House of Commons

Committee of Public Accounts

The regeneration of the Millennium Dome and associated land

Second Report of Session 2005–06

Report, together with formal minutes, oral and written evidence

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The Committee of Public Accounts

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Summary

When the Millennium Exhibition project was first conceived in the mid 1990s, the expectation was that at the end of its year of operation the Dome would be demolished or moved, and that the cleared site would be sold for redevelopment under an existing masterplan for the Greenwich Peninsula. In 1997, however, the incoming Government decided that the Millennium Experience should continue as a 'lasting legacy' in Greenwich. English Partnerships, the national regeneration agency which owned the site, and which was due to receive it back after the New Millennium Experience Company's occupation, was asked to find a sustainable long term use for the structure, recognising its status as an iconic building.

The initial competition to find a future use for the Millennium Dome began in March 1999, but failed to find a buyer able to complete the deal on acceptable terms. The main reasons behind the lack of success of this original competition were the complex nature of the competition process and the difficulty the Government faced in deriving sufficient confidence about the deliverability of innovative proposals from bidders.

The initial offer of the Dome in the first sale competition of 1999 to 2001 was not accompanied by extensive tracts of development land, because Ministers had asked English Partnerships to find a use for the Dome itself. It was assumed at the time that the Dome could be viable in isolation, without more than a parcel of adjacent land for ancillary facilities. English Partnerships already had a separate development plan in place for the rest of its land on the Greenwich Peninsula. And throughout the attempts to sell the Dome the vendors were reluctant to encourage bidders whose only interest was in the development land and who did not really want the Dome itself.

In March 2001 a second sale process was initiated. It followed a different approach in adopting limited competition, against a background of little market enthusiasm for a rerun of open competition, widespread doubts about the risks and costs of participation, and little specific interest in the Dome. The scale of the final deal expanded to include over 100 acres more land than had been explicitly offered. English Partnerships' active promotion of the opportunity to potential bidders had been focussed on the 68 acres beneath the Dome and its immediate surroundings, in line with government priorities. Some bidders realised that more land could in fact be available. As a result of this sale process, in June 2004 English Partnerships concluded a deal with Meridian Delta Ltd and the Anschutz Entertainment Group (Anschutz) for the redevelopment over 20 years of the whole northern Greenwich Peninsula, including reuse of the Dome. The deal is complex. It preserves the Dome in place until 2018, housing a large indoor arena and leisure complex, and provides

for a major office development and some 10,000 new homes on the adjacent land.

On the basis of a Report by the Comptroller and Auditor General,[1] the Committee examined English Partnerships and its sponsorship department, the Office of the Deputy Prime Minister (the Department) on whether the best achievable deal had been negotiated, consistent with government policy to retain the Dome. In particular, we examined the way in which the opportunity to develop the Dome and surrounding land had been presented to the market, how the value for money to the taxpayer of the eventual deal with Meridian Delta was assessed, and how English Partnerships plans to manage this complex new joint venture to best advantage in the long term.

1 C&AG's Report, *The regeneration of the Millennium Dome and associated land* (HC 178, Session 2004–05)

Conclusions and recommendations

1. **There was confusion among potential bidders about how much land was on offer in the second competition for the sale of the Dome.** English Partnerships, the Department and their advisers believed that to have made a clear, open offer of all the land that was available at the outset of the second competition would have diminished interest in the Dome itself. Instead they let information emerge to each consortium in a piecemeal and unstructured manner which did little to further the sale objectives. In running competitions Departments should maintain openness and equality of information, which will avoid unnecessary risks to the bidders, maximise competitive tension, and optimise the likely outcome for the Exchequer.

2. **This Committee and its predecessors have consistently stressed the benefits of competitive tension when negotiating commercial deals with the private sector (Figure 1).** The failed first sale competition meant that there was reduced market interest in the second sale process, leading to weak competition with few participants and only one viable bid. In these circumstances it is difficult to be confident that the deal which was finally secured offered the best value for money that could have been achieved.

3. **English Partnerships and the Department were working within the policy set by Ministers and the local Planning Authority to retain the Dome if a suitable use could be found.** Recognising this constraint, English Partnerships might usefully have sought bids that showed how much bidders were willing to pay for the Dome itself, as opposed to the valuable land around and under it. The financial case for its retention would then have been better presented with all credible options transparently assessed.

4. **In their evaluations of the value for money of the Meridian Delta offer, the Department and English Partnerships focused much attention on the potential risks to the deal. They were less specific about the various potential additional revenues that they had identified, such as from a possible casino in the Dome.** Whilst Departments should be prudent by not overstating uncertain benefits in their investment appraisals, they should still attempt to quantify the likelihood and nature of such "upsides" so as to understand and manage the project and maximise potential additional benefits to the taxpayer.

5. **In deals as complex as that agreed for the Dome, estimating possible future profits will never be an exact science. So profit sharing mechanisms, with their inherent scope for returns to be undervalued, are not the best way of achieving a fair return for the taxpayer.** Especially where public bodies are not as expert as their counterparties in specialist businesses, they should think in terms of taking a royalty, or a percentage of gross takings, instead of a profit figure. This approach would also be consistent with the principle of allocating business risks to the party best able to manage them.

6. **Monitoring the successful delivery of this regeneration programme will require a long term commitment from English Partnerships to ensure it has a sufficiently**

detailed understanding of the various constituent businesses. For example, it will need to exercise its rights of access to inspect and review the financial records of the joint venture and be as fully engaged as its private sector partners in decision-making over the speed and nature of development of the Peninsula. English Partnerships should benchmark the various business activities being undertaken by its profit share partners and watch that value does not leak away from the taxpayer. English Partnerships will need relevant specialist expertise in monitoring and managing its continuing stake in this deal in the public interest.

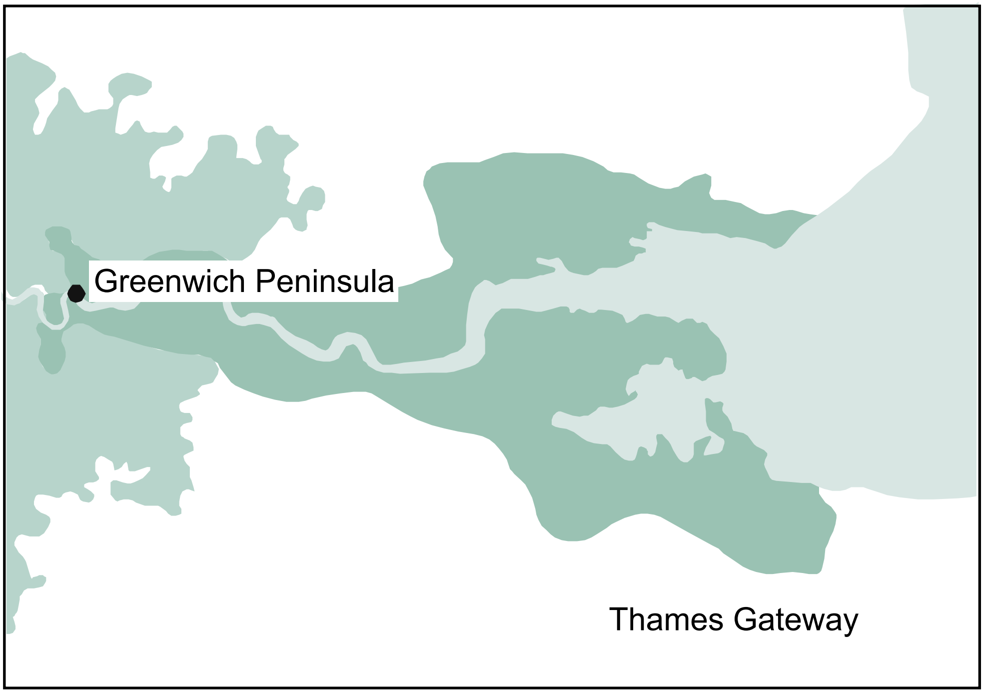
Figure 1: Previous recommendations of the Committee on the importance of maintaining competitive tension, and of clear information to bidders

Recommendation	Report
"It seems likely to us that the privatisation may have gained from more specific marketing of the subsidiaries that came forward for sale in the later stages."	9th, *The Sale of the National Bus Company*. (HC 119, Session 1990–91), para 3
"In any case where public assets are sold in competition, it is essential that all bidders have a complete and clear understanding of the seller's requirements. We expect departments to proceed accordingly in all future cases".	19th, *The Sale of the Skills Training Agency* (HC 117, Session 1991–92), para 4
"Departments must try to secure effective competition as the basis for any commercial deal, whether for privately financed projects, public private partnerships or for other types of procurement. Shortlisting too few bidders or failing to maintain competitive tension throughout negotiations, as in this case, will increase the risk of poor value for money."	42nd, *The Skye Bridge* (HC 348, Session 1997–98), para 17
"The achievement of good value for money is most likely where there has been competition among fully informed bidders. Providing comprehensive information about the business being sold will help stimulate imaginative, competitive bids..... Information should be made available on an equal basis to all potential bidders, or departments will risk undermining bidders' confidence in the integrity of the sale process."	61st, *Getting Value for Money in Privatisations* (HC 992, Session 1997–98)
"Competition is essential if value for money is to be achieved. But on a number of deals we have examined, the department concerned received only one bid. The receipt of just one bid may indicate, for example, that the proposed project has been poorly designed."	28th, *Delivering better value for money from the Private Finance Initiative* (HC 764, Session 2002–03), para 13

1 Presenting the commercial opportunity to potential buyers

Figure 2: The location of the Greenwich Peninsula

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



Source: Office of the Deputy Prime Minister

1. The Dome is located on a strategically important site. The Greenwich Peninsula marks the western end of the Thames Gateway **(Figure 2)**, one of the main growth areas proposed for economic regeneration and development in the South East of England. Public investment in remediation, servicing and landscaping works and in transport links has opened up the site for intensive and profitable redevelopment. In 1998, Ministers decided that the Millennium Dome would itself remain as a legacy after the Millennium Experience Exhibition and asked English Partnerships — the national regeneration agency which owned the site, to find a sustainable long term use for it.

