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R 72/15

FILE TITLE

Millennium Dome  
(including MISC 10)

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INDEX HEADINGS

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Office of the  
Deputy Prime Minister

Creating sustainable communities

*Restricted - Policy and Commercial*

The Rt Hon Keith Hill MP  
Minister for Housing and Planning

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Prime Minister



27 May 2004

Dear Tony,

#### SALE OF THE MILLENNIUM DOME

I thought you would find it helpful if I brought you up to speed on the final stages before completion of the commercial deal for the future use of the Millennium Dome and regeneration of the Greenwich Peninsula. This note also includes an update on the division of proceeds between the taxpayer and the Lottery, and the National Audit Office's proposed report.

Planning permission was granted by LB Greenwich for the whole development on 23 February. The permission covers: the new arena in the Dome; the public square immediately outside the Dome; associated entertainment, leisure and community facilities in and around the Dome; 500 bed hotel; 10,100 homes - of which 3,800 will be social rented and keyworker units and another 300 for students and people with special needs; new schools, shops and health centres; improved transport services; and 3.5m sq ft of new commercial space. The permission was accompanied by the largest s.106 agreement ever completed in the UK, providing substantial financial sums and developer commitments to providing public benefits.

The granting of planning permission began the judicial review period of 3 months and 8 days, which therefore ends on 31 May and after which the deal may go unconditional if all other (non-planning permission) conditions have been met. The contractual deadline for the unconditional date is 30 June, unless a judicial review is being fought or the parties agree an extension. As of today no judicial review has been sought, and none is expected at this very late stage.

During the judicial review period all parties have been working hard to satisfy the remaining conditions in the deal. All have now been satisfied, or have reached agreement subject to final mechanics, with the exception of one.

The one remaining hurdle concerns undertakings required by Transport for London in respect of building over the southbound and northbound tunnels of the Blackwall Tunnel



### *Restricted - Policy and Commercial*

where they run beneath the Dome and other land on the Peninsula. There are big issues of long term public versus private sector liability at stake, and the issue must be resolved before the overall deal can go unconditional. Neither MDL and Anschutz, nor Transport for London, have progressed matters as quickly as they might have done, and there has been some loss of trust. However, officials are working, with English Partnerships, to broker a solution, and I have written today to Bob Kiley to urge him to support the urgency of the matter. I am sure a solution will be found.

All parties have been focusing on securing completion of the deal on 1 June, immediately after the end of the judicial review period on the planning permission, with an announcement to Parliament and the press planned for 14 June, after the elections. As a result of the Blackwall Tunnel issue, both dates are now likely to slip a little, but all parties are aiming to resolve outstanding matters and be in a position to announce completion of the deal well before the end of June. I will keep you informed as the situation progresses.

In terms of next steps, once completion of the deal has been announced, the key milestones are as follows, subject to final confirmation by the parties:

- Anschutz announce contracts for construction of arena in Dome - late summer 2004
- MDL start preparatory site and other works - autumn 2004
- MDL start construction on new homes - end 2004/early 2005
- Anschutz provide completion bond and begin construction of arena - February/March 2005
- First homes completed - late 2005/2006
- Dome arena open for business - summer 2007

Officials are liaising with the other main parties over the arrangements for announcing completion of the deal, but no invitations will be issued until after the deal has gone unconditional and after the elections on 10 June. We will ensure that the announcement highlights all the key messages, including the major regeneration benefits and the substantial return to the taxpayer from the deal. The final estimated return is subject to re-running of the financial models, which is currently underway as a joint exercise by all the parties to the deal, but the return to English Partnerships looks likely to be somewhere in excess of £500m, but reduced from the £550m anticipated in May 2002 as a result of the affordable housing in the model increasing from 30% to the 38% now agreed.

I also intend to include in the announcement information on the division of sale proceeds between the taxpayer and the Lottery. As you know, Ministers have collectively agreed that the Lottery should receive 13% of total receipts over the lifetime of the Peninsula deal, after the first £30m, which is retained entirely by English Partnerships. This will, on current estimates, amount to around £65m and is in recognition of the contribution the Dome has made to the high profile identity of the site and in accelerating the rate of regeneration on the Peninsula. There are still one or two detailed matters to be agreed with the Millennium Commission, but these should be concluded sufficiently by June so as to include agreed text in the deal announcement.

Finally, officials have been in regular discussion with the National Audit Office about the proposed terms of the NAO's report into the Dome sale process. The NAO have not yet started their formal consultation process on the draft, and of course they cannot finish writing it until the deal goes unconditional, but they remain committed to publishing the



***Restricted - Policy and Commercial***

report before the summer recess. The NAO have also indicated that they expect a PAC inquiry into the sale process during the autumn.

I am copying this letter to the Deputy Prime Minister, Tessa Jowell, Paul Boateng, Mavis McDonald, Sue Street, Gus O'Donnell and Sir Andrew Turnbull.

*YavBever,*

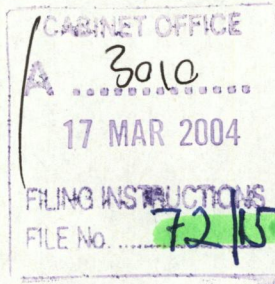
*Kmth.*

**KEITH HILL**





DEPUTY PRIME MINISTER



R

OFFICE OF THE  
DEPUTY PRIME MINISTER  
26 Whitehall  
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Tel: 020 7944 8604  
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The Rt Hon Tessa Jowell MP  
Secretary of State for Culture, Media and Sport  
2-4 Cockspur Street  
LONDON  
SW1Y 5DH

15 March 2004

*Tessa Jowell*

*C. Mr Butler*

#### GREENWICH PENINSULA – DIVISION OF PROCEEDS

I refer to your letter of 12 February, explaining the outcome of our meeting on 11 February to discuss this issue and the response from the Millennium Commission.

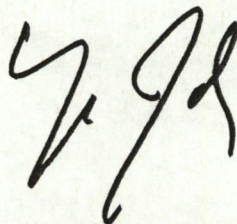
You will have seen the responses of Jeff Rooker and Richard Caborn, on behalf of English Partnerships and the New Millennium Experience Company respectively, and from Paul Boateng. I confirm complete agreement of the principles we discussed and which were set out in your letter and the accompanying note from Accounting Officers.

You will also have seen that Greenwich Council granted planning permission for the MDL development on the Greenwich Peninsula on 23 February. This paves the way for the final stage of negotiations between the parties, which should enable the overall MDL transaction to go unconditional in June. This is subject to any successful judicial review of the planning consent. However, on the assumption that final completion will be unhindered, I have asked my officials to work with English Partnerships to implement the new arrangement on division of proceeds before the MDL deal goes unconditional. This is so that we can include appropriate details in any announcement after the unconditional date, and so that KPMG can progress matters towards the solvent liquidation of NMEC.

I should be grateful if you would ask your officials to expedite matters with KPMG and the Commission, so that they and EP can put our agreement into effect as soon as possible.



I am copying this to Paul Boateng, Jeff Rooker, Richard Caborn and Keith Hill, and to Sir Andrew Turnbull, Mavis McDonald and Sue Street.

A handwritten signature in black ink, appearing to be 'J. Prescott', written in a cursive style.

**JOHN PRESCOTT**





f. Button R

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon John Prescott MP  
Deputy Prime Minister and First Secretary of State  
Office of the Deputy Prime Minister  
26 Whitehall  
London  
SW1A 2WH



W  
27 February 2004

**Millennium Dome and Greenwich Peninsula—division of  
proceeds**

As you know, Tessa Jowell copied me her letter to you of 12<sup>th</sup> February on the division of proceeds of the sale of the Millennium Dome and associated English Partnerships' land on the Greenwich peninsula. I am very grateful for your and Tessa's continued work to bring the sale of the site to a satisfactory conclusion, recognising the significant complexities that are involved.

2. I believe that the current proposals on the division of proceeds strike a balance which is acceptable to the key stakeholders and which enables the next steps to be taken towards delivery of a major and desirable development on the peninsula, including much-needed housing for the capital. I





am therefore content to endorse the details of the proposed settlement as set out in Tessa Jowell's letter and the accompanying note from Accounting Officers.

3. I am copying this letter to Tessa Jowell, Richard Caborn and Jeff Rooker. I am also copying this letter, for information, to Keith Hill and Sir Andrew Turnbull.

A large, stylized handwritten signature in black ink, appearing to be 'P. Boateng', written over the printed name.

**PAUL BOATENG**



**Sharpe Dale - Cabinet Secretary's Office -**

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**From:** Tappenden, David [David.Tappenden@hm-treasury.x.gsi.gov.uk]  
**Sent:** 27 February 2004 15:21  
**To:** PSDPM@odpm.gsi.gov.uk  
**Cc:** private-office@culture.gsi.gov.uk; Lord.Rooker@odpm.gsi.gov.uk;  
Keith.Hill\_MP@odpm.gsi.gov.uk; psturnbull@cabinet-office.x.gsi.gov.uk  
**Subject:** re: Millennium Dome and Greenwich Peninsula - division of proceeds - cst to dpm



0001001.TIF

Please see attached letter

David Tappenden

Tel 020 7270 4374

Fax 020 7270 5456

HM Treasury

1 Horse Guards Road

London SW1A 2HQ

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**Jeff Rooker**  
**Minister for Regeneration and**  
**Regional Development**

Rt Hon John Prescott MP  
Deputy Prime Minister and First  
Secretary of State  
Office of the Deputy Prime Minister  
26 Whitehall  
LONDON  
SW1A 2WH

*Dear Deputy Prime Minister*

**Greenwich Peninsula – division of proceeds**

I refer to Tessa Jowell's letter of 12 February to you, concerning the division of proceeds from the sale of the Millennium Dome and associated English Partnerships land on the Greenwich Peninsula.

I am responding on behalf of English Partnerships, under the arrangements promulgated by ODPM and DCMS Accounting Officers to avoid any appearance of conflict of interest. I have taken advice from ODPM officials and English Partnerships, regarding the potential impact of the proposed settlement on EP's finances and its ability to deliver ODPM objectives.

I am satisfied that the offer made in December 2002, involving a new division of proceeds, was a reasonable offer, to provide the Lottery with a fair share of proceeds while enabling EP to recoup their costs on the Dome and the bulk of the remaining receipts.

However, I am aware of the different opinions on the application of the current legal agreement to proceeds from the MDL transaction, and I am conscious of the need to conclude a new arrangement in order to resolve the differences between the two parties. This is complicated further by the central roles of both KPMG, as liquidators for NMEC, and the Millennium Commission, as their creditors.

Although the proposed settlement is less beneficial to EP than maintaining the current legal agreement between EP and the New Millennium Experience Company, the same can be said of the offer that was made in December 2002. Therefore, and in light of the need to resolve differences, I have carefully considered the variations and clarifications set out in Tessa Jowell's letter and attachment.

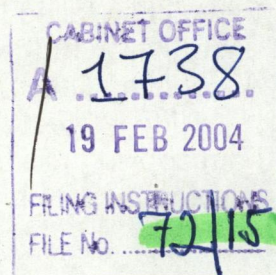
**OFFICE OF THE**  
**DEPUTY PRIME MINISTER**

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18 FEB 2004

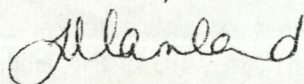




I view the continued definition and capping of EP's "allowable costs" at £30m as a concession, as I do the proposed increase of the Lottery's return to 13% of proceeds – after the first £30m – to reflect the increased amount of affordable housing in the development. But I accept that these concessions are comparatively minor in financial terms, especially, in the latter case, spread over the period of the transaction. I also agree that the other specified issues are useful in securing clarity going forward – particularly the proposal for a simple, non-bureaucratic, payment monitoring system. I strongly agree with the rejection of the Millennium Commission's request for greater surety on proceeds by way of earlier payments – this would have represented an unfair imbalance of risks in favour of the Lottery.

Consequently, I endorse the details of the proposed settlement as set out in Tessa Jowell's letter and its attachment. I should stress, though, my understanding that the capping of EP's costs at £30m is in respect of the MDL transaction only, and similarly the agreed increase in the Lottery percentage to 13%. In the unfortunate event that the MDL transaction failed to complete, I note and support the proposed arbitration mechanism under which further advice would be provided to Ministers by the ODPM and DCMS Accounting Officers.

— I am copying this letter to Tessa Jowell, Paul Boateng and Richard Caborn. I am also copying the letter, for information, to Keith Hill and **Sir Andrew Turnbull.**

  
JR JEFF ROOKER

**APPROVED BY THE  
MINISTER AND SIGNED  
IN HIS ABSENCE**



R

*f. Britton*

C03/22028/08077/mk

Rt Hon John Prescott MP  
Deputy Prime Minister and First Secretary of State  
Office of the Deputy Prime Minister  
26 Whitehall  
London  
SW1A 2WH

*17* February 2004

*Dear John*

Tessa Jowell has sent me a copy of her letter to you of 12 February about the division of proceeds of the sale of the Dome.

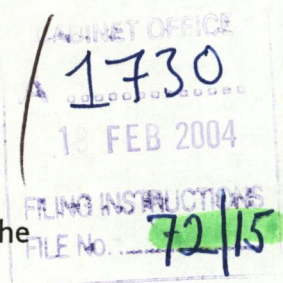
I am representing the New Millennium Experience Company (NMEC) under the procedure agreed to avoid any conflicts, or appearance of conflict, for Keith Hill in his two roles of Minister with responsibility for English Partnerships and NMEC Shareholder.

I fully endorse the basis for agreement set out in the annex to Tessa's letter.

- > I am copying this letter to Tessa Jowell, Paul Boateng and Jeff Rooker. I am also copying this letter, for information, to Keith Hill and Sir Andrew Turnbull.

*Yours ever*  
*Richard.*

RT HON RICHARD CABORN MP  
Minister for Sport and Tourism





## Sharpe Dale - Cabinet Secretary's Office -

---

**From:** MARK.SMITH@Culture.gsi.gov.uk  
**Sent:** 18 February 2004 16:07  
**To:** psdpm.psdpm@odpm.gsi.gov.uk  
**Cc:** Action.CST@hm-treasury.gsi.gov.uk; psturnbull@cabinet-office.x.gsi.gov.uk;  
lord.rooker@odpm.gsi.gov.uk; keith.hill@odpm.gsi.gov.uk  
**Subject:** Division of Dome Sale Proceeds



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Please find attached letter from Richard Caborn to John Prescott on the

above subject.

This letter has been copied to Tessa Jowell, P Boateng, J Rooker, K Hill and Sir A Turnbull.

Thank you

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Mark Smith  
Private Office Support Team  
DCMS  
Room 208  
020 7211 6253

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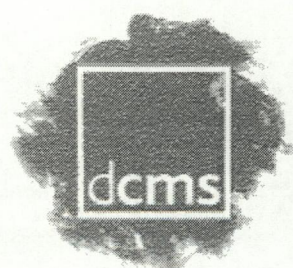


R

J. Birtton

C03/07960/pa

Rt Hon John Prescott MP  
Deputy Prime Minister and First Secretary of State  
Office of the Deputy Prime Minister  
26 Whitehall  
London  
SW1A 2WH



10<sup>th</sup> February 2004



Mr John

My letter of 8 January set out the basis on which the Millennium Commission had agreed to accept the proposal for the division of the proceeds of the sale of the Millennium Dome. We met to discuss this yesterday on the basis of the clear and helpful joint note from our two Accounting Officers which I am enclosing with this letter. After we met, I went on to chair a meeting of the Millennium Commission and gave Commissioners an outline of our likely response. This letter seeks final agreement from you and colleagues to the proposal.

I explained to you that this is now the main issue preventing the dissolution of the New Millennium Experience Company (NMEC) and any delay will increase the cost to both the Lottery and to English Partnerships. The Millennium Commission need to release £25 million of unspent NMEC grant for other priorities, something that cannot happen until NMEC is dissolved. Our officials need to have further discussions to tie up one or two further details, but the attached note from our Accounting Officers sets out the position which you and I have now agreed.

It took a great deal of persuasion to deliver agreement from the Commission, which as funder and effective creditor of the New Millennium Experience Company, has a sanction over the Liquidators. There is a danger that without a clear decision now from Ministers the Commissioners could still seek to reopen matters, causing further cost and delay.

You and I considered the advice we have received from our Accounting Officers in respect of the Millennium Commission's views. Although I thought my fellow Commissioners had advanced good arguments for going further towards reflecting some wider considerations about timing and certainty of share for the Lottery, we agreed that the note from the Accounting Officers struck a balance we could both accept and to proceed on that basis. The Millennium Commissioners have now accepted that they too can live with this proposal.





- > I am copying this letter to the other Ministers with an interest seeking their agreement by 25 February. They are Paul Boateng, Jeff Rooker and Richard Caborn. I am also copying this letter for information to Keith Hill, as NMEC Shareholder and EP Minister, and Sir Andrew Turnbull.

With many thanks for all your help  
with this

Yours

Tim.

TESSA JOWELL



**Sharpe Dale - Cabinet Secretary's Office -**

---

**From:** MARK.SMITH@Culture.gsi.gov.uk  
**Sent:** 12 February 2004 10:22  
**To:** psdpm.psdpm@odpm.gsi.gov.uk  
**Cc:** Action.CST@hm-treasury.gsi.gov.uk; pturnbull@cabinet-office.x.gsi.gov.uk;  
keith.hill\_mp@odpm.gsi.gov.uk; lord.rooker@odpm.gsi.gov.uk  
**Subject:** Proposed division of Dome sale proceeds between the Taxpayer and the Lottery



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Please find attached letter from Tessa Jowell to John Prescott on the above subject.

This has been copied to P Boateng, J Rooker, R Caborn, K Hill and Sir A Turnbull.

Please note that your comments are required by 26th February 2004.

Thank you.

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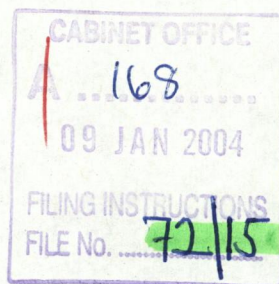
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Room 208  
020 7211 6253

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\*\*\*\*\*





Rt Hon Keith Hill MP  
Minister of State For Housing  
and Planning



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*c. Mr. Batten*

8 January 2004

PRIME MINISTER

*Dear Tony,*

#### SALE OF THE MILLENNIUM DOME

This letter updates you on positive progress with the commercial deal for the future use of the Millennium Dome and regeneration of the Greenwich Peninsula, whilst highlighting the remaining risks. I also include an update on the division of proceeds between the taxpayer and the Lottery.

The negotiations on the section 106 agreement to be allied to the planning consent are now well advanced, although the timetable for conclusion of the agreement has slipped to the week commencing 19 January. The applicant parties will not sign the section 106 agreement until other associated agreements have been settled to their satisfaction. But I am confident that outstanding difficulties can be resolved in January. I will continue to meet with the applicants and Greenwich Council on a regular basis, to keep up momentum and ensure a continuous dialogue.

Once all parties are satisfied, the s.106 agreement can be signed and Greenwich Council can issue the planning consent. There will then follow the statutory 3 month period during which the planning consent may be challenged in the courts. None of the parties will allow the commercial deal to go unconditional (ie to complete) until this judicial review period has passed, either without a challenge or having repelled any court action: I am impressed by Greenwich Council's pronounced efforts to limit the risk, although a challenge is always possible in such a high profile project like this.

All parties remain fully committed to the project; although I should stress that the proposed Dome purchasers Anschutz Entertainment Group, especially, will want to take a very close look at the long term commercial prospects before allowing the deal to go unconditional. But assuming continued commitment and no legal challenge, then I would expect it to go unconditional in May 2004.

