The English national stadium project at Wembley
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REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General
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In December 2001 the Secretary of State announced that further support for the Wembley project would be conditional.

In reaching its decision on whether to provide further support, the Department took appropriate steps to satisfy itself that the project could be a success.

The Department decided not to require Wembley National Stadium Limited to re-tender the construction contract.

The Department took account of the risks that the project will face as it moves forward.

The protections for the public money now invested in the Wembley project

The Department and Sport England are providing 18.5 per cent of the funding for the project.

The public sector funders have secured protections to safeguard the public interest in the project.

The Department and Sport England spent £1.6 million on consultancy, financial and legal advice about the project.

Appendices

1. Key players in the English national stadium project
2. Our approach to the study
executive summary

The history of the project

1 This report is about the handling of the public money that is being contributed to the project to build a new English national stadium at Wembley. Key facts about the project are shown in Figure 1.

Key facts about the English national stadium project at Wembley

- The stadium will be used primarily for football and rugby league but will also, after adaptation, be capable of hosting major international athletics events.
- The project is expected to cost £757 million and is scheduled for completion early in 2006.
- The Football Association is contributing £148 million to the project and commercial lenders have provided debt facilities of £433 million.
- The public sector funders are providing £161 million (£120 million of lottery money from Sport England, £20 million from the Department for Culture, Media and Sport and £21 million from the London Development Agency) to the project.
- The stadium will be owned and operated by Wembley National Stadium Limited, a wholly owned subsidiary of the Football Association.
- Profits from the operation of the stadium will be used by the Football Association in accordance with its objects for the benefit of football.
- Starting five years after the stadium opens, Wembley National Stadium Limited will donate one per cent of its turnover each year for distribution to sports education and other projects.

Source: National Audit Office

The need for additional public money and the associated review process

2 As the project is being undertaken by a private sector organisation and largely financed by private capital, this report is not a detailed examination of the management or value for money of the project as a whole. Rather it focuses on how the Department for Culture, Media and Sport (the Department) and Sport England sought to safeguard their investment of public money in the project and ensure that the stadium as a whole and the other intended public benefits would be delivered.

The history of the project

3 Following the creation of the National Lottery in 1994, Sport England (then the Sports Council for Great Britain) faced the prospect of applications from a number of English cities for lottery funding for major new stadiums. Sport England decided to establish a national stadium competition, with the objective of developing an iconic stadium for three sports - football, rugby league and athletics. As required by the arrangements that apply to lottery grants, the project would be financed by a mix of lottery money and ‘partnership funding’ from other sources. Any profits generated by the stadium would go to benefit sport.
4 In December 1996 Sport England selected Wembley as the preferred site for the new stadium. In November 1998 it awarded the project lottery funding of £120 million, the bulk of which was used to fund the acquisition of the existing Wembley stadium and business in March 1999. The grant was subject to a lottery funding agreement, which set out the conditions under which the money was provided and the public benefits which the project was expected to deliver. For example, Wembley National Stadium Limited would have to make a minimum number of seats available to the general public and would not be allowed to sell naming rights to the stadium or take on an anchor tenant who would use the stadium as its home ground.

5 When Wembley National Stadium Limited was unable in December 2000 to raise the commercial financing it needed, there was the possibility that the project would not proceed. In that event, Sport England would have been entitled to recover in full the lottery grant of £120 million it had paid to Wembley National Stadium Limited. Sport England had put in place a number of mechanisms intended to safeguard the public money that had been invested in the project, but recovering the grant in full might not have proved straightforward.
Wembley National Stadium Limited had limited funds of its own from which to repay the money and the Football Association had not provided a parent company guarantee which would have effectively underwritten the grant as, at the time that the grant was made, the Football Association considered that it was unlikely to have sufficient resources to be able to honour a guarantee.

Sport England had a legal charge over the assets that had been acquired with the lottery funding and could have forced Wembley National Stadium Limited to sell them. But, once the existing stadium and business closed in October 2000, the value of the assets fell and they might have been worth significantly less than the grant.

Under a staging agreement (which was one element of the arrangements designed to safeguard the lottery grant), Sport England could have required the Football Association to hold its events at the existing Wembley stadium for 20 years and obtained repayment of the grant from the income generated by these matches. However, closure of the stadium in October 2000 threatened to undermine the business plan underpinning the security of the lottery grant. Sport England therefore secured additional commitments from Wembley National Stadium Limited and the Football Association to hold events at a reinstated Wembley stadium. However, Sport England would not necessarily have enforced this had the project not proceeded, and the longer the stadium remained closed, the less likely it was to be re-opened, not least given the expenditure Wembley National Stadium Limited would have had to incur to put the stadium in a serviceable condition. Nevertheless Sport England considered that the staging agreement, together with the additional commitments agreed when the stadium closed, would have provided it with a legal basis to secure an alternative deal with Wembley National Stadium Limited and the Football Association to repay the grant in the event that the project did not proceed.
Sport England had provided lottery funding on the basis that the stadium would be capable of hosting major international athletics events via the installation of a temporary platform on which a track would be laid. However, in the light of concerns about the viability of the proposed design, in December 1999 the then Secretary of State for Culture, Media and Sport announced that athletics would be withdrawn from the plans for the new stadium and that in return the Football Association proposed that £20 million of the lottery grant should be repaid to Sport England. Although Sport England had not been party to all the key discussions, the formal decision to remove athletics rested with its Council once the detailed arrangements had been worked out with Wembley National Stadium Limited.

In December 2000 the Council of Sport England agreed to the request Wembley National Stadium Limited had made to amend the lottery funding agreement to remove athletics. The £20 million was to be repaid in instalments over a five year period beginning in December 2000. However, the first repayment date passed with no money being returned to Sport England as Wembley National Stadium Limited had not signed the revised lottery funding agreement; by this time the Football Association was reviewing the project as a whole, having been unable to secure the commercial financing needed. In the event athletics was restored to the plans for the stadium later in the project (when the Department concluded that improvements in the method of construction meant that the platform solution would be technically acceptable and cost-effective) and the proposal for £20 million to be repaid was superseded.

The need for additional public money and the associated review process

In June 2001, in the light of the Football Association's request for further public funding for the project, the Secretary of State commissioned Mr Patrick Carter to examine whether the project could be funded and managed at Wembley. In his interim report in December 2001, Mr Carter advised the Department that, subject to resolution of some outstanding issues, there was the prospect of delivering a national stadium at Wembley. But for the project to succeed, Mr Carter considered that the Government and Sport England had to be seen to support the project both in principle and in terms of a financial commitment.

In November 2001, shortly before Mr Carter reported, the Department became aware of concerns about aspects of the management and oversight of the project by Wembley National Stadium Limited, in particular in relation to the procurement process for the main contract to build the stadium. Wembley National Stadium Limited commissioned Mr David James CBE to look into the matter. His investigation found no evidence of criminal intent or impropriety. But it did confirm the existence of serious concerns relating to the tendering process and the resulting contractual arrangements.

In the light of the concerns, in December 2001 the Secretary of State announced that any further financial support for the project would be conditional on the Football Association and Wembley National Stadium Limited addressing four tests (see Figure 6 on page 23). In September 2002 the Department concluded that the tests had been met and the project was worthy of further support. The Department committed £20 million of government funding to the project for non-stadium infrastructure costs and made it clear that it would provide no further financial support for the project in the future.
In reaching its decision on whether to provide further public funding for the project, the Department took account of Mr Carter’s review of the project, which incorporated an assessment of whether the Secretary of State’s tests had been met. During the review process which lasted 15 months in total, the Department, working closely with Sport England, also took assurance from the Office of Government Commerce’s review of the project and from other external experts (including quantity surveyors and project management consultants) to inform its judgement on whether:

- the project was deliverable (ie the stadium could be built on time and within budget) and viable (ie the stadium could operate profitably once it had been completed);
- the stadium would be suitable for staging athletics;
- the project would comply with public sector standards of doing business.

A key decision for the Department was whether, in the light of the concerns about the procurement process confirmed by Mr James, any further support it provided for the project should be conditional on Wembley National Stadium Limited re-tendering the main contract for the construction of the new stadium. In the light of advice received from Mr James, together with assurance gained during the review process, the Department decided not to require re-tendering, which it concluded would lead to no financial benefit for the public sector and to delay and increased risk for the project.
In taking the decision to provide additional public funding, the Department took account of the risks that the project would face which had been identified during the review process, and assessed the mechanisms that had been put in place to address these risks.

- One area that the Department had to consider was that building the stadium might take longer or cost more than expected, potentially leading to a funding gap. To address this risk, the main contractor, Multiplex, has incentives to deliver on time and within budget, and work to review the construction contract concluded that most of the circumstances in which Multiplex would be entitled to claim extra costs or time lay within Wembley National Stadium Limited's control. In the event that it fails to deliver as planned, Multiplex has a performance bond in place to fund completion of the stadium and Wembley National Stadium Limited will retain part of the fee due to Multiplex until completion has been certified. There is also a contingency provision to cover unanticipated costs.

- Another area that the Department considered was that the revenue generated by the stadium might fall short of projections, undermining the project's viability and Wembley National Stadium Limited's ability to meet its repayments to the bank. To address this risk, responsibility for selling the premium seats (on which the financial success of the project predominantly relies) has been contracted to IMG, which will have incentives to maximise returns. Part of the revenue expected to be generated by advance sales of premium seats is underwritten in the event that there is a significant shortfall. The Football Association has provided Wembley National Stadium Limited with an annual income guarantee, which includes a commitment to stage its flagship events at the stadium.

The Department concluded that successful delivery of the project would be heavily dependent on Wembley National Stadium Limited having a strong executive team to manage the project and effective corporate governance to oversee the executive management. The public sector funders have established arrangements to allow them to monitor the progress of the project and to provide them with assurance about the use of the public money involved. The Football Association and Wembley National Stadium Limited have agreed to the continuing involvement of the Office of Government Commerce as the project proceeds.

Looking ahead

In addition to Sport England's lottery grant of £120 million and the Department's contribution of £20 million of taxpayers' money, the London Development Agency is providing funding of £21 million in recognition of the importance of the project to the overall regeneration of the Wembley area. This brings the total public sector contribution to £161 million, 21 per cent of the total funding for the project.