2. The initial unsuccessful competition to find a future use for the Millennium Dome began in March 1999 but failed to find a buyer able to complete the deal on acceptable terms. There were several reasons behind the lack of success of this original Dome sale competition. The objectives for, and process of, the first competition were complex. The difficulties were exacerbated for those bidders which depended on the deficient business records and weak commercial performance of the New Millennium Experience Company. Second, it was inherently difficult to sell the Dome separately from other parts of the Greenwich Peninsula site, and difficult for the Government to derive sufficient confidence about the deliverability of innovative proposals from bidders. In March 2001 the Government initiated a new sale process which led to a deal with Meridian Delta Ltd and the Anschutz Entertainment Group (Anschutz) for the redevelopment over 20 years of the whole northern Greenwich Peninsula, including reuse of the Dome. This complex deal

preserves the Dome in place until 2018, housing a large indoor arena and leisure complex, and provides for a major office development and some 10,000 new homes on the adjacent land **(Figure 3)**. Meridian Delta Limited is a joint venture between Lend Lease, an Australian property company, and Quintain Estates and Development plc. Meridian Delta selected the Anschutz Entertainment Group to operate the Dome. Anschutz is a major owner of sports teams around the world with a track record of designing and building and operating major indoor arenas.[2]

3. During the initial Dome Sale competition only the 48 acres of land beneath and immediately around the Dome had been offered for sale, with an indication that up to a further 20 acres of land adjoining the Dome could be available provided that bidders could show that they were essential for their proposed use of the Dome and an integral part of their proposals. When the initial competition came to an unsuccessful end in early 2001 the competition team, advisers and the Board of English Partnerships came to recognise that the 68 acres under and adjoining the Dome itself might not be viable for sale on its own.[3]

4. The next sale process nevertheless began on the same formal basis as before, allowing for additional land to be made available only where it was an essential part of bidders' proposals for the Dome. Although English Partnerships were in practice open to proposals for much more of its land on the Peninsula, some 170 acres in total **(Figure 4)**, it believed that to advertise the fact would attract bids from property developers who were only really interested in the land itself. Ministers had decided that the priority would be to find a sustainable use for the Dome itself, with regeneration of the Greenwich Peninsula as a secondary objective. So English Partnerships and the Department invited market interest on the basis that the Dome and immediately adjacent land was available – some 48 acres of land under the Dome itself and 20 acres used during the Millennium Exhibition for visitor reception and administration. Interest in further land owned by English Partnerships on the Peninsula, some 100 acres, was not ruled out but nor was it explicitly advertised. As a result some potential bidders were unclear about how much land was on offer. It was not apparent to all that there was an opportunity to bid for other land.[4]

2 C&AG's Report, Part 1

3 *ibid*, paras 1.20–1.23

4 *ibid*, Part 2; Qq 15, 21

Figure 3: The Meridian Delta Scheme

The main elements of the deal are:

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

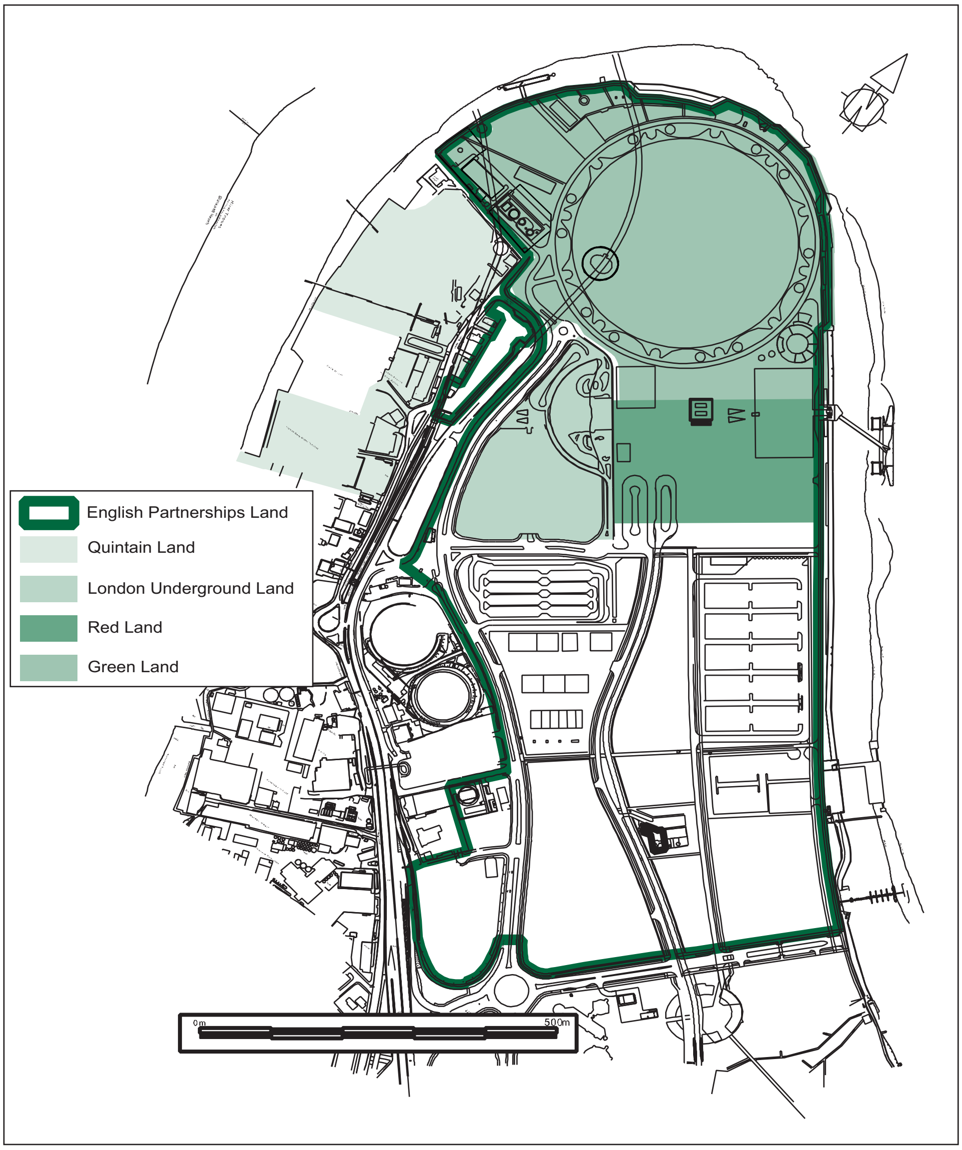
Source: Meridian Delta

5. Public sector vendors are most likely to maximise the value they receive if they inform all potential bidders of the exact parameters of what is on offer The Department maintained that there would not have been more interest if the vendors had been clear how much land was on offer. Their advisers had spoken to some 150 potential partners and had found very little interest in the Dome, whereas the proposals put forward by Meridian Delta were very strong. The Department were satisfied that there was no offer around the corner that had not been tapped. Potential bidders were shown the full extent of English Partnerships' landholdings on the Peninsula, and which portions were absolutely available with the Dome, but at no stage was anyone prevented from talking about what other land they needed. In their opinion the reason why companies did not proceed was that very few of them wanted to be involved in finding a sustainable use for the Dome itself. The fact that Meridian Delta, having in discussion detected the availability of more land, were willing to invest time and money in working up proposals for the Dome itself, suggests that other potential bidders might nevertheless have been incentivised to do the same.[5]

5 Qq 9, 23

Figure 4: The North Greenwich Peninsula

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



Source: English Partnerships

2 Evaluating the value for money of the deal

6. English Partnerships estimated the current market value of its 170 acres of land incorporated in this deal at £170 million, or £1 million an acre. The equivalent value of the 48 acres occupied by the Dome might therefore have been in the region of £48 million, but in the view of the Department and English Partnerships they would not be able to realise this value by simply demolishing the Dome and building on the vacated site. Other factors led them to conclude that it would be better to preserve the Dome. [6]

7. The London Borough of Greenwich made it clear that they regarded the Dome as an iconic building giving recognition to the Peninsula. If there had been any suggestion of taking it down the Borough would have sought to have it listed. In the longer term, beyond 2018, the Borough would have to consult locally if there was any suggestion of taking down the Dome and using the site in some other way.[7] But by 2018 the Department and English Partnerships expect there to be more clarity over things like a new third river crossing, together with evidence on whether the Dome has been successful.[8]

8. The Department and English Partnerships did not deny that there would be some opportunity cost in retaining the Dome. But in their view the assumed £48 million value of the land occupied by the Dome was not money lost to the taxpayer. The current Meridian Delta scheme was a dense one that would use the capacity of the Peninsula up to the maximum level within the known transport constraints. Any proposal to increase further the amount of residential development on the site of the Dome, if the structure had been demolished, would not have been permitted because of the increased movement of traffic at peak hours. Although demolition might appear to free up an area of land for further valuable business uses, it would not in fact have created additional capacity on the Peninsula for such uses. The Blackwall tunnel was already at peak capacity during rush hours, and all that would have been possible was a redistribution of the total amount of space now given development consent. The deal yielded the maximum possible development because traffic to and from the Dome would take place at different times to peak rush hours for occupiers of homes and offices on the Peninsula. And the Mayor of London, in deciding not to direct refusal of permission for the scheme, stated that "there is no doubt that the plan seeks to maximise land use opportunities on the Peninsula".[9]