Total proceeds of the Dome sale are currently estimated at £550million. As regards the division of sale proceeds, the NMEC liquidators and the Millennium Commission have taken over a year to consider the offer made to them in December 2002. The Commission has recently agreed to accept the offer, with some minor variations, and Tessa Jowell is due to write to the Deputy Prime Minister with the outcome. This will entail roughly 13% of sale proceeds (after the costs to the



taxpayer have been recovered) going to the Lottery – or around £70m from the £550m. This outcome will recognise the major contribution of the Lottery and the Dome to the regeneration of the Greenwich Peninsula. Final arrangements do, though, depend on completion of the commercial deal with Meridian Delta Ltd, so while we can and should strongly promote the division of proceeds when the completed commercial deal is announced, we should not do so before then. We will, in the meantime, work up a robust presentational strategy to highlight all the long and short term benefits of the project.

I am copying this letter to the Deputy Prime Minister, Tessa Jowell and Paul Boateng, and to Mavis McDonald, Sue Street, Gus O'Donnell and Sir Andrew Turnbull.

*Yours ever,*  
*Keith.*  
**KEITH HILL**



RESTRICTED POLICY

C. Britton

From: Mavis McDonald & Sue Street  
Date: 3 February 2004

✓ R

Deputy Prime Minister  
Secretary of State

cc ODPM  
Richard McCarthy  
Peter Unwin  
David Lunts  
David Liston Jone  
Andrew Lean  
Fred Croft  
Chris Stendall

DCMS  
Brian Leonard  
Simon Broadley  
Chris Atkins  
Nick Beach  
Martin Niblett



PROPOSED DIVISION OF DOME SALE PROCEEDS BETWEEN THE TAXPAYER  
AND THE LOTTERY

**Background**

Further to Ministers' promise that the Lottery will receive a fair share of the proceeds of the sale of the Dome, we wrote to the Liquidators of the New Millennium Experience Company (NMEC), the Millennium Commission and English Partnerships (EP) in December 2002 setting out a proposal of advice we intended to offer to Ministers, that the Lottery should receive 12.5% of the proceeds of the Dome sale after deduction of a "first call", for EP's allowable costs, which it was assumed would ultimately amount to £30 million.

The NMEC Liquidators, who are obliged by law to get the best deal for NMEC's creditors, have considered the Dome sale deal in some detail. They have indicated that the offer is a fair one commercially, although they have commented that NMEC's financial interests should be contractually protected in respect of the allowable costs cap, the definition of allowable costs, verification that EP will not deduct additional costs before sharing out NMEC's allocation and that NMEC does not enter into terms that would prejudice its position should the MDL sale deal not complete. However, the Liquidators recognise there may be other considerations for the Millennium Commission. The Commission is NMEC's funder and effective creditor.

**Millennium Commission's response to the proposal**

The Millennium Commission has now considered the proposal and reached the view that it is acceptable with some minor adjustments and subject to the Government giving serious consideration to some other issues. These were set out in Tessa Jowell's letter of 8 January. Together with officials from Treasury, we have considered the Commission's points and our advice on each is as follows:



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### a) Strict definition and capping of allowable costs at £30 million

The Commission appear to have two concerns: that the Dome will lie empty for a very long time for reasons well beyond their control with maintenance and security costs adding up and reducing the return to the Lottery; and that EP could reduce expected sale proceeds through investment in new infrastructure for the Peninsula. We agree that this request is acceptable in the context of the current sale deal. Sufficient information is available to enable a strict definition of allowable costs to be made. We recommend that you agree that all EP's allowable costs, representing the "first call" on proceeds, should be limited to £30 million in the context of the MDL sale deal. EP's Dome-related costs will be higher than £30 million, but these will still be recovered later, from EP's share of the proceeds. In fact the taxpayer can expect to receive far in excess of the costs incurred by EP.

### b) Measures to reduce the risk that the returns to NMEC are reduced as a result of EP pursuing its regeneration objectives as opposed to maximising income from the deal

EP has a duty to dispose of land for the best consideration which can reasonably be obtained and cannot depart from this without the agreement of ODPM. You can reassure the Commission on this point. In the very unlikely event that EP and MDL wish to renegotiate cash proceeds for development land or value elsewhere that would affect the income to the Lottery from this proposal, we recommend that Ministers undertake to revisit the Lottery share in those circumstances.

### c) An increase in the offer to reflect increased affordable housing on the site

Providing more affordable housing as part of the planning permission is a requirement driven by the Mayor, and consistent with ODPM policy, which may reduce the cash proceeds of sale. We agree that a slight increase in the Lottery share to 13% is a fair way of reflecting the smaller total proceeds to be shared between the taxpayer and the Lottery and would meet the concerns of the NMEC Liquidators and the Millennium Commission. We recommend you agree that the Lottery should receive 13%, after EP's first call on the first £30m of proceeds.

### d) A mechanism which reflects those aspects in the January 2001 contract which ensured that in the event of the collapse of the Legacy deal that the principles would apply to any alternative deal, i.e. NMEC needs to preserve its rights in the event that the MDL deal collapses.

We agree that, in the event the current sale deal should collapse or be substantially amended, the principle should continue to apply that the Lottery receives a fair share of sale proceeds. We acknowledge that in setting aside the January 2001 agreement between NMEC and EP, NMEC will want to ensure that its commercial rights are not reduced under any



## RESTRICTED POLICY

subsequent sale deal. But there are concerns over NMEC's rights under the January 2001 agreement and, because the current sale deal is so different from the one on the table then, there have been great problems in applying the principles of the January 2001 agreement to the current sale deal. We do not advise replicating the mechanism in the January 2001 agreement, therefore. Instead we prefer to use an arbitration mechanism, which (under current MoG arrangements) would involve us as Accounting Officers, that would allow the split to be determined in a way that reflected the shape of the alternative deal and circumstances that applied at the time. For example, a percentage reflecting the development potential and value which the building of the Dome has added by virtue of the site's high profile as a visitor destination. We do not believe our approach in respect of any subsequent deal would reduce NMEC's rights.

- e) Concern about the costs of monitoring the deal on division of proceeds over its lifetime and a wish for the structure of the deal to be kept as simple as possible

We both agree that it is in the public interest that monitoring should be adequate but costs should be kept to a minimum and should not unduly diminish the sale proceeds. The direction to EP necessary to allow them to make a new agreement with NMEC will provide the opportunity to impose (a) a duty on EP to take all practicable steps to ensure the correct share of proceeds is paid to the appropriate body which is to receive the Lottery share and (b) a duty on EP to establish a method of independent audit of the division of proceeds. We believe that, in practice, this could be achieved through the audit by the National Audit Office (NAO), who could be asked to pay special attention to this in the audit plan. Provided the recipient can be clearly sighted on the mechanism and practice of the distribution of receipts, which will be agreed between the parties before the new agreement is signed, we believe this would provide the necessary security. We recommend that you agree this.

- f) Preference for a restructuring of the proposal to give greater surety to the Lottery

The Millennium Commission indicated a preference for a mechanism for payment of the NMEC share that provided the cash earlier in order to address concerns about the burden of long term monitoring and partly to reduce the risk over the long term. We understand that the Commission may be prepared to accept a lower share in return for earlier payment. Favourable fluctuations in the deal after an early payment period would accrue only to EP. But we do not favour the Commission's suggestion. We believe that new negotiations would prove lengthy and costly and that our proposal represents the only fair way to ensure that the Lottery and the taxpayer share the risk over the period of the deal. We also believe that, if adopted, the simple monitoring arrangements described at (e) above would partly address this point anyway. Treasury officials agree.

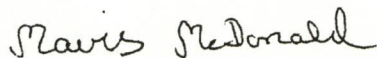


## RESTRICTED POLICY

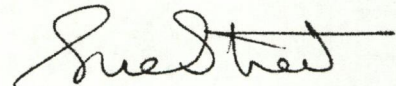
### Conclusion

Most of the points made by the Millennium Commission are reasonable and can be accepted. But the Commission's suggestions go further in two respects than we feel able to recommend. These relate to its apparent preference for reverting to some aspects of the January 2001 agreement, in the event the current sale deal collapses, and its wish for greater certainty through early cash receipts. The Secretary of State for Culture, Media and Sport, in her role as Chair of the Millennium Commission, will be urging the Deputy Prime Minister to consider the Commission's point of view, on the understanding that we, as Accounting Officers, have considered and taken a common view as set out above. If the DPM supports our agreed position, the Secretary of State would accept that.

If you agree, we propose you jointly seek agreement from the other Ministers with an interest (Paul Boateng, Lord Rooker and Richard Caborn), in a letter copied to Keith Hill in his joint roles as NMEC Shareholder and EP Minister.



MAVIS MCDONALD



SUE STREET





**MAVIS MCDONALD CB  
PERMANENT SECRETARY**

Sir Andrew Turnbull KCB CVO  
Secretary to the Cabinet Cabinet Office  
and Head of the Home Civil Service  
70 Whitehall  
LONDON  
SW1A 2AA



*Sue* *cc Sue Gray*

**OFFICE OF THE  
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**Tel: 020 7944 8965  
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GTN: 3533**

10 December 2003

*Dear Andrew*

#### **MISC 10 AND DIVISION OF PROCEEDS FROM DOME SALE**

This letter concerns the avoidance of Ministerial conflicts of interest in deciding on the division of proceeds from the Dome sale.

I wrote to you in November 2002 concerning the draft proposed division of proceeds from the deal between English Partnerships and Meridian Delta Limited. Contracts were exchanged on that deal, which relates to the future use of the Dome and the development of land on the Greenwich Peninsula, in May 2002 : negotiations and procedures (principally securing planning permission) are continuing, and are currently expected to result in completion of the deal in spring 2004.

The draft proposition on division of proceeds was subsequently agreed by Ministers and put, by Sue Street and me, to the Millennium Commission, KPMG (as the official liquidators for the New Millennium Experience Company) and English Partnerships in December 2002. KPMG and the Millennium Commission have spent the time since then assessing the proposition, and we are hopeful that the next meeting of the Millennium Commission – on 10 December – will result in a favourable recommendation from the Commission and KPMG.

Our expectation is that MISC 10 will be asked to either formally endorse the existing offer, possibly with minor variations, or to arbitrate on any disagreements over the proposition. Therefore, we need to put contingency plans in place to reactivate MISC 10 and identify a provisional date for it to meet.

You may recall that in order to avoid any actual or perceived conflict of interest in the way in which Lord Rooker was to fulfil his dual role (in December 2002), as Minister for EP and NMEC, Sue Street and I proposed to operate similar arrangements to those that existed for Lord Falconer. Keith Hill has now taken over as both Minister for EP and as Minister and Shareholder for NMEC. The conflict of guidance remains as before, and I attach a copy – updated to refer to Keith Hill – which Sue Street and I will issue to other Accounting Officers (for EP and the Millennium Commission) ahead of any MISC 10 consideration of the matter.



The arrangement will mean that Keith Hill will be entitled to attend and speak at MISC10 but will absent himself from the final decision on the split of proceeds. However, this would mean that, whilst Tessa Jowell could represent the interests of the Millennium Commission, there would not be a Minister present at the decision-making stage formally to represent the interests of ODPM/EP, nor one to represent the interests of NMEC/KPMG. As chairman of the Committee, this role cannot be taken on by the Deputy Prime Minister.

The DPM has therefore asked that the Cabinet Secretariat ensure that Lord Rooker is invited to meetings of MISC 10 when the distribution of proceeds issue is expected to be discussed and decided in order that he can represent EP's interests. Lawyers have advised that this is acceptable. Richard Caborn should also be invited to the meetings, so that he can represent the interests of NMEC/KPMG – this has been agreed by Tessa Jowell and Sue Street. Keith Hill should continue to be invited, even though he will not be able to partake in the Committee's decision on the division of proceeds issue.

I am copying this to Sue Street and Gus O'Donnell, and to Paul Britton with the request that a provisional date be sought for MISC 10 to meet and decide on the division of proceeds from the commercial deal between English Partnerships and Meridian Delta Ltd. This needs to happen shortly, although not necessarily this side of Christmas.

*Yours  
Mavis*

**MAVIS MCDONALD**



DRAFT CONFLICT OF INTEREST GUIDANCE LETTER FROM MAVIS  
MCDONALD TO MIKE O'CONNOR AND JOHN WALKER

1. Richard Mottram's letters of 14 September 2001 to David James, [Mike O'Connor] [you] and Paula Hay-Plumb set out a clear procedure to deal with potential areas of conflict in respect of Lord Falconer's roles as Shareholder for the New Millennium Experience Company Ltd (NMEC) and Minister responsible for English Partnerships (EP). This letter updates those arrangements in the light of Keith Hill assuming both these roles. The guidance set out below has been agreed with the Deputy Prime Minister, Tessa Jowell and Keith Hill, and is issued with the agreement of Sue Street.
2. The Government's objectives in relation to the sale of the Dome are to achieve a sale and development of land which reflects the quality and status of the Dome, supports regeneration and represents value for money. EP and NMEC share an interest in the effective delivery of these objectives and it will in many circumstances be advantageous for Keith Hill to have the wider perspective and single focus provided by undertaking both roles in relation to the Dome.
3. Since Richard Mottram's letter of 14 September 2001 KPMG have been appointed, by the NMEC Shareholder, as liquidators to take the Company into solvent liquidation, and have been pursuing that aim since December 2001.
4. The potential for conflict, or appearance of conflict, arises principally in relation to the division of any sale proceeds between EP and NMEC.
5. The procedure to avoid any actual conflicts, or appearance of conflict, should be:-
  - a) In relation to sale proceeds, that the Accounting Officers for DCMS and ODPM, in conjunction with the Accounting Officers for the Millennium



Commission and EP, attempt to agree a division and put this to MISC 10 for agreement;

- b) That Keith Hill will not take part in any formal decisions in MISC 10, where a conflict between his two roles may arise, or may appear to arise. Under such circumstances, Tessa Jowell will be in a position to represent the interests of the Millennium commission who will be the beneficiary of any assets from the NMEC liquidation. Lord Rooker will represent the interests of EP, and Richard Caborn will represent NMEC, in MISC 10 decisions. At present only the division of proceeds issue is expected to require such arrangements, under which Keith Hill will take part in and inform discussions, but not the formal decision making process.
  - c) To ensure that at all times Keith Hill has clear written advice from each of the parties - DCMS/Millennium Commission/KPMG in his role as NMEC Shareholder; and ODPM/EP in his role as Minister for EP – and that the basis for any decision must be transparent and recorded;
  - d) That the departmental Accounting Officers concerned have access both to Keith Hill and to their Secretaries of State, and that if they have any concerns over any proposed course of action, their views can be overridden only at Secretary of State level. Any direction would need to be made or authorised by the relevant Secretary of State.
6. I am writing in similar terms to [Mike O'Connor] [John Walker], and copying this to Richard Heis at KPMG.

**MAVIS MCDONALD**





DEPUTY PRIME MINISTER

*From the Private Secretary*

Jeremy Heywood  
Principal Private Secretary  
10 Downing Street  
London  
SW1A 2AA



OFFICE OF THE  
DEPUTY PRIME MINISTER  
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London  
SW1A 2WH

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22 May 2003

*Dear Jeremy*

**THE DOME AND THE GREENWICH PENINSULA**

*C. Mr Bntton*  
*22/5/03*  
*TC*

During the Cabinet discussion on the Olympics last Thursday, the Deputy Prime Minister promised to send colleagues a note on the benefits deriving from the public investment in the Dome and the Greenwich Peninsula.

I enclose a note on the main benefits stemming from the purchase of the site, from the building of the Dome and running the Millennium Experience, and from the future investment and economic activity that is expected from the commercial deal between English Partnerships and Meridian Delta Ltd.

The decisions to locate the Millennium celebrations on the Greenwich Peninsula, and for the public sector to acquire and prepare the land, have – together with the extension of the Jubilee Line to North Greenwich and beyond - resulted in a huge increase in private sector investment and economic activity on the Peninsula. This in turn has delivered substantial public benefits so far, and will deliver many more over the next 20 years.

When viewed in its proper context, it is clear that the Dome project has delivered, and will deliver, major benefits for Greenwich, London and the Thames Gateway – not least of course, the prospect of a world class indoor arena that will be available as part of an Olympics package.

I am copying this to the Private Secretaries of Cabinet Ministers and to Ian Fletcher in Sir Andrew Turnbull's office.

*[Signature]*  
*[Signature]*  
**ROBERT CAYZER**





**DEPUTY PRIME MINISTER**

*From the Private Secretary*

Jeremy Heywood  
Principal Private Secretary  
10 Downing Street  
London  
SW1A 2AA



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*P. Briffon*  
*28.5.03*

*20* May 2003

*Dear Jeremy*

**THE DOME AND THE GREENWICH PENINSULA**

During the Cabinet discussion on the Olympics last Thursday, the Deputy Prime Minister promised to send colleagues a note on the benefits deriving from the public investment in the Dome and the Greenwich Peninsula.

I enclose a note on the main benefits stemming from the purchase of the site, from the building of the Dome and running the Millennium Experience, and from the future investment and economic activity that is expected from the commercial deal between English Partnerships and Meridian Delta Ltd.

The decisions to locate the Millennium celebrations on the Greenwich Peninsula, and for the public sector to acquire and prepare the land, have – together with the extension of the Jubilee Line to North Greenwich and beyond - resulted in a huge increase in private sector investment and economic activity on the Peninsula. This in turn has delivered substantial public benefits so far, and will deliver many more over the next 20 years.

When viewed in its proper context, it is clear that the Dome project has delivered, and will deliver, major benefits for Greenwich, London and the Thames Gateway – not least of course, the prospect of a world class indoor arena that will be available as part of an Olympics package.

I am copying this to the Private Secretaries of Cabinet Ministers and to Ian Fletcher in Sir Andrew Turnbull's office.

*Yours*  
*Robert Cayzer*

**ROBERT CAYZER**



## BENEFITS FROM THE DOME PROJECT

### What did we start with?

- 300 acres of derelict land - highly contaminated from years of industrial use and left to decline in recent years.
- In 1998, Peninsula ward (Trafalgar) was ranked 11 on list of most deprived local authority wards in England.
- A blot on the Greenwich and London landscape.

### What has been achieved so far?

- One of the UK's largest regeneration projects. 300 acres of contaminated land have been remediated and brought back into use.
- Iconic site instantly recognisable throughout the world. During its 12 months of operation the Dome was the most successful visitor attraction in the country – with 6.5m visitors.
- Dome generated contracts worth more than £500m for UK companies.
- A great number of jobs were created by the Dome. Around 1,000 front-line staff were employed, a quarter of whom were previously unemployed – some long-term.
- Year 2000 figures ranked Peninsula ward 1270 on list of most deprived wards in England – well outside the top tier of worst areas.
- Building of Greenwich Millennium Village (GMV) comprising nearly 1,400 new environmentally friendly homes. Currently some 670 homes are either completed or under construction. Likely an application will be submitted in the future to increase the number to over 2,500 homes.
- In addition to GMV, new developments on the Peninsula include:
  - ecology park, 50 acres of parkland, river walkway and flood defences.
  - new primary school and health centre
  - 162 bed hotel
  - 14 screen cinema and new Sainsbury's – both built to innovative design and high environmental standards
  - new river pier and yacht club
- £280m of private finance already invested in GMV and £90m spent on new cinema and retail development.



- Deal secured between English Partnerships (EP) and Meridian Delta Ltd (MDL), AEG (Europe), and Quintain Estates for future development of the site.

#### **What does the MDL planning application cover?**

- Development of 190 acres of land (170 EP and 20 private) totalling over 15m sq. ft. Project expected to run to 2025.
- Secure future use for the Dome as a world class entertainment and sports venue, due to open 2006 (subject to planning timeline) - maximum capacity of 26,000,
- Development of the Dome Waterfront – outside the arena but inside the Dome. Comprising a number of uses to complement the Arena – e.g. entertainment venues, leisure, food and retail.
- Over 10,000 homes, many of which will be affordable, including key worker accommodation.
- 600 bed 4/5 star hotel, open spaces and parkland.
- Secondary school, and other community facilities.
- 3.5m sq. ft of commercial office space and significant transport infrastructure improvements.