In many respects the interests of the public sector funders coincide with those of Wembley National Stadium Limited and the commercial investors in that their protection ultimately depends on the delivery of a viable stadium. If the project is successful, the provision of public money will have made possible the delivery of a new national stadium for football, rugby league and athletics. The stadium will be suitable for holding flagship events, make available a specified minimum number of seats to the general public, and be financially viable in its own right without the need for ongoing public subsidy.
Wembley National Stadium Limited’s financial projections show that in certain circumstances the new stadium could generate substantial profits. There is also the prospect of Wembley National Stadium Limited being able to pay increased returns to the Football Association as a result of refinancing (ie negotiating improved financing terms) once construction of the stadium has been completed and the associated risk eliminated. There is no scope for the Department or Sport England to share directly in any financial gains generated by the project or to be involved in decisions about how such gains should be used. The gains will be used by the Football Association in accordance with its objects for the benefit of football.

The Department engaged Partnerships UK to take the lead on the public sector funders’ behalf in the negotiations about the contractual arrangements for the project. During the negotiations the public sector funders had at times to balance protecting the public interest with allowing a deal that would be acceptable to the commercial investors. The public sector funders accepted that their interests would be largely subordinated to those of the senior bank since it was providing over half the funding for the project, compared with their 21 per cent. But in some areas where they saw particular risks to the public interest in the project, the public sector funders secured specific protections.

- The public sector funders were concerned to protect the public interest by preventing the Football Association from appearing to profiteer, or destabilising the project, by taking windfall gains. This could leave the Football Association with no long-term capital commitment to the project and increase the risk of Wembley National Stadium Limited being left with insufficient funds to sustain the project. The public sector funders secured a number of protections to address this risk, including requiring the Football Association to retain an investment of at least £100 million in the project throughout the stadium’s expected life of 50 years.

- The public sector funders also secured a range of contractual provisions to protect the public interest in the event of Wembley National Stadium Limited breaching the funding conditions. The rights of the public sector funders depend on the nature and timing of the breach concerned and, for the benefit of the project, in some situations Wembley National Stadium Limited has to be given time to remedy the breach. In certain circumstances though, the public sector funders have the right to withhold outstanding funding or to recover funds that have already been paid.

- In the event of the project getting into serious financial difficulty and Wembley National Stadium Limited being unable to meet its agreed repayments, the senior bank could demand immediate repayment of its loan in full. A plan for recovery of the project may be proposed by Wembley National Stadium Limited, on which the public sector funders would have to be consulted. Ultimately, however, the bank would have discretion whether to accept the plan or take control of the project itself to maximise its chances of recovering its investment. The options open to the bank could have a variety of implications for the public sector funders in terms of the likelihood of their recovering their grants or securing the intended public benefits from the project.
The Comptroller and Auditor General's conclusions

19 The Comptroller and Auditor General’s conclusions on the project are as follows.

- The early funding difficulties of the English national stadium project, combined with concerns about propriety, were a catalyst prompting the Department to reappraise the project and its viability. In taking the decision to provide additional public funds, the Department, working closely with Sport England, put the project through a thorough review process, in what is an example of well managed risk taking.

- The project is complex, not least because of the number of both public and private sector organisations involved. Before committing further public money, the Department made sure that the accountabilities and responsibilities of the public bodies involved in the project were clear.

- Looking back, the temporary removal of athletics from the plans for the stadium was not handled well. The involvement of the Department in the decision that athletics should be withdrawn and that £20 million of the lottery funding should be repaid did not comply with the proper processes that were in place for handling lottery money.

- Had the project not proceeded, there is a risk that the original £120 million of lottery funding would not have been recovered in full. The Football Association had not underwritten the grant with a formal guarantee so Sport England would have relied on the staging agreement and the additional commitments secured when the stadium closed as the basis for a deal with the Football Association and Wembley National Stadium Limited. Since it was uncertain that the existing stadium would re-open once it had closed, it is unclear how effective these arrangements would have been in enabling recovery of the grant.

- Looking forward, the public sector funders have largely subordinated their interests to those of the senior bank, reflecting the commercial reality of a deal where the bank is providing the majority of the funding for the project. In the worst case, the bank would have first call on the project’s assets in the event of the project getting into serious financial difficulty.

- For other circumstances, the public sector funders have secured contractual provisions which protect the public interest. The provisions are proportionate in that they vary according to the seriousness of the funding condition breached and, except in the most extreme circumstances, should be enforceable without compromising the viability of the project.

- The project monitoring arrangements put in place by the public sector funders should ensure that they stay in close touch with the progress of the project and that they become aware of any difficulties that arise early on. Ultimately protection of the public sector investment, represented by both lottery funds and taxpayer’s money, will depend on the project as a whole being a success.

- While the principal aim of the project is to deliver a new national stadium the public sector funders are expecting other benefits. The loss or diminution of any of these benefits (for example, any further reduction in the minimum number of public access seats, the sale of naming rights or the relaxation of the conditions relating to anchor tenancy) in the event of financial difficulty would amount to further public support but without involving additional public funding.

- In the event that the project is financially successful, any profits will be used for the benefit of football, in ways to be decided by the Football Association. There is no scope for the public sector to share directly in any financial benefits generated by the project or to be involved in deciding how the funds should be used.
Part 1

Introduction

1.1 In September 2002 bulldozers moved onto the site of Wembley stadium in north-west London, marking the start of the rebuilding of one of British sport’s most enduring icons. Originally constructed as the centrepiece of the 1924 Empire Exhibition, the stadium was the venue for numerous major sporting occasions including the Football World Cup Final in 1966, Football Association Cup Finals and Rugby League Challenge Cup Finals. It also hosted track and field athletics when the Olympic Games were held in London in 1948.

The English national stadium project at Wembley began in 1996

1.2 With the creation of the National Lottery in 1994, the funding available for sport (one of the ‘good causes’ which benefits from lottery proceeds) increased significantly. Sport England (then the Sports Council for Great Britain) was designated to distribute lottery money to sport in England. Faced with the prospect of applications from a number of English cities for lottery funding for major new stadiums, Sport England decided to establish a national stadium competition and in December 1996 Wembley was chosen as the preferred site for the new stadium.

1.3 The objective of the project was to develop an iconic stadium for football and rugby league which also had the capability to stage athletics, thereby enhancing the nation’s sporting infrastructure. The requirement for a multiple use stadium was challenging in design terms but was driven by concerns that large athletics stadiums were not in themselves financially sustainable. Combining occasional athletics use with regular football and rugby league fixtures offered the prospect of a stadium that could be economically viable in its own right without the need for ongoing public funding. As required by the arrangements that apply to lottery grants, the project to develop the stadium would be financed by a mix of lottery money and ‘partnership funding’ from other sources. Any profits generated by the stadium would go to benefit sport.

The project did not run smoothly

1.4 Figure 2 overleaf sets out key events in the history of the project. All in all the project did not run smoothly, culminating in a failure in December 2000 to secure the commercial financing needed. In April 2001 the Football Association (see Figure 3 overleaf) decided that it could not take the project forward on its own and that it needed other stakeholders to become involved. It therefore wrote to the Secretary of State for Culture, Media and Sport to request government support and financial assistance to supplement the lottery grant that Sport England had already provided. In September 2002, after a 15 month review process, the Secretary of State and the Football Association announced that the project would proceed, with additional public funding of £41 million - £20 million from the Department for Culture, Media and Sport (the Department) towards non-stadium infrastructure costs, together with £21 million from the London Development Agency.

1.5 When lottery funding was awarded in 1998, it was envisaged that the project would be completed in 2002 and would cost £320 million, of which the public sector was to provide £120 million (37 per cent) in the form of the lottery grant from Sport England. But the problems on the project led to delays and cost escalations and the project is now expected to be completed in 2006 and to cost £757 million, of which the public sector is to provide £161 million (21 per cent).

A large number of bodies are involved in the project

1.6 There are a large number of bodies involved in the project from both the public and private sectors. Figure 3 overleaf sets out the key players from the perspective of this report and Appendix 1 provides a more detailed list. The project is a private enterprise, led by the Football Association, and the bulk of the financing is coming from commercial investors. But the project is intended also to provide public benefits and is receiving money from three public sector funders.
1.7 The project's complex organisational structure and multiplicity of players led the Department for Culture, Media and Sport in May 2002 to commission the Office of Government Commerce to review the framework of public accountability for the project. The review was carried out by Sir Christopher Kelly, former Permanent Secretary at the Department of Health. He examined the Accounting Officer responsibilities of the central government bodies involved (including the extent to which the responsibilities overlapped or could be shared with each other or subordinated to the senior bank) and considered the monitoring and reporting arrangements needed to protect the Accounting Officers’ interests.

1.8 Sir Christopher concluded that, although the stadium was a private sector project for which responsibility rested with the Football Association and Wembley National Stadium Limited, the Accounting Officers had to take responsibility for ensuring the regularity and propriety of the money they were providing and that value for money was obtained. Having said that, he noted that the position was complicated by a number of factors.

- The public funding could not be taken in isolation and was only likely to represent value for money in the context of the successful delivery of the project as a whole.
- The Department for Culture, Media and Sport’s responsibility, as the sponsor department, for overseeing the activities of Sport England.
- The level of Parliamentary and public interest and the difficulty for the Government in laying off the political risk associated with building a national stadium.

In the light of these complexities, Sir Christopher made a number of recommendations for the public sector’s project monitoring, which are reflected in the arrangements that the Department and Sport England have since put in place (see paragraph 3.25).

This report focuses on the public money that is being contributed to the project

1.9 As the project is a private venture (undertaken by a private sector organisation and largely financed by private capital), this report is not a detailed examination of the management or value for money of the project as a whole. Rather it focuses on the public money that is being contributed to the project which, while covering only around a fifth of the project’s costs, is nonetheless substantial and more in absolute terms than was originally intended. It looks at how the Department for Culture, Media and Sport England sought to safeguard their investment in the project and ensure that the intended public benefits would be delivered. Specifically this report examines:

- the position in 2001 when the project had received lottery funding from Sport England but had been unable to secure the commercial financing it needed (Part 2);
- how the Department for Culture, Media and Sport reached a decision on whether to award further public money to the project (Part 3);
- the protections for the public money invested in the project when it received the go-ahead in September 2002 (Part 4).
1.10 The methods we used in this examination are described in Appendix 2. Our work was designed to complement the scrutiny of the House of Commons Culture, Media and Sport Committee, which has reported on aspects of the project on five occasions since 1998.