9. Finally, the cost of any demolition of the Dome after 2018, currently estimated at £19 million, would fall to the private sector, as opposed to a burden on the taxpayer which would be the case if the Dome were demolished now.[10]

6 Qq 33–35

7 Qq 36–37

8 Qq 41–43; Ev 13

9 Qq 81–83; Ev 13

10 Qq 51–55

10. There are various elements in this scheme which may generate future profits to the taxpayer, but which English Partnerships did not assume when evaluating the deal. For example the extent to which there might be a share in future profits from the Dome Arena and Waterfront is uncertain. Also in 2003 the Anschutz Group expressed interest in placing at the Dome one of the eight large Regional Casinos proposed in the government's draft Gambling legislation. At the time of Meridian Delta's original proposals there had been no discussion on casinos. A casino would require both planning permission and a licence under the recently enacted Gambling Act. The Government has indicated that there will only be one Regional Casino, and it is not yet clear whether the Dome will be successful in obtaining a licence. The Department has no firm view about whether a casino would be a positive or negative factor in terms of value to the deal. It is not party to any related negotiations with the Anschutz Entertainment Group, but recognises that Anschutz are pursuing it because they expect it to increase their profits, in which English Partnerships would take a 15% share after the operator had made a prior return. English Partnerships have not however assumed any return from a casino.[11]

11 C&AG's Report, para 3.20; Qq 89–93, 99

3 Managing the deal in the long term

11. Most of the returns to the taxpayer from the deal are still a long way off. It will be several years before even the costs that English Partnerships incurred in maintaining and selling the Dome between 1999 and 2004 should be recovered. English Partnerships have spent some £14.5 million on external advice and professional services during the two successive sale processes (£6.7 million and £7.8 million respectively) from March 1999 to June 2004 to enable them to reach the current deal **(Figure 5)**.

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

Total costs incurred by English Partnerships in the sale processes and in managing the Dome from July 2001 until the deal became unconditional in 2004 amount to £28.7 million.	
Nature of expenditure	**Total expenditure £m**
Costs associated with the first Sale process[1]	6.7
Management and maintenance of the Dome[2]	7.5
Decommissioning the contents of the Dome and its site[3]	6.7
Costs associated with the second Sale process	7.8
Total costs	**28.7**

Source: English Partnerships

Notes:

1 Costs incurred up to February 2001.
2 Includes environmental insurance £0.59 million and Staff Costs in addition to the figures in Figure 13.
3 Exclude decommissioning costs incurred by the New Millennium Experience Company, £6.3 million.

12. On present plans the first £30 million of proceeds will be returned to the taxpayer during 2008, and the remaining expected £3 million contribution due to English Partnerships for having maintained the Dome from 2004 should be available before the end of 2009. Thereafter English Partnerships will derive returns in the form of a minimum land value from the disposal of parcels of land as well as a share of profits from land development. Only by 2015 is the deal expected to generate a higher return than could have been received by just selling off the land and demolishing the Dome. The Department and English Partnerships hope that as the development takes off the value of later parts of the development will increase further.[12]

12 Qq 10, 67–69, 85–88

13. Since the financial returns are deferred, English Partnerships intend to deploy robust management arrangements to ensure that the taxpayers' interest is protected over the next 20 years in this complex profit sharing deal. The Department takes confidence from several factors which are listed in **Figure 6**. More generally, the Department does not perceive the Greenwich Peninsula contract as being any more complex than any other joint venture might be which requires a return over time. For example, the contract for a development in Barking Reach will be of a similar nature. In terms of its profit share from the Arena and the possible Casino, however, this particular deal may take English Partnerships into unfamiliar territory.[13]

Figure 6: How the Department expects to protect taxpayers' interests in the deal[14]

- All the parties involved, including English Partnerships, are experienced players and throughout negotiations English Partnerships were advised by professional advisers experienced in making such contracts work.
- There are arrangements for oversight, management and monitoring and the return of proceeds.
- There are fallback clauses in the deal itself which would allow English Partnerships to step in and retrieve the contract for the public sector in the event of slow progress by Meridian Delta, and others that would permit Meridian Delta to step in given slow progress by Anschutz.
- The deal is to be managed by a special project team, sharing offices with the Urban Development Corporation in the Thames Gateway.

13 Q 13

14 Qq 11–12

Formal minutes

Monday 18 July 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Mrs Angela Browning
Greg Clark
Helen Goodman
Ms Diana R Johnson
Mr Sadiq Khan
Sarah McCarthy Fry
Jon Trickett
Mr Alan Williams

Draft Report (The regeneration of the Millennium Dome and associated land), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 13 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (Reports)) be applied to the Report.

[Adjourned until Wednesday 12 October at 3.30 pm

Witnesses

List of written evidence

Oral evidence

Taken before the Committee of Public Accounts

on Monday 17 January 2005

Members present:

Mr Edward Leigh, in the Chair

Mr Brian Jenkins	Jon Trickett
Jim Sheridan	Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, further examined.
Mr Brian Glicksman CB, Treasury Officer of Accounts, HM Treasury, further examined.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL:

English Partnerships:
Regeneration of the Millennium Dome and Associated Land (HC 178)

Witnesses: **Dame Mavis McDonald DCB,** Permanent Secretary, Office of the Deputy Prime Minister and **Mr John Walker,** Finance & Commercial Director, English Partnerships, examined.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts. Before we start it is my great pleasure to congratulate our Treasury Officer of Accounts, Brian Glicksman, on his CB.
Mr Glicksman: Thank you very much, Chairman, that is kind of you.

Q2 Chairman: The whole Committee is very grateful for the recognition of all the work that you do for the Committee. Today we are looking at English Partnerships: Regeneration of the Millennium Dome and Associated Land, and we are joined by Dame Mavis McDonald, who is the Permanent Secretary at the Office of the Deputy Prime Minister, and Mr John Walker, who is Finance & Commercial Director of English Partnerships. You are both very welcome. This of course is a long-running saga and I hope it is the last time that the Committee has to look at the Dome, but there has been a great deal of public interest. Could I please ask you, Dame Mavis, to start by looking at paragraph 2.3, which you can find on page 20 of the Report of the Comptroller and Auditor General? Would it be fair to say that the poor handling and the unsatisfactory outcome of the first sale competition, which of course is history and we all know about, did lead very directly to the weak interest of major players in the second process?
Dame Mavis McDonald: I think the Report makes clear that that was the advice of Jones Lang LaSalle, who were English Partnerships' and the competition teams' advisers throughout the first and second competition, and they were taking soundings of people who were expressing interest through the period of the last part of the first competition and who were pretty authoritative in the view which they gave to us about the handling of the second competition.

Q3 Chairman: So the answer to that is yes, is it?
Dame Mavis McDonald: Yes.

Q4 Chairman: Thank you, that is very clear. Could you now please look at the actual sale process, and to start with if we could look at paragraphs 1.23 to 1.24 on page 15? Do you not think, Dame Mavis, you were a bit naïve in thinking that the Dome could be sold in isolation without a large dowry of development land?
Dame Mavis McDonald: It was very clear in both competitions that Ministers had set a goal of finding a sustainable use for the Dome as part of the competition. In both competitions English Partnerships and their advisers were focusing on that as a primary objective, with the secondary objective of achieving part of the regeneration of the Greenwich Peninsula. In all the very large number of inquiries and expressions of interest that were made in both competitions nobody was inhibited from expressing an interest in the wide amount of land, and indeed the material that was sent out by Jones Lang LaSalle made it clear which land was available around the Dome, and also what the extent of the English Partnerships and other owners' landholdings were on the remainder of the Peninsula. The key purpose was finding a sustainable use for the Dome and, as the Report itself points out, there was a lot of evidence that more people were interested in the land rather than the Dome and there was really no doubt about the extent of interest in the land. I think the extent to which the Report refers to the restrictions on the land were about not subsidising the total value of the deal by selling land at what we might describe as less than the best value to any prospective partnership or consortium that came forward.

Q5 Chairman: The original question is fair enough, is it not? It was hopeless to expect anybody to be interested in the Dome on its own?
Dame Mavis McDonald: I think Jones Lang LaSalle—may I say JLL?

Q6 Chairman: Yes, of course.
Dame Mavis McDonald: JLL did do some work about what potential uses were along with other private sector advisers, and we did have advice that there were types of leisure use for the Dome which could stand up on their own, and indeed I think John can probably give you more detail. English Partnerships did look into that particular question in more detail.
Mr Walker: If I may, Chairman?

Q7 Chairman: Yes.
Mr Walker: Yes, we examined that and we appointed consultants ERA to undertake some market testing of what type of leisure use could be sustained within the Dome.

Q8 Chairman: You will have to speak up a bit, I am afraid.
Mr Walker: Yes. We asked ERA to have a look at the various leisure groups that could be put to use in the Dome and they carried out a study and they came to the conclusion that it would probably need a capital injection of something like £100 million to make a leisure use stack up in the Dome.