#### **What are the future benefits?**

In addition to the environmental improvements and physical developments outlined above:

- Up to £550m cash return to EP/Government during lifetime of the MDL deal (2025) with NPV of around £240m.
- Private sector investment of £4bn across the MDL/AEG development.
- £135m investment in Dome Arena and at least £65m in Dome Waterfront.
- 20,000 permanent jobs; over 5,000 new jobs for Greenwich and Thames Gateway,
- Average 1,200 construction jobs at any one period during 20-year development phase.
- Potential new Creative Industries cluster on the Peninsula – MDL and AEG have entered into discussions with various educational establishments and media and entertainment industry organisations.





**Jeff Rooker**  
**Minister of State For Housing,**  
**Planning and Regeneration**



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**PRIME MINISTER**

*Dear Tony*

**23 DEC 2002**

*R Britton*  
*L Ball*  
*AS*  
*Wheatsley*  
*30.12.02*

I am pleased to be able to report that Meridian Delta Ltd (MDL) have today submitted their planning application to the London Borough of Greenwich, for the creation of a new 26,000 seat sports and entertainment arena inside the Millennium Dome, and for the regeneration of 190 acres of the Greenwich Peninsula. The application is the largest single development proposal in the UK for many years. It follows some seven months after contracts were signed between MDL and English Partnerships (EP) for the sale of the Dome, and represents another significant milestone towards bringing the Dome back into a worthwhile and successful use, and the regeneration of one of the largest brownfield sites in Europe.

Meridian Delta's planning application envisages the provision of a 26,000 capacity world class arena inside the Dome, with a further 62,000 sq m of entertainment and leisure space around the outside of the arena but still inside the Dome. Outside the Dome Meridian Delta would like to provide around 10,000 homes, of which at least 3,500 are likely to be affordable; 340,000 sq m of commercial space; 33,000 sq m of retail provision; a new 600 bed hotel with conference and banqueting facilities; major areas of public realm and open space; and a new school with additional community facilities.

Subject to securing planning permission, work on both the arena and the wider development could begin in mid-2003. On this timetable, the Anschutz Entertainment Group (AEG) (which will build and operate the arena) would expect to open the arena in 2005. However, much depends on progress made with the planning application itself, and on discussions between Meridian Delta and the planning authorities over the community and other facilities that the developer will be expected to provide. However, everyone involved in the planning process is committed to seeing the application succeed, and coupled with the extensive community consultation that Meridian Delta have already undertaken, there is every prospect that the planning process will proceed relatively smoothly.

MDL believe the development will deliver 24,000 long term jobs. At this level, the project is set to deliver substantial benefits, for Greenwich, for London and for the Thames Gateway. The Peninsula is a key site at the entrance to the Gateway, and early progress on this site will help establish a development momentum for the wider agenda.



A key issue to be resolved through the planning process is the amount and nature of affordable housing. This site has the potential to make a substantial contribution towards increasing the number of affordable homes available in London, and as such to provide an early indication of our ability to deliver against the targets we will be setting ourselves in the Communities Plan. My office will therefore be discussing with the developers, the GLA and the London Borough of Greenwich, how much affordable housing should be provided on the site, against an over-arching objective of providing a balanced and sustainable community on the Greenwich Peninsula.

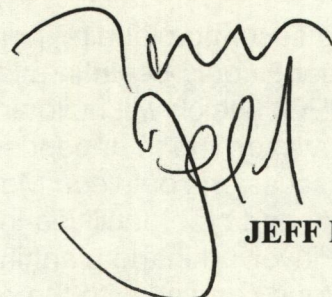
I should emphasise that, under the Ministerial Code and the published Guidance on Propriety Issues in the Handling of Planning Casework in ODPM, I am not taking any part in consideration of the planning application, despite my wider planning responsibilities. As announced to Parliament in July, Chris Leslie is the Minister with responsibility for considering any Dome related planning matters. There is an equivalent separation of roles between officials who advise Chris Leslie on the planning issues and those who support me on other ongoing Dome considerations.

I also took the opportunity this week to clarify to Parliament my position in relation to the Dome and the New Millennium Experience Company. We received Counsel's opinion that it could jeopardise the outcome of some outstanding litigation involving NMEC if the shareholding in NMEC were formally transferred from Charlie Falconer to me, and on that basis he remains the legal shareholder. However, he has given me full power of attorney over all NMEC matters, and as a result I have full Ministerial responsibility for the Company.

Finally, the Dome will, once again host a New Years Eve party for 40,000 people organised by the Ministry of Sound, this year in collaboration with Anschutz Entertainment Group. Last years event was highly successful and facilities are already being installed inside the Dome, in preparation.

Overall, the Dome is steadily and quietly transforming itself into something which, subject to successfully obtaining planning permission, could be a major success story.

I am copying this minute to the Deputy Prime Minister, Tessa Jowell and Paul Boateng, and to Mavis McDonald, Sue Street, Gus O'Donnell and Sir Andrew Turnbull.

A handwritten signature in black ink, appearing to read 'Jeff Rooker', with a stylized, flowing script.

**JEFF ROOKER**





SECRETARY OF STATE

MO 26/7K

MINISTRY OF DEFENCE  
ROOM 205, OLD WAR OFFICE BUILDING  
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23 December 2002

CABINET OFFICE
A 13031....
23 DEC 2002
FILING INSTRUCTIONS
FILE No. ....

Sir Stephen Wall

METEOR

As foreshadowed in my letter of 12 December, German Parliamentary approval was obtained on 18 December. Following final confirmation from the other partner nations we have signed the METEOR contract with MBDA today. A short press release welcoming the news will be issued later today.

L. S. Maspero  
30.12.02

We will now keep the pressure up on Germany on A400M so that we can achieve contract signature on that programme by April 2003.

I am copying this letter to Lucy Makinson (HMT), Jonathan Sinclair (FCO), Erica Zimmer (DTI), and Desmond Bowen and Ian Fletcher (Cabinet Office), Sir Paul Lever (Berlin) and Sir John Holmes (Paris).

PETER DAVIES  
Private Secretary

Matthew Rycroft Esq  
10 Downing Street



**Gus O'Donnell CB**

Permanent Secretary  
Head of the Government  
Economic Service



72/15



**H M Treasury**

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17<sup>th</sup> December 2002

Mrs Mavis McDonald CB  
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Room 01.15  
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*Mr Britton*

*rf*

*18/12*

*W*

*Dear Mavis,*

**DOMES – DIVISION OF PROCEEDS**

I was grateful for your letter and attached paper of 6 November 2002 regarding the proposals which you and Sue Street, as the relevant Accounting Officers, are discussing in relation to the division of proceeds from the sale of the Millennium Dome to Meridian Delta Ltd.

You will be aware that officials here have been in contact with the Dome Sale Unit on these issues and have been advising that whatever course you decide to adopt will need to be defensible in public and at the Public Accounts Committee.

We would be grateful if you could continue to keep us in touch with developments.

*Yours ever  
Gus*

**GUS O'DONNELL**



INVESTOR IN PEOPLE





72/15 2

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*From the Secretary of the Cabinet and Head of the Home Civil Service*  
Sir Andrew Turnbull KCB CVO

13 December 2002

Dear Julie,

**CABINET COMMITTEE ON THE MILLENNIUM DOME (MISC 10) AND DIVISION OF PROCEEDS FROM DOME SALE**

I refer to Mavis McDonald's letter of 6 November to Sir Andrew Turnbull on the above.

Sir Andrew is content with the arrangements Mrs McDonalds suggest to avoid Ministerial conflicts of interest in deciding on the division of proceeds from the Dome sale.

I am copying this letter to the private secretaries of Gus O'Donnell and Sue Street.

Yours sincerely,

Sally Warren  
Assistant Private Secretary

Julie Eason,  
PS/ Mavis McDonald  
Office of the Deputy Prime Minister



The Rt Hon The Lord Goldsmith QC



020-7271 2460

Lord Rooker  
Office of the Deputy Prime Minister  
26 Whitehall  
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9 BUCKINGHAM GATE  
LONDON SW1E 6JP

*Mr Britton*  
*Ms Gholson*

*25* November 2002

*Dear Jeff*

**REQUEST FOR ADVICE CONCERNING THE TRANSFER OF THE  
MINISTERIAL SHAREHOLDING IN THE NEW MILLENNIUM  
EXPERIENCE COMPANY**

One of my officials is today writing to officials in your Department and the Department for Culture, Media and Sport conveying my advice on this matter. I thought you may welcome a short note from me.

In my view it is acceptable under the Ministerial Code of Conduct for you to assume Ministerial responsibility in Parliament for all Dome matters, including those relating to NMEC in accordance with the Prime Minister's wishes, notwithstanding that you do not hold the shareholding in that company nor are you a member of it. Nor do I consider your actions in answering questions in Parliament in relation to the Dome could be said to amount to a contempt on the basis that you do not hold the shareholding nor are you a member of NMEC, assuming of course that you do not explicitly or implicitly suggest that you are. To avoid any risk of contempt I would recommend that you take the earliest opportunity to clarify your position in relation to NMEC in the House.

I am copying this letter to the Prime Minister, the Deputy Prime Minister and the **Secretary of the Cabinet.**

*Yours truly*  
*LG*



Department for Culture, Media and Sport  
From the Office of the Permanent Secretary

2-4 Cockspur Street  
London SW1Y 5DH  
www.culture.gov.uk

Tel 020 7211 6256  
Fax 020 7211 6259  
ben.cowell  
@culture.gsi.gov.uk

RESTRICTED



Ian Fletcher  
PPS/Sir Andrew Turnbull KCB CVO  
70 Whitehall  
LONDON SW1A 2AS

22 November 2002



Dear Ian

*Andrew Britton*  
*Noted* *28/11*  
*L*

**TRANSFER OF MINISTERIAL RESPONSIBILITY FOR NMEC (MILLENNIUM DOME)**

On behalf of Sue Street I would like to draw Sir Andrew's attention to the present situation with regard to the transfer from Lord Falconer to Lord Rooker of Ministerial responsibility for the New Millennium Experience Company (NMEC), which built and operated the Millennium Dome and which is currently in solvent liquidation. The issues are rather technical, but Sir Andrew needs to be aware in light of his role in overseeing the transfer of Ministerial responsibilities, as set out in the Ministerial Code.

The Prime Minister announced on 8 July that Lord Rooker would be dealing with policy issues related to the Dome and that responsibility for NMEC would transfer to a Minister in the Office of the Deputy Prime Minister 'in due course'. The Deputy Prime Minister subsequently decided that the NMEC Minister should be Lord Rooker, who also has responsibility for the sale of the Dome site in his capacity as Minister for English Partnerships. The government is the sole shareholder in NMEC, and to achieve the transfer of responsibilities it was deemed necessary to transfer the NMEC shareholding from Lord Falconer (in whose name it currently is) to Lord Rooker.

There remains, however, an issue of ongoing litigation involving NMEC and Lord Falconer. Counsel advised that transfer of the share could result in the litigant seeking an injunction at an open court hearing, with costs against the Government. On that basis, Counsel advised that the share should not be transferred, but that Ministerial responsibility could still be transferred without the share (pending completion of the litigation) backed up by a power of attorney and forms of proxy



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Department for Culture, Media and Sport

signed by Lord Falconer. Counsel advised that this would give Lord Rooker full and independent control of NMEC business, and Lord Rooker was consulted on Counsel's arguments by a submission of 31 October, jointly agreed by Sue Street and Mavis McDonald.

Lord Rooker's view in response to this submission, as recorded in a note of 11 November, was that it would be seen as contempt of Parliament to answer on NMEC matters in Parliament without holding the share, and that he would only be content to take on the Ministerial role without the shareholding if he received written instruction from the Prime Minister or the Attorney General that it would be satisfactory under the Ministerial Code. DCMS lawyers have therefore sought advice from the Law Officers on whether the Attorney General would be willing to give his written agreement to the proposed transfer of responsibilities. We have asked for advice by close on Monday, in light of a Parliamentary Question about the Dome which is due to be answered in the House of Lords on Tuesday.

We hope that the Law Officers' advice will give comfort to Lord Rooker that he will be able to assume responsibility for NMEC matters as decided. But Sue wanted to ensure that this matter was brought to Sir Andrew's attention in case the advice from the Law Officers does not provide Lord Rooker with the reassurances that he has requested. If that were to be the case, we may need to come back to Sir Andrew for his guidance, since paragraph 37 of the Ministerial Code states that the Head of the Home Civil Service should be consulted in cases where there is any dispute over transfer of Ministerial responsibilities.

Yours

Ben Cowell

Ben Cowell  
PS/Sue Street





Mavis McDonald CB  
Permanent Secretary

Sir Andrew Turnbull KCB CVO  
Secretary to the Cabinet  
Cabinet Office  
70 Whitehall  
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Dear Sir Andrew



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Web site: [www.odpm.gov.uk](http://www.odpm.gov.uk)

6 November 2002

Andrew -  
Content with this arrangement? *YK*

Sally 12/12

**CABINET COMMITTEE ON THE MILLENNIUM DOME (MISC 10) AND DIVISION OF  
PROCEEDS FROM DOME SALE**

1. This letter concerns the avoidance of Ministerial conflicts of interest in deciding on the division of proceeds from the Dome sale.
2. I enclose a copy of a letter I have sent to Gus O'Donnell, explaining the current position on the division of proceeds. You will also recall that Ministerial responsibility for the New Millennium Experience Company (NMEC) has transferred to Lord Rooker in ODPM, although he is still supported by DCMS officials on NMEC issues.
3. The apportionment of proceeds between English Partnerships (EP) and NMEC (on behalf of the Lottery) will be decided by MISC 10. In order to avoid any actual or perceived conflict of interest in the way in which Lord Rooker fulfils his dual role, as Minister for EP and NMEC, Sue Street and I propose to operate similar arrangements to those that existed for Lord Falconer. We will issue guidance to other Accounting Officers (for EP and the Millennium Commission), as was done previously.
4. This arrangement will mean that Lord Rooker will be entitled to attend and speak at MISC10 but will absent himself from the final decision on the split of proceeds. However, this would mean that, whilst Tessa Jowell could represent the interests of the Millennium Commission and NMEC, there would not be a Minister present at the decision-making stage formally to represent the interests of ODPM/EP. As chairman of the Committee, this role cannot be taken on by the Deputy Prime Minister. The DPM has therefore asked that the Cabinet Secretariat ensure that Tony McNulty is invited to meetings of MISC 10 when the distribution of proceeds issue is expected to be discussed and decided in order that he can represent these interests.



5. I hope you will agree that these arrangements will adequately protect the interests of the parties whilst avoiding any potential conflict of interest for the Ministers concerned.
6. I am copying this letter to Gus O'Donnell and Sue Street.

*Mavis McDonald.*

MAVIS MCDONALD



RESTRICTED: POLICY AND COMMERCIAL

DISTRIBUTION OF PROCEEDS FROM THE SALE OF THE MILLENNIUM DOME

*SUMMARY*

This paper proposes that NMEC/the Lottery should receive 12½% of the income from the sale of the Dome and Greenwich Peninsula. Payments would be made to the Millennium Commission to a trust or other arrangements put in place to review these funds and its successors would be the beneficiaries. Payments will be spread over the next 25 years and are likely to begin in around 2006/7 once EP's sale, decommissioning and Dome running costs have been covered. Ministers have consistently stated in public that these will be the first call on the proceeds. On current estimates this proposal will yield a total of around £65 million cash to the Lottery, though the actual amount will depend on planning permission and the final nature and quantum of development on the Peninsula.

*INTRODUCTION*

1. The site at Greenwich on which the Millennium Dome was built was purchased from British Gas by English Partnerships (EP) in 1997, and then leased by EP to the New Millennium Experience Company (NMEC) until 30 June 2001. The lease assumed that NMEC would receive a share of the proceeds if, once the land was returned to EP, the Dome was retained and subsequently sold.
2. The basis on which NMEC's share of any sale proceeds would be calculated has been debated within Whitehall since the original lease was negotiated in 1997. A short summary of the history of the "proceeds debate" is attached at annex B. The latest position is set out in a legal agreement between NMEC and EP entered into in early 2001 and which is still in force. The agreement sets out how the proceeds from the proposed sale of the Dome to Legacy plc were to have been distributed. Although that agreement was supposed to cover a sale to any other party, the sale to Meridian Delta Ltd (MDL) is on a very different set of terms to the Legacy deal, and it is therefore very unclear how the "Legacy principles" can be applied to the MDL deal.
3. Although it will be several years before money begins to flow from the MDL deal, the share to be received by NMEC/the Lottery needs to be resolved now. When the MDL deal was announced, there was considerable Parliamentary and press interest in the size of the Lottery's share. Ministers responded simply by saying that the Lottery would receive a "fair share". Public interest could be reignited at any stage, possibly by events such as the submission of MDL's planning application, and NMEC's liquidator (KPMG) has said that the company's liquidation cannot be completed until its share of the sale proceeds has been settled.



## VALUE OF THE MDL DEAL

4. Annex A sets out the structure of the deal agreed with MDL. It is, in effect, a joint venture, with EP receiving payments as land is released for development over the 20-25 year lifetime of the deal. The first such payments are likely to take place in around 2005/6.
5. The current estimate of the value of the deal to EP is that at the target development level of 15m sq ft, EP will receive £550m cash (£240m NPV) spread over 25 years. However, this estimate is subject to considerable fluctuation up or down. For example, if planning permission were to restrict the development to 7.5m sq ft, EP's return would be only around £100m NPV.
6. As part of the sale process, JonesLangLasalle, EP's property advisers, also produced an estimate of the likely value of an alternative deal in which the Dome would be demolished. They concluded that this would be worth £30m (NPV) less than the deal with MDL. Two factors explain the extra value that the Dome adds to the Greenwich Peninsula:
  - the Dome is a good location for a new Arena and leisure and entertainment district because it is already established in the minds of the public as a visitor destination with a significant profile.
  - development on the Greenwich Peninsula is constrained by transport capacity which is exhausted by the proposed re-development by MDL. Demolishing the Dome, therefore, would not lead to it being replaced with a more valuable building.

## PROPOSED SPLIT OF THE PROCEEDS

7. There is a public expectation that the Lottery will receive a share of the Dome sale proceeds, and this has clearly been contemplated through all of the agreements between EP and NMEC. It is also the case that the law generally regards it as appropriate that the landlord (in the case EP) should recompense the tenant (NMEC) for the value of any enhancement for which the tenant has paid. This suggests that NMEC has a legitimate claim to the difference between the sale price to MDL, and the valuation of the site without the Dome in place i.e. £30m, or 12 ½% of the value of the MDL deal. A settlement at this level would also be consistent with the pledge given by Ministers that no further taxpayers money will be spent on the Dome since the funds retained by the Exchequer would match what could have been obtained had the Dome been demolished.

