

Winding-up The New Millennium Experience Company Limited



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 749 Session 2001-2002: 17 April 2002

executive summary

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- 1 The Millennium Dome was a unique project that provided the centrepiece for the nation's Millennium celebrations. The Dome was built, fitted out and run by The New Millennium Experience Company Limited (the Company) and funded from the National Lottery (by The Millennium Commission), visitor income and commercial sponsors. The Dome opened to the public on New Year's Eve 1999 and remained open throughout 2000.
- 2 The Dome attracted 5.5 million paying visitors, 6.5 million in total, and the majority (87 per cent) were satisfied with their visit. But the business plan for the project was based on a total of 12 million paying visitors, and that was the basis on which The Millennium Commission approved the project. The shortfall in visitor numbers and income, along with less sponsorship income than expected, left the Company with serious financial difficulties. These led to The Millennium Commission making four separate offers of additional lottery grant totalling £179 million during 2000.



- 3 The Comptroller and Auditor General's report on the Millennium Dome (HC 936, Session 1999-2000) in November 2000 focused on the financial problems experienced on the project during its year of operation and concluded that:
 - there was a significant degree of financial exposure on the project;
 - the organisational arrangements put in place were complex; and
 - there was a failure to put in sufficiently robust financial management.
- 4 This Report examines how the Company subsequently went about winding-up its affairs, and shows that central to the process was the decision by the Shareholder and the Company's directors to place the Company into a 'Members' Voluntary Liquidation' (a liquidation process based on an assessment by the directors of a company that there are sufficient assets to pay all the company's debts). The Report does not cover the sale of the Dome, or any other deal relating to its future use, which will be the subject of a separate National Audit Office examination in due course.

Who's Who

The New Millennium Experience Company Limited is both a limited company governed by the Companies Act, and a non-departmental public body subject to public sector control and accountability requirements. The Company is wholly owned by the Government, and the **Shareholder** is a Minister of the Crown.

The Millennium Commission is a non-departmental public body chaired by the Secretary of State for Culture, Media and Sport. The Commission receives its funding from the National Lottery Distribution Fund. In her 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. The Department's Accounting Officer is responsible for appointing the Accounting Officer of The Millennium Commission and was, up to its placement in liquidation, responsible for appointing the Accounting Officer of the Company. Following appointment of the liquidators, the Department's Accounting Officer became the Accounting Officer of the Company, subject to legislation relating to the winding-up of companies.

English Partnerships, the Government's regeneration agency, owns the Dome site and granted the Company an Agreement for Lease which entitled the Company to occupy the site up to 30 June 2001. On 1 July 2001, following the expiry of the Company's lease, full responsibility for the land reverted to English Partnerships and ownership of the Dome structure passed to it. English Partnerships continues to be responsible for managing, maintaining and securing the Dome structure and associated land.

- The Dome project was a massive undertaking, and the process of decommissioning the Dome, winding-up the Company's affairs and working through to the position where it was able to go into voluntary liquidation has been a major task. For example, the contents of the Dome, including the exhibition zones, had to be removed and, where possible, sold; a very large number of contracts had to be closed; and the Company, with the assistance of a team from PricewaterhouseCoopers, conducted a major forensic exercise in the light of fraud allegations. In addition, the unusual step of placing a public sector body into liquidation, and ensuring this was done with the Company in a solvent state, raised complex accountability issues which the Department for Culture, Media and Sport, The Millennium Commission and the Company worked together to resolve.

The Company's overall financial position on appointment of the liquidators

- The Company was placed in the hands of the liquidators, from the accounting firm KPMG, on 18 December 2001. Before the liquidators were appointed the directors of the Company swore a statutory declaration that they "have made a full enquiry into the affairs of[the] Company and that, having done so, ... [they] have formed the opinion that [the] Company will be able to pay its debts in full, together with interest at the official rate, within a period of 12 months from the commencement of the winding-up".
- Figure 1** below shows the Company's financial position on appointment of the liquidators compared with the original May 1997 lifetime budget and the position in September 2000 as reflected in the Comptroller and Auditor General's previous report.

1 The Company's forecast lifetime expenditure, income and grant through to dissolution

	May 1997 Budget £m	September 2000 forecast ¹ £m	December 2001 forecast ¹ £m
Expenditure ²	758	793	789
Income (before grant) ³	359	168	189
Grant	449	628	628
Grant surplus	(50)	-	(25)

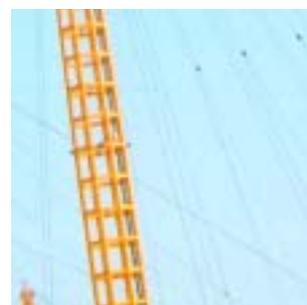
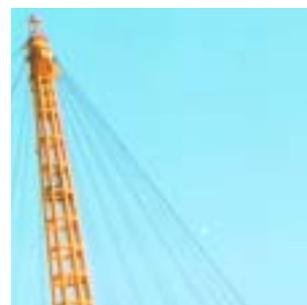
NOTES

- The figures do not cast because they exclude the costs (£5 million) and grant (£2 million) in respect of the London New Year's Eve 1999 celebrations.
- The figures exclude costs of £7.4 million incurred by English Partnerships during 2001.
- Forecast proceeds from the sale of the Dome (£15 million) are included in the May 1997 figure. No sale proceeds are budgeted for in the 2000 and 2001 figures.