Q9 Chairman: We now move on to land being offered with the Dome, and this is covered on page 21 between paragraphs 2.5 and 2.7. Do you think that you might have had more interest if you had been clear from the start exactly how much land was on offer?
Dame Mavis McDonald: Our view is no, for two reasons. One is because the total extent of market testing in the first competition and the second was very exhaustive; there was something like 1,400 initial expressions in the first competition, which very quickly got narrowed down to referring a small shortlist of six, which came down to two players. JLL went back and talked to another 150 potential consortium companies, partners, who might be interested in the second competition, and again there was a lot of interest in the land but very, very little interest in the Dome. So we were satisfied on that count that there was not an offer around the corner that we had not potentially tapped. The second point was that the actual deal put forward by the MDL consortium was very strong indeed. It had three very strong, well-established companies with a track record of delivery and success in the relative areas of their expertise; but it also uniquely brought to the table the land that Quintain's owned, which opened up the end of the Peninsula for development in a way that no other proposition is currently doing, and led to the opportunity for a wider regeneration plan for the north end of the Peninsula, which was something for which Greenwich Borough Council had always been pressing.

Q10 Chairman: It has taken five years to agree to this sale. Can you tell me, Dame Mavis, when the taxpayer will finally be rid of the burden of this white elephant?
Dame Mavis McDonald: On the present plans it is anticipated that the £30 million referred to in the Division of Proceeds document will be returned to the taxpayer during 2008 and the remaining cost return due to EP for the maintenance of the Dome will be available before the end of 2009.

Q11 Chairman: This is a very large and complex deal. If you look at figures 11 and 16 on pages 23 and 33, we are looking at a complex profit sharing deal. Are you satisfied that you have sufficiently robust management procedures in place to ensure that the taxpayer's interest is protected over the next 20 years?
Dame Mavis McDonald: Yes. John can talk to you more about the detail, but from the point of view of my responsibility for taxpayers' money there are several factors that give us some reassurance. One is, as I said previously, all the parties are experienced players, including English Partnerships itself. Secondly, we have set up a series of arrangements for the oversight and management and monitoring of the deal and the return of the proceeds, which involves the NAO assisting us to ensure that we are on top of what we should expect. Thirdly, there are fallback clauses in the deal itself which allow both MDL in the place of Anschutz and EP in the event of MDL going too slowly to step in and retrieve the contract for the public sector and invite somebody else to do the development. So we feel we have structures in place designed to oversee what I agree is a very long period, to stay very much on top of the roll out of the whole of the project, and indeed it has been set up to be managed like a project with a special project team, sharing offices in the Thames Gateway with the Urban Development Corporation and the ODPM's Thames Gateway team.

Q12 Chairman: But just one thing can go wrong. What happens if the office development fails to take off, for instance? You are in trouble, are you not?
Dame Mavis McDonald: Again, I will ask John to follow me on the detail but the office development will not take place unless the developers feel that the market is right and they will be monitoring what is going on in the Eastern London market. I think the whole of the deal of course relies on the return from the housing as well as the office, so there are trade-offs to be made about the rate and speed of the development of the land over time, depending on variations in the market. As I say, I do not know if you would like John to say something more on that?

Q13 Chairman: I think we can probably leave that. I just want to keep with you, if I may, Dame Mavis, and to sum it up this way. You have created a contract that is very complex and certainly is an interesting intellectual achievement, I recognise that, but you were clearly desperate to offload this and we have a scheme now where the companies get the profits upfront where we, the taxpayers, have to wait to the end of this process. Do you not accept that such a complex contract may raise more questions than it answers?

Dame Mavis McDonald: I think it is complex but it is not my sense that it is any more complex than any other joint venture partnership might be, which requires a return over time. So, for example, the contract we are working on as part of the Gateway Development in Barking Reach is going to be of a similar kind of nature, and I think throughout EP and Ministers were advised by professional advisers who have lots of experience in how to draw up such a contract and make it work.

Chairman: We will hope for the best. Mr Trickett.

Q14 Jon Trickett: Thank you, Chairman. I want to focus on the issue of the additional 100 acres. I think that the original site was 62 acres and eventually a deal was done over 170 acres roughly; is that right?

Mr Walker: That is right.

Q15 Jon Trickett: Accepting that the decision simply not to demolish the Dome and develop all the land was a question of public policy determined by the local authority and the Government, so it is not within our remit, the question is did you dispose of the Dome in the most cost effective way? Did you maximise the return to the public purse? Why did you not simply decouple the land which is available to be sold for development from the sale of the Dome—just answer that question first—and simply sell the land in order to maximise the value from the land and then use that as a clear and transparent cross-subsidy to the Dome, which clearly was not going to bring in huge amounts of money?

Dame Mavis McDonald: To repeat what I said earlier, because another ministerial decision was that a priority should be to find a sustainable use for the Dome itself, so that was the framework in which we were running the competitions basically—

Q16 Jon Trickett: In terms of value for money to the public purse and also in terms of transparency the right thing to do would have been to sell the land separately, to put it out to tender, to decouple the development of the land and the land value from the cross-subsidy, which went into the Dome itself, would it not? What you have achieved is a lack of transparency and also a failure to demonstrate that you have achieved value for money, for the land?

Dame Mavis McDonald: I do not think I share your premise because the Report itself and the work that was done for us, where we were testing the value with and without the Dome at various points in the competition, showed that there was a greater return with the Dome for a whole variety of reasons.

Chairman: Forgive my interruption. Our experienced colleague, Mr Williams, reminds us that you cannot question the policy but you can question the opportunity costs involved. So if a decision was taken not to demolish, say, you could question what is the result of that.

Q17 Jon Trickett: I might come back to that in a second. Thank you for your help, but I want to try to understand who wrote paragraph 2.11 because paragraph 2.11 says: "In our view"—and I do not know who the authors are and whether you have agreed to this or not—"public sector vendors are normally most likely to maximise the value they receive if they inform all potential bidders of the exact parameters of what is on offer." Is that your view or is that the NAO's view?

Dame Mavis McDonald: That is the NAO's view.

Q18 Jon Trickett: From which you dissent?

Dame Mavis McDonald: What we have said is that we do not think in this instance—and we did a market test under Treasury rules that were agreed—that we would have got a better deal by going down that particular route.

Q19 Jon Trickett: At the end of the day, though, we rely on the NAO for advice as much as any response which you might have, and I understand you to be saying that you dissent from that point of view?

Dame Mavis McDonald: As a matter of general principle, no, I do not, but in relation to this particular competition it remains our view and that of English Partnerships that this was as good a deal as we were going to get from anybody, for some of the reasons I addressed to the Chairman.

Q20 Jon Trickett: Can I ask the C&AG, this paragraph 2.11, it is obviously the NAO's view and presumably yours, Sir John? Also I notice in paragraph 2.12 that there is a sentence which says, "The National Audit Office takes the view that it is unclear whether such an offer would have produced additional strong bids." That is an extremely polite way of expressing, I think, a feeling that actually there might have been an alternative way of tendering for this land and that that might have been the more normal practice for the public sector. Am I right in interpreting these words in that way?

Sir John Bourn: It is right to say that would have been the normal practice and certainly the value of informing and making clear what it is you are selling is both the best way of selling things and the fairest way of selling things. So that is our general view and indeed the view that Dame Mavis takes.

Q21 Jon Trickett: In this case would you say that it was not necessarily apparent to all the bidders that there was an opportunity to bid for other land which was almost an uninvited opportunity in a way? Would that be slightly exaggerating the situation?

Sir John Bourn: Yes, that is right.

Q22 Jon Trickett: One had to be a mixture of a land developer and Sherlock Holmes to discover that there were additional 10s of acres—in this case 100 acres—available, and not all of the bidders were aware of that, and it is clearly the strong view of the NAO, representing an independent view about how the public purse should be managed, that it would be best for the public sector to clearly state what is available to bid against, and you failed to do that, did you not? You may say in this case that actually it does not matter because at the end of the day you got value for money, that is your case; but,

nevertheless, you did operate in a way, did you not, which cannot demonstrate that value for money was achieved in this matter?
Dame Mavis McDonald: I am sorry but I really do not think we accept that proposition. There had been huge market tests. There was a lot of evidence that people were interested in the land. Nobody was told that they could not have a debate about land in relation to it; what they were told was the primary purpose as well was to find a sustainable use for the Dome. When Jones Lang LaSalle were given their marketing brief to go back for the second competition they were told to go back to everybody who had expressed an interest, including those who just expressed an interest in the land, to make sure that no potential opportunities were missed.

Q23 Jon Trickett: But if I sell my car it would not necessarily be the assumption of those who want to buy my car that the garage is also available for sale, and that appears to be the defence that you are putting up: "We did not say it was not available for sale and therefore the developers should have divined that it was for sale." That is really a curious way of reasoning, is it not?
Dame Mavis McDonald: Everybody was shown the full extent of EP's landholdings on the Peninsula site; they were also shown which bits were absolutely available with the Dome proposition but at no stage was anybody prevented from talking about what other land they needed, and during the course of the discussions that have gone on people had been talking about what land they needed. The reasons that they were told and indeed expressed interest in not going ahead was because very few of them wanted to be involved in finding a sustainable use for the Dome itself.

Q24 Jon Trickett: That comes back to the first point I was making. I want to find out what the value of the land was under the Dome, and the first point I was making was that it might have been better, might it not, to have marketed the 100 acres separately because then we could have been known with absolute certainty what the value of the land on the market was at that time, and then to have used the cash that was generated from the sale of the land to cross-subsidise the Dome if that was something we still wanted to do. That would have been, first of all, clear in terms of value for money; secondly, transparent. What we now have is a lack of transparency and a lack of demonstrable value for money, do we not?
Dame Mavis McDonald: I do not think there is a lack of demonstrable value for money; I think the Report says that this is a deal that could achieve value for money, and indeed to the best of my knowledge Chesterton advised the NAO about that point as well.