### *Timing of Payments*

8. There are a number of alternative ways in which this sum could be paid. The most straightforward would be for NMEC/the Commission to receive its share as a percentage of the proceeds as they accrue to EP, or as a lump sum now. The first of these offers two key advantages:
  - it allows the Lottery/Commission to share in any subsequent increase in the value of the Greenwich Peninsula;



## DRAFT

- the value of the deal with MDL is likely to fluctuate quite considerably over its lifetime. It would therefore be very difficult to agree, now, on an equivalent lump sum.
9. Awarding NMEC a percentage share of proceeds as they accrue is similar to the clawback, overage and profit share arrangements that are common in both the public and private sectors. These arrangements have been used by Development Corporations, Government Departments and in the administration of grant funded developments. Although there has been some standardisation, by bodies such as CNT, the majority of mechanisms to capture future increases in value are tailored to the particular transaction. In cases where parties are investing differing elements, it would not be unusual for the increase in land value to be shared after "allowable" expenditure having regard to risk.
  10. Ministers have consistently said in public that the costs that EP has incurred in decommissioning, running and selling the Dome will be a first call on the sale proceeds. These costs amount to date to around £22 million and are continuing at £300 – 400,000 per month. To ensure that there is little risk of the Ministerial pledge being broken, but to avoid later disputes about the exact final total, it is proposed that it should be assumed that these costs will ultimately amount to £30 million. NMEC should therefore begin to receive its 12.5% share once MDL has paid the first £30 million to EP.
  11. The proposal described above would, on current estimates, yield around £65 million cash to NMEC over the 20 year development period, **with payments to NMEC beginning in around 2006/7**. This is well after NMEC's liquidation will have been completed, though KPMG have indicated that a trust could be established to accept the proceeds to which the Millennium Commission and its successors (currently expected to be the New Opportunities Fund) would be the beneficiaries. Such a trust would, though, need to be established in a way that avoids the need for its trustees to require some influence over the operation of the deal with MDL.

### *Position of the Liquidator*

12. [*The liquidator has yet to be formally consulted on this issue. What follows is an interpretation of his position*]. NMEC's liquidator is legally bound to pursue all of the company's debtors on behalf of the company's shareholder and creditors. The principal remaining creditor is the Millennium Commission. The Commission is entitled to receive all of any surplus left at the end of the NMEC liquidation process up to a maximum of the amount of grant awarded to the company. On this basis the liquidator is taking guidance from the Commission during the liquidation process. The liquidator has a legal duty to seek to maximise the value of NMEC's assets. He will therefore want to assure himself as well as the Commission that the settlement proposed in this paper is at least as good as what could be achieved through other, in particular legal, mechanisms.

### *PRESENTATION*

13. Presentation of any agreement over the share of proceeds to be received by the Lottery is likely to be extremely difficult:



- some parts of the Press and public will argue that the taxpayer has paid more than enough towards the Dome and that all of the proceeds should go to the Exchequer;
- other sections of the Press and public are likely to argue that the size of the proposed transfer to the Lottery looks small when set against the £600m that the Lottery spent on the Dome (£200 million of which was especially controversial because it was paid due to lower than expected income from revenue during the Millennium year)

14. Considerable care will therefore need to be taken in explaining the decision. Some of the key arguments are:

- the deal with MDL covers around 120 acres of developable land owned by EP on the Greenwich Peninsula, of which the Dome itself covers only around 20 acres;
- a separate exercise by ODPM focussing on the impact of the Dome on housing values as a proxy for residential land values on the Peninsula suggests that these may have increased by 10-15% compared to the surrounding area. This provides an alternative way of identifying the contribution of the Dome to the overall value of the deal, and generates a similar share to the more straightforward approach of calculating the value of the deal with the Dome removed.
- the general public perceive that the Lottery invested around £600m in the Dome. In fact, £275m was spent on constructing the Dome itself, with the remaining £330m being spent on the Millennium Experience and national programme. The Exchequer spent £400m on cleaning up the site and installing new infrastructure, including the Jubilee Line station.
- Out of the cash it will receive from MDL, EP will have to cover the costs it incurred in managing and maintaining the Dome and decommissioning its contents; pay 7½% of the value of the deal to British Gas (a hangover from the original deal to purchase the site); and cover the costs of purchasing a key parcel of land on the Peninsula from London Underground (part of the deal with MDL). Taken together these costs amount to around £90m cash.
- Furthermore, if the independent Millennium Commission felt unhappy with the outcome they would attract media attention to their view, and this would be exacerbated if the Director felt bound to seek a direction from the Commissioners

15. Finally, although as much information as possible will be provided to the NMEC liquidators and the Commission, so they can satisfy themselves that this outcome will be no worse than they would otherwise expect, it will be important that no commercially sensitive information is revealed in explaining the rationale for the size of NMEC's share. In particular, although it is proposed that NMEC's share is based on the estimate of the value of the site if the Dome had been demolished, this is also a key benchmark governing ongoing discussions with Meridian Delta and other third parties, including British Gas. Public disclosure



would prejudice EP's ability to secure continuing value for money for the public sector.

## CONCLUSIONS

16. Applying general legal principles governing landlord and tenant relationships, NMEC could legitimately expect to receive 12 ½% of the proceeds from the sale of the Dome to MDL. A settlement at this level would also allow Ministers to continue to be seen to stand by their pledge not to put any further taxpayers money into the Dome. Payments should be made into a trust fund to be set up by NMEC's liquidators, and spread over the lifetime of the MDL/EP joint venture, starting once EP's decommissioning and other costs have been met. On current estimates the trust fund will receive around £65 million cash over the next 20 –25 years. The purpose and objects of any trust fund will need to be very carefully considered in order to avoid later difficulties with the management of the MDL project.
17. The size of NMEC's share will need to be carefully explained, focussing on:
  - The fact that the Dome covers only around one-sixth of the total site being sold;
  - The amounts spent by the Millennium Commission on the Dome itself (ie not including the exhibition), and by the Exchequer on remediation of the Peninsula and on the installation of infrastructure;
  - The other costs that EP will have to cover out of its share of the proceeds.

Care is also required to ensure that no commercially sensitive information is disclosed in any explanations that are offered.



## ANNEX A

### STRUCTURE OF THE DEAL WITH MDL

The deal with MDL covers the Dome and the remainder of EP's undeveloped landholdings on the Greenwich Peninsula - a total of around 170 acres. Although complex, the deal can be disaggregated into three key parts:

**Dome Arena:** This covers the central part of the Dome (broadly the area inside the supporting pylons) in which Anschutz Entertainment Group (AEG) will build a new 20,000 seat arena. EP will receive a significant share of profits after AEG has earned a 20% return on its initial investment of around £130m. On current projections, however it is unlikely that this aspect of the deal will generate substantial sums for the public sector.

**Dome Waterfront:** Dome Waterfront is a leisure and entertainment district located in the outer rim of the Dome, spilling out into the northern-most tip of the Greenwich Peninsula. EP will receive a one-third share of any profits made on development of this area, after MDL/AEG have achieved a 15% return. On current projections, this could generate up to £10m NPV for the public sector.

**Remainder of the Peninsula:** EP will retain ownership of the whole of the remainder of the Peninsula whilst MDL prepares sites for development and seeks third party purchasers for individual plots. Once these purchasers are in place and ready to begin building, formal ownership of the land will transfer from EP to the third party and EP will receive payment for the land, calculated according to a formula set out in the legal documentation. EP receives a minimum amount per acre for each plot, and then around 50% of any sums remaining after infrastructure costs etc have been met. MDL receives the other 50%. Sales of plots in this way are likely to begin in around 2005 and will be spread over the 20 year life of the deal. In the event that MDL succeeds in achieving its full target development level of 15m sq ft, the anticipated income to EP will be around £550m cash, £240m NPV. This return is, however, subject to market fluctuations and the exact level of development that is undertaken. For example, if MDL manages to develop only around 7.5m sq ft, EP's return is likely to be limited to around £100m NPV.



## **ANNEX B**

### **DISTRIBUTION OF PROCEEDS FROM SALE OF THE DOME: A SHORT HISTORY**

The share of the proceeds from the sale of the Dome to be received by EP and NMEC has been the subject of almost continuous debate since the concept of the Dome and the Millennium Exhibition was first conceived.

The land on which the Dome stands was bought from British Gas by EP for just over £20 million. The agency subsequently spent a further £200 million on remediating the site and installing new infrastructure, whilst London Transport spent £190 million on a new tube and bus station on the Peninsula. For its part, NMEC spent £275 million on the Dome itself and related infrastructure.

The basis on which proceeds were to be distributed was first set out in the July 1997 Agreement to Lease, which set out the terms under which EP would lease the land for the Dome to NMEC. The terms of the distribution were then varied at the time of the proposed sale to Nomura, and again when the sale to Legacy plc was being negotiated. Details of how the proceeds were to be split in each case are set out below.

#### **Original Agreement to Lease (July 1997)**

- Required NMEC to demolish Dome, at own cost, unless EP served notice that it wanted the Dome to be retained. In that case, the Dome was to become property of EP, and the original Agreement to Lease provided a formula under which NMEC would receive a share of proceeds from the sale of the Dome and any land necessary to facilitate future use of the Dome.
- The status and interpretation of the formula – which was in the unsigned lease document within the Agreement to Lease (dating from July 1997) – was disputed between EP and NMEC and the opinions of Counsels were sought. It was never settled whether it applied at all.
- But an interpretation consistent with NMEC's view (based on the advice of their Counsel) might, depending on the amount of land "needed" to facilitate any future Dome use, have given NMEC anything in the range from about 40% up to about 80% of the proceeds.
- Key variables were amount of land involved and the value of that land. NMEC's percentage would have decreased with increase in land value and/or land area.

#### **Proposed sale to Nomura (Summer 2000)**

- Nomura were proposing to buy the Dome plus 48 acres of "green land" (the land immediately under and around the Dome – edged in green on the plan attached



## DRAFT

to the legal documents, hence the name) and 15 acres of "red land" (land to the south of the Dome used as a service area during the Millennium exhibition, and edged in red on the plans). The overall value of the bid was around £100m NPV.

- The division of the proceeds from this sale was based on the formula in the Agreement to Lease, though disputes about the interpretation of the formula meant that a final settlement had to be brokered by MISC10. That settlement provided that NMEC would receive no more than £53m and EP the remainder.
- EP had to be directed to agree to this division since they argued that the division was such that they could have obtained a better deal by demolishing the Dome and re-developing the site (in which case NMEC would have no entitlement to any of the proceeds). It was made clear that this settlement was to apply only to the Nomura deal, not to any other.

### Proposed sale to Legacy plc (January 2001)

- The proposed sale to Legacy plc covered the same land as the Nomura deal, and offered a cash sum estimated by Legacy to be £125 million, giving an overall NPV of c.£100m.
- Nomura were proposing to retain much of the Millennium exhibition. Legacy, by contrast, were proposing to use the Dome as a "dot.com" business park. They therefore required the exhibition to be dismantled. NMEC was concerned that funding decommissioning of the exhibition in advance of receiving proceeds from the sale could have threatened its solvency and EP therefore agreed to take on these costs itself.
- EP's agreement to assume the decommissioning costs was then reflected in a new agreement on division of proceeds, again brokered by MISC 10, (and, again, on which EP was directed). It provided that EP and NMEC would divide the proceeds 50:50, after the deduction of the costs that EP was taking on from NMEC and incurring itself in selling the Dome (including the payment due to British Gas). These costs were estimated at the time to amount to around £48 million in total.
- It was also agreed that the amount due to NMEC for the "red land" should be capped at 50% of £15m. The total amount that NMEC expected to receive from the Legacy deal was therefore around £26 million.
- The principles of this settlement on division of proceeds were to apply to any future sale including the Dome. Thus, any land beyond the "red land" is not included – EP were expected to receive full value for such land, which effectively comprises the area between the North Greenwich Interchange and the Millennium Village (ie the remaining 55 acres of developable land being sold to MDL which was not covered by the Nomura or Legacy deals).





**Mavis McDonald CB**  
**Permanent Secretary**

Sir Andrew Turnbull KCB CVO  
Secretary to the Cabinet  
Cabinet Office  
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Dear Sir Andrew



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6 November 2002

*C* Mr Britton  
Ms Bell  
r/h/oz.  
TC

**CABINET COMMITTEE ON THE MILLENNIUM DOME (MISC 10) AND DIVISION OF  
PROCEEDS FROM DOME SALE**

1. This letter concerns the avoidance of Ministerial conflicts of interest in deciding on the division of proceeds from the Dome sale.
2. I enclose a copy of a letter I have sent to Gus O'Donnell, explaining the current position on the division of proceeds. You will also recall that Ministerial responsibility for the New Millennium Experience Company (NMEC) has transferred to Lord Rooker in ODPM, although he is still supported by DCMS officials on NMEC issues.
3. The apportionment of proceeds between English Partnerships (EP) and NMEC (on behalf of the Lottery) will be decided by MISC 10. In order to avoid any actual or perceived conflict of interest in the way in which Lord Rooker fulfils his dual role, as Minister for EP and NMEC, Sue Street and I propose to operate similar arrangements to those that existed for Lord Falconer. We will issue guidance to other Accounting Officers (for EP and the Millennium Commission), as was done previously.
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*Mavis McDonald.*

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RESTRICTED: POLICY AND COMMERCIAL

DISTRIBUTION OF PROCEEDS FROM THE SALE OF THE MILLENNIUM DOME

SUMMARY

This paper proposes that NMEC/the Lottery should receive 12½% of the income from the sale of the Dome and Greenwich Peninsula. Payments would be made to the Millennium Commission to a trust or other arrangements put in place to review these funds and its successors would be the beneficiaries. Payments will be spread over the next 25 years and are likely to begin in around 2006/7 once EP's sale, decommissioning and Dome running costs have been covered. Ministers have consistently stated in public that these will be the first call on the proceeds. On current estimates this proposal will yield a total of around £65 million cash to the Lottery, though the actual amount will depend on planning permission and the final nature and quantum of development on the Peninsula.

INTRODUCTION

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3. Although it will be several years before money begins to flow from the MDL deal, the share to be received by NMEC/the Lottery needs to be resolved now. When the MDL deal was announced, there was considerable Parliamentary and press interest in the size of the Lottery's share. Ministers responded simply by saying that the Lottery would receive a "fair share". Public interest could be reignited at any stage, possibly by events such as the submission of MDL's planning application, and NMEC's liquidator (KPMG) has said that the company's liquidation cannot be completed until its share of the sale proceeds has been settled.



## VALUE OF THE MDL DEAL

4. Annex A sets out the structure of the deal agreed with MDL. It is, in effect, a joint venture, with EP receiving payments as land is released for development over the 20-25 year lifetime of the deal. The first such payments are likely to take place in around 2005/6.
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  - Furthermore, if the independent Millennium Commission felt unhappy with the outcome they would attract media attention to their view, and this would be exacerbated if the Director felt bound to seek a direction from the Commissioners
15. Finally, although as much information as possible will be provided to the NMEC liquidators and the Commission, so they can satisfy themselves that this outcome will be no worse than they would otherwise expect, it will be important that no commercially sensitive information is revealed in explaining the rationale for the size of NMEC's share. In particular, although it is proposed that NMEC's share is based on the estimate of the value of the site if the Dome had been demolished, this is also a key benchmark governing ongoing discussions with Meridian Delta and other third parties, including British Gas. Public disclosure



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would prejudice EP's ability to secure continuing value for money for the public sector.

### CONCLUSIONS

16. Applying general legal principles governing landlord and tenant relationships, NMEC could legitimately expect to receive 12 ½% of the proceeds from the sale of the Dome to MDL. A settlement at this level would also allow Ministers to continue to be seen to stand by their pledge not to put any further taxpayers money into the Dome. Payments should be made into a trust fund to be set up by NMEC's liquidators, and spread over the lifetime of the MDL/EP joint venture, starting once EP's decommissioning and other costs have been met. On current estimates the trust fund will receive around £65 million cash over the next 20 –25 years. The purpose and objects of any trust fund will need to be very carefully considered in order to avoid later difficulties with the management of the MDL project.
17. The size of NMEC's share will need to be carefully explained, focussing on:
  - The fact that the Dome covers only around one-sixth of the total site being sold;
  - The amounts spent by the Millennium Commission on the Dome itself (ie not including the exhibition), and by the Exchequer on remediation of the Peninsula and on the installation of infrastructure;
  - The other costs that EP will have to cover out of its share of the proceeds.

Care is also required to ensure that no commercially sensitive information is disclosed in any explanations that are offered.



## ANNEX A

### STRUCTURE OF THE DEAL WITH MDL

The deal with MDL covers the Dome and the remainder of EP's undeveloped landholdings on the Greenwich Peninsula - a total of around 170 acres. Although complex, the deal can be disaggregated into three key parts:

**Dome Arena:** This covers the central part of the Dome (broadly the area inside the supporting pylons) in which Anschutz Entertainment Group (AEG) will build a new 20,000 seat arena. EP will receive a significant share of profits after AEG has earned a 20% return on its initial investment of around £130m. On current projections, however it is unlikely that this aspect of the deal will generate substantial sums for the public sector.

**Dome Waterfront:** Dome Waterfront is a leisure and entertainment district located in the outer rim of the Dome, spilling out into the northern-most tip of the Greenwich Peninsula. EP will receive a one-third share of any profits made on development of this area, after MDL/AEG have achieved a 15% return. On current projections, this could generate up to £10m NPV for the public sector.

**Remainder of the Peninsula:** EP will retain ownership of the whole of the remainder of the Peninsula whilst MDL prepares sites for development and seeks third party purchasers for individual plots. Once these purchasers are in place and ready to begin building, formal ownership of the land will transfer from EP to the third party and EP will receive payment for the land, calculated according to a formula set out in the legal documentation. EP receives a minimum amount per acre for each plot, and then around 50% of any sums remaining after infrastructure costs etc have been met. MDL receives the other 50%. Sales of plots in this way are likely to begin in around 2005 and will be spread over the 20 year life of the deal. In the event that MDL succeeds in achieving its full target development level of 15m sq ft, the anticipated income to EP will be around £550m cash, £240m NPV. This return is, however, subject to market fluctuations and the exact level of development that is undertaken. For example, if MDL manages to develop only around 7.5m sq ft, EP's return is likely to be limited to around £100m NPV.



## **ANNEX B**

### **DISTRIBUTION OF PROCEEDS FROM SALE OF THE DOME: A SHORT HISTORY**

The share of the proceeds from the sale of the Dome to be received by EP and NMEC has been the subject of almost continuous debate since the concept of the Dome and the Millennium Exhibition was first conceived.

The land on which the Dome stands was bought from British Gas by EP for just over £20 million. The agency subsequently spent a further £200 million on remediating the site and installing new infrastructure, whilst London Transport spent £190 million on a new tube and bus station on the Peninsula. For its part, NMEC spent £275 million on the Dome itself and related infrastructure.

The basis on which proceeds were to be distributed was first set out in the July 1997 Agreement to Lease, which set out the terms under which EP would lease the land for the Dome to NMEC. The terms of the distribution were then varied at the time of the proposed sale to Nomura, and again when the sale to Legacy plc was being negotiated. Details of how the proceeds were to be split in each case are set out below.

#### **Original Agreement to Lease (July 1997)**

- Required NMEC to demolish Dome, at own cost, unless EP served notice that it wanted the Dome to be retained. In that case, the Dome was to become property of EP, and the original Agreement to Lease provided a formula under which NMEC would receive a share of proceeds from the sale of the Dome and any land necessary to facilitate future use of the Dome.
- The status and interpretation of the formula – which was in the unsigned lease document within the Agreement to Lease (dating from July 1997) – was disputed between EP and NMEC and the opinions of Counsels were sought. It was never settled whether it applied at all.
- But an interpretation consistent with NMEC's view (based on the advice of their Counsel) might, depending on the amount of land "needed" to facilitate any future Dome use, have given NMEC anything in the range from about 40% up to about 80% of the proceeds.
- Key variables were amount of land involved and the value of that land. NMEC's percentage would have decreased with increase in land value and/or land area.

#### **Proposed sale to Nomura (Summer 2000)**

- Nomura were proposing to buy the Dome plus 48 acres of "green land" (the land immediately under and around the Dome – edged in green on the plan attached



## DRAFT

to the legal documents, hence the name) and 15 acres of "red land" (land to the south of the Dome used as a service area during the Millennium exhibition, and edged in red on the plans). The overall value of the bid was around £100m NPV.