Source: *The New Millennium Experience Company Limited and English Partnerships*

Expenditure

- 8** After the Dome closed at the end of December 2000, the Dome's contents had to be decommissioned and, pending sale, the site and structure maintained. The Company spent £6.3 million on decommissioning and by 30 June 2001, when ownership and responsibility passed to English Partnerships, had spent £1.9 million maintaining the Dome. To handle these tasks, and the wide range of other tasks involved in winding-up the Company's affairs, the Company spent £12.8 million on running costs, including professional support services, in 2001. Meanwhile, some £4 million in respect of provisions and contingencies included in the Company's September 2000 budget and grant award was not needed.
- 9** There will be costs to be met by the Company during the liquidation period and these are reflected in the December 2001 budget. They include potential expenditure relating to on-going and potential litigation. To provide funds for this expenditure should it arise, the Company, as required by The Millennium Commission, set up Trust Funds (holding a total of £1.86 million). The Funds cannot be used by the liquidators for any other purpose and any amounts remaining will be returned to the Commission.
- 10** Some costs associated with the Dome have been met by English Partnerships since ownership and responsibility passed to it at the end of June 2001. In November 2000, when the Company was finalising its plans for decommissioning the Dome, it anticipated that it would not have sufficient funds to carry out all the work which might be required. On 5 December 2000 Ministers established a basis for allocating the costs of decommissioning the Dome and the proceeds from its eventual sale. This ran contrary to English Partnerships' obligation to sell for the best consideration. Therefore, under the powers conferred on him by the Leasehold Reform, Housing and Urban Development Act 1993, the then Secretary of State for Environment, Transport and the Regions directed English Partnerships to dispose of the relevant land together with the Millennium Dome in accordance with the division of proceeds and assumption of liabilities established by Ministers. In accordance with the resulting Agreement between English Partnerships and the Company, English Partnerships has met the cost of managing, maintaining and securing the Dome site and structure (at a cost of £1.3 million to the end of 2001), and incurred £6.1 million on its share of the decommissioning.



Income

- 11** As Figure 1 shows, the biggest difference in the Company's overall financial situation since the Comptroller and Auditor General last reported has been the increase in its income. This is mainly due to increased visitor numbers towards the end of 2000 (the Company's September 2000 budget assumed there would be 4.5 million paying visitors by the end of the year, compared with the 5.5 million achieved), together with the proceeds from the sale of the Dome's contents.

The net grant position

- 12** The Millennium Commission's original grant to the Company in 1997 was £449 million. This grant award included an element for cash flow purposes, recognising that the Company would not be able to generate trading income until after the Dome opened. In approving the grant the Commission required that any surplus, after the cessation of trading, would be at the disposal of the Commission and it expected to have £50 million available. The financial difficulties subsequently encountered by the Company meant it required additional grant funding throughout 2000, and by September 2000 the estimated net grant had risen from £399 million (£449 million less £50 million) to £628 million.

- 13 On appointment of the liquidators in December 2001 the Company forecast that, taking account of expenditure through to dissolution, it would not require £25 million of the £628 million lottery grant previously awarded. Under the terms of the grant, any surplus will be at the disposal of The Millennium Commission on dissolution of the Company.

The financial management of the Company

- 14 Before the Company appointed the liquidators it faced a number of financial management challenges.

The Company carried out a detailed review of its contractual commitments and liabilities

- 15 In October 2000 the Company set about reviewing over 1,350 contracts with the aim of ensuring that they were all logged and closed in the most beneficial way for the Company. It also aimed to reduce outstanding contractual liabilities to the minimum prior to a solvent liquidation. The task was complicated by the absence of adequate records (for example, at the start of the review the Company did not have a comprehensive contract management database, and contract terms were incomplete or unrecorded). The review involved a team of 25 consultants and temporary employees and took over 12 months to complete. The Company undertook the exercise to limit the number and value of contractual claims made against it, and to enable it to recover sums due. On the appointment of the liquidators, two contracts remained unresolved (excluding those contracts that the liquidators needed to keep open for the conduct of their business).