Q25 Jon Trickett: You have made your point and I have made mine. I want to ask you what you think the value of the 68 acres would have been had the Dome simply been no longer there?
Dame Mavis McDonald: May I ask John to reply to that one?
Mr Walker: I do not have the information of—

Q26 Jon Trickett: You must know how much the 100 acres is worth?
Mr Walker: What we did, we valued the 170 acres with and without the Dome and the value that we achieved with the Dome is a higher value than without the Dome, something in the order of £30 million, which actually is the basis of the division of proceeds with the NMEC. The reason for that is that because of the type of activity within the Dome it impacts less on the traffic measures on the rest of the Peninsula; in other words the timing of people attending events in the Dome is different to the timing when people are commuting to and from work, either from the Peninsula or to the Peninsula which enabled a higher level of density on the rest of the Peninsula.

Q27 Jon Trickett: That is a fair crack at further obfuscation, if I might say. I did not say what would it cost to provide transport infrastructure and deduct that from the cost of the land and then tell me what that is worth; what I said was is how much is the land worth per acre, and I will multiply it by 70 myself? Surely you know how much the land is worth?
Mr Walker: The overall land?

Q28 Jon Trickett: How much is it now? Tell me the top value of the land and I will divide by 170 and multiply by 70, or tell me what the value of the 70 acres is?
Mr Walker: The current value of the land, which the market tested at 2004, of the whole of the Peninsula was something in the order of £170 million.

Q29 Jon Trickett: So it is £1 million an acre, is it?
Mr Walker: That was our current value.

Q30 Jon Trickett: So it would be £70 million then, the land that the Dome was sitting on?
Mr Walker: If the Dome was cleared because obviously there is a cost in demolishing the Dome.
Jon Trickett: No doubt another Member might ask what you actually achieve for that £70 million, but my time has expired.
Chairman: Thank you, Mr Trickett. Mr Williams.

Q31 Mr Williams: May I harp back a bit—and you will gather there is a degree of prejudice in my questioning—on the first hearings on the Dome—and I make it clear as someone who knows the site very well indeed—it was ludicrous to build a mass audience project on a site that you could not get on to—absolutely ludicrous. But taking the policy decision as said—and I know you cannot comment on that—to us it does look as if having built a Dome that no one wanted we are now refusing to demolish it because still no one wants it. The opportunity costs, as I said to the Chairman, and he said to Mr Trickett, are relevant here, are they not? It is not as if leaving the Dome there is not costing us

anything, is it? There is a loss to the taxpayer in money that would otherwise be available for alternative uses in order to sustain the Dome until at least 2018; that is a fact, is it not?
Dame Mavis McDonald: Yes, there is a current opportunity cost.

Q32 Mr Williams: That is right. So how big a site is the Dome itself?
Mr Walker: In the Report we talk about the "Green Land", which is 48 acres, and the Dome sits in the middle of that and the cleared space within the Dome is something in order of 20 acres.

Q33 Mr Williams: So is it just the 20 acres that is not available or the 48 acres that is not available to developers?
Mr Walker: By retaining the Dome the surrounding land is very much associated with the Dome, so if you keep the Dome it is 48 acres.

Q34 Mr Williams: So we have 48 acres. Taking the value of the rest of the site, what is the value per acre on the Peninsula site?
Mr Walker: Following on from my last answer, it is around about the £170 million for the 170 acres.

Q35 Mr Williams: Sorry?
Mr Walker: Following on from my last answer, I said the 170 acres, the current value, the current book value that we have is something in the order of £170 million.
Mr Williams: £170 million for how many acres?
Jon Trickett: £1 million an acre.

Q36 Mr Williams: £1 million an acre. So we are keeping a Dome on a site which we could have sold for £48 million and to keep it there we are using a large part of the share of our share profits from the remainder of the site; is that not actually correct?
Dame Mavis McDonald: I think that might have been factually correct at some stage but the other thing I ought to say, which I think the Report mentions, is that since the Dome has been there and a decision was taken to make it permanent, the London Borough of Greenwich has made it clear that they view it as an iconic building, which gives recognition to the Peninsula, and that they would have wanted to have kept it and if there had been any suggestion of taking it down they would have sought to have had it listed. So other factors have come into play.

Q37 Mr Williams: I am just assessing the value because to people living there it might be anything but iconic; to them it could be an unexploded bomb due to go off in 2018 because they do not know what is going to be put alongside them, when after 2018 that site becomes available for alternative use other than as a Dome, under the policy being adopted. So it could actually be a deterrent, the fact it is there.
Dame Mavis McDonald: At that point obviously Greenwich would have to consult locally if there was any suggestion of taking down the Dome and using it in some other way.

Q38 Mr Williams: Is there any way in which you can describe the situation that I have just outlined as anything but cross-subsidy? The Dome's sustenance is being cross-subsidised by the rest of the site. Is there any way you can prove to me that that is not the case?
Dame Mavis McDonald: If I go back to your premise about the return of the receipts, we accept that there is a current opportunity cost but we view that as a decision that was taken that was a given for us. Within the deal we currently have we do not view there being any subsidy from the taxpayer to the partnership to make the partnership work on a return profit.

Q39 Mr Williams: You are missing the point. It is costing the taxpayer the use of the money that it otherwise would have in order to keep the Dome there until 2018, and it is depriving the taxpayer of that £48 million for the next 13 years. That is a very, very substantial opportunity cost, is it not?
Dame Mavis McDonald: I think Ministers would say that the deal we have, which envisages bringing something over £550 million worth back over the period of the partnership to the public sector, is very good value for money.

Q40 Mr Williams: Yes, but it would have been better value for money if you did not have to use money that otherwise would be available to the Chancellor or to the public organisations involved to keep the wretched Dome open, because as it says in the Report at paragraph 1.24, "Few developers had any real idea of what to do with the Dome itself." The Dome was not an asset, it is not an asset; the Dome was a liability, it remains a liability and will continue a liability.
Dame Mavis McDonald: But within the current deal we have a company that does have the vision and the knowledge and the experience of what to do with the Dome and that they brought to the table as part of the package. So we do view that there is a viable use there that will add to the value of the Peninsula as a whole.

Q41 Mr Williams: But it still will not replace the value that is being denied to the taxpayer in the meantime, will it? That is a self-evident fact.
Dame Mavis McDonald: It is very difficult for me not to say this taxpayers' money could have been spent on something else because Ministers could always have chosen for it to be spent on something else. Within the parameters that we were working we do not think any longer that that runs, and we do not think it runs because we have had it tested several times by Jones Lang LaSalle and there are added values now to the values in the Peninsula because of the presence of the Dome. The other thing about the current deal is it is actually quite a dense deal and it does not minimise the development on the Peninsula, it actually is maximised up to the capacity that we are advised you could usefully do so with the current transport constraints. In 2018 we may have some more knowledge about things like whether there is a third river crossing that needs to come to

the Peninsula; we may have some other views about the then current view of whether the Dome has been successful or not that can be taken into account, and I think that is reflected in the Report itself.

Q42 Mr Williams: Would you not agree that in value for money terms the deal you struck has put a white elephant on life support and, in the meantime, the taxpayer is losing the use of that £48 million that could be available?
Dame Mavis McDonald: No, I would not agree with that view because I think the long-term benefits to the Peninsula and the east end of the Gateway from the deal we now have has significant potential for regeneration of a much wider area than just the area we are talking about.
Mr Williams: I invite you to read your own words after the meeting; I suspect you will squirm with discomfort. Thank you, Chairman.

Q43 Chairman: Leaving aside the policy question of whether it is good to have a Dome there or not in terms of regeneration, or whether it is an icon and all those other fairly questionable propositions, just look at it purely from the sake of the taxpayer as a businessman: is he or is he not better off with the Dome being demolished and the land immediately sold off?
Dame Mavis McDonald: At this point in time in this deal he is better off with our keeping the Dome.

Q44 Chairman: With the Dome being demolished?
Dame Mavis McDonald: No, with the Dome being used in the way it is.

Q45 Chairman: With the Dome being used?
Dame Mavis McDonald: Yes.

Q46 Chairman: Do you want to explain to us why because it is not entirely clear to us? Or your colleague can, we do not mind. Mr Walker, you try.
Dame Mavis McDonald: I think paragraph 3.29 in the Report.
Mr Walker: I think if you look at the words in the Report, what it says is that if all of the land was sold off immediately, which I think is probably the point you are making, there is usually a very heavy discounting by developers in taking the land upfront because of the amount of risk.

Q47 Chairman: I am sorry; you will have to go a bit slower on this. Explain yourself, please.
Mr Walker: If somebody was to buy the 48 or 68 acres you would get a less price for that upfront rather than you would in the longer-term, mainly because they would discount the amount that they would pay to alleviate some of the risk of the unknown in the future.

Q48 Chairman: I am afraid we do not understand that, Mr Walker.
Mr Walker: As it says in the Report if you sell a large piece—

Q49 Chairman: I am not suggesting to you that we should rush into this and that we should offload it as quickly as possible and all the rest of it—you have a parcel of land, 48 acres, hopefully now in a prime position near the Jubilee Line, good road connections and all the rest of it, and all the rest of the site being developed—in a measured way would you not be better off in selling that to a developer for prime office and housing use now?
Mr Walker: You said with all of the rest of the site being developed?