- The division of the proceeds from this sale was based on the formula in the Agreement to Lease, though disputes about the interpretation of the formula meant that a final settlement had to be brokered by MISC10. That settlement provided that NMEC would receive no more than £53m and EP the remainder.
- EP had to be directed to agree to this division since they argued that the division was such that they could have obtained a better deal by demolishing the Dome and re-developing the site (in which case NMEC would have no entitlement to any of the proceeds). It was made clear that this settlement was to apply only to the Nomura deal, not to any other.

### **Proposed sale to Legacy plc** (January 2001)

- The proposed sale to Legacy plc covered the same land as the Nomura deal, and offered a cash sum estimated by Legacy to be £125 million, giving an overall NPV of c.£100m.
- Nomura were proposing to retain much of the Millennium exhibition. Legacy, by contrast, were proposing to use the Dome as a "dot.com" business park. They therefore required the exhibition to be dismantled. NMEC was concerned that funding decommissioning of the exhibition in advance of receiving proceeds from the sale could have threatened its solvency and EP therefore agreed to take on these costs itself.
- EP's agreement to assume the decommissioning costs was then reflected in a new agreement on division of proceeds, again brokered by MISC 10, (and, again, on which EP was directed). It provided that EP and NMEC would divide the proceeds 50:50, after the deduction of the costs that EP was taking on from NMEC and incurring itself in selling the Dome (including the payment due to British Gas). These costs were estimated at the time to amount to around £48 million in total.
- It was also agreed that the amount due to NMEC for the "red land" should be capped at 50% of £15m. The total amount that NMEC expected to receive from the Legacy deal was therefore around £26 million.
- The principles of this settlement on division of proceeds were to apply to any future sale including the Dome. Thus, any land beyond the "red land" is not included – EP were expected to receive full value for such land, which effectively comprises the area between the North Greenwich Interchange and the Millennium Village (ie the remaining 55 acres of developable land being sold to MDL which was not covered by the Nomura or Legacy deals).



**Svensson Anna - Cabinet Secretary's Office -**

---

**From:** Mavis McDonald [Mavis.McDonald@odpm.gsi.gov.uk]  
**Sent:** 06 November 2002 18:05  
**To:** gus.o'donnell@hm-treasury.gsi.gov.uk  
**Cc:** PSturnbull@cabinet-office.x.gsi.gov.uk; Sue.street@culture.gsi.gov.uk  
**Subject:** Letter from Mavis McDonald to Gus O'Donnell



02-11-06 MM to Gus  
O'Donnell C...



02-11-96 attachment to  
Gus O'D...

Dear all

Please see the attached letter to Gus O'Donnell titled 'Dome - division of proceeds'.

Hard copy to Mr O'Donnells office only.

Many thanks  
Rachael McHale  
APS/Mavis McDonald.

\*\*\*\*\*  
This E-mail and any files transmitted with it are private and intended solely for the use of the individual or entity to whom they are addressed. If you are not the intended recipient, the E-mail and any files have been transmitted to you in error and any copying, distribution or other use of the information contained in them is strictly prohibited.

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The Department's computer systems may be monitored and communications carried on them recorded, to secure the effective operation of the system and for other lawful purposes.

\*\*\*\*\*





Mavis McDonald CB  
Permanent Secretary

Gus O'Donnell CB  
Permanent Secretary  
HM Treasury  
1 Horse Guards Road  
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6 November 2002

Dear Gus

#### DOME – DIVISION OF PROCEEDS

1. As you will know, Ministers have consistently said that the Lottery will receive a "fair share" of the proceeds from the sale of the Dome. Also, the New Millennium Experience Company (NMEC) is entitled, under landlord and tenant law, to a reasonable return to reflect the tenant's enhancement of the land. Since the deal was signed between English Partnerships (EP) and Meridian Delta Ltd in May my officials have been working on what a reasonable return to the Lottery might mean.
2. On the basis of legal advice received, Sue Street and I have reached the conclusion that the Legacy plc and MDL deals differ from each other in so many respects (e.g. area of land covered, integrated regeneration project rather than re-development of only the Dome, joint venture rather than one-off lump sum purchase) that it is not possible to reliably apply the principles that applied to the division of proceeds agreed for the Legacy plc deal. Therefore the agreement between EP and NMEC on those principles should be set aside and Ministers should decide the apportionment of proceeds from the MDL deal.
3. In the light of decisions reached at MISC 10, we will be aiming to secure agreement from EP, KPMG as the liquidators for NMEC, and the Millennium Commission as NMEC's main creditor, that this is the right way to proceed. We will also need to carefully consider the mechanism for delivering any returns to the Millennium Commission or its successor.
4. My officials have produced a paper (attached) setting out a proposition on this issue. My officials, and colleagues in DCMS, are seeking the go-ahead from Ministers, to check that they are comfortable with the form of the proposition. Your officials in the spending teams are doing the same.



5. When we have Ministerial go-ahead, we intend to sound out EP. DCMS will sound out KPMG and the Millennium Commission. We are also taking steps to make sufficient information available to KPMG and the Commission, to enable them to judge whether the offer is a reasonable one in relation to the overall value of the MDL deal.
6. Once we have received and fully explored the responses to the proposition in the paper, Sue Street and I, as the senior responsible Accounting Officers, will need to put a joint proposal to MISC 10, for Ministers to decide on the apportionment in the light of comments received.
7. I am happy to discuss any of this, and I will of course ensure you are copied into future correspondence on this subject.
8. I am copying this to Andrew Turnbull and Sue Street.

*Mavis McDonald*

MAVIS MCDONALD



Department for Culture, Media and Sport  
The Rt Hon Tessa Jowell MP  
Secretary of State

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C02/03245/DC

The Rt Hon John Prescott MP  
Deputy Prime Minister  
Office of the Deputy Prime Minister  
6th Floor  
Eland House  
Bressenden Place  
LONDON  
SW1E 5DU



12 August 2002

*See Deputy Prime Minister,*

**NMEC SHAREHOLDER**

I understand that the decision has been taken that Lord Falconer should relinquish his NMEC shareholding and that responsibility for this will pass to a Minister in your Office. I am told that it has also been agreed that Barbara Roche should stand down as a member of the Millennium Commission.

While I should have been consulted on these decisions as my Permanent Secretary is NMEC's Accounting Officer, I hope that arrangements can now be put in place to ensure that the changes are brought about smoothly. We must, for example, agree procedures to deal with any conflicts of interest which the new shareholder might face. We must ensure that the Millennium Commission, which will advise me on the split of Dome sale proceeds, has the information it needs on the value of the deal to provide that advice. To date, we have not been able to have satisfactory discussions at Ministerial level on the correct allocation of Dome sale proceeds. I hope we will be able to make progress in the autumn. For the moment, I need only record my frustration at the lack of information available to me, the Millennium Commission and DCMS officials on the nature of the current deal. I am sure you will not expect me to be party to any agreement at MISC10 in the future unless I have been given full access to all relevant information sometime in advance of any discussion.



INVESTOR IN PEOPLE



OFFICE

> Finally, and from my perspective as Chair of the Millennium Commission, I see no need for Barbara to resign. At the least, it would be helpful if she were able to continue as Commissioner until her successor is in place, so as to comply with the statutory requirement for two Ministers on the Commission. I am copying this letter to Andrew Turnbull.

Jr

Hugh R. J.

TESSA JOWELL  
(Approved by the Secretary of State  
and signed in her absence)



*Helen Ghosh  
Grateful for advice  
e Paul Britton*

*Richard  
14/6*



*R*



Sir Richard Wilson GCB  
Secretary to the Cabinet and Head of  
the Home Civil Service  
Cabinet Office  
70 Whitehall  
London SW1A 2AS

12 June 2002

*14. 11/6*  
*Dear Sir Richard Wilson*

I understand that consideration is currently being given as to whether Lord Falconer of Thoroton should remain Shareholder of the New Millennium Experience Company (NMEC), the Company set up to build and operate the Millennium Experience at Greenwich, or whether the role should pass to another Minister now that Lord Falconer has been appointed Minister of State (Criminal Justice System) at the Home Office. I thought it might be helpful if I set out what the role involves.

The Shareholder of NMEC is a Government Minister and is responsible to Parliament for the Company's activities. The Shareholder, although advised by my Department, has not, normally been a DCMS Minister in order to avoid any conflict of interest with my Secretary of State's role as Chair of the Millennium Commission, which funded the Millennium Experience. NMEC has been in voluntary (solvent) liquidation since December 2001 and the liquidators, Richard Heis and Steve Treharne of KPMG, anticipate that the liquidation will be completed by early next year, at which point the Company will be struck off. In the meantime, there remains a considerable degree of business for the Minister in the Shareholder role to attend to, which will include:

- an agreement with the Office of the Deputy Prime Minister on the division of proceeds from the sale of the Dome between NMEC and English Partnerships. It has been agreed that the National Lottery should receive a "fair" return but that has yet to be quantified;
- decisions on the remaining NMEC litigation. This involves two cases in which the liquidators are pursuing third parties for sums and one case in which a third party is seeking to take action against NMEC;





- general oversight of the Liquidators and the liquidation process to ensure value for money in the use of public funds;
- approving and answering the ongoing Parliamentary Questions and correspondence from MP s relating to the Company; and
- Decisions on the disposal of remnant IPRs formally owned by NMEC.

It is likely also that, even after NMEC has ceased to exist, some degree of political oversight will be required on matters which may continue to be raised about the running of the Dome. It is impossible to say how long that may go on but we can expect it to arise, if at all, only occasionally.

From an official point of view there would be little benefit, and some risk, in seeking to change the Shareholder at this stage when there are only a few months remaining until the conclusion of the liquidation period. Lord Falconer, having been Shareholder of NMEC since January 1999 in two previous Ministerial roles, is very familiar with the complex history and nature of NMEC's business, and the liquidators have indicated that there would be some time and cost implications involved in making a change. I could move quickly to agree arrangements with John Gieve (to whom I am copying this letter) for my officials to deal directly with Lord Falconer at his new office and for the Minister's regular meetings to continue. Subject to John's views I do not see any conflict of interest between Lord Falconer's new Ministerial role and his position as NMEC Shareholder.

If it is decided to replace Lord Falconer as Shareholder at this late stage in NMEC affair's the position I have described above demonstrates that the new appointee will need to take a substantial interest in NMEC business over the next few months, including a rapid learning period. I doubt that any Minister in this Department would be well placed to take this on, not least because of the likely continuing perception of a conflict of interest given that the Secretary of State is the Chairman of the Millennium Commission. Lord Falconer's previous position, now in the ODPM, is held by Barbara Roche, who is currently conflicted as she is a Millennium Commissioner.

I hope that this is helpful as background, if needed, on this issue. I am as you can see concerned that we do not drop the ball in these last stages of what has been a successful progress to closing down the Dome company.

I am copying this letter to Lord Falconer and John Gieve.

*Yours sincerely*

*Sue Chapman*

p.p. SUE STREET



~~C. M. Bortle~~

R

2715

L

Treasury Chambers, Parliament Street SW1P 3AG

Lord Falconer of Thoroton QC  
Minister for Housing, Planning and Regeneration  
6<sup>th</sup> floor, Eland House  
Bressenden Place  
London SW1E 0ET

M

27 May 2002

#### SALE OF THE MILLENNIUM DOME

I was grateful for a copy of your letter of Friday 24 May to the Prime Minister concerning the sale of the Millennium Dome and the regeneration of the Greenwich peninsula.

I agree that, on balance, the deal looks as if it will offer value for money to the public sector and appears to satisfy the conditions set by the Chief Secretary in his letter of 17 December. Subject to the points made below, I would therefore be content for the deal to be signed with MDL and for an announcement to be made.

You will know that my officials have raised the issue of distributing the proceeds from the deal between English Partnerships and the Lottery. I wish to reserve my position on this, but it might be helpful if I set out the criteria which I would wish to see adopted for deciding on this issue.

I recognise that, if it can be shown that the Dome has contributed to the value of the deal, the overriding principle should be that the Lottery should receive a 'fair share' of the proceeds. In my view, the right way of determining this is to examine the extent to which the value of the MDL deal exceeds the value of a similar benchmark deal in which the Dome is removed – in other words, to look at the contribution which the Dome itself has made to the deal in practice.

This comparison should reflect the fact that:

- At lower levels of development, the cleared site valuation is higher than the MDL deal. The Exchequer should therefore receive at least the cash equivalent of the cleared site valuation, to ensure that the Exchequer is not paying money to the Lottery in advance of the realisation of the Dome's value. However, I note that we expect that sufficient development will indeed occur to ensure that this 'floor' is achieved.





- Not all of the difference in value between the MDL deal and the cleared site valuation is necessarily due to the Dome – it may be due, for example, to MDL's particular development expertise.

I hope members of MISC10 can agree to these principles.

I would be grateful if the terms of this week's announcement could be cleared with my officials.

I am copying to the Prime Minister, Tessa Jowell, Andrew Smith, Stephen Byers and to Sir Richard Mottram and Sir Richard Wilson.

A handwritten signature in black ink, appearing to read 'Yours Ruth'.

**Ruth Kelly MP**



R

FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



Department for Transport,  
Local Government and the Regions

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**CONFIDENTIAL: MARKET SENSITIVE**

Prime Minister

*Der Tang*

*MX*

*Mr Bolton*

*27/5*

## SALE OF THE MILLENNIUM DOME

Subject to completion of the final documentation, and approval from colleagues and the Board of English Partnerships, I expect to be in a position by early next week to announce that we have exchanged contracts for the sale of Dome and the Greenwich Peninsula. The deal offers us a better financial return than any of the comparators, secures full transfer of the risk the Dome to the private sector, and delivers a major regeneration of the Greenwich Peninsula in the form of a 14m sq ft redevelopment including 8000 new homes, of which over a third will be affordable.

The team negotiating the sale of the Millennium Dome has been working very hard over the last few weeks and has now reached the stage where all outstanding commercial issues have been resolved and the finishing touches are being made to the legal documentation. I expect this to be concluded by the end of the weekend.

As you know, the proposed agreement provides for a new world class 20,000 seat arena to be built inside the Dome, the development of a 600,000 sq ft leisure/entertainment complex, also inside the Dome, and the redevelopment of a formerly heavily contaminated brownfield site into a 14m sq ft mixed commercial and residential quarter for London. Within the development there is likely to be provision for up to 3000 new affordable homes.

Over a 25 year period, EP will receive a cash return of up to £550m. EP's advisory team is confident that this sum is greater than the amounts that could have been received through any other route, and have also confirmed that the presence of the Dome as part of a fully integrated redevelopment is helping to enhance the value of the deal.

On the assumption that no problems emerge from the final stages of the documentation process, officials in my Department have already begun the process of taking colleagues in other Government Departments through the details of the deal. This is with a view to MISC10 providing formal approval to it on Monday afternoon, and an announcement through an oral statement to the House of Lords on Tuesday afternoon.

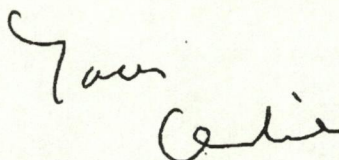


One issue that Tessa Jowell and Andrew Smith have both raised is the distribution of the proceeds from the deal between English Partnerships and the Lottery. I know that Tessa thinks that a significant share of the proceeds should be directed back to the Lottery in recognition of the benefits that the Dome has brought to the Greenwich Peninsula. I agree with that view. Treasury colleagues take the contrary view.

It will clearly take a little time to resolve these discussions, but they are not critical to the deal itself and I do not think they should be allowed to delay an announcement. The negotiating teams on all sides of the transaction have been working exceptionally hard over the last few weeks in order to put us in a position where we are able to announce the sale on Tuesday. Anschutz, the operators of the proposed Dome Arena would be dismayed if we were to delay an announcement because of a discussion within Government about distributing the proceeds of the sale. I therefore think that we should press on with announcing the deal and have a discussion about proceeds at a later date.

Finally, could I take this opportunity to remind colleagues that the fact that we are close to announcing a deal is market sensitive information. Premature disclosure would force Quintain, in this country, and Lend Lease in Australia, to make formal announcements to their stock exchanges. This would be extremely damaging.

I am copying this minute to Tessa Jowell, Andrew Smith, Ruth Kelly, Stephen Byers and to Sir Richard Mottram and Sir Richard Wilson.



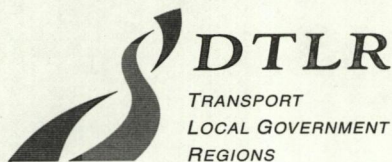
CHARLES FALCONER



INVESTOR IN PEOPLE



FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



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**CONFIDENTIAL: MARKET SENSITIVE**

Prime Minister

24 MAY 2002

**SALE OF THE MILLENNIUM DOME**

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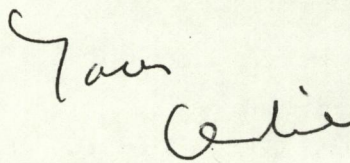


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**CHARLES FALCONER**





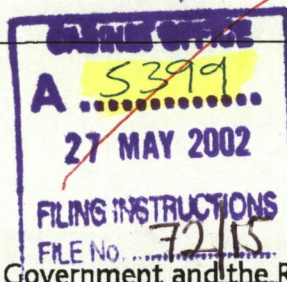
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C02/01326/DC

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Minister of State  
Department for Transport, Local Government and the Regions  
6th Floor  
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LONDON SW1E 5DU



24 May 2002

*Tessa Jowell*

*Chris Butler*

# SALE OF THE MILLENNIUM DOME

Thank you for your letter of 15 May on the Dome sale. I have also seen Andrew Smith's letter of 20 May.

I have now seen the value for money analysis on the MDL bid. Subject to Andrew's views on the value of the deal to the public sector, I am content for you to proceed with the announcement later this month, provided that you are able to give me an undertaking that the way in which the deal is structured will not be allowed to prejudice Lottery interests and a fair return to the Lottery which fully recognises the value added by the Dome and the investment made by the Lottery player will be negotiated thereafter. I would ask that a MISC 10 discussion on this be held as soon as possible.

Andrew raises the possibility of recovering Dome costs from the £25 million which the Millennium Commission is holding to cover the eventuality of its being needed for the solvent liquidation of NMEC. Should the money not be required for this purpose it will remain in the National Lottery Distribution Fund and its future use will of course be a matter for the Millennium Commission to determine.

I am copying this letter to the Prime Minister, to Andrew Smith, and to Sir Richard Wilson.

*Tessa Jowell*

TESSA JOWELL



INVESTOR IN PEOPLE





*c. Mr Britton R*  
*Mr Langdale*  
*21/5*  
*L.*

Treasury Chambers, Parliament Street, London, SW1P 3AG

**CONFIDENTIAL - POLICY/MARKET SENSITIVE**

Lord Falconer of Thoroton QC

Minister of State

Department for Transport, Local Government and the Regions

6<sup>th</sup> Floor

Eland House

Bressenden Place

London SW1E 5DU

20 May 2002

*Dear Charlie,*

**SALE OF THE MILLENNIUM DOME**

I was grateful for a copy of your letter of 15 May 2002 to the Prime Minister concerning the sale of the Millennium Dome and the Greenwich peninsula.

2. Since MISC 10 members agreed to offer MDL preferred bidder status in December, my officials have been working closely with yours in order to meet the conditions I set out in my letter of 17 December 2001. Of particular relevance was my view that a final MDL deal should represent better value for EP than the cleared site valuation, which at the time looked to be £10m higher. I was also concerned to ensure that the deal offered adequate risk transfer from the public to the private sectors.

3. You are right to note that the deal needs to offer good value to the public sector, and I take some comfort from your indicative assessment that the financial value of the Dome deal will at least match the 'cleared site' comparator.