### 3 The key bodies involved in the project

#### Public sector bodies

**Department for Culture, Media and Sport**
- Sets the framework for the distribution of lottery funds in policy and financial directions issued by the Secretary of State.
- The Permanent Secretary is the Accounting Officer for the National Lottery Distribution Fund which receives monies generated by the National Lottery for the good causes and allocates the money to Sport England and the other distributing bodies.
- The Permanent Secretary is the Accounting Officer for the annual grant-in-aid paid by the Department to Sport England.
- The Permanent Secretary appoints the Chief Executive of Sport England as its Accounting Officer and advises the Secretary of State on the appointment of Council members.
- Providing funding of **£20 million** towards the non-stadium infrastructure costs of the project.

**Sport England (formerly the Sports Council for Great Britain)**
- A non-departmental public body, working at arm’s length from its sponsor, the Department for Culture, Media and Sport, which provides an annual grant-in-aid.
- Responsible for distributing National Lottery funds to sport in England within a policy and financial framework laid down by the Department for Culture, Media and Sport.
- The governing body (the Council) comprises 16 members, appointed by the Secretary of State.
- The Council, with the approval of the Secretary of State, appoints the Chief Executive, who is designated Accounting Officer by the Accounting Officer of the Department for Culture, Media and Sport.
- Providing funding of **£120 million** to the project.

**London Development Agency**
- Responsible for promoting economic development and regeneration in London.
- Providing funding of **£21 million** to the project.

#### Private sector bodies

**Football Association**
- The governing body of football in England, responsible for developing the game at all levels.
- A private sector limited company, constituted as a not-for-profit organisation with all surpluses spent on the development of football.
- The ultimate owner of the new stadium and beneficiary of any profits generated by the stadium through its shareholding in Wembley National Stadium Limited.
- Contributing **£148 million** to the project.

**Wembley National Stadium Limited**
- A private sector limited company, wholly owned by the Football Association except for a ‘golden share’ (held by Sport England) designed to protect the public interest.
- Responsible for constructing and operating the new stadium.
- Contributing **£15 million** to the project, generated from operating the old stadium before it closed.

**Westdeutsche Landesbank**
- An investment bank.
- The senior bank, arranging loans of **£426 million** for the project.

**Multiplex**
- A private construction company.
- Awarded the construction contract to design and build the new stadium, worth **£445 million**.

*Source: National Audit Office*
THE ENGLISH NATIONAL STADIUM PROJECT AT WEMBLEY
Part 2

The position in 2001

2.1 This part of the report considers the position that the Department for Culture, Media and Sport and Sport England were in when the Football Association sought further public funding for the project in April 2001. We examined:

- the extent of the public money that had been invested in the project;
- the benefits that were expected in return for the public money;
- the position on whether the new stadium would accommodate athletics;
- the likelihood of recovering the public money in the event that the project did not proceed.

Sport England had given a lottery grant of £120 million to the project

2.2 In November 1998 Sport England awarded lottery funding totalling £120 million to Wembley National Stadium Limited in support of the English national stadium project. The grant was subject to a 'lottery funding agreement' between Sport England, Wembley National Stadium Limited and the Football Association, which set out the conditions under which the money was provided.

2.3 The lottery grant comprised two elements - £106 million to fund the acquisition of the existing Wembley stadium and business (covering the purchase price of £103 million plus stamp duty of £3 million) and £14 million to contribute to project development and design work. The bulk of the grant was paid in March 1999, when Wembley National Stadium Limited purchased the stadium and business from Wembley plc, and all the money had been drawn down by July 2000.

2.4 The grant represented an exceptionally large call on Sport England’s lottery funds (it is the largest lottery grant it has ever made) and was also unusual in that it was paid to a private sector company. In contrast with most other capital projects funded by the National Lottery, the grant was paid in full before any other funding had been secured. Grant recipients are usually required to raise ‘partnership funding’ from other sources to cover a certain proportion of project costs as they are incurred, but Sport England considered that it would not have been possible for Wembley National Stadium Limited to secure commercial financing for the project before acquiring the site and obtaining planning permission. Unlike most lottery capital projects where the payment of elements of the grant is dependent on the achievement of specified milestones, the funding to Wembley National Stadium Limited was paid in full at the outset of the project. However, Sport England would have been entitled to recover its grant if Wembley National Stadium Limited failed to meet the milestones set out in the lottery funding agreement.

The lottery funding had been provided in return for a range of public benefits

2.5 The primary aim of the grant was to achieve the development of a new national stadium, although the lottery funding agreement set out other public benefits which Wembley National Stadium Limited was expected to deliver in return for the grant. The benefits covered matters ranging from the specifications for the playing area to the number of television and radio commentary positions. Figure 4 overleaf gives examples of the key benefits required in return for lottery funding.
Examples of the key public benefits required in return for lottery funding

The stadium shall have a minimum seating capacity of 80,000 seats for football and rugby league and 65,000 seats for track and field athletics. Of the seating capacity, a minimum of 75,000 (now 71,200) seats or in the case of athletics events a minimum of 60,000 (now 50,000) shall be available to the general public.

The specified ‘flagship events’ (such as the Football Association Cup Final and the Rugby League Challenge Cup Final) shall be given priority access to the stadium over all other events, and sporting events in general shall be given priority access over non-sporting events, such as concerts and conferences.

The national stadium shall not, without the prior written consent of Sport England, have an anchor tenant which has a right to stage its regular home fixtures at the stadium.

Starting five years after the stadium opens, Wembley National Stadium Limited shall donate one per cent of its turnover each year to Wembley National Stadium Trust, an independent charity which will distribute the money to sports education and other projects. Until that time, Wembley National Stadium Limited will make a donation of £5,000 a year to Wembley National Stadium Trust.

The position on whether the new stadium would accommodate athletics had changed

2.6 Lottery funding for the project was provided on the basis that, while the stadium would primarily be used for football and rugby league, it would also be capable of hosting major international athletics events, such as the Olympic Games and the World Athletics Championships. The stadium would be converted for athletics use by the installation of a temporary platform on which a track would be laid, with a consequent reduction in seating capacity. However, concerns about the platform solution led the Department in October 1999 to request a review of the technical merits of the proposed design.

2.7 In the light of the review, on 1 December 1999 the then Secretary of State for Culture, Media and Sport told the House of Commons that there were doubts about the viability of the proposed design for international athletics events. He noted, for example, that the time it would take to construct and remove the temporary platform could mean that the stadium would be unavailable for international standard football for more than two years. And the British Olympic Association had raised concerns that, at an increased seating capacity of 80,000 for an Olympic Games, the sightlines for a significant number of spectators would be unacceptable. On 22 December 1999 the Secretary of State announced that, subject to the satisfactory conclusion of further detailed discussions among the interested parties, athletics would be withdrawn from the plans for the new stadium and that in return the Football Association proposed that £20 million of the lottery funding should be repaid to Sport England. At that stage the Government intended to seek an alternative venue for athletics events.

2.8 In January 2000 the Secretary of State confirmed the position in letters to Sport England and the Football Association, and Sport England was tasked with resolving the detailed arrangements for the repayment of grant. Discussions about the repayment continued between Sport England and the Football Association until September 2000 when Wembley National Stadium Limited re-submitted its grant application to ask for the lottery funding agreement to be amended to remove athletics. Subject to the signing of a revised funding agreement, the £20 million would be repaid in instalments over a five year period beginning in December 2000.

2.9 In December 2000 the Council of Sport England agreed to Wembley National Stadium Limited’s request to amend the lottery funding agreement to remove the obligation to host athletics at the new stadium. The Council’s decision was taken on the basis that, following consultation with key parties and taking into account the stated views of the Secretary of State since December 1999, there was no longer evident demand for athletics events to be staged at the stadium.

2.10 However, the first repayment date (December 2000) passed with no money being returned to Sport England as Wembley National Stadium Limited had not signed the revised lottery funding agreement: by this time the Football Association was reviewing the project as a whole, having been unable to secure the commercial financing needed. The question of the repayment was subsequently overtaken when provision for athletics was restored to plans for the stadium later in the project (see paragraph 3.14).
2.11 The temporary removal of athletics from the plans for the new stadium and the proposed repayment of part of the lottery grant was a controversial event in the history of the project. Key features of the episode are set out in Figure 5.

Had the project not proceeded, Sport England would have been entitled to recover its lottery grant but this would not necessarily have been straightforward.

2.12 When Wembley National Stadium Limited was unable to secure the commercial financing it needed, there was the possibility that the project would not proceed. In that event, Sport England would have been entitled under the lottery funding agreement to recover in full the grant of £120 million it had paid to Wembley National Stadium Limited. During the process of assessing the grant application and deciding on the funding conditions, Sport England had put in place a number of mechanisms intended to safeguard the public money that had been invested in the project. In the event the security package was not tested but recovering the grant in full would not necessarily have proved straightforward.

Sport England could have asked for its money back but Wembley National Stadium Limited had limited funds available

2.13 Wembley National Stadium Limited was set up by the Football Association as a private limited company, specifically to build and operate the new stadium. As such Wembley National Stadium Limited had limited liquid assets of its own beyond the revenue generated by the stadium business it had acquired with the lottery funds. It was unlikely therefore to be in a position to repay the lottery grant to Sport England from its own funds.

2.14 Recognising Wembley National Stadium Limited’s limited resources, during the course of the negotiations about the lottery funding agreement, Sport England had initially sought to protect its investment by securing a ‘parent company guarantee’ from the Football Association to Wembley National Stadium Limited. This would have meant the Football Association effectively underwriting the lottery grant.