Q50 Chairman: Yes, in time.
Mr Walker: In time, which is probably 20 years time when the rest of the site is developed, and at that time under the terms of the agreement if, for instance, Anschutz and MDL decided that they wanted to pull the Dome down and then redevelop, the taxpayers' would share in any value.

Q51 Chairman: I was not asking that question, I was simply trying to find out from you, without you trying to blind us with development-speak, which we have difficult in understanding, why we would not be better off if the land on which the Dome now sits is sold for development? The Dome demolished and the land sold for development, rather than, as Mr Williams said, the rest of the land which you are selling off having to cross-subsidise it?
Mr Walker: First of all, there is a cost in actually demolishing the Dome.

Q52 Chairman: Remind us how much that is?
Mr Walker: We did not get a tender estimate but we got an engineering estimate; it is something in the order of £19 million just to demolish the Dome.
Mr Williams: That is going to apply at any time; it will apply in the future as well.

Q53 Chairman: As my colleague Mr Williams has just said to me, that of course applies in the future as well.
Mr Walker: Yes, indeed.

Q54 Chairman: So you are going to have that cost anyway.
Mr Walker: Yes, that cost would have to be met.

Q55 Chairman: So that is a duff point. What is your next point?
Mr Walker: If the land is going to be sold . . . It is depending upon the rest of the development; it is depending upon, as Dame Mavis has said, what improvements there are to the traffic management system on the Peninsula at that time, and it is only then you can take a view as to whether you think the Dome should be demolished.

Q56 Chairman: You are now reduced to saying that your defence is something to do with traffic management?

Mr Walker: That is one of the advantages of retaining the Dome because of the Dome activities. It means that the rest of the community can enjoy a higher and a denser development with the Dome *in situ* than without.
Dame Mavis McDonald: This is encapsulated in paragraphs 3.28 and 3.29 of the Report and was part of the basis of the evidence of the advice we got from Jones Lang LaSalle about why, as figure 18 shows, if you did a benchmark estimate with and without the Dome the deal came up better all the time.

Q57 Chairman: So because of this traffic point, because apparently the Dome is going to create less traffic at difficult times of the day or something, you are going to lose £48 million by not being able to sell it off straight away—there are all the increased costs. I cannot believe you would not get more than £48 million for it, but you are saying that just the cost of traffic is going to account for all that £48 million? That is an absurd claim. That is going to be subtracted from the rest of the value for the rest of the land, is it?
Mr Walker: The calculation that was done by our advisers was that the overall Peninsula is worth £30 million more with the Dome *in situ* than without the Dome.

Q58 Chairman: Explain that to us.
Mr Walker: They modelled the amount of development that could be delivered on the rest of the Peninsula together with development on the Dome site itself and because, again, as I make the point about the traffic, the capacity on the Peninsula is dictated by the amount of the transportation requirements, and in order to maximise the development on the Dome and the rest of the Peninsula, from which the taxpayer benefits, it was better to have the Dome *in situ* than to demolish the Dome. Also the fact is that we will get any profits made from the Dome—we get a share. So it is not all money lost to the taxpayer.

Q59 Mr Williams: That is questionable because the fact that the Dome is to be there limited the number of bidders who were willing to come forward for the project, and if it had been offered as a potentially cleared site it would have attracted a completely different market; added to which the Dome itself, a large part of it, is in a rather preferential position *vis-à-vis* the river. So the land itself was probably higher in value than the once polluted land that is further inland from the river. So your argument does not hold up at all.
Dame Mavis McDonald: We would be very happy, obviously, to supply you with an extra note which shows how JLL did this assessment[1].

Q60 Chairman: Try to answer it now. It is an open session being broadcast to the public; they are interested, we know. They are not going to read this note, are they, so answer the point now.
Dame Mavis McDonald: I think we have answered it to the best of our ability. We are very clear that the scale of the development that will be carried out by the MDL Partnership and Anschutz is the maximum that the Peninsula will take currently on the basis of the advice from our professional advisers, and that if the land that had been available for the Dome had been free to be sold you would not have got any more development, you would have just had rather less dense development across the site.
Chairman: We will pass to Mr Sheridan now.

Q61 Jim Sheridan: I think everything that can be said about the Dome in terms of criticism has already been said, and indeed the further north you go, or west or east, outside of London then the more the frustrations are felt. I have to say that even now people are talking about using the experience of the Dome as a reason why we should not be entering for the Olympics, using the Dome as a perfect example why taxpayers money has been wasted. If I could draw your attention to the conclusions? The theme running through the conclusions seems to be that public bodies are not equipped or experienced enough to deal with major projects like this. Is that a fair assessment?
Dame Mavis McDonald: I think it depends on the nature of the public body and the skills which that public body has and the help they get from professional advisers, and English Partnerships is the Government's regeneration agency and it has been in the business for a long time; it has a track record of development and working with partners and throughout the Dome process it was supported by very well experienced advisers in the field of property development and regeneration.

Q62 Jim Sheridan: Are these professional advisers consultants? Can you tell me how much these professional advisers cost?
Dame Mavis McDonald: There is a table in the Report, which sets out exactly what they cost.

Q63 Jim Sheridan: £10 million or something?
Mr Walker: It is figure 5 on page 9. The costs within the sale process—
Dame Mavis McDonald: The cost of advisers, figure 12, page 25.

Q64 Jim Sheridan: Is that almost £8 million on advisers?
Mr Walker: Yes.

Q65 Jim Sheridan: Again, I have some difficulty with public bodies taking on projects like this and then handing out money to consultants, professional advisers—it is duplicating things. Anyway, moving on, also on page 11 we talk about 87% of receipts going to the English Partnerships and 13% passed to the Lottery. What is the rationale behind it? Why do you arrive at these figures?
Dame Mavis McDonald: The Ministers decided that was a fair division of the proceeds on the basis that they had already said it was fair to return something to the public through the Lottery funds because of

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the way in which the presence of the Dome would help speed up the development of the Peninsula. The actual figures were put together, again taking advice from JLL, who had benchmarked the added value of the Dome to the Peninsula and the Dome without the Peninsula.

Q66 Jim Sheridan: Was that 13% negotiated as an acceptable figure?
Dame Mavis McDonald: Ministers agreed that collectively as an acceptable figure.

Q67 Jim Sheridan: The Chair referred to this as a white elephant and refunded to the taxpayers in 2008?
Dame Mavis McDonald: Yes, the £30 million.

Q68 Jim Sheridan: Are there any barriers that may be in the way to stop that being offloaded?
Dame Mavis McDonald: That is based on the estimate of the current plans for rolling out the development on the Peninsula.

Q69 Jim Sheridan: So you are confident that by 2008 the taxpayers' responsibility will be gone?
Dame Mavis McDonald: I think by the end of 2009 the additional extra, that we hope is less than £3 million, will have been provided for.

Q70 Jim Sheridan: I think one of the few benefits of the Dome is to provide cheap, affordable housing for people in that area, hopefully. What is the guarantee that it will not fall into the hands of unscrupulous developers who have other objectives in mind, other than providing affordable housing?
Dame Mavis McDonald: Because the individual roll out of the sites will need detailed planning permission. The parameters for affordable housing are set out in the outline planning permission and the individual developers and partners, who might be Housing Associations for example, will have to produce plans to show they are going to achieve the proportions of affordable housing.

Q71 Jim Sheridan: So the provision of affordable housing will be guaranteed?
Dame Mavis McDonald: Yes.
Mr Walker: Yes, it is actually a requirement of the planning permission, so there is no way that it is going to move away from that.

Q72 Jim Sheridan: Should the housing market take a nosedive, what effect would that have on these plans?
Dame Mavis McDonald: If the housing market took a very fast, short-term nosedive, because of the length of the roll out we do not expect it to affect the total returns on the scheme. Our evidence in the office over time is you can track blips in the market but there is a steady, constant trend, and we have real evidence of shortage of housing—not just affordable housing but a range of private sector housing in London as well.

Q73 Jim Sheridan: Will that affordable housing be for key workers and key workers only?
Dame Mavis McDonald: A mixture of social rented, housing for key workers, other low cost home ownership schemes and whatever the partners want to bring forward at the time.
Chairman: Thank you. Mr Jenkins.

Q74 Mr Jenkins: Coming later on, a lot of the questions were asked that I formulated in my mind. But I want to go back on some of the answers at this stage because I am not really sure in my own mind now what the purpose was. We said it and you said it in writing, English Partnerships have been cautious in not assuming a share of profits from activities within the Dome.

Q75 Mr Jenkins: So you have no share of profits from activities within the Dome, so effectively the Dome has no commercial value to us and we have given it away; yes?
Mr Walker: Sorry, no, we do share in the profits from the Dome. English Partnerships has a profit share in the activities that take place within the Dome after the Dome operator takes a prior return. After that we share 15% of any profits that are generated within the Dome itself.

Q76 Mr Jenkins: What figure do you put on that?
Mr Walker: We did not take into account any figures on profit in the calculations now in presenting our report. We actually did not include any because at the time it was very difficult to estimate what sort of profit there would be. So in reaching the decision on the transaction we did not include any profits from the Arena, which is what we are talking about, or indeed from what we call the Dome Waterfront, which is the area surrounding the Arena that is in the Dome itself.

Q77 Mr Jenkins: So you did not assume any profits?
Mr Walker: We did not assume any profits.