4. That said, at the time of writing neither I nor my officials have seen adequate details of the deal for us to arrive at the same conclusion. It is vital that we see this information and have adequate time to digest it before we make a decision, for the following reasons:

- you will be aware that since December, a number of factors have altered in the proposed deal – including the MDL financial model and the masterplan on which it is based. This means that we can now longer rely on the December valuations as the basis of our decision;
- we should remind ourselves that the figure you quote of 30,000 jobs being created on the peninsula is MDL's estimate – our own estimate appears to be only around half that figure. We would want to scrutinise the assumptions lying behind MDL's estimates of regeneration benefit to ensure they are robust;
- the proposed deal is certain to attract the attention of the NAO and the Public Accounts Committee; and
- we have not yet resolved the issue – which Tessa Jowell has also raised – of what proportion of the eventual proceeds from the sale, if any, should be returned to the Millennium Commission – nor indeed how to factor in the possibility that EP costs most directly





related to the Dome might be recoverable from the £25m NMEC surplus rather than from sale proceeds.

5. My officials stand ready to scrutinise the full evaluation of MDL's proposals, and the comparator options and risk assessments, as soon as they have been prepared. However, as things stand, I confess I am not optimistic about us being able to announce a deal within the very compressed timescale you propose.

6. As you note, I certainly would not want MDL to be able to extract concessions from us because of our wish for a quick announcement, especially given that in December the value of the deal compared to other options was at best marginal. We would clearly be open to criticism if it appeared that we had rushed this important decision.

7. I am copying this letter to the Prime Minister, to Tessa Jowell, and to Sir Richard Wilson.

*Ben White,*  
*Andrew Smith.*  
ANDREW SMITH



FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



RESTRICTED COMMERCIAL

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*John Tong*

15 MAY 2002

## SALE OF THE MILLENNIUM DOME

I announced last December that negotiations over the contract to sell the Millennium Dome would be concluded during May. I have set a deadline of 17<sup>th</sup> May for the completion of the documentation for the sale, and all the parties to the transaction are committed to meeting this target. Assuming the target is achieved, arrangements are being put in place to allow an announcement before the Commons Whitsun Recess.

I wrote to you just before Easter to update you on progress with the negotiations for the sale of the Millennium Dome and English Partnerships' land on the Greenwich Peninsula. Since then discussions between the parties have gone well. I set them a target of 1<sup>st</sup> May to reach agreement on all of the key commercial issues, which they met. On that basis, I have set them a further target of having all of the documentation agreed by Friday 17<sup>th</sup> May.

17<sup>th</sup> May is a demanding deadline. As one of the largest and most complex land deals in London for many years, the volume of documentation that needs to be prepared is huge. Nevertheless the parties are committed to meeting the deadline and are working hard to do so.

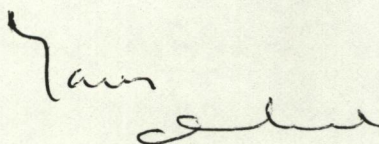
Assuming the documents are completed within the timetable, the Board of English Partnerships will meet on 20<sup>th</sup> May to consider the transaction and MISC10 has a slot on 21<sup>st</sup> May to undertake its own review. Assuming both are content, this would clear the way for an announcement before the Commons rises for the Whitsun recess. If there is any slippage beyond that, it is likely to be short, and should still permit us to announce that a deal has been concluded before the end of May and before the Lords recess. In setting this target, however, it will be important that we do not allow Meridian Delta to use the threat that the timetable will not be achieved to wring final concessions out of us. We are currently working on the handling of the announcement.



Before agreeing to go ahead with the deal, MISC10 will need to be convinced that it is robust and that it offers good value to the public sector. The deal provides a new world class arena facility for London and for Greenwich, the preservation of an icon on the London skyline with full transfer of risk of the Dome to the private sector, and the investment of £4bn by the private sector in the regeneration of the Greenwich Peninsula, providing 8,000 homes and 30,000 jobs. If we can secure these benefits it would, indeed, be a major achievement. Final calculations are still being undertaken but current indications are that, the financial value of the proposed deal will at least match that of a "cleared site" comparator in which the Dome was demolished.

Once signed, the proposed deal will be legally binding on the parties, but will be subject to obtaining a satisfactory planning permission. Once that is obtained, legal ownership of the Dome will formally transfer to MDL and Anschutz and construction will start. Planning permission could be granted as early as mid-Autumn, but is, in fact, likely to take somewhat longer than that to secure. Until then, we will still have to bear the costs of maintaining the Dome, but we will be working closely with Anschutz to market the Dome as a venue for events such as the Nike Children's football tournament due to take place at the Dome during the World Cup.

I will keep you updated on progress. In the meantime I am copying this to Andrew Smith, Tessa Jowell, Stephen Byers, and to Sir Richard Wilson and Sir Richard Mottram.



**CHARLES FALCONER**



INVESTOR IN PEOPLE



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C02/01034/mk

Rt Hon John Prescott MP  
Deputy Prime Minister and First Secretary of State  
Dover House  
Whitehall  
London  
SW1A 2AU

14<sup>th</sup> May 2002



C. H. Ghosh  
Mr Butler

21/5  
L.

Dear John

#### REVIEW OF NATIONAL LOTTERY LICENSING AND REGULATION

... This letter seeks your and colleagues' agreement to the publication of the enclosed draft consultation document to take forward our review of the licensing and regulation of the National Lottery. It sets out options for legislative change, but without indicating preferences. I should like to publish next month, and would be grateful for comments by 31 May.

The key objective of the review is to ensure that the Lottery is structured in such a way that we can be confident that it will raise as much income for good causes as possible after the end of the current licence. As colleagues will know, I am in parallel reviewing how to improve the arrangements for spending that money to best effect. The key question which we have to answer is whether there will be an effective competition for the next licence without fundamental changes to the licensing arrangements, bearing in mind the outcome of the last competition. The draft canvasses what we have identified as the main options for change. However, I think that it is important that we do not express any preferences at this stage, to ensure an open consultation.

Camelot's second licence ends in January 2009. The National Lottery Commission will plan, unless the legislation changes in the meantime, to begin work on the next licensing round during 2005-06. At this point, of course, we will not know how many bidders are likely to come forward for a third licence like the second. There is a risk of only one bidder next time or even no acceptable bidder at all. There are a number of possible procedural changes which the Commission could implement to make the bidding round more competitive; and these are explored within the



INVESTOR IN PEOPLE



draft consultation document. The draft also notes the need for clear contingency plans. However, more radical structural changes both to the licensing framework itself and to the Commission as regulator, would need primary legislation. I plan to bid for a general gambling Bill in the 2003-04 session, to implement the changes announced in **A safe bet for success**, which we published on 26 March. If the consultations point to the need for legislation on the Lottery then provisions could be included in such a Bill. I would aim to report the outcome of consultations to colleagues, with firm proposals for next steps, by the end of the year.

In the meantime, I think it is important to give firm support for the National Lottery as it is. It has, of course, just been re-launched by Camelot; and we should not do anything to undermine their efforts to revive ticket sales.

> I am copying this letter to the Prime Minister, members of DA Committee and to Sir Richard Wilson. I shall be writing separately to the devolved administrations.

Yours

TJW

TESSA JOWELL



## DRAFT CONSULTATION DOCUMENT

### Foreword by the Secretary of State

The National Lottery has been a great success. It caught the imagination of the public, and quickly became a national institution. Some of the reasons are straightforward: high-profile jackpot wins, and the many projects, great and small, which Lottery funding made possible. But this success was not inevitable or pre-determined. The Lottery has, from the outset, been well run. We are fortunate to have had an effective private sector operator working within a well-regulated system which, while seeking to raise as much as possible for good causes, maintains protection for children and the vulnerable and a high standard of propriety. Of course there have been problems of various kinds along the way, and no shortage of critics to point them out. But they should not obscure the fact that overall our Lottery is widely recognised as one of the most successful in the world. We want to build on that success, with a Lottery which continues to be operated for the public good in the most efficient way at arms' length from the government of the day.

Camelot's second licence as the operator of the Lottery has about six and a half years to run. I hope and expect that it will do a good job in raising income for good causes. But the time is now right to look again at the system of licensing and regulation within which the Lottery is run, to see what changes might be necessary when that licence ends.

We want to consider whether there might be scope for more competition to run the Lottery, or for more companies to participate in it. We also want to see whether there is scope for streamlining the day to day regulation, without of course sacrificing useful safeguards. We now have ample experience of how the Lottery works, and some of the concerns raised at the outset may now be seen to have been overdone.



It is also important that the arrangements for regulating the Lottery should be consistent - though not necessarily identical - with our plans for the regulation of other kinds of gambling, as set out in **A safe bet for success**, which we published on 26 March 2002.

Consideration of options for change does not imply criticism of Camelot or the National Lottery Commission. We all have to work within the current statutory provisions. It is that framework which is now due for a fresh look. This study will run hand in hand with the initiatives which I have already taken to ensure that the arrangements for spending Lottery income for good causes are as effective as they can be.

This consultation document sets out what we see as the main options for changes to the licensing and regulation of the Lottery. We have an open mind on the outcome. I do not rule out the conclusion that the present arrangements are essentially sound and the benefits of change would be at best uncertain. We would welcome your views.

**Tessa Jowell**



## 1 INTRODUCTION

1.1 The National Lottery was launched in 1994 to raise money for a variety of good causes, including sport, the arts, charities, the national heritage and Millennium projects. Following a competition, Camelot Group plc, a consortium of major companies, was awarded the first licence to run the Lottery for seven years. By the end of this period the public had spent almost £32 billion on the Lottery, receiving back £16.5 billion in prizes. £11 billion was raised for good causes. The Government took £4 billion in Lottery duty (introduced with the Lottery to ensure that it did not result in a loss of Government revenues from taxes on other consumer expenditure). The balance went on running the Lottery and providing a return for the operator.

1.2 The table below sets out ticket sales and revenue distribution over the first licence period.

All figures in £m

	94/95	95/96	96/97	97/98	98/99	99/00	00/01
Ticket Sales	1191	5217	4723	5514	5228	5094	4983
Income to NLDF	312	1457	1444	1753	1671	1581	1551
Lottery Duty	143	626	567	662	627	611	598
Retailer Commission	61	265	242	282	265	258	253
Operating Costs	131	401	264	259	252	267	246

Source: NLC

1.3 The first licence was awarded, and Camelot regulated, by the Director General for the National Lottery. The National Lottery Act 1998 replaced his office by the National Lottery Commission. The Commission's first key task was to organise a competition for a second licence. This resulted in its award to Camelot, with a number of changes in licence conditions.



- 1.4 This process has just been reviewed by the National Audit Office. Its report, **Awarding the new licence to run the National Lottery** (*HC 803 Session 2001-2002: 10 May 2002*), concluded that, notwithstanding well-publicised difficulties, the Commission had acted properly throughout. But the report included a number of recommendations aimed at a future licensing process.
- 1.5 This consultation document, which takes account of the NAO's report, sets out options for change to the arrangements for licensing and regulating the Lottery, aimed at:
- \* ensuring that it raises as much income as possible for good causes without weakening necessary protections
  - \* ensuring effective competition for its operation
  - \* maintaining public confidence in the Lottery and the arrangements for running it.
- 1.6 The Government does not envisage changes to the basic concept of the National Lottery, as the only large-scale lottery allowed in the United Kingdom and whose purpose is to maximise income for good causes which they would not otherwise receive from public funds.
- 1.7 But the Government does not at this stage rule out any options for delivering a Lottery of this kind. Whether the Lottery is operated on a standard commercial or a not-for-profit basis does not itself matter: what matters is the outcome.
- 1.8 The best available current forecast is that Lottery sales will run at about £5 billion a year over the second licence period; although the Government hopes that Camelot, which has recently carried out a major re-launch, will do better than that. The Government does not accept that what has been termed "lottery fatigue" - a gradual but



remorseless decline in public interest and sales - is inevitable or irreversible. Certainly such a decline has been common in the case of lotteries around the world. It is indisputable that the chances of winning a major prize are very low, so that the people who play may find it increasingly hard, as time goes on, to sustain their hopes. This suggests that the arrangements for providing the Lottery after the end of the second licence period will need to place considerable weight on the ability of the operator and regulator - whoever they are - to engage players' interest and enthusiasm, using the full range of media available for running games and selling chances. Innovation and flair will be needed to maintain mass appeal.

- 1.9 The Lottery does not of course operate in a gambling vacuum. The overall context is as set out in **A safe bet for success**, which gives the Government's response to the recommendations of the Gambling Review Body and proposals for reform of the law governing gambling in Great Britain. The Gambling Review Body were asked not to consider changes to the National Lottery, but to consider the impact of their recommendations on it. **A safe bet for success** explains that the Government has decided to accept most of the Review Body's recommendations, which will ensure that the gambling industry can improve its ability to meet customer demand and that the public can be confident that gambling will be conducted fairly and honestly, and with proper safeguards for children and the vulnerable. While the National Lottery clearly involves gambling, the unique support which it provides for good causes has led the Government to conclude that it should not be exposed to direct competition which could undermine its role. Lotteries for commercial gain will continue to be prohibited by law; and the Government remains committed to ensuring that the law should broadly maintain the National Lottery's current competitive position in relation both to commercial gambling and other lotteries.



- 1.10 Nevertheless, implementation of the legislative proposals in **A safe bet for success** will enable the overall gambling sector to grow. This is another reason for thinking ahead about how the National Lottery of the future, after the second licence period, should be enabled to thrive in what will by then be a more dynamic market. The safeguards in the law against direct competition from commercial gambling and other lotteries may be a necessary condition for the National Lottery to succeed, but they are not sufficient. This again underlines the need to ensure that the statutory framework for the Lottery does not hold back its ability to innovate, in respect both of technology and content.

## 2 BACKGROUND

### Legislation

- 2.1 The Lottery is governed by the National Lottery Acts 1993 and 1998. They provide for a Lottery comprising a series of games, to be played by anyone aged 16 or more. The proportion of sales income which goes to good causes goes into the National Lottery Distribution Fund to be shared amongst the distributing bodies. The Commission has no responsibility for income once it goes into the Fund. The Government is not considering any change in this respect.
- 2.2 The 1993 and 1998 acts do not prescribe the design of the Lottery: it is for companies wanting to run the Lottery or promote games within it to develop their own proposals. So, for example, game design, prize structure and distribution mechanisms are all left unmentioned in the legislation. What the Acts do is lay down the control framework within which the Lottery is to be managed.



### 2.3 This framework recognizes four key parties:

- \* the Secretary of State, whose overriding duty is to ensure that the Lottery is run properly and that players' interests are protected and, subject to that, to maximise the income for good causes. The Secretary of State has the power to give directions about how the Lottery is to be licensed, and to make regulations about how it is run.
- \* the National Lottery Commission, whose duties mirror those of the Secretary of State. The key function of the Commission is to issue and enforce licences for the operation of the Lottery. There are two kinds of licence: a licence under section 5 of the 1993 Act, which is granted to a body corporate to run the Lottery; and one or more licences under section 6 of that Act, granted to a body or bodies corporate to promote lotteries as part of the Lottery.
- \* the section 5 licensee: currently Camelot. It is the responsibility of this licensee to provide the technical, retailing and marketing infrastructure within which section 6 licensees can operate, and for ensuring that payments to prize winners, the Distribution Fund and the Exchequer are made.
- \* the section 6 licensee(s), responsible for the games. At present Camelot holds all section 6 licences itself.

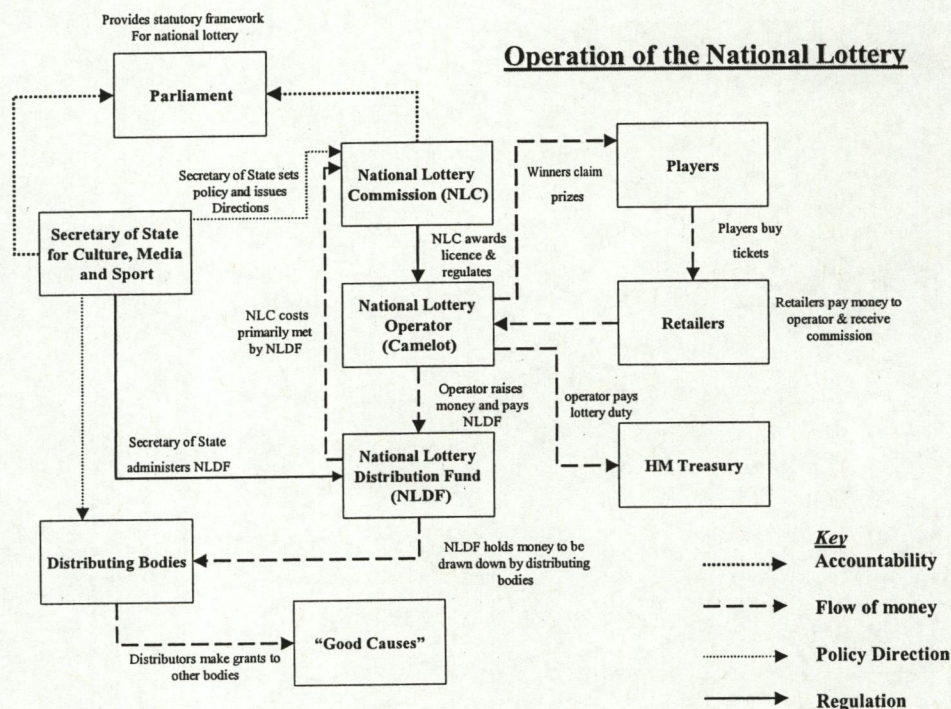
### 2.4 The Acts therefore envisage that the operation of the Lottery will be in the hands of private sector companies. They provide considerable flexibility, at least in principle: there is no presumption that the section 5 and 6 licensees will be the same or different, or how many section 6 licensees there will be. However, the 1993 Act provides that any prospective section 6 licensee can promote a game within the Lottery only under an agreement with



the section 5 licensee. The Commission may not require that licensee to let in other companies.

2.5 During the first licence period Camelot had only one agreement with another company, when Vernons Pools were granted a section 6 licence to operate one game. It was not thought to be a success. Since then, Camelot has held all section 6 licences itself. There have been many such licences. Each new scratchcard game, for example, has had to have its own section 6 licence. Under the terms of the second section 5 licence, Camelot has to develop and implement a strategy, subject to the Commission's approval, for encouraging potential applicants for section 6 licences. It remains to be seen how this will turn out.

2.6 Figure 1 below sets out the current structure of the Lottery, as helpfully set out in the NAO's recent report.



Source: NAO Report Awarding the new licence to run the National Lottery



## Previous competitions

- 2.7 Eight applications for the first seven year section 5 licence were submitted. The Director General for the National lottery decided how the competition should be run and on what basis. It was, for example, his decision that bidders should be asked to commit a percentage of sales revenue to good causes rather than bid an upfront cash sum which they would aim to cover from revenue over the licence period.
- 2.8 The competition for the second licence resulted in only two bids, although several companies had expressed an interest in bidding. The competition was delayed by the Commission's initial decision to negotiate exclusively with The People's Lottery Ltd, which was the subject of a judicial review. Following this review and a further evaluation of both bids, the Commission awarded a second seven year licence to Camelot.
- 2.9 The NAO report on this process considered how successful the Commission had been in achieving genuine competition for the second licence. It concluded that, while there had self-evidently been a significant reduction in the number of bidders from 1994, the level of competition achieved was comparable with that of other countries which run a national lottery on a similar basis. But the report drew attention to the risk that further competition of the same kind might fail to attract a serious challenge to the incumbent operator.

## The nature of competition in the Lottery context

- 2.10 The National Lottery main game is itself a natural monopoly. One of the reasons for the Government's decision, as set out in **A safe bet for success**, to retain limits on the size of charitable and other society lotteries was a concern that competition between lotteries offering unlimited prizes would set off a vicious circle in which none would sell enough tickets to support prize pools



capable of paying prizes large enough to sustain mass support through ticket sales.