2.15 However, the Football Association considered that a parent company guarantee would not be meaningful since, without a profitable stadium, it would be unlikely to be able to honour a guarantee in practice. Furthermore the Football Association felt that a guarantee would undermine the arm’s length relationship that it had developed with Wembley National Stadium Limited. In the end Sport England decided not to pursue the question of the guarantee, concluding that the other elements of security, which Wembley National Stadium Limited was to provide, would be adequate to protect the grant.

2.16 As a condition of funding, Sport England secured a legal charge over the assets acquired with the lottery grant. This meant that it was in a position to seek to recover the money it was owed by forcing Wembley National Stadium Limited to sell the site.

2.17 Wembley National Stadium Limited paid a purchase price of £103 million for the existing Wembley stadium and business. This represented the value of the physical assets and also took account of the value of the income expected to be generated by the events which were contracted to the stadium until 2002.
2.18 Before providing the lottery funds to enable Wembley National Stadium Limited to buy the existing stadium and business, Sport England confirmed that the agreed price of £103 million was fair and reasonable.

- Humberts Leisure (a firm of chartered surveyors and leisure property specialists), acting as valuers for the vendor, Wembley plc, valued the existing stadium and related assets at £105.5 million in January 1999.

- In support of its application for lottery funding, Wembley National Stadium Limited commissioned Coopers and Lybrand (a predecessor firm to PricewaterhouseCoopers LLP) to review the freehold interest and business assets associated with operating the stadium and provide an opinion on the price that had been agreed. Based upon the information available to it and subject to specified limitations, PricewaterhouseCoopers concluded that as at 24 December 1998 the price agreed for the existing stadium business, as a going concern, was within a range of reasonable market values and could therefore be considered to be fair and reasonable.

- Sport England sought advice from Grant Thornton (a firm of chartered accountants), including a review of PricewaterhouseCoopers’ valuation report on the existing stadium and business. In its report in January 1999, Grant Thornton supported the conclusions of the valuation opinion in that the price was within the range of market values although at the upper end. Grant Thornton also considered that the processes and techniques that had been used to value the existing stadium business were appropriate in the circumstances.

2.19 However, without the value of contracted events, the stadium and business were worth less than the purchase price and once the stadium had closed in October 2000 the value of the physical assets acquired with the lottery grant was possibly as low as £30 million (equivalent to 25 per cent of the lottery grant), although there was not a formal valuation. Selling the assets might not therefore have generated sufficient money to enable Wembley National Stadium Limited to repay the grant in full.

Sport England could have obliged the Football Association to stage its events at the existing Wembley stadium but would not necessarily have enforced this

2.20 With the aim of preserving the value of the business acquired, Sport England required the Football Association to enter into a ‘staging agreement’ with Wembley National Stadium Limited. Sport England was also a party to the agreement, which could not be changed without its consent. The agreement obliged the Football Association to stage its flagship events (including the Football Association Cup Final and England’s international football matches) at Wembley stadium for a period of 20 years, thereby providing Wembley National Stadium Limited with a revenue stream. The financial arrangements within the agreement provided revenue based upon a proportion of ticket sales, a percentage of sponsorship and television income, and a shortfall guarantee to ensure a minimum income from the Football Association to Wembley National Stadium Limited.

2.21 As well as underpinning the financial viability of the new stadium once it opened, the agreement was designed to provide a mechanism for protecting the lottery grant. In the event that the project did not proceed, the staging agreement provided for Sport England to require the Football Association to hold its matches at the existing Wembley stadium and to obtain repayment of the grant from Wembley National Stadium Limited from the income generated under the terms of the agreement.

2.22 In support of its application for lottery funding, Wembley National Stadium Limited was required to secure an opinion from a bank or financier as to the ability of the existing stadium to generate funds to effect a repayment of the grant in the event that the project did not proceed. In January 1999 Guinness Mahon (an investment bank) provided an opinion that, on the basis of the staging agreement, the existing stadium business could raise £106 million of private capital on or around 31 March 2000 which could finance the repayment of most of the grant to Sport England. Grant Thornton advised Sport England that this amount was at the upper end of achievability but it considered that a combination of private finance and funds from the Football Association could allow Wembley National Stadium Limited to repay the grant.
2.23 However, closure of the stadium in October 2000 threatened to undermine the business plan underpinning the security of the lottery grant. Sport England therefore protected the security by securing additional commitments from Wembley National Stadium Limited and the Football Association to hold events at a reinstated Wembley stadium.

2.24 However, despite the provisions of the staging agreement, Sport England would not necessarily have compelled the Football Association to stage its matches at the existing stadium had the project not proceeded. The longer the stadium remained closed, the less likely it was to be re-opened, not least given the expenditure that Wembley National Stadium Limited would have had to incur to put the stadium in a serviceable condition (which in December 2001 was estimated as £40 million). And, even with this expenditure, the stadium was expected to be fit for use only for five to ten years and with a reduced capacity.

2.25 Nevertheless Sport England regarded the staging agreement as the key mechanism for protecting the lottery grant. It considered that the agreement together with the additional commitments agreed when the stadium closed would have provided it with a legal basis to secure an alternative deal with Wembley National Stadium Limited and the Football Association to repay the grant in the event that the project did not proceed.
3.1 This part of the report analyses what happened to the project between the Football Association’s approach to the Government in April 2001 and the announcement in September 2002 that the project would go ahead with additional public funding. We examined how the Department for Culture, Media and Sport reached its decision that the project was worthy of further support. In particular we considered:

- the initial work to review the project;
- the concerns that led the Secretary of State to make a statement about the project in December 2001;
- the steps taken by the Department in reaching a decision on whether to proceed with further support for the project;
- the remaining risks as the project now moves forward.

In June 2001 the Department commissioned a review of the project

3.2 In June 2001, in the light of the Football Association’s request for further public funding for the project, the Secretary of State commissioned Mr Patrick Carter2 (a businessman who had undertaken a variety of work for the Government, including a review of the financing of the 2002 Commonwealth Games) to examine whether the project to develop a new English national stadium could be funded and managed at Wembley or, if that proved impractical, at another location in England.

3.3 Mr Carter delivered his interim report to the Secretary of State in December 2001. He identified four main reasons why the Wembley project had initially failed:

- the design was conceived as over-ambitious and contained many non-core elements, whilst at the same time failing to meet the needs of the premium seat holders;
- the premium seat income (on which the commercial financing mainly depended) was not sufficiently secure;
- the sponsor, Wembley National Stadium Limited, was not then perceived as credible with key stakeholders including the financial markets;
- the Government was perceived as interfering in the project to its detriment and the very public difference of opinion between the Government and the Football Association on the question of athletics led to a loss of confidence on the part of potential lenders.

3.4 Mr Carter regarded the Football Association as the only realistic and credible sponsor for the national stadium project and concluded that the final decisions on location and design therefore rested with the Football Association. But for the project to succeed, the Government and Sport England had to be seen to support the project both in principle and in terms of a financial commitment. Mr Carter considered that, together with financing from other sources, a contribution of £20 million from the Department would be a sufficient commitment.

3.5 During the course of the review the Football Association worked to refine its proposals for the project and reduce uncertainty. In his interim report Mr Carter advised the Department that, subject to the resolution of some outstanding issues, there was now the prospect of delivering a national stadium at Wembley. In his view, the revised proposals were better than the original plan in four key respects:

- the scope of the project had been reduced and more accurately costed - the plans for a hotel, offices and a visitor attraction had been removed and better catering and hospitality services were to be provided for premium seat holders;
- the premium seat income had been market tested and an offer of underwriting received;
- the banking requirement had been significantly reduced and was more realistic;
- the level of non-debt funding had increased, including a contribution of £100 million from the Football Association.

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2 Mr Carter was subsequently appointed Chairman of Sport England in December 2002.
In November 2001 the Department became aware of concerns about aspects of the management of the project.

3.6 In November 2001, shortly before Mr Carter delivered his interim report, the Department became aware of concerns about aspects of the management of the project. The concerns had first been raised by Tropus Limited, which provided project management services to Wembley National Stadium Limited from November 1997 to August 2001. Tropus was critical about aspects of the management and oversight of the project by Wembley National Stadium Limited, in particular in relation to the procurement process which led to the appointment of Multiplex as the main contractor to build the new stadium.

3.7 In the light of a report from Tropus, in September 2001 the then Chairman of Wembley National Stadium Limited asked Mr David James CBE (a company doctor and a specialist in corporate governance and insolvency) to investigate the allegations that had been made. Supported by the law firm, Berwin Leighton Paisner, Mr James examined the procurement process and the underlying corporate governance arrangements at Wembley National Stadium Limited. Mr James's investigation was necessarily limited to activities within the jurisdiction of Wembley National Stadium Limited.

3.8 Wembley National Stadium Limited received Mr James's and Berwin Leighton Paisner's reports in December 2001 and provided copies to the Department, Sport England, Mr Carter and the Comptroller and Auditor General. Mr James reported that the investigation had found no evidence of criminal intent or impropriety during the procurement process which led to the appointment of Multiplex as the main contractor to build the new stadium.

3.9 However, in his report, Mr James confirmed the existence of serious concerns relating to the tendering process (up to September 2000) and the resulting contractual arrangements. Specifically there had been a lack of adequate monitoring and oversight of the project by the Wembley National Stadium Limited Board as a whole. There had also been a failure of expected standards of governance which should have covered controls to resolve any potential conflicts of interest which might have arisen in relation to those undertaking key contract negotiations.

3.10 Berwin Leighton Paisner's report detailed the specific concerns that led it to conclude that the procurement process had fallen short of industry best practice and had not complied with commercial competitive tendering processes. Wembley National Stadium Limited had:

- failed to determine, adopt and implement a detailed formal procurement process, including documentation setting out the timetable, selection criteria, and weighting checks and controls;
- conducted a parallel procurement process (by running two separate tendering processes on substantially different terms but for the award of the same contract), therefore making it difficult to have a fully competitive process;
- had meetings and dialogue with Multiplex prior to commencing any formal procurement process, thereby potentially giving Multiplex a potential competitive advantage over other contractors.