Q78 Mr Jenkins: So it would be right for me to assume that since you did not assume any profits there was no profit?
Dame Mavis McDonald: No, I think what Mr Walker is saying is that for the purposes of all the current due diligence and the cost benefit appraisals we needed to do on the MDL deal we did not add in estimated profits from the Dome, but they are part of the legal agreement. So to the extent that they materialised they are a bonus on top of our expectations that we have already.

Q79 Mr Jenkins: An unquantified bonus that may or may not come to fruition?
Dame Mavis McDonald: We anticipate that it should come to fruition but the NPV of the deal does not stand or fall on it.

Q80 Mr Jenkins: All we have is the figures you have given us to work on, and if you put no figures in we have a right to assume that there are no figure coming forward; yes? Or is that unreasonable?

Dame Mavis McDonald: I think we shall have figures in due course but it would not be right to say that there is no arrangement to retrieve a share of the profits from the operation of the Dome; that is part of the joint venture deal with the MDL Consortium.

Q81 Mr Jenkins: When you said that the site is worth £30 million more with the Dome than it would be without the Dome, I understand perfectly, and then you give the reason that it is because of traffic flows off and on the Peninsula. Once again, I was quite happy until you said that, but is this not a development that is going to be sustainable as a community? Do people not work, live and have leisure within the Peninsula itself?
Dame Mavis McDonald: Yes.

Q82 Mr Jenkins: So there will be less traffic movement off and on the Peninsula than in a normal non-planned environment; yes?
Mr Walker: Yes, and that was taken into account, and when we are talking about traffic we are talking about from the Underground, the bus service and cars.

Q83 Mr Jenkins: So if very little traffic is coming on and off why would the Dome interfere with that at probably a different time?
Mr Walker: There is no guarantee that all the people who will live on the Peninsula will actually work on the Peninsula—you cannot foretell that—so in the traffic modelling there is an assumption that some would and some would not, and that was accepted by the Planning Authority because obviously it is the Planning Authority that determines the amount of development that can take place on the Peninsula.

Q84 Mr Jenkins: I understand that, but when you answered Mr Sheridan and you said that the cost for professional advisers for this site in particular is £7.8 million, that was just for the second sale and it was £6.7 million for the first; so you have paid £14.5 million for advisers, and you have a "maybe" that traffic will be less or "maybe" people will come on and off the Peninsula. Do you think that more modelling could have been done to assume exactly what traffic would come on, and that is depending on the planning, which you are effectively in control of in this Partnership, to say what is going to go on that site to maintain the whole area we are talking about, that we are now in control of this to develop this sustainable community; yes?
Mr Walker: The advice we got on traffic movement, if you like, was taken into account in our modelling. At the end of the day they came up with some parameters that were part of the planning application to the local authority. The local authority engaged their own advisers and used in-house people. They then took a view as to what would be allowable, which was broadly in line with the planning application that was put in by the Consortium.

Q85 Mr Jenkins: One of the things that just struck me as an oddity was that we are going to have part of £170 million worth of land from this development, so with the £170 million and with the add-on costs effectively that will be generated by your department over the next 20 years, when do you expect the breakeven point to come that we will do better with this deal than just selling the land off from day one?
Mr Walker: We will be achieving something in the order of just over £30 million by 2007–08 and thereafter—

Q86 Mr Jenkins: 2007?
Mr Walker: 2007–08 is when we get the first £30 million back, which are the costs of running the Dome. Thereafter we get a minimum land value—because it is not all just profit share that is coming from the disposal of the land. When the developer draws down the land we are paid the minimum land value as at that time and we then share in any profit thereafter. So that the payments coming in to us are a mixture of minimum land value, which is a guaranteed payment because that is set down in the contract as to how much they have to pay, together with a share of the profit. Obviously in the early stages of the development we will get more minimum land value than profit and profit will come in later. You talk about the breakeven; the £170 million would be around about 2015.

Q87 Mr Jenkins: So with the initial investment, with the add-on costs, *et cetera*, by 2015 in real terms we will have got to a breakeven point and everything from then on will be profit?
Mr Walker: If we could sell all of the land in one hit at £170 million you could actually get it now and then if you took the alternative, yes, you are talking about 2015, but then of course the profits then continue to generate for the taxpayer.
Dame Mavis McDonald: What we are hoping, obviously, is that as the development takes off then you add to the value of the land as well, so in the later parts of the development you are not necessarily going to be selling it at a land value which is at the £170 million. Some of the development on the southern end of the Peninsula has already raised land values on the whole Peninsula from before anything took place at all.

Q88 Mr Jenkins: Fair enough, I look forward to this very healthy return in 2015. Because one of the things that you quoted is that the extra development levered into this site will add value to the site, *et cetera*.
Dame Mavis McDonald: In terms of the Quintain land, yes

Q89 Mr Jenkins: Obviously if we get something like maybe a casino coming on to this site it will increase the value tremendously, and it will hopefully increase the profitability of the Dome. So what plan would you have to accommodate a casino in relation to the Dome as well?

Dame Mavis McDonald: The deal is not predicated on there being a casino. If there is a casino and it adds value, as we do from the Dome, then English Partnerships get a share of the profits. But the operators, Anschutz, have to get both planning permission and whatever the licensing permissions for casinos that will be in place when the current Bill is through the House. They have to get their own; there is no conditionality about that at all.

Q90 Mr Jenkins: I just wondered about profitability of the Dome if it had a casino alongside it, for instance. I would have assumed that would boost it tremendously.

Q91 Mr Walker: We certainly have not taken account of any profit from a casino in our figures—in fact, we have not made any provision for a casino. But if there was one—and obviously it is subject to planning, and I suppose legislation initially—then if that increased the profits within the Dome itself we would share in that.

Q92 Chairman: The economics of casinos can often be a fairly complex if not murky world. Do you have the expertise to ensure that the taxpayer will take his due share in profits from a casino?
Mr Walker: If there was a casino in there it would be by agreement with the Anschutz Entertainment Group, and we are not party to any negotiations between them. If there was one and Anschutz obtained profit from that we would share in that.

Q93 Mr Williams: Can I just ask you—and it is small beer in relation to the whole thing—I would assume that a site that was to be used for a casino or land on which a casino was to be built would be worth significantly more than that same site being used for housing. That is almost certainly the case, is it not?
Mr Walker: It would depend. But when we actually did the deal and the deal became conditional in 2002 there was no mention of a casino at that time at all, and therefore what the deal was predicated upon was profit shares of whatever type of use that would be in the Dome. After the operator had made a prior return we would then share in any surplus funds.

Q94 Mr Williams: So you would get a share out of the ongoing profits but you would not get any recoupment of the lost capital that you would have had if that land had been sold as land for a casino?
Dame Mavis McDonald: I honestly do not think we know the answer to your question, that the value of the land with a casino on would necessarily be a better return than the value of the land with the housing on it. It might depend on what the anticipated profits were from the housing at the time you rolled out the housing land. As Mr Walker said, as with the general leisure use of the Dome it was not something that we looked at at all, we just secured the right to draw down some profit from it.

Q95 Mr Williams: It beggars belief that, say, three acres of land to build a building that is in effect building a mint would be the same value or lower value than that same land just used for housing? It just does not bear consideration, does it?
Dame Mavis McDonald: It is my understanding that any proposals that Anschutz have in mind are within the Dome, is in fact a casino within the Dome.

Q96 Jon Trickett: I have not found some of the answers totally plausible on this £30 million that you mentioned being the cost benefit to the public purse of keeping the Dome there. You seem to be saying that it is £30 million to our benefit to keep the Dome there and it is something to do with transport. The reason why I do not find it plausible is this, that the land which the Dome sits upon and which is within the curtilege of the site of the Dome is 70 acres, so that is £70 million roughly for the land value, which we would achieve if the Dome was gone, given the fact that the cost of demolition is already on both sides of the equation, so you cannot take £19 million demolition into account. But then you are saying that it is £30 million to our benefit, so therefore I add £30 million to £70 million, the cost of the land, but to derive the slightly preposterous suggestion that the additional infrastructure for 70 acres of housing is £100 million for public transport, the figures do not stack up, do they?
Dame Mavis McDonald: I am sorry, I just do not think we did the calculation like that. What our advisers did was look at the various factors that added value to the peninsula from the Dome. As the Report itself says, the whole issue around an iconic building that adds value, which is what Greenwich Borough believe, and some of the current land value is there, was not costed into the deal because it is very difficult to pin down and it is very debatable. The other factors that were taken into account, like the capacity of the Peninsula or the density of development, given the current transport systems till 2018, limited the total amount available and within the deal that we have got both our advisers and Greenwich's advisers were satisfied that this was the best total use of the land, including the Dome, and that is what led to the conclusions in the Report.

Q97 Jon Trickett: I think we do need a note to see how you got this £30 million additional benefit. Somebody must have done a calculation as to the number of passenger movements per day which would be generated by a casino or all the other activities inside the Dome as opposed to 70 acres of housing. Seventy acres of housing will generate so many passenger movements per day but, more importantly, it will be segmented according to the fact that people travel more frequently to housing back from work and so on measured at different times of the day. You are predicating the argument that people using the Dome will not be moving at the same time as those people who live there and that is the reason why you need more infrastructure. How many houses would you get on 70 acres? Have you worked out the passenger load which would be generated since much of your response even now is based on the fact that the density of population would generate demands for infrastructure which could not be currently sustained. Has that work actually been done?

Mr Walker: In deciding how much development could be put on the site the capacity for the current transport infrastructure was obviously the deciding factor. If in 2018 there is a third crossing, that is going to change the picture entirely but as things stand at the moment obviously what we are trying to do is get a sustainable use for the Dome together with the rest of the land.

