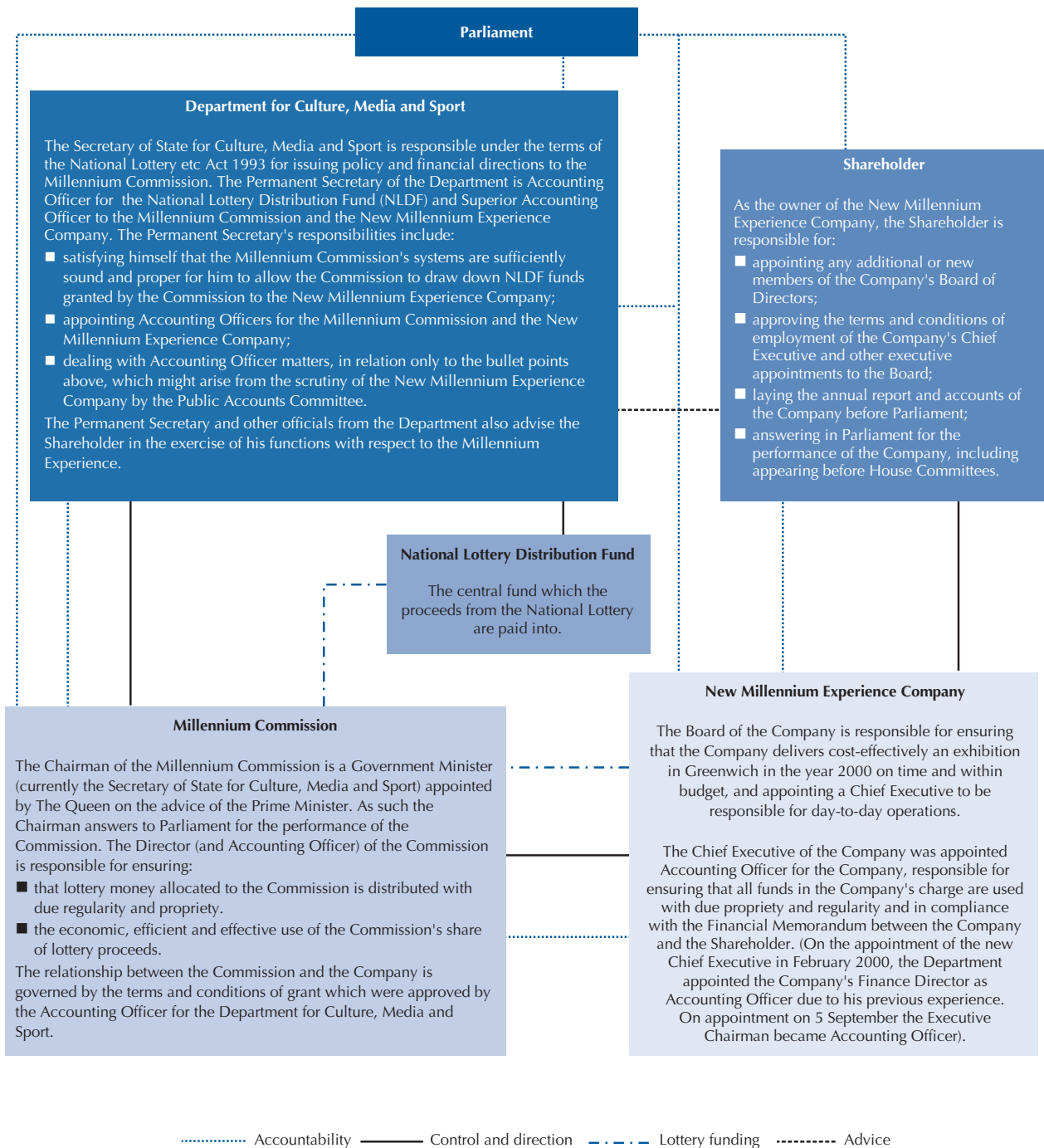
c. The Department for Culture, Media and Sport

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



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.