3.11 Overall, the major concern arising from the investigation was that there had not been a level playing field for all the parties who had indicated an interest in tendering for the contract. Mr James concluded that the process by which the tender had been offered and the contract negotiated was unlikely to satisfy the best practice standards usually required in a project involving public money. He considered that the lack of an audit trail meant that it was difficult to demonstrate whether the process had achieved best value and it would never be possible to assess this with any certainty.

In December 2001 the Secretary of State announced that further support for the Wembley project would be conditional.

3.12 After receiving the reports from Mr Carter, Mr James and Berwin Leighton Paisner, on 19 December 2001 the Secretary of State announced to the House of Commons that any further financial support for the Wembley project would be conditional, and limited to covering non-stadium infrastructure costs and the Government's interest in protecting the £120 million of lottery money already invested in the project.

3.13 In the light of the concerns that Wembley National Stadium Limited had not adhered to best procurement practices or corporate governance arrangements, the Secretary of State set four tests for the Football Association and Wembley National Stadium Limited to address before the Government would proceed with support for the project (Figure 6). The Secretary of State subsequently asked Mr Carter to incorporate in his work an assessment of whether the tests had been met.
The four tests set by the Secretary of State for Culture, Media and Sport

1. An independent value for money assessment of the proposed contracts with Multiplex had to be commissioned and conducted by an appropriate company with no previous or likely future involvement in the project.

2. At the Secretary of State’s request, Wembley National Stadium Limited had ensured that papers relating to the matter were available to the Comptroller and Auditor General so that he could decide whether to look into the matter further.

3. The Government sought confirmation that corporate governance changes would be made to produce a management structure capable of delivering a complex project within procedures acceptable to the public sector.

4. The Government sought confirmation that financial support was adequate and fully committed, after all relevant factors had been taken into account in a process of due diligence.

Source: Hansard, 19 December 2001

3.14 In her statement in December 2001, the Secretary of State also referred to the question of athletics. The plans to develop an alternative venue for international athletics events had been dropped and Wembley National Stadium Limited now believed that improvements in the method of construction meant that the platform solution to accommodate athletics at Wembley could be implemented more cheaply and without the disruption that would previously have been involved (see paragraph 2.7). The Secretary of State announced that Sport England would commission an evaluation of the new proposals to confirm that they met the technical criteria of the athletics governing body and prepare a cost-benefit analysis comparing the proposals with the previous plans.

In reaching its decision on whether to provide further support, the Department took appropriate steps to satisfy itself that the project could be a success.

3.15 In September 2002 the Department decided to commit an additional £20 million of government funding to the project to cover non-stadium infrastructure (mainly transport) costs. In reaching its decision that the project was worthy of further support, the Department took into account Mr Carter’s final report and advice from a range of other external experts (Figure 7 overleaf) to satisfy itself that:

- the project was deliverable and viable;
- the stadium would be suitable for staging athletics;
- the project would comply with public sector standards of doing business.

Assurance that the project was deliverable and viable

3.16 The Department wanted to be satisfied that the project was deliverable (i.e., the stadium could be built within the timetable and budget that had been specified) and viable (i.e., the stadium could operate profitably once it had been completed) and would not need additional public funding at a later stage. The Department took assurance from the following sources.

- Mr Carter continued with his work (see paragraph 3.2) to examine whether the project could be adequately financed (the Secretary of State’s fourth test) and was capable of proceeding to completion. His final report also included an analysis of the overall viability of the stadium. This drew on the due diligence work done by Wembley National Stadium Limited and the banks, in particular the financial modelling to assess viability in different scenarios. The key difference between the scenarios was the assumptions used in respect of the level of premium seat sales, which are critical to the financial success of the project. Mr Carter’s team tested the complex financial model used to generate cashflow projections and evaluated the underlying assumptions.

- To meet the Secretary of State’s first test, in February 2002 Wembley National Stadium Limited appointed Cyril Sweett Limited (a firm of quantity surveyors and construction advisers with no links to the project) to conduct an independent assessment of the contract that had been negotiated with Multiplex to build the stadium, in particular to review whether the contract price represented value for money. The Department and Sport England were consulted about the terms of reference for the assessment to ensure that it would provide the assurance that the Secretary of State was seeking. Cyril Sweett Limited was also subsequently re-commissioned in May 2002 to assess the impact on value for money of a change in the structure of the deal, which removed the financing element from the contract leaving it as ‘design and construct’ only.

- In March 2002, at the Department’s request, Wembley National Stadium Limited commissioned the Office of Government Commerce to implement its gateway review process on the project.

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The Comptroller and Auditor General received the relevant papers in December 2001 but concluded that it would not be appropriate for him to examine the matter while discussions about the project were ongoing. While making it clear that it had no role in the decision making process, the National Audit Office subsequently pointed the Department to the available guidance on a range of issues including value for money and corporate governance.

The stadium is to have 16,958 premium seats, including 1,856 in boxes.
The gateway process brings important benefits in that it examines a project at critical points in its lifecycle to provide assurance that it can progress successfully to the next stage. The reviews are carried out by teams of people with relevant experience and expertise and independent of the project concerned. The March 2002 review considered aspects such as contract structure, communications, and wider infrastructure matters going beyond the construction of the stadium.

In January 2002, as part of his work for the Department, Mr Carter commissioned Davis Langdon and Everest (a quantity surveying and project management consultancy) to consider the extent to which the proposed contract transferred risk from Wembley National Stadium Limited to the contractor, Multiplex, and to assess the scope for the contract price to increase. A second Davis Langdon and Everest consultant was subsequently commissioned by the London Development Agency to review similar issues. And Sport England requested a review of the contract from its advisers, project management consultants Citex. In recognition of the fact that these various pieces of work were overlapping, in the interests of economy and consistency, the work was consolidated under the second Davis Langdon and Everest consultant who continued to review the contract as it was modified in the course of the negotiations about the deal.
Assurance that the stadium would be suitable for staging athletics

3.17 In the light of the earlier uncertainty about whether the proposed stadium was suitable for athletics, as had been intended when the plans were originally developed and lottery funding was awarded, the Department wanted assurance that Wembley National Stadium Limited’s revised proposals for athletics would be technically acceptable and cost-effective and that the stadium would deliver the intended public benefits. In line with the Secretary of State’s announcement in December 2001 (paragraph 3.14), in February 2002 Sport England commissioned Sport Concepts (a sport and entertainment architecture consultancy) and Citex to undertake a technical and cost evaluation of the modified proposals to accommodate athletics in the stadium. The consultants reviewed whether the proposals complied with the requirements of the International Association of Athletics Federations and with the lottery funding agreement, and whether they offered a cost-effective solution.

Assurance that the project would comply with public sector standards of doing business

3.18 To help Wembley National Stadium Limited to meet the Secretary of State’s third test, in February 2002 Sport England commissioned PricewaterhouseCoopers LLP (an international accountancy and business services firm) to provide advice. PricewaterhouseCoopers reviewed corporate governance processes within Wembley National Stadium Limited, considered the public interest issues involved in the project (including relations between Wembley National Stadium Limited and the various public sector stakeholders), and reviewed publicly available information on the affiliations and directorships of proposed Board members. In the light of this work and taking account of best practice in the field, the Department and Sport England sought and secured improvements in Wembley National Stadium Limited’s corporate governance arrangements (see paragraph 3.24).

The Department decided not to require Wembley National Stadium Limited to re-tender the construction contract

3.19 A key decision facing the Department was whether, in the light of the concerns about the procurement process confirmed by Mr James and Berwin Leighton Paisner (see paragraphs 3.9 to 3.11), any further support it provided for the project should be conditional on Wembley National Stadium Limited re-tendering the main contract for the construction of the new stadium.

3.20 In his report Mr James concluded that the uncertainty about whether the contract that had been negotiated with Multiplex represented best value would normally have justified re-tendering to ensure compliance with best practice. However, Mr James accepted Wembley National Stadium Limited’s view that in the circumstances re-tendering would be unfeasible for practical and financial reasons. Re-tendering would have been likely to take at least 12 months, jeopardised the contract prices that had been negotiated, and put at risk the commitment of the banks to the project. And it was likely that the delay in starting the project would mean that seven acres of land surrounding the stadium would revert to the previous owner and would no longer be available to Wembley National Stadium Limited. All in all Wembley National Stadium Limited felt that re-tendering would lead the project to collapse. Mr James considered that the choice was therefore between abandoning the project altogether or proceeding with the existing contract on the grounds that it represented better value than any alternative that was then available. His conclusion was that given the circumstances best value was more likely to result from proceeding with the contract.

3.21 As part of its work Cyril Sweett Limited also considered the question of re-tendering and concluded that, were the project to be re-tendered, a lower price was possible but not probable and a number of factors (such as the cost of re-tendering and the impact of inflation during the tender period) would substantially erode the likelihood of a reduction in price. Mr Carter considered that there was no certainty of savings from re-tendering and that the costs of the consequent delay could offset any savings that were secured in the construction and other prices. Furthermore there was no likelihood of re-tendering generating any savings for the public purse.

3.22 In the light of the advice received, the Department concluded that re-tendering the construction contract would lead to delay and increased risk for the project (and therefore put at risk the public funding already invested in it) and would bring no financial benefit for the public sector. It therefore decided not to require Wembley National Stadium Limited to re-tender the contract as a condition of further support.
The Department took account of the risks that the project will face as it moves forward

3.23 The Department concluded that none of the sources from which it took assurance raised concerns of sufficient seriousness as to suggest that the project could not be successful and was therefore not worthy of government support on the scale envisaged. In reaching its decision to proceed, the Department took account of the risks that the project will face as it moves forward. During the course of the deal being finalised Wembley National Stadium Limited and the other bodies involved in the project sought to put in place mechanisms to address these risks. Figure 8 assesses the position on the key risks relating to the deliverability and viability of the stadium, which will determine the success or failure of the project as a whole.

3.24 The Department concluded that successful delivery of the project by Wembley National Stadium Limited would be heavily dependent on two key factors.