- 2.11 Competition to run the National Lottery is another matter. The familiar benefits of competition are that it forces companies to constrain costs, improve productivity and innovate. Competition does not require a large number of market participants, provided that the market is contestable - that is, that barriers to entry are low.
- 2.12 The contestability of a section 5 licence is arguable. Some have argued that it is constrained by the limited number of suppliers able to show a track record of providing and supporting the very large IT and communications network through which tickets are sold and income brought to account. Others have argued that contestability is impaired by other factors, including the costs of bidding; the reputational risks of having to operate so much in the public eye; and the limits on the commercial returns which the regulator would allow. As to bidding costs, lottery operation is not a core business function for most companies, so that teams or consortia have to be created specifically to put together a bid. The National Lottery also operates on a scale which involves requirements which may not be obvious: for example, to ensure that all players can be reimbursed if a draw is voided. Overall, it has been widely argued that the incumbent operator has a large advantage: other possible bidders would have to spend more on obtaining information about the Lottery and putting together a consortium willing to accept all the relevant risks.
- 2.13 On the other hand developments in technology may increase future contestability. It is conceivable that the present stand-alone network could be replaced by arrangements in which supermarket or bank networks provided a realistic alternative. Furthermore, the second section 5 licence includes a number of new conditions which could facilitate future competition:



- \* the licensee is required to cooperate with a new licensee up to two years prior to the end of the licence
- \* the Commission has acquired rights over retailer information. This could have the effect of helping to ensure that future bidders are able to work from common assumptions about the retail estate
- \* the Commission can now ensure the transfer of intellectual property rights to a new licensee

2.14 As noted above, competition at the section 6 licence level has so far been scant. In some other contexts - for example, the making of television and radio programmes - broadcasters have been required to take a percentage of their output from independent producers.

2.15 The split licensing structure might suggest that, so long as there is an adequate degree of contestability for a future section 5 licence to provide assurance that there will be a sound technical infrastructure for the Lottery, the real focus for competition can be at the section 6 level, and that it is at that level that other companies can best contribute. An alternative view would suggest that competition at that level might help to stimulate new game design, but that it cannot make a significant impact on the overall costs of running the Lottery, the overall marketing strategy or indeed on what a new section 5 bid would promise in the way of income for good causes.

### **International comparisons**

2.16 For most major lotteries around the world such issues of competition do not arise, because they are run directly by a national or state government, or at any rate by a public sector operator under government control. This is the traditional pattern, followed by the oldest lotteries in Europe (in Portugal and the Netherlands) which have several hundred years experience of supporting good



causes. In the USA most lotteries are operated as state government agencies. A few (including Georgia, Connecticut and New Mexico) are state corporations acting as commercial entities. This kind of structure also applies to a minority of European lotteries. For example, the operator of the Irish lottery - An Post - is 80% owned by the Irish Post Office and 20% by the Minister of Finance.

- 2.17 A few major lotteries are run by non-government bodies under licence. Some are commercial companies, as in the UK. Others are charities which benefit from the proceeds.
- 2.18 Some countries have more than one kind of operator. In Italy CONI runs a lottery as a public sector body for the benefit of Olympic sports, while Lottmatica and Sisal Sport Italia are run by the private sector. In Spain, the Loterias y Apuestas del Estado, which runs the famous El Gordo lottery, is a state organisation, while ONCE is a charity for the blind which runs a state-sanctioned lottery to help support its members.
- 2.19 Tables 1 and 2 below show the top 25 lotteries in the world by total sales and sales per capita respectively (*NB - all figures shown are in US\$m*). The UK is third on the first measure, but outside the top 25 on the latter. This could be seen as a measure of the Lottery's success in providing moderate and well-controlled gambling, or as a reflection of unaggressive marketing. But in considering the scope for increasing sales it is important to bear in mind the differences between the kinds of gambling allowed here and in other jurisdictions.



**Table 1 Worldwide Lotteries Ranked by Top 25 Calender 2001 Total Sales**

Rank	Lottery	Country	Year	Population	Total Sales	PC Sales
1	Dai-Ichi Kangyo Bank Ltd	Japan	2001	126.8	8,091.7	64
2	Lottomatica S.p.A	Italy	2001	57.7	7,021.8	122
3	UK National Lottery	UK	2001	59.6	6,992.7	117
4	Loterias y Apuestas del Estado	Spain	2001	40.0	6,751.5	169
5	La Francaise des Jeux	France	2001	59.6	6,272.5	105
6	New York Lottery	USA	2001	19.0	4,580.3	241
7	Massachusetts Lottery	USA	2001	6.4	3,974.9	621
8	California Lottery	USA	2001	34.5	2,893.0	84
9	Texas Lottery	USA	2001	21.3	2,777.8	130
10	Georgia Lottery Corporation	USA	2001	8.4	2,339.2	278
11	Florida Lottery	USA	2001	16.4	2,329.9	142
12	SISAL Sport Italia S.p.A	Italy	2001	57.7	2,241.7	39
13	ONCE	Spain	2001	40.0	2,198.9	55
14	Ohio Lottery	USA	2001	11.4	1,943.7	170
15	Pennsylvania Lottery	USA	2001	12.3	1,926.3	157
16	New Jersey Lottery	USA	2001	8.5	1,866.8	220
17	Westdeutsche Lotterie GmbH	Germany	2001	18.0	1,841.3	102
18	Loto-Quebec	Canada	2001	7.4	1,836.5	248
19	China Sports Lottery	China	2001	1273.1	1,799.8	1
20	Singapore Pools	Singapore	2000	3.5	1,702.2	486
21	Michigan Lottery	USA	2001	10.0	1,612.9	161
22	OPAP	Greece	2001	10.6	1,610.1	152
23	China Welfare Lottery	China	2001	1273.1	1,594.5	1
24	AB Svenska Spel	Sweden	2001	8.9	1,508.5	169
25	Lotteria Scociedad del Estado	Argentina	2000	37.4	1,503.6	40

Source La Fleur's World Sales Report April 2002



**Table 2 Worldwide Lotteries Ranked by Top 25 Calender 2001 Per Capita Sales**

Rank	Lottery	Country	Year	Population	Total Sales	PC Sales
1	Rhode Island	USA	2001	1.1	1,079.1	1,020
2	Delaware	USA	2001	0.8	643.6	809
3	South Dakota	USA	2001	0.8	609.4	806
4	Masachusetts Lottery	USA	2001	6.4	3,974.9	623
5	Singapore Pools	Singapore	2001	3.5	1,702.2	482
6	West Virginia Lottery	USA	2001	1.8	713.1	396
7	D.C Lottery	USA	2001	0.6	222.0	388
8	Georgia Lottery Corporation	USA	2001	8.4	2,339.2	279
9	Conneticut Lottery Corp.	USA	2001	3.4	887.0	259
10	Atlantic Lottery Corporation	Canada	2001	2.4	602.4	254
11	Loto-Quebec	Canada	2001	7.4	1,836.5	248
12	New York Lottery	USA	2001	19.0	4,580.3	241
13	Oregon Lottery	USA	2001	3.5	811.1	234
14	Maryland Lottery	USA	2001	5.4	1,251.3	233
15	New Jersey Lottery	USA	2001	8.5	1,866.8	220
16	Lottery Gibraltar	Gibraltar	2001	0.0	5.9	215
17	Norsk Tipping	Norway	2001	4.5	965.0	214
18	Oy Veikaus Ab	Finland	2001	5.2	953.7	184
19	Ohio Lottery	USA	2001	11.4	1,943.7	170
20	AB Svenska Spel	Sweden	2001	8.9	1,508.5	170
21	Loterias y Apuestas del Estado	Spain	2001	40.0	6,751.5	169
22	New Hampshire Lottery	USA	2001	1.3	211.5	168
23	Michigan Lottery	USA	2001	10.0	1,612.9	161
24	Virgin Islands Lottery	USA	FY99	0.1	19.3	160
25	Pennsylvania Lottery	USA	2001	12.3	1,926.3	157

Source La Fleur's World Sales Report April 2002

2.20 **Table 3** below offers a number of comparative operator costs in terms of a percentage of revenue and their operating costs for Europe. **Table 4** shows average operator costs for all state and territory lotteries in the US, Canada and Australia.



Table 3 - European Comparative Operator Costs

Lottery	Costs as percentage of revenue
UK National Lottery	3.29
Lottomatica (Italy)	3.63
SCML (Portugal)	4.93
Lotterie Nationale (Belgium)	7.39
Austria	8.73
SENS (Holland)	9.20
La Francais des Jeux	9.20

Source: European Lottery Association

Table 4 - US, Canadian and Australian Comparative Operator Costs

	Costs as percentage of revenue
USA	5.80
Canadian	6.40
Australian	6.40

Source: La Fleurs World Lottery Almanac

- 2.21 All this suggests that the best prospects for improving competition in our Lottery do not lie in taking its operation into the public sector as a matter of policy choice.

### 3 OPTIONS FOR CHANGE WITHIN THE CURRENT FRAMEWORK

- 3.1 There are a number of possible further measures, beyond those which the Commission has already taken, which might help to strengthen competition in a future section 5 licensing round, without radically changing the 1993



and 1998 Acts. Some of these options have already been noted by the Commission and the NAO as requiring further consideration nearer such a time.

### 3.2 The options are:

- \* a contribution to bidding costs so that applicants would make a short initial bid and those seriously in the running would then be asked to prepare a fuller bid which the Commission would subsidize. The NAO's concern that safeguards would be needed to prevent payments which corrected bid deficiencies, rather than supported the unavoidable costs of making a compliant bid, would have to be addressed; but the provision of a fixed amount for all bidders going through to the second stage would be a starting point. There are certainly precedents for this approach, which the Commission itself considered in setting up the last competition.
- \* less detailed information during the early stages. The NAO noted that this could itself reduce bidding costs. It might, for example, be possible for the Commission to consider key suppliers only after selecting a preferred bidder on the basis of track record and expertise in managing lotteries and developing games. Such an approach would not be without its own risks; but potentially it could enable the Commission to consider bids from more companies than those who have already entered into firm consortia with the limited number of leading suppliers
- \* a more prescriptive bidding framework might ease the burden on bidders and so have some tendency to widen participation the bidding process. On the other hand this option would also run the risk of discouraging innovation, which, as noted previously, will be particularly important in the future.



- \* extension of the licence period. The Commission, like the Director General before it, took the view that seven years was the optimum term for a section 5 licence, judging that this allowed enough time for the operator to make reasonable returns for an appropriate level of investment. It is possible that a longer term might encourage more bidders; but the Government has no evidence to suggest that in the case of the Lottery it would. The capital infrastructure costs are not of an order of magnitude which would obviously justify a longer term.
- \* key supplier phased competitions. The Commission could require a future operator, as a licence condition, to hold regular phased competitions for key suppliers during the licence period. In principle one or more of such supply contracts could run beyond the end of the licence period, so that the following (that is, fourth) licence could be offered with suppliers already in place, so that new bidders would not have to include new arrangements in their bids unless they wished to do. In effect the costs of bidding would be reduced at the outset, and spread over the licence period. One problem might be the operator's own ability to secure effective competition amongst suppliers, with what would be less security for them.

3.3 These options are all worthy of consideration, and comments on them would be welcome. But they do not need to be decided now. If the current legislative framework stays broadly in its present form then it will be for the Commission to reach a view on them in several years' time, when preparing for the next licensing round, and for the Secretary of State to decide what if any directions to give the Commission. Both would need to have regard to the state of the market and other circumstances at the time. It would not be sensible to make firm commitments about the detailed conduct of a competition at this distance from it.



- 3.4 What does need to be decided now is whether measures of this kind could on their own be enough to address the risk that next time round there will be no real competitive pressure on the incumbent - even though its performance, including its ability to retain and motivate key staff, may suffer towards the end of the licence period simply on account of the prospect of competition.
- 3.5 This question cannot be left dangling, because if the answer is that legislation to change the framework set out in the 1993 and 1998 Acts is needed, it has to be enacted in good time to influence the next competition.
- 3.6 Given the success that the Lottery has achieved, the arguments for radical change would need to be strong. **The Government would welcome views on whether the measures set out above, or other measures of a kind which could be accommodated without radical change to the 1993 and 1998 Acts, are likely to go far enough to meet the objectives set out at the beginning of this document.**

#### 4. MORE RADICAL OPTIONS

- 4.1 More radical options would require legislation, which would have to be enacted to come into effect no later than 2006. The following options appear possible.

##### Option 1 Separation of infrastructure and Lottery products

- 4.2 Under this option, which was mooted by the House of Commons Select Committee for Culture, Media and Sport last year (**Culture Media and Sport Committee, First Report - The Operation of The National Lottery Volume 1 - HC Session 2000-01, 7 March 2001**) the Commission would offer separate licences for the provision of Lottery infrastructure, supplied and maintained to specified standards, and for the management of the Lottery using the systems supplied. The second licensee would therefore be responsible for game and prize design,



marketing, the collection of sales income and all other functions. There would be no reason to exclude one company from applying for or holding both licences, if it made the best bids; but the essence of the option is that there should be separate competitions for distinct licences. If the two licences were held by different companies, they would have to work together to develop and operate the portfolio of games comprising the Lottery. It would in principle be possible to have several games licensees.

### Benefits

#### 4.3 Possible benefits would include:

- \* separate competitions would make it easier, on the face of it, for more companies to compete. The number of technology suppliers would no longer constrain the number of bidding consortia
- \* the Commission would be less likely to find itself in a situation in which it had to balance one bid which was strong on technology but weaker on game innovation against another which was its mirror image

### Risks

#### 4.4 On the other hand there would be some important drawbacks:

- \* the separation of the licences would be analogous to the split of responsibilities for the railways. The Lottery infrastructure would correspond to the track, stations and signalling equipment, the game portfolio to the rolling stock using them. This parallel must raise concerns that, as in the case of the railways, there could be scope for disputes about where responsibility for problems or poor performance lay and who should pay what for the



action needed to address them. Indeed, the distinction between games and infrastructure is arguably less sharp than between track and trains, especially if the Lottery involves increasing use of the internet, interactive television and new mobile telephony not just as distribution mechanisms for selling tickets but as parts of new games themselves. The separation of infrastructure has been less problematic in the case of other industries; but the relationship between different Lottery licensees would be complex, and would have to be actively managed: the Commission could not just cheer from the sidelines. It would have to acquire a new capacity and expertise.

- \* this option could also restrict the ability of the Lottery to innovate and be flexible. The requirements sought of the infrastructure licensee at the time of the competition might be apt for circumstances applying and foreseeable then, but less apt for circumstances several years into the licence period. It is not clear what incentives or levers could be used to encourage improved responsiveness and willingness to innovate. This is partly because it is not clear under this option how and on what basis the infrastructure licensee would be paid. It would have no direct source of income: it would have to be paid either by the Commission or by the other licensee. It could be argued that in either case the relationship should be seen more naturally as one of contract rather than licence
- \* the requirement to have two competitions would lengthen the licensing process and potentially introduce more uncertainties into it.

## **Option 2 Commission runs Lottery through private sector**

- 4.5 Under this option the Commission would become more than the body responsible for licensing the operator or



operators. It would follow the route taken by most overseas lotteries and become responsible itself for the operation of the Lottery. This option would be intended to address the points which could be argued against option 1, so that the Commission would not have to hold the ring between independent licensees.

- 4.6 The most direct way of realising this option would be for the Commission to let a contract for the infrastructure of terminals and communications, and then license one or more companies to supply games products. In principle this could provide substantial flexibility. The Commission might, for example, issue one licence for the main on-line game, a second for scratchcard games and a third for new internet games. Alternatively, and again in principle, it would be possible for separate licences to be issued for Wednesday and Saturday draws. They could have different formats and prize structures. Any rollovers would run for a week rather than to the next draw. There are a number of possible variations on this licensing theme. But the key points are that private sector operators would be responsible for developing and managing these games using the Commission's systems, and each would have the same relationship with the Commission. There would not be a single section 5 licensee in charge of the whole operation. The Commission would be in charge, and would therefore have to decide whether the games which it licensed should be marketed and sold by their licensees, within an overall strategy which it laid down, or whether it should itself be responsible for sales and marketing through a further private sector contractor (as happens, for example, in Texas).

### Benefits

- 4.7 Possible benefits are:

- \* this option, like the first, would involve breaking the Lottery down into constituent parts, and so



potentially bring about greater competition for smaller and more manageable elements of the operation

- \* it would also be possible to see competition beyond the point of the licensing decision: if, for example, midweek and Saturday draws were run by different companies then their effectiveness in selling tickets could be compared
- \* the infrastructure would be provided on behalf of the Commission, so the Commission could drive changes to it - at a cost

### Risks

4.8 This option would not avoid all the problems arising under option 1:

- \* the overall Lottery operation would become more complex than it is now. The coordination of separate licences and contracts would be a substantial management challenge, not least because the Commission would want competition between the licensees to result in overall growth rather than simply transferring sales from one product to another.
- \* the available evidence suggests that national lotteries managed by public bodies are less efficient, and the Commission has no track record of management of the kind required. It could not possibly be run by part-time Commissioners as now.
- \* it has been argued - by Camelot amongst others - that any large lottery works best when run as a single integrated business with a clear unity of purpose. There are successful lotteries which are exceptions to the rule. But in the UK context this option would involve a large step into the unknown.



- \* it might be difficult for the Commission both to be responsible for the operation of the Lottery and its regulation in the public interest. There are of course precedents for public bodies to regulate their own business activities: in the gambling context the Tote provides one. It has an exclusive licence to provide pool betting on horseracing and is its own regulator. But there are fixed odds alternatives for dissatisfied punters. For people who want to play a lottery there are smaller society lotteries to choose between. But there is nothing to rival the Lottery for prizes.
- \* having different companies running main draws could be confusing for some players, especially if they used different formats and were differently branded

### Option 3 Maximum flexibility

- 4.9 This option is one which by definition cannot be firmly characterised now. It is based on the view that gambling is changing fast, and that by the time we get nearer the end of the second licence period the needs of the Lottery may call for solutions which are not now obvious. It is not impossible that a much wider range of infrastructure suppliers will be available, as doubts about the scalability of smaller systems are resolved. The growth of interactive platforms for gambling products could itself change the nature of the Lottery operation and the expectations of the public. Such thoughts prompt the idea that it might not be sensible to embed in relatively early legislation any specific structure for the organisation and management of the Lottery. On this approach, amending legislation would remove the section 5 and section 6 licence requirements, and instead give the Commission discretion to decide at the time what the best approach would be: whether to maintain the current



split licensing structure or bring forward one of the more radical options discussed in this document.

#### Benefits

- 4.10 This option would obviously have the benefit of flexibility. But it is hard to know what more could be said in its favour.

#### Risks

4.11 This option:

- \* would place on the Commission a responsibility which would not only be onerous but arguably one which should be for Parliament. Apart from anything else, the Commission would not be a disinterested body. One model would give it far more responsibility and require substantially greater resources than another. It might be possible to construct a provision which made the Commission's choice subject to Parliamentary approval, although the Commission's position might be untenable if this were not forthcoming
- \* would lose much of its apparent value if it turned out that the decision at the time was no easier than it is now. It would also inevitable elongate the process. The Commission would have to decide not just the form of the competition before launching it, but a whole set of prior basic questions to do with licences and contracts.

#### **Option 4 A National Lottery operating company**

- 4.12 This option would essentially involve separation of the question of which company should operate the National lottery from the question of ownership of that company. There would be a permanent private sector operating



company, holding a section 5-type licence; but it would not necessarily keep the same shareholders and top management. The Commission would run periodic competitions in which companies would bid to run the operating company. It would require Camelot's current shareholders to sell their interests in the company, at an agreed price, to a new set of shareholders, unless of course the incumbent owners and top management team put forward the best bid.