Q98 Jon Trickett: What I am trying to establish is what is the value of the land that the Dome sits on. What you are doing is saying that the land has a value but if it was turned into housing it would produce £30 million on top of the land value to produce the traffic infrastructure, so I am asking you a very simple question because I am trying to get to the bottom of the land value which the Dome is sitting on to decide whether it is financially beneficial to keep the Dome there or demolish it. I am asking you a very simple question: has someone done the passenger numbers and, if they have, can you provide us with the analysis that was done so that we can see it ourselves because it does not stack up? £100 million worth of traffic infrastructure is incredible.

Dame Mavis McDonald: We can certainly provide the analysis that was done[2]. I am sorry; we are obviously not explaining this very clearly. Basically what we are saying is that if the Dome land had been there for developing there would not have been any more development in total on this section of the peninsula because the view of the planning authority as well as the professional advice we took was that the traffic capacity could not take any more than we would have in the current plan, so you would not necessarily have added value from the land; you would have a less dense development across the peninsula. We will try and explain it more clearly in the note.

[2] Ev 12

Jon Trickett: I think we fully understand exactly what you are saying.

Q99 Chairman: How much discussion was there with Anschutz about the casino? How important was it in the discussions in terms of their interest in the site?

Mr Walker: At the time of the original proposals there was no discussion on casinos. Casinos had never been part of the discussions with Anschutz. It was not until 2003 when we first were made aware that they were interested in possibly having a casino within the Dome.

Q100 Mr Williams: If you had known that at the outset would you have regarded it as a plus or a minus?

Mr Walker: It would depend what the proposal was.

Dame Mavis McDonald: To the extent that casinos are licensed for operation in this country and there is a framework within which gambling takes place we would have been neutral.

Q101 Chairman: Neutral?

Dame Mavis McDonald: As I said, we have always said that anything that happens in terms of development of a casino has to fit both within the planning requirements and the licensing requirements for casinos.

Q102 Chairman: Then it would be a huge bonus for Anschutz having a casino there, would it not? It must be.

Dame Mavis McDonald: Perhaps they are pursuing it because they think it will increase their profits.

Mr Walker: And subsequently our profits.

Chairman: Unless my colleagues have any more questions may I thank you, Dame Mavis and Mr Walker, for coming this afternoon. It has been a very interesting session and no doubt we will wish to turn in our Report to how we can ensure maximum benefit for the taxpayer from the site. Thank you very much.

Memorandum submitted by English Partnerships

In paragraph 3.15 of the Report, it states "at the time of writing the terms of the assurance are still being negotiated". I would like to inform the Committee that terms have now been agreed and the Completion Assurance has been completed between all parties, ie EP, Anschutz Corporation and MDL. The finalised terms provide the additional protection envisaged in the Report.

I can also confirm that the Waterfront Profit Share legal agreement referred to at paragraph 3.20 (second bullet point) has been finalised.

I hope this is of assistance to the Committee.

John Walker
Finance & Commercial Director
(Accounting Officer for Greenwich)

14 January 2005

Supplementary memorandum submitted by Office of the Deputy Prime Minister and English Partnerships

Question 59 (Mr Williams)

1. This note responds to the request made at the meeting of the Public Accounts Committee on Monday 17 January 2005 for an explanation of why the transaction between English Partnerships (EP) and Meridian Delta Limited (MDL) and the Anschutz Entertainment Group (Anschutz) is of a greater value than alternatives if the Dome was removed, and how this can be explained by reference to transport constraints. It expands on the explanation provided in paragraphs 3.27 to 3.33 of the NAO Report and has been seen by the NAO and by the London Borough of Greenwich.

2. The reasons for the difference in value are based on advice provided by Jones Lang LaSalle in respect of the value of the MDL/Anschutz deal and Benchmark Appraisals with and without the Dome, prepared before and in order to inform decisions leading to the signing of contracts between EP and MDL and Anschutz in May 2002. That advice is supported by decisions made by the relevant public authorities (London Borough of Greenwich, Transport for London and the Mayor of London) involved in the planning process leading to the granting of planning permission for the MDL/Anschutz development in February 2004.

3. The key elements explaining the comparison are as follows:

(a) Prior to the MDL transaction that part of the Greenwich Peninsula owned by English Partnerships which has been included within the MDL deal had an extant planning permission for 1.7m sq ft of leisure, mixed use and central business district uses, 1,623 homes, and 100,000 sq ft of employment space.

(b) As a result of the revised planning consent obtained by EP, MDL and Anschutz the same part of the site now has permission for 5.213m sq ft of leisure, entertainment, retail and commercial office space, 7,300 homes (the other 2,700 being on Quintain and other private sector land), 200,000 sq ft of light industrial business park and a hotel. This is a substantial increase overall from the earlier planning permission, and 1.352m sq ft is situated within the Dome. The new consent reflects the "Flexible Framework" masterplan that EP had developed (see paragraph 3.3 of NAO report) and updated central and local planning policies (see also (f) below).

(c) The ability to obtain planning permission for the amount of the accommodation referred to above, together with the balance of the EP/MDL/Anschutz consent on Quintain's and other privately owned land to the west of the Dome, was largely determined by the transportation capacity both on the Peninsula and in relation to the approaches to the Peninsula. Consultants for both MDL and EP came to the conclusion that without the third Blackwall—Silvertown Crossing (land for which is currently "reserved" on the Peninsula) the development for which planning consent was obtained was the maximum possible given a certain modal split in terms of method of travel, eg private car v public transport, and given predicted trip generation rates and timings.

(d) The consent obtained was only achievable because vehicular and London Underground movements to and from many of the uses on the Peninsula will not be taking place at the same time as, or in the same direction as, the prevailing flow of travel movements. In the morning peak rush hours the direction of public transport journeys from the homes on the Peninsula will be mainly westwards against the main flow. In the evening rush hours on the underground the majority of the general flow will be westwards, into central London (for commuters to West London and those transferring onto suburban rail services), whereas the majority of visitors to the Dome (who will be travelling by Tube) will be travelling eastwards.

(e) The achievement of this level of development on the Dome site in the planning consent was a direct function of the precise mix of uses proposed within the Dome—that is, the uses combining to create a major leisure destination, generating substantial leisure trips mainly requiring travel to the site at different times to those travelling to and from the Peninsula for other purposes.

(f) Had the Dome been removed (at EP's expense), although this might appear to free up an area of land for further valuable business uses, it would not in fact have created any additional capacity on the Peninsula for such uses. The site occupied by the Dome could not have been developed to any greater density or for an alternative use because the Blackwall Tunnel is already at peak capacity in the morning and evening rush hours. All that would have been possible was a redistribution of the total amount of space now consented. Such a redistribution was reflected in the updated development assumptions referred to in (b) above, for the purpose of VFM benchmarking before the MDL/Anschutz transaction was signed in May 2002.

(g) The majority of the remainder of the northern site immediately around the Dome is undevelopable either because it is reserved as public open space under the Section 106 planning agreement or because of the presence of the northbound and southbound Blackwall Tunnels. Moreover any proposal to amend the existing mix of uses by increasing the amount of any residential development on the site of the Dome if the Dome had been demolished would not have been permitted because of the increased traffic movements at peak hours.

(h) In addition, the cost of the demolition and removal of the Dome—which prior to completion of the transaction with MDL and Anschutz would have fallen to EP—will now be borne by Anschutz/MDL if they decide to demolish the Dome structure in 2018, as is provided for in the contracts and referred to in the NAO Report at paragraph 3.32. The cost risk attached to that possibility therefore has been transferred from the public to the private sector, a factor that will have been taken into account by the private sector partners in negotiating the contracts, and yet the value of the MDL/Anschutz deal still compared positively with the benchmark appraisals in May 2002, and still exceeds the appropriate land value comparator, as is shown in figure 18 of the NAO Report. EP will, as stated in the NAO Report at paragraph 3.33, receive a 50% share of profits on subsequent redevelopment if the Dome is removed.

4. Further evidence that the scale of development allowed under the planning permission granted for the MDL/Anschutz proposals is limited by the transport constraints and is higher than what would have been allowed without a major leisure destination at the Dome is as follows:

(a) Jones Lang LaSalle's Value for Money and Benchmark assessment in May 2002 reported that even with consultants' projections concerning the directions and times of travel movements on and off the Peninsula there would need to be, to accommodate the development now with consent:

  (i) Signalling improvements to the A102.

  (ii) Implementation of the Greenwich Waterfront Transit or improved bus services.

  (iii) Uprating of the Jubilee Line from six to seven carriages per train and more frequent services (rising from 24 to 30 per hour).

(b) To restrict the number of traffic movements, the London Borough of Greenwich as planning authority only allowed 2,200 car parking spaces for use by the Dome Arena and Dome Waterfront, 0.7 space per dwelling in the residential element of the permitted development, and one space per 1,000 sq m of commercial office space. In the Section 106 agreement they required six road junctions off site to be improved including an improvement on the north side of the River to the southbound Blackwall Tunnel approach. A condition was also included within the planning permission that prevents more than 100,000 sq m of office accommodation being built until 30 trains per hour are running on the Jubilee Line and seven carriage trains are provided (as is and was planned already under Transport for London's improvement programme for the Jubilee Line). There are also conditions limiting the amount of residential development until improvements are made to the Bus Interchange at North Greenwich.

(c) The Mayor of London, in deciding not to direct refusal of the planning permission, stated that in his view "there is no doubt that the Master Plan seeks to maximise land use opportunities on the Peninsula".

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