- **A strong executive team to manage the project**, including the key relationship with the main contractor, Multiplex. Of particular importance would be the creation of a ‘no change’ culture in order to minimise the risk of the cost increasing above the fixed price agreed. The Chairman of Wembley National Stadium Limited gave assurances to Mr Carter that, before building work on the new stadium started, it would make changes to strengthen the executive team that would manage the project. In Spring 2003 new construction and marketing/communications directors were appointed.

- **Effective corporate governance to oversee the executive management of the project**. In the light of the problems earlier in the project and the recommendations made by PricewaterhouseCoopers (see paragraph 3.18), changes were made to strengthen Wembley National Stadium Limited’s corporate governance arrangements, bringing them more into line with the standards that apply to listed companies.

  - The Board was reconstituted and a new Chairman, with experience of the construction industry, and other new non-executive directors were appointed.

  - A committee structure was established to support the main Board. There are currently eight committees, each with explicit terms of reference and with non-executive directors among their members.

- **Board members and senior managers have completed declarations of interest to indicate any possible conflicts of interest.**

- **Wembley National Stadium Limited has appointed an internal auditor to review the company’s operating systems within a three-year timetable.**

3.25 A variety of arrangements have been or are being put in place to allow the public sector funders to monitor the progress of the project and to provide them with assurance about the use of the public money involved.

- The Chief Executive of Wembley National Stadium Limited has been appointed as a ‘compliance officer’ with responsibility for demonstrating that public funds have been applied appropriately and that public interest obligations have been met. The compliance officer is intended to be similar in general terms to the accounting officer of a public body.

- The public sector funders have monitoring arrangements in place to allow them to hold Wembley National Stadium Limited to account for its use of public money and to enable them to comment and press for changes if they have concerns about the management of the project. The public sector funders are meeting Wembley National Stadium Limited formally on a quarterly basis to discuss compliance with the funding agreements and progress on the project more generally, and there are monthly meetings of operational staff from both sides.

- The public sector funders are currently in the process of appointing consultants with specialist expertise who will undertake detailed monitoring of all aspects of the project, including corporate governance and business issues as well as construction. In the meantime Sport England’s project monitors, Bucknall Austin (formerly known as Citex), are providing monthly reports to supplement those supplied by Wembley National Stadium Limited.

- The Football Association and Wembley National Stadium Limited have agreed to the continuing involvement of the Office of Government Commerce (OGC) as the project proceeds. During the construction of the stadium there will be further OGC reviews at key points to provide assurance that the project can progress successfully to the next stage.

- Sport England has a reserve power to appoint three new directors to the Wembley National Stadium Limited Board.

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6 The committees cover: construction, corporate governance and audit, finance, health and safety, marketing/commercial, operations, remuneration, and risk.
The construction contract allocates risk between Wembley National Stadium Limited and the main contractor, Multiplex. The contractor has incentives to deliver on time and within budget.

- If the stadium is delivered late, Multiplex will be liable to pay damages to Wembley National Stadium Limited up to a maximum which represents nine months delay, unless the delay is on grounds that entitle Multiplex to an extension of time.
- The fixed price for delivering the stadium is £445 million. If Multiplex builds the stadium for less than this amount, it will keep the difference; if the stadium costs more, Multiplex will bear the cost except in certain circumstances.

Work to review the contract sought to minimise the risk of design changes and concluded that most of the circumstances in which Multiplex would be entitled to claim extra costs or time lay within Wembley National Stadium Limited's control. Examples include Wembley National Stadium Limited providing instructions late or making design changes. Wembley National Stadium Limited is committed to seeking to achieve a 'no change' culture for the stadium design.

- In the event that it fails to deliver as planned, whether through insolvency or another reason, Multiplex has a performance bond of £60 million in place to fund completion of the stadium. The bond is underwritten by an insurance company. Wembley National Stadium Limited will also retain £40 million of the fee due to Multiplex until completion has been certified. The retention combined with the bond gives Wembley National Stadium Limited up to £100 million of cover in the event of contractor failure or insolvency.
- There is a contingency provision of £30 million (£20 million with Wembley National Stadium Limited and £10 million with Multiplex) to cover unanticipated costs.
- In the event of the project getting into financial difficulty, Wembley National Stadium Limited could apply to Sport England for some of the funding conditions, such as those relating to naming rights and anchor tenancy (see Figure 4 on page 16), to be relaxed. This could provide Wembley National Stadium Limited with an additional source of revenue.

Source: National Audit Office

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<td><strong>Construction risk</strong> - building the stadium takes longer or costs more than expected, potentially leading to a funding gap.</td>
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- In the event of the project getting into financial difficulty, Wembley National Stadium Limited could apply to Sport England for some of the funding conditions, such as those relating to naming rights and anchor tenancy (see Figure 4 on page 16), to be relaxed. This could provide Wembley National Stadium Limited with an additional source of revenue. |

| Operating risk - the stadium’s running costs are more than expected or revenue falls short of projections, undermining the project’s viability and Wembley National Stadium Limited’s ability to meet its obligations to the senior bank. | 
- The business case as a whole was tested by the banks as part of their due diligence process and reviewed by Mr Carter's team, and found to be satisfactory. The financial success of the project relies predominantly on the sales of premium seats (which are expected to generate around 70 per cent of income). Responsibility for selling the premium seats has been contracted to IMG (a sports marketing agency), which will have incentives to maximise returns. In respect of the revenue to be generated by advance sales of premium seats prior to the completion of the stadium, Credit Suisse First Boston has provided the senior bank with a letter of credit guaranteeing up to £25 million in the event that there is a significant shortfall in the income generated. 
- The Football Association has provided Wembley National Stadium Limited with an annual income guarantee. As part of this, the staging agreement (see paragraph 2.20) guarantees that certain events will be held at the stadium. Under the agreement, the Football Association will forego all premium seat income and pay 32 per cent of general admission receipts to Wembley National Stadium Limited. 
- In the event of the project getting into financial difficulty, Wembley National Stadium Limited could apply to Sport England for some of the funding conditions, such as those relating to naming rights and anchor tenancy (see Figure 4 on page 16), to be relaxed. This could provide Wembley National Stadium Limited with an additional source of revenue. |
4.1 This part of the report considers the position of the Department for Culture, Media and Sport and Sport England in relation to the project at financial close of the deal in September 2002. In particular we examined:

- the financial structure of the deal, including the extent of the funding being provided by the Department and Sport England;
- the safeguards in place to protect the public investment in the project and ensure that the public benefits are delivered.

The Department and Sport England are providing 18.5 per cent of the funding for the project

4.2 Figure 9 sets out how the project will be funded and what the money will be used for. Over half of the £757 million is to come from loans from the senior bank, Westdeutsche Landesbank (known as West LB). Wembley National Stadium Limited’s ability to make repayments to the bank will be largely dependent on the revenue streams generated by the stadium, in particular the income from the sale of the premium seats which is critical to the success of the project.

4.3 Between them, the Department and Sport England are to provide 18.5 per cent of the funding for the project. Sport England has already paid in full its grant of £120 million to Wembley National Stadium Limited (see paragraph 2.3). The Department has committed £20 million, which it expects to start paying from April 2004. The Department’s money is being provided to reimburse Wembley National Stadium Limited for the costs of specified infrastructure improvements that needed to be included in the plans for the project to gain planning permission. It includes £9 million towards the upgrading of Wembley Park station and funding for other specified public transport, access and environmental improvements. The London Development Agency is providing £21 million in recognition of the importance of the project to the overall regeneration of the Wembley area, bringing the total public sector contribution to 21 per cent of the total funding for the project.
4.4 A key change from the proposals put forward in 2001 for funding the project is the contribution of £148 million from the Football Association, which gives it a significant financial stake in the success of the project. Although the money is a loan, the Football Association ranks behind the senior bank and the public sector funders in terms of recovering its money in the event that the project is not completed. Furthermore the Football Association has to provide the bulk of its investment (£131 million) before the senior debt from West LB is released and well in advance of the further public funding from the Department and the London Development Agency being drawn down. And the Football Association is required to retain an investment of at least £100 million in the project for 50 years from completion of the stadium.

The public sector funders have secured protections to safeguard the public interest in the project

4.5 The negotiations about the contractual arrangements for the project involved Wembley National Stadium Limited and the Football Association, West LB and the other commercial investors, and the three public sector funders - the Department, Sport England and the London Development Agency. Where they had common interests the public sector funders negotiated jointly but each has its own funding agreement with Wembley National Stadium Limited, as well as being a party to the overarching inter-creditor agreement. The Department engaged Partnerships UK to take the lead in the negotiations on the public sector funders’ behalf and provide advice on negotiating tactics and wider commercial issues.

4.6 Throughout the discussions about the deal the public sector funders were concerned to safeguard their investment and ensure that it would deliver value for money. In many respects, the interests of the public sector funders coincide with those of Wembley National Stadium Limited and the commercial investors in that their protection ultimately depends on the delivery of a viable stadium. But in some areas the public sector funders sought to secure specific protections where they foresaw particular risks from their own perspective. In paragraphs 4.7 to 4.20 below, we set out the protections that the public sector funders would seek to rely on in the event of three particular scenarios.

Scenario 1: the stadium is highly profitable

4.7 Wembley National Stadium Limited’s financial projections show that in certain circumstances the new stadium could generate substantial profits for distribution to the Football Association. There is also the prospect of Wembley National Stadium Limited making significant gains from ‘refinancing’ at a later stage of the project.

4.8 Refinancing is the renegotiation of financing terms during the course of a project. It is an established technique on major projects where improved financing terms may be secured where risks have been successfully managed. Wembley National Stadium Limited is expected to have the opportunity to refinance once the stadium has opened when construction risk will have been eliminated and there will be more certainty about the level of premium seat sales. Refinancing could have significant benefits for Wembley National Stadium Limited, including lower interest rates on the outstanding debt (reducing the relatively high financing costs that will be paid in the early years of the project) and a longer repayment period. The improved financing terms could increase the returns available for distribution to the Football Association.

4.9 Refinancing could offer protection to the public interest in that it could increase the likelihood of the project being financially viable. Nevertheless in negotiating the deal, the public sector funders were concerned also to safeguard the public interest by preventing the Football Association from appearing to profit or destabilise the project, by taking windfall gains, including after refinancing. This could leave the Football Association with no long-term capital commitment to the project and increase the risk of Wembley National Stadium Limited being left with insufficient funds to sustain the project. So the public sector funders secured the following protections.