- 4.13 Such an option would have strong parallels to the transfer of television broadcasting franchises. A prospective new franchisee does not have to develop a wholesale alternative to the incumbent's personnel and plant: the only things that have to change are the shareholders and top management, reflecting a different view of what the company should provide and how it should be directed. In the case of the Lottery the new shareholders would take over all contracts, including those of the staff working on sales, games, accounts, infrastructure and all other continuing operations. It would then be for the new owners to run the company as efficiently and effectively as possible, making such changes in staff or plant as they judged necessary over time.

### Benefits

- 4.14 This option would provide a high degree of continuity for the Lottery operation:
- \* Camelot's workforce would be retained, and there would be no risk of a wholesale loss of experienced staff fearing that the company would lose its licence as a new licensing round approached
  - \* at the same time competitions would be more inviting for prospective bidders: they would bid to



take over a going concern, rather than starting from scratch

- \* the Commission could keep its present form: indeed its task would be eased. Instead of having to make one very large decision once every seven years, it would be able to evaluate a series of changes over time as the company's new owners brought proposals forward, so that the Commission's workload would have a less lumpy profile, as it would be responsible for checking key suppliers' competence and propriety at staged points during the licence period.

### Risks

4.15 Against these benefits, a number of drawbacks have also to be considered:

- \* every competition involves a mixture of objective and subjective considerations. Whatever might be said now, it is probable that a competition run under this model would place increasing weight on the latter
- \* the establishment of a permanent operating company could then make it more difficult for the Commission to act if the hopes reflected in its decision were disappointed: radical change would be closed off
- \* this option places a lot of weight on the premise that, while the Camelot operation might be capable of marginal improvement and innovation, the day to day operations are basically as good as they can be. It is not clear why another set of shareholders would have stronger incentives to put the company's assets to more productive use; and the assurance of permanence could itself lead over time to a loss of edge and drive



- \* it might be hard to assess what price Camelot (or future owners of the company) should receive. Camelot does not itself own substantial material assets, and what it does own should be fully written down by the end of the licence period. But the price to be paid could still prove controversial; and the basis for it would have to be agreed with Camelot during the current licence period.

- 4.16 The Government would welcome views on these options. It is also worth noting the need for adequate contingency arrangements, should no or minimal changes be made to the present legislation and a competition for a third section 5 licence fail for one reason or another.

## 5 MACHINERY OF REGULATION

- 5.1 This section considers questions about the future role and organisation of the Commission. Clearly some of the options outlined above would radically change its functions and size. But it is in any event worth considering whether there is a case for separating the Commission's current functions of licensing the Lottery and regulating it; and whether there is a case for bringing the regulation functions within the new Gambling Commission which the Government proposes to establish.
- 5.2 One reason for looking at the first question is that, at any rate under the present arrangements, the National Lottery Commission faces one very large task every seven years, in organising the award of its section 5 licence, and a less onerous set of tasks in the intervening period. It has to license new games, monitor the operator's compliance with licence conditions (which include requirements relating to the sale of tickets to children), vet key operator personnel and in other ways give effect to its statutory duties to protect players' interests and ensure



that the Lottery is operated fairly. These are of course essential and important responsibilities. But they do not require the same resources and effort as the big licensing decision, and the two tasks arguably do not require the same set of competences: the issue is not simply one of achieving a more even workflow.

5.3 But there are wider issues too. The establishment of a single regulator for all gambling would deliver economies of scale: one body instead of two. And it should be easier for that body to achieve consistency of regulation, in relation for example to the measures which should be taken to protect problem gamblers against excessive play and to control the sale of lottery tickets and playing of lottery games in premises selling alcohol. From the player's point of view it is now hard to see the difference between the new Hotpicks National Lottery game and some fixed odds numbers betting products offered by bookmakers, although these are provided on a different legal basis, one constituting a lottery and the other betting. However, the point remains that different regulators could apply different standards to, for example, conditions of sale or play.

5.4 However, the Commission's current role goes beyond straightforward licensing and regulation: it has, as noted above, a statutory responsibility to maximise income for good causes. In this respect the contrast between the Commission and the Gaming Board is instructive. Both are NDPBs, are of similar sizes and have similar regulatory objectives relating to propriety and fairness. The Board regulates casinos, bingo clubs, gaming machines and society lotteries. It has a chairman and four members, all appointed by the Secretary of State. It is funded by grant-in-aid, although its costs are covered by fees paid by those it regulates. Its annual budget is about £3.9m. The Commission also has 5 members, all appointed by the Secretary of State (although, unusually, the 1998 Act provides for the members to elect their chairman, who may serve in that office for no more than a year and is



not eligible to chair the Commission again for the same period again). It too is funded by grant-in-aid, at a similar level.

- 5.5 But the Board has no responsibility for the commercial outcome of the gambling activities which it regulates, and does not license operators on the basis of a competition for a restricted number of licences. The Board's responsibility is rather to consider whether applicants meet the prescribed standards (including competence and probity) and then enforce them. How licensed operators then fare is a matter for the market. This is as true of society lotteries as for commercial gambling. The Gambling Commission, which the Government proposes will subsume the Board's functions, will in this respect have an equivalent relationship with the gambling industry.
- 5.6 The report of the Gambling Review Body did not include a recommendation about whether the Gambling Commission should take over the regulation of the National Lottery, since this question was outside their terms of reference. But it envisaged the possibility that such a change might be justified, "if it were ever proposed that the regulatory role of the National Lottery Commission should be separated from its sponsoring and commercial roles" (para. 35.5).
- 5.7 What might the arguments for such a separation be? If the Commission's role in relation to the management of the Lottery was increased, for example under options 2 or 3 above, it would make no sense at all for it to strip it of "sponsoring and commercial" functions: these functions are the essence of these options. Even under other less radical options the arguments are unclear, because the Government wants the Lottery to prosper and there will be no direct market competition to it. Without a duty to maximise revenue good causes it would be open to the Commission to select an operator which was wholly safe and of unquestionable integrity but also wholly



ineffective. It might be argued that the operator itself has a strong incentive to maximise sales, so that no further duties on its regulator are needed. But that incentive is there only because the Commission structured the licence and the competition for it in such a way as to provide that incentive. A regulator with a different set of duties might approach the task quite differently. Furthermore, the issue does not arise only at the initial competition stage, but throughout the licence period, whenever the Commission has to consider proposed changes to games, prizes, sale arrangements etc, in each case having to balance its statutory duties.

- 5.8 It might be argued the Government should find other ways of meeting this point. Such an argument would concede that the regulator has from the outset had a duty to maximise revenue for good causes, subject to fulfilling the essential regulatory duties; and that this combination of duties had not in practice caused serious problems. It would also concede that state-run lotteries around the world had to find ways of reconciling sales success with player protection. But it would note that the potential conflict between them was likely to become sharper in future years: especially if there was pressure to promote new games through the internet or interactive video terminals which carry more risks of addiction or misuse than traditional lottery products. This document has, after all, stressed the importance of innovation.
- 5.9 So long as the Commission retains a responsibility for the proceeds of the Lottery there are obvious arguments against contemplating its incorporation into the Gambling Commission. Such a Commission would be expected to treat all the gambling activities which it regulated even-handedly. The case for bringing the regulation of the Lottery under the Commission turns in part precisely on the idea of consistency of regulation. But it would always be at risk of complaints from commercial operators that it was holding them back in order to advantage the Lottery. The Gambling Commission would be judge in its own



cause. On this view the interests of consistency of regulation would be better served by greater liaison and discussion on matters of common interest between the two Commissions as independent regulators.

5.10 For these reasons the case for retaining a separate Lottery Commission, with a continuing duty to maximise revenue for good causes, appears to have merit; but before reaching conclusions the Government would welcome views.

5.11 It does not, of course, follow that improvements to the way in which the Commission is organised are ruled out. There are a number of options for change on which views would also be welcomed:

- \* **chairman** The requirement in the 1998 Act that the role of chairing the Commission should rotate at least annually has caused difficulties for all concerned and has few friends. Apart from anything else, it artificially constrains the selection of members to serve on the Commission. The normal arrangement would be for the Secretary of State to appoint a chairman for a fixed term
- \* **executives** The 1998 Act does not expressly preclude the appointment of a Commissioner who is also the Commission's chief executive, but leaves it unclear whether such an appointment could be made. There is an argument that such an appointment should be possible, and indeed that a body which has responsibility for business outcomes should follow the normal commercial pattern, where the chief executive (and other members of the top executive team) are members of the board. So it is in the case of the Tote. But such a change should go hand in hand with the ending of the rotating chair, so that the chief executive and chairman roles would always be filled by different people



\* **flexibility of size** In normal circumstances a Commission of five, all part-time, is large enough to carry out the responsibilities set out in the 1993 and 1998 Acts. But, as noted above, the process of selecting and licensing a new operator is a substantial responsibility of a different kind, requiring a wider range of expertise. The case for setting up a special body, separate from the Commission, just to run a section 5 competition when one is needed is hard to argue. The Commission can, of course, as it did before, appoint expert advisers from all relevant professional disciplines. But there may be a case for empowering them to co-opt, or the Secretary of State to appoint, additional temporary members to share responsibility for the big decision and to make sure that the full range of relevant interests is properly represented in the Commission's deliberations. The contrary view would be that to enlarge the Commission itself would probably make the decision even harder than it is now, as there would be more scope for disagreement. The "core" Commissioners would in any event themselves have all the relevant experience of regulating the Lottery

\* **pre-licensing** As explained earlier in this document, the Commission has to issue a new licence for each game before it is played. In the case of straightforward scratchcard games this process takes a few weeks. In other cases it can take much longer. It would be an option to dispense with this prior approval system, and instead allow the operator a larger measure of discretion. If confident that a new game would satisfy the Commission's requirements on fairness and player protection, the operator could market it without delay, subject of course to the risk that the Commission took a different view, caused the game to be withdrawn or modified and imposed a financial penalty. If less confident, the operator would consult the



Commission or formally seek approval. This option could potentially reduce regulatory costs, and help the Lottery to keep pace with a fast-changing market. On the other hand, it might be argued that the regulator itself should retain the ability to operate on a pre- or post- approval basis, exercising its judgment according to the operator's track record and willingness to test the legal limits on Lottery games

- 5.12 Subject to conclusions on the more radical options for change discussed earlier in this document, would these changes help to make the regulation of the Lottery more effective and efficient; and are there others which should be pursued?

## 6 CONCLUSION

This document has set out a number of specific questions on which views are invited. They turn on whether the 1993 and 1998 Acts provide a sound basis for the management and regulation of the National Lottery of the future, subject to relatively minor though useful amendment, or whether some more radical change of structure or direction is now needed to ensure that income for good causes will be maximised into the future. The options for change which this document outlines are not intended to be exhaustive. Comments on them, or any other points relating to the licensing and regulation of the Lottery, should be sent to:

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by [DATE TBC]



**CONFIDENTIAL: POLICY & COMMERCIAL**  
**FROM CHARLES FALCONER**  
**MINISTER FOR HOUSING, PLANNING AND REGENERATION**



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*Dear Tessa*

- 8 MAY 2002

**SALE OF THE MILLENNIUM DOME**

As you know, when we announced the selection of MDL as our exclusive partner for the sale of the Millennium Dome, we said that we expected to conclude negotiations on the legal contract during May. These negotiations have been going well and there is every prospect that we will be able to announce that a deal has been signed within that deadline.

Given the public profile and level of Parliamentary interest in the Dome, I think that it is important that an announcement about the sale is made to both houses of Parliament. Since the Commons rises on 24 May, that means that we will need to inform Parliament of the sale no later than that date – and preferably a day or so earlier. Although we have agreement between the parties on all of the key commercial terms, there remains a considerable amount to do to complete the necessary documentation. On our present timetable, I expect this to be completed on 17 May. At this point I will be in a position to seek the formal approval of MISC10 for the sale to go ahead.

Clearly, if we are to announce the conclusion of the sale of the Dome before the Commons rises I shall need to look to you and Andrew, as members of MISC10, to clear the sale very quickly once the documentation is agreed. In order to facilitate this, my officials will provide yours with drafts of the MISC10 papers (which will include a description of the deal and a value for money assessment) no later than 10 May. I hope this will make it possible for you to clear the sale in correspondence, but if we need to meet, Cabinet Office are seeking to fix a meeting early in the week beginning 20 May.

Since the General Election, we have attached a great deal of importance to the successful delivery of our objectives and targets. With your help in quickly clearing the terms of the sale I believe that we are in a position to deliver on time the first important milestone in delivering a world class new use for the Dome and the successful regeneration of the Greenwich Peninsula.



I am writing in similar terms to Andrew Smith.

Copies of this letter are going to Stephen Byers, Margaret Ford, the Chair of EP, and to Sir Richard Wilson.

*Yours  
Charles*

**CHARLES FALCONER**



INVESTOR IN PEOPLE





CONFIDENTIAL: POLICY & COMMERCIAL  
FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION

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- 8 MAY 2002

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I am writing in similar terms to Tessa Jowell

Copies of this letter are going to Stephen Byers, Margaret Ford, the Chair of EP, and to Sir Richard Wilson.

*Yours  
Charles*

**CHARLES FALCONER**



INVESTOR IN PEOPLE



**RESTRICTED: COMMERCIAL**  
**FROM CHARLES FALCONER**  
**MINISTER FOR HOUSING, PLANNING AND REGENERATION**



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**MILLENNIUM DOME**

**28 MAR 2002**

1. This minute updates you on progress with negotiations for the sale of the Millennium Dome and the Greenwich Peninsula to the Meridian Delta Consortium. Although the sale is a large and complex transaction, and much remains to be done, good progress is being made and the negotiating teams remain on course to conclude the deal during May.
2. As you know, I agreed heads of terms last December with the Meridian Delta Consortium for sale of the Millennium Dome and land on the Greenwich Peninsula. Meridian Delta Ltd (MDL) comprises Lend Lease (developers of the Bluewater shopping centre and the Sydney Olympic Village) and Quintain Estates and Development which owns land on the Peninsula). In addition, the Anschutz Entertainment Group (AEG) are contracting with MDL to build and operate a world class 20,000 seat sporting and concert arena inside the Dome. Anschutz has a good track record in this regard since, amongst other things they own Staples Center in Los Angeles (host of this year's Grammy Awards) and manages the Kodak Theatre in Hollywood - where the Oscars ceremony took place earlier this week.
3. The deal being negotiated is a complex one. As well as the agreement between English Partnerships and the Consortium, MDL and AEG also need to finalise the terms under which AEG will build and operate the Arena. The latter negotiations are also spilling over into the wider development around the Dome. Most of the people who visit the Arena will have to walk through the development immediately outside the Dome and Anschutz want to ensure that it is of a high quality in order that their customers experience a welcoming and attractive environment when visiting.
4. For its part, EP's negotiating team is focussed on ensuring that the benefits offered by the deal are fully realised. This includes retention of the Dome as an iconic building on London's skyline until at least 2018, the world class Arena and the regeneration, over a 20 year period, of the Greenwich Peninsula. I am clear that these benefits must be secured within a framework that offers good value for money and have therefore set the team a target of bettering the financial offer made to us by MDL in December.



5. There is still a long way to go in the negotiations. There are around 30 separate legal documents to be completed. However, the negotiating teams from all parties have set themselves an objective of completing before Easter the documents covering the lease for the Dome Arena itself, and the overarching Joint Venture Agreement between EP and MDL. Assuming that these are successfully completed this would represent a major step forward and provide real momentum for the remainder of the negotiations.
6. Inevitably, difficult issues will arise in some of the other documents but all of the parties remain commercially committed to the deal and no one has yet identified a major commercial issue that could prevent agreement being reached. On that basis all of the negotiating teams are pressing to complete the deal during May - the deadline announced when MDL was appointed as our exclusive partner. It is important that the deadline is met. If it is not, there is a real danger of fatigue setting in amongst all the negotiating teams and risk of us losing a very good deal for the public sector as well as for MDL and Anschutz.
7. Once complete the deal will be conditional on gaining planning consent. My officials are therefore keeping other public stakeholders, including the Mayor's people, the London Borough of Greenwich and the Chairman of the Greenwich Peninsula Partnership, fully informed about the progress being made. MDL and AEG are also engaging with them.
8. I will keep you closely informed as the negotiations progress. In the meantime I am copying this to Stephen Byers, Andrew Smith and Tessa Jowell, and to Sir Richard Wilson and Sir Richard Mottram.

7 an

Charles Falconer

**CHARLES FALCONER**



INVESTOR IN PEOPLE



FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



The Rt Hon Andrew Smith MP  
Chief Secretary to the Treasury  
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- 8 JAN 2002

*Dear Andrew*

**SALE OF THE MILLENNIUM DOME**

Thank you for your letter of 17<sup>th</sup> December confirming that you are content for English Partnerships to proceed to exclusive negotiations with Meridian Delta Limited over the sale of the Millennium Dome. I note your comments about the need to maintain total risk transfer in respect of the Dome and the need to negotiate hard over the next few months to secure the best possible deal from MDL. I fully accept these points.

I note your comments about DTLR covering any compensation claim arising from the Anschutz comfort letter. We have yet to negotiate the fine detail of the letter, but as currently drafted it is quite limited. We are only offering comfort until 2010, it extends only to departments of Central Government and agencies over which Ministers have direct control (excluding, therefore, for example, Sport England's discretion to distribute lottery funds in whatever way they see fit), and also allows for the possibility that overriding extraneous issues may lead to a change in policy. Against that background I think that it is important that we do everything necessary to ensure that the Government adheres to any undertakings that are given.

Finally, I agree with you that there were considerable attractions in some parts of the Wellcome proposals. I do not think there is much scope for Wellcome's further involvement on the Greenwich Peninsula but I have agreed with Dominic Cadbury that Wellcome will explore with us whether EP has any other sites on which Wellcome's proposals could be pursued. Of particular interest are some redundant NHS estates in which EP is involved.

I am copying this letter, as yours, to the Prime Minister, Tessa Jowell and to Sir Richard Wilson.

*Charles Falconer*

**CHARLES FALCONER**



INVESTOR IN PEOPLE



FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



Rt Hon Tessa Jowell MP  
Secretary of State for Culture  
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- 8 JAN 2002

**SALE OF THE MILLENNIUM DOME**

Thank you for your letter of 17<sup>th</sup> December 2001.

I am grateful for your agreement that MDL should be appointed as the preferred bidder for the Dome and the Greenwich Peninsula. As you will be aware, we announced their appointment on Tuesday and we intend to have a legally binding contract in place by 1<sup>st</sup> May 2002.

Your letter raised two other issues.

First you suggest that it will not be possible to go any further than we have already in offering comfort to MDL that we have no plans to build a rival arena in London. Given what MDL have said to us about this requirement, my judgement is that they will be content with the letter of comfort we have agreed with you and your officials. We will formally table the draft letter at a very early stage in the forthcoming negotiations and I will ensure that any discussion around its terms is conducted on the basis that we cannot offer any further comfort to the consortium.

You also sought an assurance from me that a significant receipt will accrue to the Millennium Commission as a result of this deal. I certainly accept that we will have to review the existing EP/NMEC agreement to ensure that it works effectively within the context of the deal that we are now negotiating and I am conscious of the Commission's expectations. However, I should caution that we do not expect the first receipts from this deal until at least 2004. The first call on these will have to be to recompense EP for the costs that it has incurred. Any receipt for the Commission, therefore, is inevitably some way off. Nevertheless, this is an issue to which we should return.

I am copying this letter to Stephen Byers, Andrew Smith and to Sir Richard Wilson.

**CHARLES FALCONER**





FROM CHARLES FALCONER  
MINISTER FOR HOUSING, PLANNING AND REGENERATION



Rt Hon Tessa Jowell MP  
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*Tessa*

**SALE OF THE MILLENNIUM DOME**

- 8 JAN 2002

*C. Mr Britten*

*9/1/02*

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