The Company investigated allegations of fraud and carried out a review of the risk of procurement fraud

- 16 In the latter part of 2000, the Company and the Police received a number of allegations of fraud and impropriety. The allegations, most of which related to the purchase of goods and services, raised serious questions about the effectiveness of the control environment at the Company during the development of the Dome's exhibition zones. The Company appointed PricewaterhouseCoopers Forensic Services to carry out an independent investigation. The investigation focused on the specific issues raised by the allegations.
- 17 As at mid-March 2002:
- the Company had decided, following assessment by the PricewaterhouseCoopers team, not to pursue thirteen allegations. In addition three cases had been closed following investigations by the Metropolitan Police Service Public Sector Corruption Unit; and
 - two cases remain under investigation by the Police, and Police inquiries continue.
- 18 The Company also requested PricewaterhouseCoopers to carry out a wider review of procurement fraud risk at the Company. The review team focused on the period up to the opening of the Dome and concluded that there was no evidence of systematic fraud, but they did identify several instances of poor or ineffective compliance with the Company's procurement controls; for example, a lack of transparency on appointments, especially on certain single tenders. Given these lapses, the review team doubted whether the Company in all cases fully achieved the objective of realising value for money for the goods and services it procured.



- 19 The Company responded to the review team's recommendations by putting in place arrangements to review and manage the risks of decommissioning, which by that time represented the Company's main procurement activity. Independent monitors, appointed jointly by the Company and The Millennium Commission, reported in March 2001 that the decommissioning process had been managed successfully, with a view to minimising risks and ensuring that budgetary controls were properly adhered to, and that the works had been carried out with due regard to value for money.

The Company had to compile a comprehensive asset database before disposing of its assets

- 20 Disposing of the Dome's contents was one of the major tasks facing the Company and one which was complicated by the absence of a detailed record of the Company's assets. Following their appointment in November 2000 the Company's sales agents, Henry Butcher International Limited, had urgently to identify all the individual assets, detail their ownership status and provide a valuation. This was necessary because the Company's systems for maintaining detailed records of assets had been overwhelmed by the massive amount of material and equipment delivered in the final months before the Dome opened.
- 21 The Company received £3.5 million from an auction of its assets in February 2001 and a further £1 million from the subsequent private treaty sale of items originally intended for auction, but temporarily withheld on the grounds that they might be required by a purchaser of the Dome.

The Millennium Commission sought further assurance on the Company's management, financial control and information systems

- 22 The Millennium Commission appointed consultants, Capita, to carry out a review of the Company's management, financial control and information systems in November 2000 (as a follow-up to an earlier review in May 2000). Capita reported that the accuracy of the Company's forecasting and monitoring had improved, and that better information was being provided to the Board. The Commission was satisfied that, in the light of this work and a review by Commission staff of the Company's management capacity, no material weaknesses in financial governance remained; this had previously been a significant concern.

The organisational and accountability arrangements for the Company

- 23 On the appointment of the liquidators, the directors have no further role in managing the affairs of a company unless invited to do so by the liquidators. In the case of The New Millennium Experience Company Limited these arrangements would not have been compatible with the public sector control arrangements that would normally apply to a non-departmental public body. So it was necessary for all the various different parties to agree upon the arrangements to be put into place to ensure that, mindful of the liquidators' powers and obligations under insolvency legislation, accountability to Parliament was maintained once the Company was in liquidation. The main elements are:

- the Company's former Executive Chairman no longer has a formal role in relation to the Company, including that of Accounting Officer. The Accounting Officer for the Department for Culture, Media and Sport will be the Accounting Officer of the Company, subject to limitations imposed by legislation relating to the winding-up of companies;
- The Millennium Commission has less detailed oversight of the Company, but the Deed of Grant which has replaced the Grant Memorandum resembles the standard legal document under which the Commission normally pays lottery grants, and provides for the Commission to receive regular monitoring information from the Company; and
- lottery grant previously approved by the Commission (in 2000) but not used by the Company will only be released to the liquidators subject to certain conditions being met, including the Commission being satisfied that it will achieve value for money. Some of the grant has however been placed in the Trust Funds referred to in paragraph 9.

The Comptroller & Auditor General's conclusions and recommendations

- 24** The Millennium Dome project has experienced serious financial problems, but when the Company went into voluntary liquidation in December 2001 it was in better shape than when I last reported. On entering liquidation, the Company was solvent and forecasting that £25 million of the £628 million lottery grant would not be required, although this cannot be guaranteed. Any surplus grant on dissolution of the Company will be at the disposal of The Millennium Commission.
- 25** The process of winding-up the affairs of the Company under the direction of the Executive Chairman was extremely challenging, particularly given the complexity and scale of the operation. But it was accomplished successfully. The Company worked through the difficulties professionally, and within a year of the Dome closing it had completed successfully the preparations required before appointing the liquidators. The dual status of the Company as both a Companies Act Company and a non-departmental public body complicated the business of putting it into liquidation and the Department, The Millennium Commission and the Company were right to ensure that, despite this unusual step, accountability to Parliament for the use of public money will be maintained throughout the liquidation period.
- 26** The Millennium Dome project was unique. Yet it provides lessons which may be helpful to others involved in major capital projects, and indeed other lottery projects. My earlier Report identified a range of generic management issues arising from the Dome project. This Report highlights the importance of proper records and internal controls, and, as was achieved, a clear focus on the requirements of public accountability. But these Reports are no substitute for those directly involved in the project reflecting on their personal experiences and drawing out the lessons for others. As the project draws to a close, this is something in which the Department for Culture, Media and Sport could usefully take the lead.