- The Football Association has to retain an investment of at least £100 million in the project (unless the Secretary of State agrees to a lower amount) throughout the stadium’s expected life of 50 years and can therefore require Wembley National Stadium Limited to repay only up to £48 million of its original investment during this period.

- The Football Association has to retain a controlling interest in Wembley National Stadium Limited for 50 years from completion of the stadium and its ability to sell a minority interest is limited - the sale of any minority interest earlier than 2018 requires approval from the Secretary of State and between 2018 and 2022 the Football Association can sell only up to 15 per cent without approval.
In the event of refinancing, there are restrictions on the ability of the Football Association to enter into any contracts or relationships with Wembley National Stadium Limited on terms which effectively allow the Football Association to take money out of the project. An example could be the Football Association taking a disproportionate share of the income from a joint Football Association/Wembley National Stadium Limited marketing deal involving sponsorship of the Football Association Cup Final by a drinks manufacturer which also has the rights to sell drinks within the national stadium.

Wembley National Stadium Limited must prepare its accounts in accordance with United Kingdom generally accepted accounting practice and specifically it must ensure that its accounting policy in respect of recognition of advance income (for example, from the upfront sale of premium seats) spreads such income evenly over the period to which it relates. This is designed to address the risk of Wembley National Stadium Limited applying accounting policies that inflate the profits available for immediate distribution to the Football Association.

The Football Association’s own profits (including money generated by the national stadium) must be used in accordance with its objects for the benefit of football in England. Under the lottery funding agreement, the Football Association and Wembley National Stadium Limited are unable to change their objects without the agreement of Sport England.

There is no scope in the deal for the public sector funders to share directly in any financial gains generated by the project or to be involved in decisions about how such gains should be used. The Department and Sport England decided that it should be for the Football Association to determine how any profits from the stadium should be used in accordance with its objects for the benefit of football.

Scenario 2: Wembley National Stadium Limited breaches the public sector funding conditions

During the course of the negotiations about the contractual arrangements for the project the public sector funders had at times to balance protecting the public interest with allowing a deal that would be acceptable to the commercial investors, thereby enabling the project to progress. The public sector funders accepted that in any deal their interests would be largely subordinated to those of the senior bank since it was providing over half the funding for the project.

Wembley National Stadium Limited and the senior bank were particularly concerned to limit the ability of the public sector funders to withdraw their money from the project in the event that the funding conditions were breached, as any funding gap would put at risk the success of the project and the bank’s investment in it. Nonetheless the public sector funders did secure a number of contractual provisions to protect the public interest in the event of Wembley National Stadium Limited breaching the funding conditions, including in certain circumstances the right to withhold outstanding funding or to recover from money otherwise payable as distributions to the Football Association funds that have already been paid.

The rights of the public sector funders depend on the nature and timing of the breach of the funding conditions concerned and, for the benefit of the project, in some situations Wembley National Stadium Limited has to be given time to remedy the breach. Some funding condition breaches are regarded as more serious than others and the contracts define a number of ‘fundamental events’ which are breaches of sufficient seriousness that they are considered to be incompatible with the standards of publicly funded projects or which unacceptably compromise the public benefit. Examples of key fundamental events are shown in Figure 10.

Examples of funding condition breaches that are fundamental events

- Wembley National Stadium Limited fails to meet its obligations regarding the specified number of public access seats in the new stadium.
- The stadium is not made available to host certain athletics events.
- Wembley National Stadium Limited sells naming rights to the stadium without Sport England’s consent.
- Wembley National Stadium Limited takes on an anchor tenant for the stadium without Sport England’s consent.
- The Football Association disposes of its majority shareholding in Wembley National Stadium Limited.
- The Football Association changes its objects.
- A fraud occurs in Wembley National Stadium Limited.

Source: National Audit Office analysis of the inter-creditor agreement
4.14 In essence the contractual protections available to the public sector funders are as follows.

The right to withhold outstanding funding

- If they have not paid their grant in full, the public sector funders have the right to withhold further payments to Wembley National Stadium Limited if certain specified events occur and the situation is not remedied to the satisfaction of the public sector funders. The specified events include fraud or corrupt gifts, the Football Association’s investment in the project and shareholding in Wembley National Stadium Limited, and compliance with key technical and operating requirements set out in the lottery funding agreement.

The right to recover funds that have already been paid

- In the event of any fundamental event that is not remedied, the public sector funders are able to recover funds that they have paid from the profits generated by the project which would otherwise be payable as distributions to the Football Association (Figure 11). This is known as ‘distribution sweep’. By its nature this protection will come into play only once the stadium is operational and generating sufficient profits for Wembley National Stadium Limited to be able to pay distributions.

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### Summary of the mechanisms for recovering public money that has been paid in the event that Wembley National Stadium Limited breaches the funding conditions

1. **Wembley National Stadium Limited breaches its funding conditions**
2. **Is the breach a ‘fundamental event’?**
   - **Yes**
   - **No**
3. **Is the fundamental event classed as remediable?**
   - **Yes**
   - **No**
4. **Has the breach been satisfactorily remedied within any applicable time period?**
   - **Yes**
   - **No**
5. **Outcome**
   - **Distribution lock up**
   - **Distribution sweep**
   - **Outcome**
   - The public sector funders release locked up distributions back to Wembley National Stadium Limited unless other breaches of the funding conditions remain outstanding, in which case the public sector funders may recover their funds in 2040 (or earlier if all the senior debt has been repaid).
   - **Outcome**
   - Profits otherwise payable as distributions to the Football Association are transferred to a distribution sweep account from which the public sector funders may recover their funds.
   - **Outcome**
   - Profits otherwise payable as distributions to the Football Association are locked up in an account from which the public sector funders may recover their funds in 2040 (or earlier if all the senior debt has been repaid).
   - **Outcome**
   - No further action by the public sector funders.

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Source: National Audit Office analysis of the inter-creditor agreement
4.15 Protection of the public interest relies ultimately on a successful project which delivers a financially viable stadium. Paragraphs 3.23 to 3.25 outline the key risks that the project will face as it moves forward, the mechanisms that have been put in place to address these risks, and the monitoring arrangements that the public sector funders have set up to ensure that they are in touch with developments. Nevertheless the possibility remains that the project could get into serious financial difficulty, with the emergence of a funding gap during construction or, for example, with Wembley National Stadium Limited being unable to meet its agreed repayments to the senior bank when the stadium is operational.

4.16 In the event of serious financial difficulty, the interests of the public sector funders would be heavily subordinated to those of the senior bank. A default by Wembley National Stadium Limited could enable the senior bank to demand immediate repayment of its loan in full. A plan for recovery of the project may be proposed by Wembley National Stadium Limited, on which the public sector funders would have to be consulted. Ultimately, however, the bank would have discretion whether to accept the plan or take control of the project itself to maximise its chances of recovering its investment.

4.17 The bank could pursue a variety of options, ranging from proceeding with the stadium in its current or a modified form to selling the site for an alternative use. As the value of the project lies in the operating income it can generate, the Department considers that, in the event of financial difficulties during construction, it is likely to be in the bank’s interest to continue building the stadium and seek to make it a commercial success. If the project gets into operational difficulty, the bank could opt to sell the stadium.

4.18 The options open to the bank could have a variety of implications for the public sector funders in terms of the likelihood of their recovering their grants or securing the intended public benefits. If a plan for recovery of the project not approved by the public sector funders caused certain fundamental events to occur, the public sector funders’ rights to distribution sweep and distribution lock up (outlined in paragraph 4.14) would continue to apply.

4.19 As the provider of the senior debt, the bank also has the first ranking security over Wembley National Stadium Limited’s assets (except for funds in distribution sweep and lock up accounts - see paragraph 4.14). The bank would therefore be the first to recover its money, ahead of other funders, in the event that the project did not proceed. Nevertheless, to help protect the public interest in the project, the public sector funders, like the commercial investors, are secured creditors. In notifying Parliament (see paragraph 4.20 below), the Department indicated that, as with many commercial arrangements, this had involved the appointment of a ‘security trustee’ to hold, and if necessary enforce, security over the stadium and other assets for the secured creditors.

4.20 The security trustee required the public sector funders and other secured creditors to indemnify it in certain circumstances against liability arising from the exercise of its functions as trustee. Wembley National Stadium Limited is liable to counter-indemnify the public sector funders in respect of any liability they incur as a result of these arrangements (and Wembley National Stadium Limited is also required to indemnify the security trustee directly). The Department notified the arrangements to Parliament as contingent liabilities in October 2002, explaining that its commercial advisers and lawyers had advised that such indemnities were common practice, but indicated that it was not able to assess the extent of any possible liability since this would depend on the particular circumstances.

The Department and Sport England spent £1.6 million on consultancy, financial and legal advice about the project

4.21 As detailed in parts 3 and 4 of this report, the Department and Sport England drew on advice from a range of external sources in reviewing the project and negotiating the contractual arrangements. From May 2001 to September 2002 the Department spent nearly £953,000 on consultancy, financial and legal advice in relation to the project and Sport England spent £623,000. These amounts included nearly £900,0007 relating to Mr Carter’s review of the project, although Mr Carter himself gave his time free and was reimbursed for his expenses only. The expenditure does not include provision for the cost of the time spent by staff in the Department and Sport England.

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7 This amount also incorporates the costs of the National Athletics Centre Review, which Mr Carter conducted for Sport England in July 2001.
Appendix 1 sets out details of the key players in the English national stadium project from the perspective of this report; players are shown in alphabetical order.

<table>
<thead>
<tr>
<th>Player</th>
<th>Background</th>
<th>Role in relation to the English national stadium project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berwin Leighton Paisner</td>
<td>City law firm.</td>
<td>- Worked with Mr David James CBE to investigate the allegations made by Tropus about aspects of the management and oversight of the project.</td>
</tr>
<tr>
<td>British Olympic Association</td>
<td>Recognised by the International Olympic Committee as the National Olympic Committee for Great Britain and Northern Ireland.</td>
<td>- Sought to ensure that the design brief for the stadium included the Olympic requirements.</td>
</tr>
<tr>
<td>Mr Patrick Carter</td>
<td>Businessman and investor in healthcare and technology businesses.</td>
<td>- Commissioned by the Department for Culture, Media and Sport to review whether the English national stadium project could be funded and managed at Wembley.</td>
</tr>
<tr>
<td>Citex (now known as Bucknall Austin)</td>
<td>Business infrastructure management company, specialising in property services.</td>
<td>- Provided advice to Sport England on the project, including the proposed contract with Multiplex.</td>
</tr>
<tr>
<td>Credit Suisse First Boston</td>
<td>Investment bank.</td>
<td>- Commissioned by Sport England (along with Sport Concepts) to undertake a technical and cost evaluation of Wembley National Stadium Limited’s proposals to accommodate athletics in the stadium.</td>
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<tr>
<td></td>
<td></td>
<td>- Commissioned by Sport England to monitor the progress of the project.</td>
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<tr>
<td></td>
<td></td>
<td>- Providing a letter of credit of up to £25 million ('mezzanine debt') to guarantee part of the revenue expected to be generated from advance sales of premium seats.</td>
</tr>
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<td></td>
<td></td>
<td>- Providing a loan of £7 million as part of the financing for the project.</td>
</tr>
<tr>
<td>Player</td>
<td>Background</td>
<td>Role in relation to the English national stadium project</td>
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<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Cyril Sweett Limited</td>
<td>Firm of quantity surveyors and construction advisers.</td>
<td>Commissioned by Wembley National Stadium Limited to assess the value for money of the proposed contract with Multiplex to build the new stadium.</td>
</tr>
<tr>
<td>Davis Langdon and Everest</td>
<td>Quantity surveying, construction cost and project management consultancy.</td>
<td>Commissioned independently by Mr Patrick Carter and the London Development Agency to review the risks associated with the proposed construction contract.</td>
</tr>
<tr>
<td>Department for Culture, Media and Sport</td>
<td>Government department responsible for sport and lottery policy.</td>
<td>Initiated process to review the project when the Football Association approached it for additional public funding.</td>
</tr>
<tr>
<td></td>
<td>Sets framework for lottery distribution by issuing policy and financial directions to Sport England and the other distributing bodies.</td>
<td>Providing funding of £20 million towards non-stadium infrastructure costs.</td>
</tr>
<tr>
<td></td>
<td>Private company, constituted as a not-for-profit organisation.</td>
<td>Providing loan of £148 million to Wembley National Stadium Limited for the project.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Will receive any profits generated by the stadium which it will distribute in accordance with its objects for the benefit of football.</td>
</tr>
<tr>
<td>Grant Thornton</td>
<td>Firm of chartered accountants authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.</td>
<td>Commissioned by Sport England to provide financial and commercial advice on the project.</td>
</tr>
<tr>
<td>Guinness Mahon (now part of Investec)</td>
<td>Investment bank.</td>
<td>Commissioned by Wembley National Stadium Limited to provide an opinion as to the ability of the existing stadium to generate funds to effect a repayment of the lottery grant.</td>
</tr>
<tr>
<td>Humberts Leisure Limited</td>
<td>Chartered surveyors and leisure and property specialists.</td>
<td>Provided advice to Wembley plc on the sale of the existing stadium and business to Wembley National Stadium Limited.</td>
</tr>
<tr>
<td>IMG</td>
<td>Sports promotion and marketing company.</td>
<td>Contracted to market and sell premium seats in the new stadium.</td>
</tr>
<tr>
<td>Mr David James CBE</td>
<td>Company doctor, corporate governance and insolvency specialist.</td>
<td>Commissioned by the Board of Wembley National Stadium Limited to investigate the allegations made by Tropus about aspects of the management and oversight of the project.</td>
</tr>
<tr>
<td>Player</td>
<td>Background</td>
<td>Role in relation to the English national stadium project</td>
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</tr>
<tr>
<td>Sir Christopher Kelly</td>
<td>Former senior civil servant, including Permanent Secretary at the Department of Health from 1997 to 2000.</td>
<td>Commissioned by the Department for Culture, Media and Sport via the Office of Government Commerce to review the framework of public accountability for the project.</td>
</tr>
<tr>
<td>London Development Agency</td>
<td>Responsible for promoting economic development and regeneration in London.</td>
<td>Providing funding of £21 million to the project.</td>
</tr>
<tr>
<td>Office of Government Commerce</td>
<td>Independent office of HM Treasury, which works with government departments to modernise and secure value for money in civil procurement.</td>
<td>Commissioned by Wembley National Stadium Limited, at the request of the Department for Culture, Media and Sport, to implement its gateway review process on the project, providing ongoing assurance at key stages as to the readiness of the project to go forward successfully.</td>
</tr>
<tr>
<td>Partnerships UK</td>
<td>A public private partnership, jointly owned by HM Treasury, Scottish Ministers and private sector shareholders, that assists public sector bodies to develop and implement public private partnerships.</td>
<td>Appointed to lead contractual negotiations with private financiers on behalf of the public sector funders and to provide advice to the Department for Culture, Media and Sport on commercial issues.</td>
</tr>
<tr>
<td>PricewaterhouseCoopers LLP (incorporating Coopers and Lybrand)</td>
<td>International accountancy and business services firm.</td>
<td>Provided advice to Wembley National Stadium Limited on the value of the existing stadium business.</td>
</tr>
<tr>
<td>Sport Concepts</td>
<td>Sport and entertainment architecture consultancy.</td>
<td>Commissioned by Sport England (along with Citex) to undertake a technical and cost evaluation of Wembley National Stadium Limited's proposals to accommodate athletics in the stadium.</td>
</tr>
<tr>
<td>Sport England (formerly the Sports Council of Great Britain)</td>
<td>Non-departmental public body, sponsored by the Department for Culture, Media and Sport. Responsible for distributing proceeds from the National Lottery to sport in England.</td>
<td>Launched the English national stadium project. Selected Wembley as the preferred site for the stadium and awarded the project a lottery grant of £120 million. Holds the golden share in Wembley National Stadium Limited, designed to protect the public interest.</td>
</tr>
</tbody>
</table>
## Player | Background | Role in relation to the English national stadium project
---|---|---
Tropus Limited | Private company providing property, construction and project management services. | Provided project management services to Wembley National Stadium Limited from November 1997 to August 2001.  
Reported concerns to Wembley National Stadium Limited about aspects of the management and oversight of the project.  

Wembley National Stadium Limited | Private company and a wholly owned subsidiary of the Football Association, except for a ‘golden share’ held by Sport England. | Responsible for constructing and operating the new stadium.  
Generated £15 million from operating the ‘old’ Wembley stadium, which is being used to help fund the new stadium.  

Wembley National Stadium Trust (formerly known as the English National Stadium Trust) | Independent charitable trust. | Originally set up to receive the lottery grant and take forward the national stadium project; this function was taken over by the English National Stadium Development Company which became Wembley National Stadium Limited.  
Will distribute the money to be contributed by Wembley National Stadium Limited to sports education and other projects.  

Wembley plc | Public limited company. | Owned and operated the existing Wembley stadium prior to its sale to Wembley National Stadium Limited in March 1999.  

Westdeutsche Landesbank | Investment bank. | The senior bank, arranging loans of £426 million to help fund the project.  

The English National Stadium project is being undertaken by a private sector organisation and is largely financed by private capital, we did not examine in detail the management or value for money of the project as a whole. Rather we focused on the public money that is being contributed to the project, in particular the funds provided by the Department for Culture, Media and Sport and Sport England, which are both audited by the Comptroller and Auditor General.

We considered how the Department and Sport England sought to safeguard their investment in the project and ensure that the intended public benefits would be delivered. Our examination concentrated on the period between April 2001 when the Football Association requested further public funding for the project and September 2002 when the Department committed an additional £20 million and work to build the new stadium began. Specifically we examined:

- the position in 2001 when the project had received lottery funding from Sport England but had been unable to secure the commercial financing it needed;
- how the Department reached a decision on whether to award further public money to the project;
- the protections for the public money invested in the project when it received the go-ahead in September 2002.

The key methods we used are as follows.

- We undertook a detailed examination of reports, correspondence and other papers held by the Department and Sport England. The key documents we examined are listed in the table opposite.
- We interviewed senior staff in the Department and Sport England to ensure we had a proper appreciation of events and discussed our findings in detail with them.
- We met and discussed the project with senior staff at Wembley National Stadium Limited. We also examined the reports by Tropus, Mr David James CBE and Berwin Leighton Paisner, which Wembley National Stadium Limited agreed could be made available to the Comptroller and Auditor General.

We examined the reports of the House of Commons Culture, Media and Sport Committee on the project and the evidence that was submitted to the Committee during the course of its inquiries by the Football Association, Wembley National Stadium Limited and other parties.

<table>
<thead>
<tr>
<th>Key documents examined during the course of our examination</th>
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</thead>
<tbody>
<tr>
<td>The January 1999 lottery funding agreement and associated documentation (including the additional commitments agreed when the stadium closed in October 2000).</td>
</tr>
<tr>
<td>The September 2002 lottery funding agreement and the other public sector funders’ deeds of support.</td>
</tr>
<tr>
<td>The inter-creditor agreement between the various parties funding the project.</td>
</tr>
<tr>
<td>The English National Stadium Review by Mr Patrick Carter.</td>
</tr>
<tr>
<td>The Office of Government Commerce’s gateway review of the project, and its review of the framework of public accountability for the project (undertaken by Sir Christopher Kelly).</td>
</tr>
<tr>
<td>Cyril Sweett Limited’s report on the value for money of the proposed contract with Multiplex to build the new stadium.</td>
</tr>
<tr>
<td>David Langdon and Everest’s report on the risks associated with the proposed construction contract.</td>
</tr>
<tr>
<td>Citex and Sport Concepts’ technical and cost evaluation of the modified proposals to accommodate athletics in the stadium.</td>
</tr>
<tr>
<td>PricewaterhouseCoopers’ advice on corporate governance at Wembley National Stadium Limited.</td>
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</tbody>
</table>